Businesses expect economic recovery to remain slow

Outlook for Q3 2014
- Key Highlights

- The Composite Business Optimism Index is 29.13%, down 13.78% from the previous quarter (42.91%) and decreased by 1.02% year-on-year.
- None of the Optimism parameters grew compared to the previous quarter, but is expected to rebound in the next quarter (Q4) of 2014.
- Inventory Level recorded the lowest optimism index among other parameters of only 4%.
- Net Profit decreased the most quarter-on-quarter by 12%, from 27% to 15%.

The Q3 2014 Composite Business Optimism Index (BOI) indicates continued optimism from the surveyed companies that their business will expand in the quarter. The Q3 2014 BOI stands at +29.13%, down 13.78 percentage points from the previous quarter (q-o-q) +42.91%. Although, it comes with lowering trend amid challenging economic times yet a net weighted 13.22% of the respondents were optimistic about the chances that the economic situation in the country will improve in the Q3 2014. Meanwhile, the percentage holding a pessimistic outlook stayed at only 2.44%.

The national economy faces at least three major challenges during the quarter. First, inflation pressure due to Ramadhan, the Islamic month of fasting. Second, social and political...
instability related to the presidential election. Third, national economic fundamentals anticipate uncertainty of world economic recovery. Those conditions increasingly put more pressure on the economy which has weakened in the first 6 months of this year. Indonesia’s economic growth in the second quarter of 2014 is estimated at 5.3%, slightly increased from previous quarter at 5.21% (q-o-q), yet lower by 0.3% compared to the same period of 2013 which posted 5.6% (y-o-y).

Sluggish economic conditions have caused Bank Indonesia (BI) to revise Indonesia’s economic growth target for this year to the range of 5.1%-5.5%. Previously, Bank of Indonesia (BI) estimated the growth to reach 5.9%-6.2%. It had initially revised to 5.5%-5.9% in March and later to 5.1%-5.5% in May. The lower trend of growth is mainly due to weakening export performance in the real sectors, in particular mining, minerals and coal, which started the first quarter with negative growth of 0.78%. Slowing export demand, especially from China amid lowering global commodity prices as well as impact of the Act that prohibits raw minerals and coal export are believed to be the main factors behind the worsening export performance.

The Indonesia’s official statistics agency, Badan Pusat Statistik (BPS), recorded a deficit in Indonesia’s trade balance of USD 1.96 billion in April 2014; but swung back to surplus of USD 69.9 million in May 2014. Cumulatively, Indonesian exports during January-May 2014 totaled USD 73.42 billion, down 3.79% from the same period of 2013. During this period, non-oil and gas exports were valued at USD 60.52 billion or -3.61% (y-o-y) while oil and gas export recorded USD 12.90 billion or -4.65% (y-o-y). Cumulative imports (January-May) were valued at USD 74.24 billion or a 5.76% decrease compared to the same period of last year. Import of oil and gas during the period reached USD 18.40 billion or -0.94% (y-o-y) while non-oil and gas import posted USD 55.84 billion or -7.24% (y-o-y).

Inflation in June 2014 recorded 0.43% (m-o-m), having increased from May 0.16% (m-o-m). Meanwhile, June’s inflation year-on-year posted 6.70%, lower than May 7.32%. In addition, for the next couple months, inflation is seen to be more pressed due to Ramadhan and the second round effect of electricity price hike.

Despite slowing economic growth in the first half, the government believes growth will improve in second half and that the economic growth target of 5.5% for 2014 could be achieved. Finance Minister Chatib Basri explained that the first half of 2014 grew about 5.3% while the second half is expected to be the range of 5.6%, underpinned by robust private consumption and improving local and foreign investment performance amid more conducive situations after the presidential election.
Volume of Sales

In Q3 2014, around 18% of the respondents expect an increase in sales, while majority of the respondents (78%) expect no change. 4% of the rest of the respondents anticipating a decline of their sales. Agriculture and Transportation are the most optimistic sectors for this parameter.

The resultant optimism stands at 14% in this quarter, down 11 % compared to previous quarter and -5 % compared to the same quarter of the previous year. Decrease in the level of optimism is associated with the election held at the beginning of this quarter, where most of business player tend to be cautious before implementing new policies for their business.

Net Profits

Majority of respondents (79%) assume no change of profitability in Q3 2014. Nearly 18% of the respondents anticipate an increase in profitability, while around 3% respondents expect their net profits to decrease during the quarter.

The resultant Optimism for Net Profit stood at 15%, down 12 percentage points compared to the previous quarter and posted a 3 percentage decrease compared to the same quarter last year. Along with the Volume of Sales parameter, Agriculture also became the most optimistic sector for this parameter followed by Transportation and Service sectors.

Selling Price

The resultant optimism index for Selling Price stands at 8% in this quarter, down 2 percentage points compared to Q2 2014 and -4 percentage points compared to Q3 2013. Approximately 9% of the respondents plan to increase the selling price of their products, while only 1% of respondents expect decrease in the selling price. The majority of respondents (90%) are trying to maintain the existing price.

Among all sectors, Transportation is the most optimistic sector to this parameter, followed by Service and Wholesale. Optimism in these sectors closely related to inflation due to the seasonal festivals of Muslims (Ramadhan) that led to high demand in these sectors.
New Orders

Majority of the respondents (78%) project no change of the order book in this quarter. Roughly 19% of all respondents expect their orders will increase, while about 3% of the respondents see their orders to decrease.

The resultant Optimism for New Order stands at 16%, down 9 percentage points compared to previous quarter and -2 percentage points compared to the same quarter at previous year. Agriculture, Transportation, and Service sectors are the most optimistic sectors towards increasing new orders, while Finance and Utilities became the most pessimistic sectors to this parameter.

Inventory Level

In Q3 2014, the resultant Optimism for Inventory Level stands at 4%, down 4 percentage points compared to previous quarter and up 3 percentage points compared to the same quarter of the previous year.

Most of the respondents (94%) anticipate no change of their inventory level, while only 5% expect such improvement. 1% of the respondents see decrease in their inventory. Wholesale is the most optimistic sectors towards this parameter followed by Agriculture and Construction.

Employee

Majority respondents (91%) anticipate no change in the size of their workforce, while the rest 9% of the respondents anticipate the size of their workforce to increase. None of the respondents anticipate the number of employee to reduce.

The resultant Optimism for Employees stands at 9% in Q3 2014, which means there is no change in points compared to the previous quarter and up 3 percentage points compared to the same period last year (Q3 2013). Transportation, Agriculture, and Wholesale are the most optimistic sector to this parameter.
Business Optimism Index (BOI) Report

D&B Optimism Index report is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

Methodology

For the purpose of conducting the survey, a sample is randomly selected from D&B database, consisting of companies belonging to the following sectors including Agriculture, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index from Q1 2010. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. We trust that you will find the D&B Optimism Index as a useful tool in your day-to-day decisionmaking. Please do give us your feedback in this regard.