

Cautious optimism after Jokowi's win

Outlook for Q4 2014

- Key Highlights

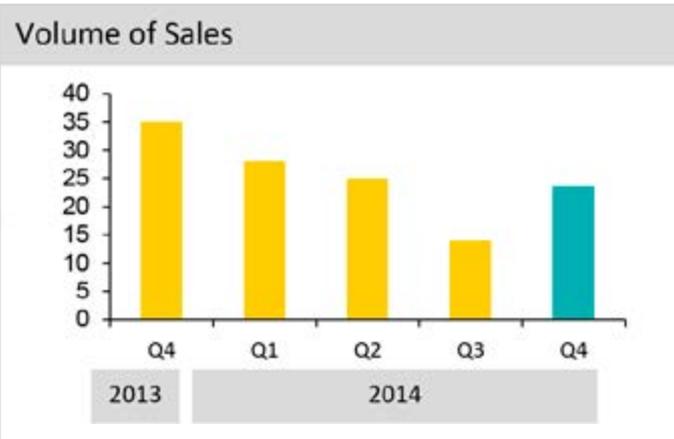
- Despite challenges ahead, cautious optimism prevails following Jokowi's recent win at the general election.
- The Composite Business Optimism Index stands at 35.7%, up 5.6 percentage points from the previous quarter (29.1%) but still down 13.5 percentage points y-o-y.
- All indices except Employment registered higher or flat quarterly changes.
- Volume of Sales registered the highest q-o-q hike (9.7 percentage points) to 23.7% from 14%.

Hope are high for better times ahead economically following Joko Widodo's, also known as Jokowi, win in the recent general election. However, the road ahead might prove rockier than thought as concerns emerged that his administration might face pressures from both internal and external sources. Weeks before his inauguration on 20th October as Indonesia's 7th president, Jokowi's supporters in Parliament had lost a crucial vote on a controversial bill that takes away voters' rights to directly elect local leaders. This has raised market players concerns about the new government's ability to fully implement its programs. The stock market reacted by retreating while the Rupiah posted its lowest level in the last 7 months. The situation is compounded by weakened export performance of some major commodities such as coal, palm oil, and minerals.

The weakening export commodity prices in the face of a Chinese economic slowdown is one of the leading factors likely to cause a downward revision in the economic growth forecast for this year. The government has already revised downwards its estimated growth rate to 5.3% from the projected 5.5% set earlier while Indonesia's Central Bank (BI)'s projected growth rate of between 5.1% - 5.5% this year is likely to trend towards the lower end of the range. Growth is propelled mainly by government spending in the third and fourth quarter of 2014.

The inflation rate is predicted to surpass the estimated 4.5% (+ or - 1%) as set by Bank Indonesia (BI) if Jokowi insists on cutting fuel subsidy by IDR3,000 per liter from November 2014. It could even top 8.5% - 9% at the end of 2014 should the new administration implement the cut in fuel subsidy and raise fuel prices, warns the Governor of Bank Indonesia, Agus Martowardojo. The gloomy sentiment is reflected in the slower growth in household consumption as tracked by the Retail and Vehicle Sales Indices which trended downwards after a period of high growth previously.

Notwithstanding the challenges ahead, cautious optimism prevailed among the business community which believes that the economy will continue to grow in the closing quarter of this year. The 4Q2014 Composite Business Optimism Index (BOI) stands firmly at 34.7%, an improvement of 5.6 percentage points from the previous quarter (q-o-q) of 29.1%. Overall, about 25% of the respondents are optimistic that their business will perform better during the quarter while only 1.3% think otherwise.

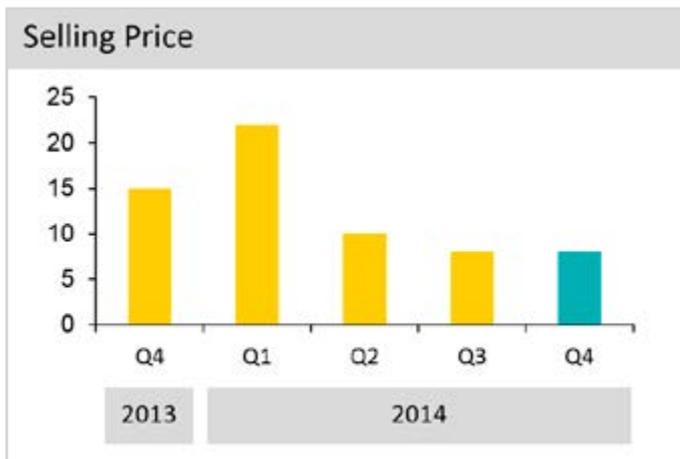
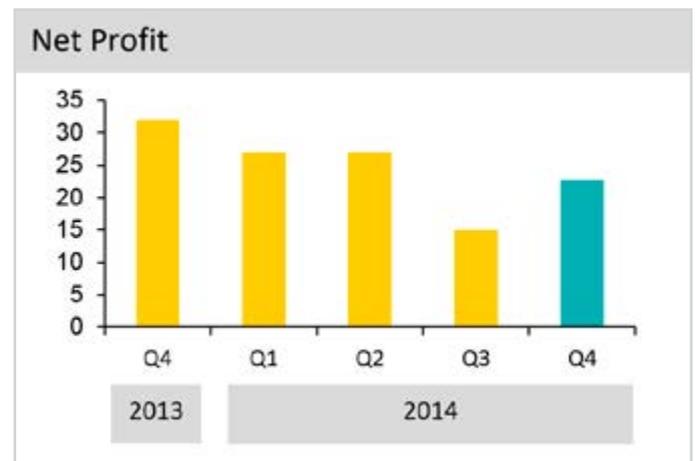


Volume of Sales

The optimism level bounced back to almost the same level as the second quarter following 4 consecutive quarterly downward trends. The optimism level stands at 24% this quarter, up 10% (q-o-q) but down -11% (y-o-y). The uptick in confidence level was due to the end of the bitter presidential election process. Finance saw the biggest q-o-q jump in confidence with a 33 percentage points increase but was still down 38% y-o-y. About 25% of respondents anticipate an increase in Volume of Sales this quarter with over 60% across all sectors expecting no change.

Net Profits

In tandem with the positive outlook for sales volume, Net Profits also saw increased optimism this quarter with the index standing at 23%, up 8 percentage points q-o-q but down 9 percentage points y-o-y. Finance and Utilities are the most optimistic sectors followed by Agriculture. The majority of respondents (75%) assume no change in profitability this quarter compared to almost 80% last quarter. Transportation is the only sector that saw a dip in optimism level q-o-q with a drop of 5 percentage points.



Selling Price

The optimism level in Selling Price stayed flat at 8% q-o-q, although it was down 7 percentage points y-o-y. The majority of the respondents (91%) expect no change in their Selling Prices during this quarter. Overall, about 9% of the respondents expect an increase while only 0.7% of respondents anticipate prices to reduce. Utilities is the only sector that saw none of the respondents expecting an increase. Among all sectors, Agriculture and Transportation are the most optimistic while Mining and Construction are the most pessimistic.

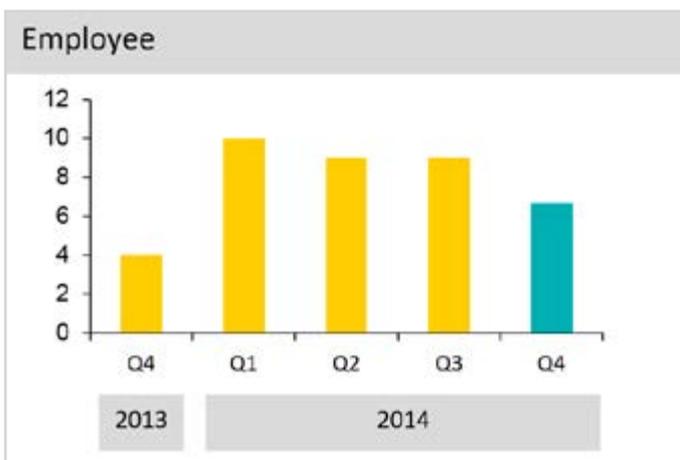
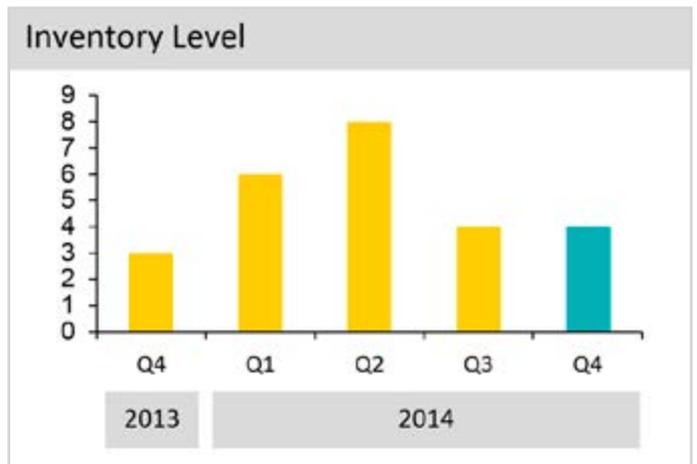


New Orders

In tandem with the trend in Volume of Sales, optimism for New Orders bounced back following drops in the last 4 consecutive quarters. The resultant Optimism for New Orders stands at 23% this quarter, up 7 percentage points q-o-q but down 12 percentage points y-o-y. Agriculture is the most optimistic sector, followed by Finance and Utilities sectors. The majority of the respondents (75%) project no change in the order book this quarter, while 24% of all respondents expect their orders to increase, and hardly any (1%) anticipate a reduction in orders.

Inventory Level

Optimism on Inventory levels stayed flat at 4% q-o-q, with 95% of respondents anticipating no change. About 4% of respondents plan to increase their inventories this quarter while only 0.3% expect to see a reduction. Agriculture is the most optimistic sector followed by Transportation and Wholesale. Construction, Transportation and Manufacturing saw a dip in optimism compared to the last quarter.



Employment

Despite the overall optimism in the economy, the employment outlook dropped slightly this quarter compared to the previous quarter, although it was up slightly y-o-y. Over 93% anticipate no change in the size of their workforce this quarter with only 7% planning to hire more. Transportation is the most optimistic sector followed by Agriculture and Wholesaling. Construction is the only sector which saw a small number of respondents planning to reduce their workforce.

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.



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