Business Optimism Index - Malaysia

Quarter 4 2014

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Business confidence rises marginally in Q4

Outlook for Q4 2014
- Key Highlights
  • Business Optimism Index registers at +13.53%, an increase by 0.38% q-o-q
  • Volume of sales and Net Profits registered the largest optimism readings at +23.0% and +21.0% respectively
  • Services and construction sectors are the most optimistic sectors with all 5 business indicators in the expansionary region

The Q4 2014 Business Optimism Index (BOI) shows that the surveyed companies remain optimistic with their business environment in the last quarter of 2014. The computed BOI is +13.53%, a slight increase from the reported +13.15% from last quarter. A weighted 23.33% of the respondents are positive on improved business environment in Q4. In contrast, a weighted 9.80% of companies are negative while the remaining 66.86% are neutral for their outlook in Q4. A year-on-year analysis reveals that the optimism has dipped 16.63% from 30.16% for the same quarter in 2013.

The prolonged deflation in Eurozone which resulted in the reduction of interest rate by European Central Bank in early September has caused the Japanese Yen to decline and US Dollar to increase in value. This inevitably resulted in weaker Ringgit and higher cost of doing business as much of trade are still transacted in US Dollars. However, the weakening Ringgit will help to boost the export sectors.

On exchange rate, Ringgit has depreciated against the US Dollar but strengthened against Yen in September after European Central Bank reduced the interest rate. As per Bank Negara, Ringgit has shown a mixed performance in September against the currencies of Malaysia’s major trading partners. The international reserve stood at RM422.3 billion as at 15 September 2014, sufficient to finance 8.9 months of retained imports.

It is likely that the OPR will be maintained for the last quarter of the year given that the inflation is stable with month-on-month changes of Consumer Price Index (CPI) of 3.2 and 3.3 per cent in July and August 2014. The increase in CPI is mainly attributable to the increase in rental across most of the types of properties at 3.4 per cent in August as compared to 3.2 per cent in July.

Bank Negara has reported the average base lending rate (BLR) of commercial banks was relatively stable at 6.79%. The broad money (M3) grew by 4.8% in August and this was attributable to credit extended by the banking system and higher net claims on the government. The loan demand increased slightly with higher loan applications from all businesses. Though higher loan growth in August, the banking system capitalisation remained strong with Total Capital Ratio of 15.5 per cent and net impaired loans of 1.3%.

The sudden announcement by the Domestic Trade, Cooperatives and Consumerism Ministry to reduce the subsidy for petrol RON95 and diesel by 20 sen per litre have taken many by surprise. The new price for petrol RON95 is RM2.30 per litre and RM2.20 for diesel. Many are afraid that this move will create a chain of price hike in food prices and other goods.

The impending implementation of Goods and Services Tax on 1 April 2015 has prompted a lot of discussion in businesses. Despite being assured by the authority that the implementation will result in a one-time hike in inflation, the population at large are worried that the inflation will be more and this may cause a contraction in the economy. Nevertheless, the people are speculating what will be in store for them as the Prime Minister will present government’s annual budget for 2015 on Oct 10.

It is reported that the exports of Malaysian palm oil has reached 1.3 million tonnes in September with current prices at a six-week high on expectations of positive palm oil export data and weakening Ringgit. However, the volumes remained low as edible oil prices like Soya beans hit a four-year low. Going forward, the palm oil prices are likely to be traded around 2100 to 2150 Ringgit per tonne before the prices is expected to recover in Q1 2015.
The Malaysian Industrial Development Authority (MIDA) reported 122 projects were approved from January - May 2014. Japan remained as the top contributor with 33 projects amounting to RM9 billion, followed by China with 10 projects amounting to RM5 billion, Germany with 4 projects (RM5 billion), Singapore with 52 projects (RM4 billion), and followed by South Africa, Taiwan and India with total investment of RM3 billion.

As per the data released in August 2014, Malaysia’s trade surplus narrowed to RM4 billion in June from RM4.3 billion in the same month last year after imports grew faster than exports. The recorded trade surplus, lower by 8% year-on-year, is the lowest since August last year. On a monthly basis, the trade surplus dropped 29.7% from RM5.6 billion in May. Going forward, while weaker Ringgit will help to boost the trade surplus, it is expected the surplus will maintain due to lower price of CPO and stable export growth of 4.2% for the remaining of the year.

A net balance of +21% of the surveyed companies is expecting a higher net profit in Q4 (37.50% Optimists vs. 16.50% Pessimists). Again, the key sectors are mining (net +43%), agriculture (net +40%) and services (net +40%) sectors, followed by construction (net +23%), finance (net +22%) and transportation (net +19%). However, the manufacturing sector anticipates a contraction by 10% in Q4.

From the survey, manufacturing companies, especially those which deal with commodities have a drop in sales volume. In the services sector, a similar situation is reported for hospitality companies as they experienced lower sales due to the MH incidents. In contrast, within the services sector, companies which provide medical service have reported an increase in the sales volume.

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Selling Price

Only a small percentage of surveyed companies express their views that the selling price will rise in Q4 (net +1.50%). Among the sectors that report net positive figures are finance (+11.11%), construction (9.09%), transportation (+3.70%) and services (+3.63%). Agricultural sector expects the selling price to remain stable. In contrast, mining (-14.29%), manufacturing (-10.0%) and wholesale firms (-2.43%) anticipate a net contraction in their selling prices. This index is worse off by 3.5% compared to the last quarter.

The deflation experienced in the European market, slower growth in Chinese and US markets prompts some discount, in the selling price to overcome decline in sales volume.
On the whole, the manufacturers expect new orders to remain the same for Q4. While 70% of companies surveyed anticipate new orders to remain the same, 15% of the surveyed companies anticipate an increase with an equal 15% expecting a decline in new orders. This index is worse off by 27% compared to Q3 2014.

The anticipated contraction in sales volume, selling price and net profits has prompted the manufacturers to be more cautious on their outlook for Q4. Nonetheless, the manufacturers surveyed are confident that the government’s budget 2015 will implement policy and incentive for them.

Only manufacturing companies are surveyed for new orders.

The index for inventory levels improved slightly at +3% compared to +2.14% in Q3. About 88% of firms express that the inventory levels will remain the same in Q3. The sectors that anticipate net positive figures are services (+10.9%), wholesale (+9.76%) and construction (+9.09%). Agricultural sector expects the inventory to be similar to Q3 while manufacturing, mining and financial sectors expect inventory levels to fall at -20%, -14.29% and -5.56% respectively.

Due to the cautious outlook for Q4, weaker demand for manufacturing and mining sectors also underscore the lower inventory levels for the last quarter of 2014.

The surveyed companies have given a positive outlook for new employment at +20.50%. It is 8.36% better than Q3 (+12.14%). Services sector leads the pack (net +34.55%), followed by wholesale (net +26.83%), transportation (net +25.93%), construction (net +22.73%) and mining (net +14.29%). While employment in agricultural and manufacturing sectors are expected to remain stable, the finance sector anticipates a contraction of net -11.11% in job creation.

For the services industry, companies which provide medical services are recruiting more manpower in Q4 due to increase in sales volume. Some hospitality companies are also undergoing renovation to improve their competitiveness in the market with hopes of improving their sales for the upcoming years.
Business Optimism Index (BOI) Report

D&B Optimism Index Report measures the pulse of the business community and serves as a reliable benchmark for business leaders and 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 point 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.

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