

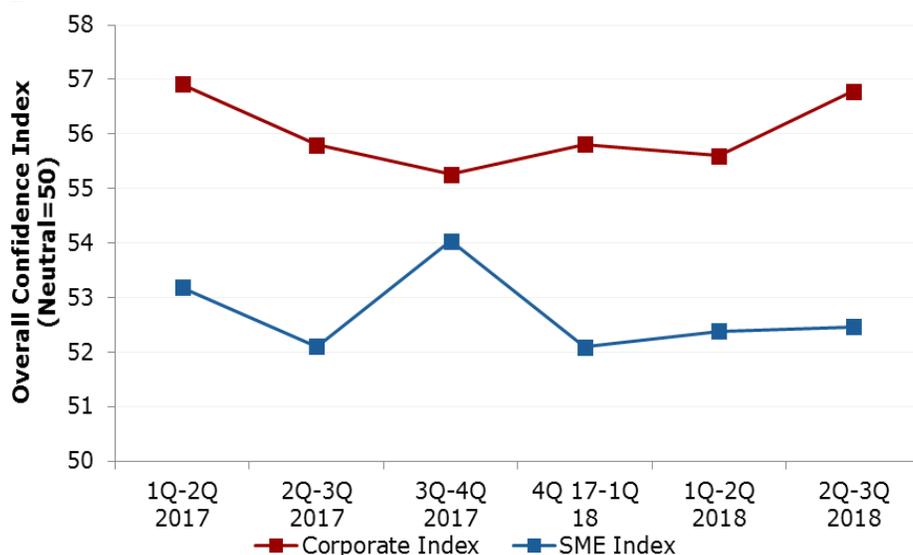


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RAM Business Confidence Index: Latest indices underpinned by increasingly broad-based business confidence

The 2Q-3Q 2018 RAM Business Confidence Index (RAM BCI) - the second survey this year - remained positive, suggesting that Malaysia's economic momentum remains on track. The Corporate and SME indices improved to a respective 56.8 and 52.5 (refer to Figure 1), underpinned by increasingly more broad-based positive sentiment across all the surveyed aspects.

Figure 1: RAM BCI overall index values



Source: RAM BCI

Notable gains in firms' hiring and turnover expectations

For both the Corporate and SME indices, hiring and turnover were the two aspects that showed the most improvement. The hiring sub-indices rose for the second consecutive survey, by 2.0 points to 60.6 for Corporates and 1.2 points to 57.7 for SMEs. This indicates that the current employment growth momentum will likely continue through the next six months. Analysed in tandem with firms' sustained bullishness on capital investment and business expansion, this trend suggests that firms will remain in expansionary mode to capitalise on positive business prospects.

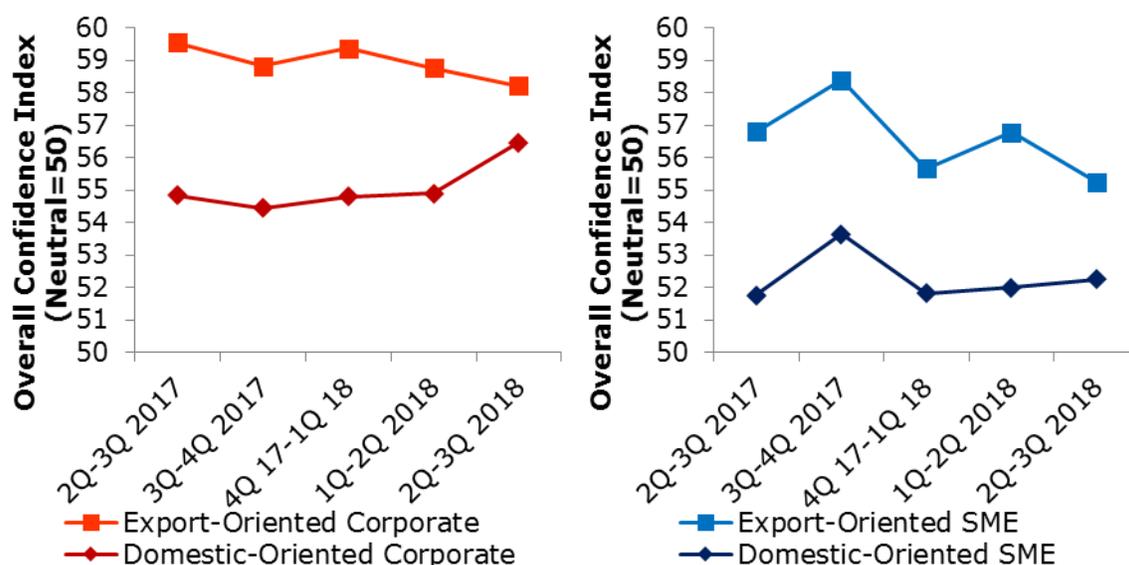
Domestic firms benefitting from economic recovery

The turnover sub-indices also posted notable improvement for 2Q-3Q 2018 (Corporate: +2.6 points; SME: +0.5 points). In particular, SME's turnover sub-index

(at 50.7), although just marginally above the neutral point of 50, has risen from the negative reading of two surveys ago. Much of the improvement in turnover sentiment for both Corporates and SMEs are attributable to domestic-oriented firms, suggesting that the economic recovery is increasingly being felt by domestic enterprises. This represents positive signs of the start of a more broad-based economic growth. Notably, the boost from the resilient external demand behind Malaysia's growth is filtering down to the local economy.

The back-to-back improvement in business sentiment among domestic-oriented firms can also be due to more firms benefitting from export sales. Approximately 10.8% and 9.0% of domestic-oriented Corporates and SMEs, respectively, surveyed in the latest RAM BCI reported higher export contributions to total sales, compared to an average of just 3.9% and 5.0% of respondents in the last 3 surveys.

Figure 2: Steadily improving optimism among domestic-oriented firms



Source: RAM BCI

Stronger retail sector sentiment

The overall index for the retail sector showed the strongest improvement among SMEs for 2Q-3Q 2018 (+1.5 points to 52.2), effectively snapping its 5-survey streak as the least optimistic sector. While the sector's turnover and profitability sub-indices remained below the 50-point threshold, the second consecutive increase to a respective 49.1 and 48.7 is a welcome improvement. Barring any unforeseen circumstances, this signals that sluggish consumer spending - especially on discretionary items that had plagued the sector in the past - could soon be on the cusp of a recovery. Better labour market conditions and bullish hiring intentions across all sectors captured by the RAM BCI also indicate a potentially healthier retail landscape.

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To conclude, Malaysian firms expect a more favourable business outlook in the year ahead. Nonetheless, this also entails some challenges. Stronger demand encourages more supply but introduces keener competition, which may dampen profit margins, especially for SMEs that lack scale when competing against larger firms. Firms also face lingering cost concerns, especially following the hike in gas tariffs, more expensive labour, regulatory-induced costs (i.e. the Employment Insurance Scheme or EIS), and a volatile ringgit. In our past surveys, firms have consistently cited the rising cost of doing business as one of the key challenges through the next six months, with as high as 33.5% of the Corporates in the latest survey citing this as the primary challenge.

The RAM Business Confidence Index is a comprehensive survey jointly conducted by RAM Holdings Berhad and RAM Credit Information Sdn Bhd, on business sentiment in Malaysia. Released quarterly, the index is based on data from a survey of close to 3,500 SMEs and Corporates across 5 main industry segments respectively. The index, designed to measure forward-looking expectations, offers a timely barometer of future economic activity to guide businesses' investment decisions and planning as well as provide inputs for strategic policymaking by various stakeholders of the economy. This is done through the indication of positive and negative sentiment on 7 key aspects that are pertinent to their business operations over the next 6 months. The 7 business aspects surveyed are turnover, profitability, business expansion, hiring, capital investment, capacity utilisation and access to bank financing. An index value of 50 is the neutral benchmark while a value above 50 indicates positive sentiment by the firm; below 50 shows negative sentiment.

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About RAM Holdings Berhad

RAM Holdings is a leading provider of independent credit research and advisory services. RAM Holdings (formerly known as Rating Agency Malaysia Berhad) was established in November 1990 as a catalyst for the domestic debt-capital market and as the nation's first credit-rating agency. Its shareholders comprise both local and foreign financial institutions. On 1 July 2007, the rating operations were novated to a newly formed subsidiary, RAM Rating Services Berhad ("RAM Ratings"). Today, RAM Holdings spearheads the cultivation of new businesses and continues to provide training as well as economic research that promotes financial and credit expertise, in addition to soft skills. For more information, log on to www.ram.com.my

About RAM Credit Information Sdn Bhd

RAM Credit Information Sdn Bhd (RAMCI) has established itself among Malaysia's leading and trusted credit and business information bureaus in recent decades and has a comprehensive database that has been built over the past 25 years. Today, RAMCI's institutional partners such as RAM Holdings Berhad and Experian Asia Pacific have availed the company to extensive domain knowledge to serve both businesses and consumers in Malaysia and globally through its comprehensive array of services. It also collaborates with associations and cooperatives to serve their members. RAMCI's core capabilities include online credit information, credit rating and credit scoring services, monitoring and international information services and trade bureau services. For more information, log on to www.ramcreditinfo.com.my

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