

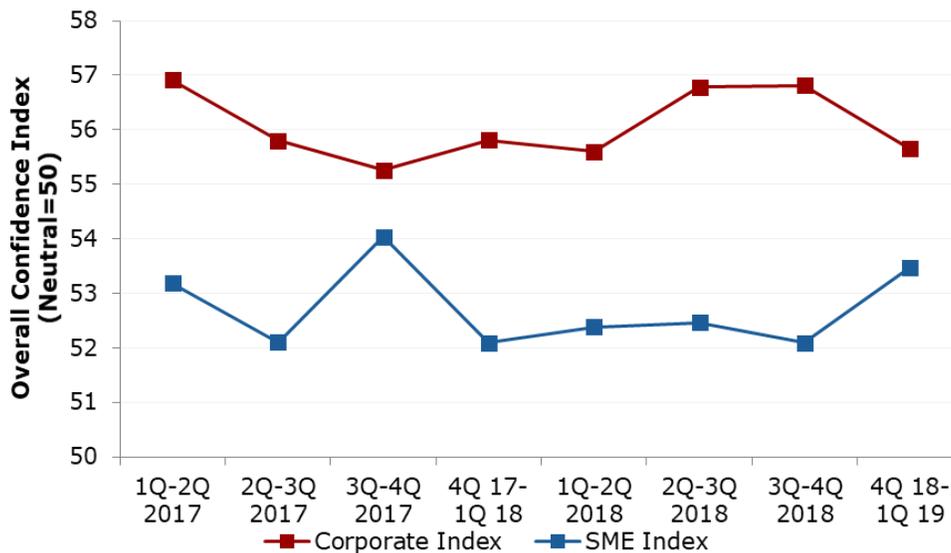


Media Release

RAM Business Confidence Index: Corporates less optimistic amid economic headwinds

The latest RAM Business Confidence Index (RAM BCI) readings for 4Q 2018-1Q 2019 indicate that firms remain optimistic going into 2019. The Corporate Index reached 55.7 while the SME Index came in at 53.5; the latter showed improvement but still lagged behind its corporate counterpart. Although still in positive sentiment territory, the Corporate Index declined 1.1 points from the 3Q-4Q 2018 survey (Figure 1). This signals the slight moderation in firms' sentiment on their business performance and demand prospects in the next six months.

Figure 1: RAM BCI overall index values

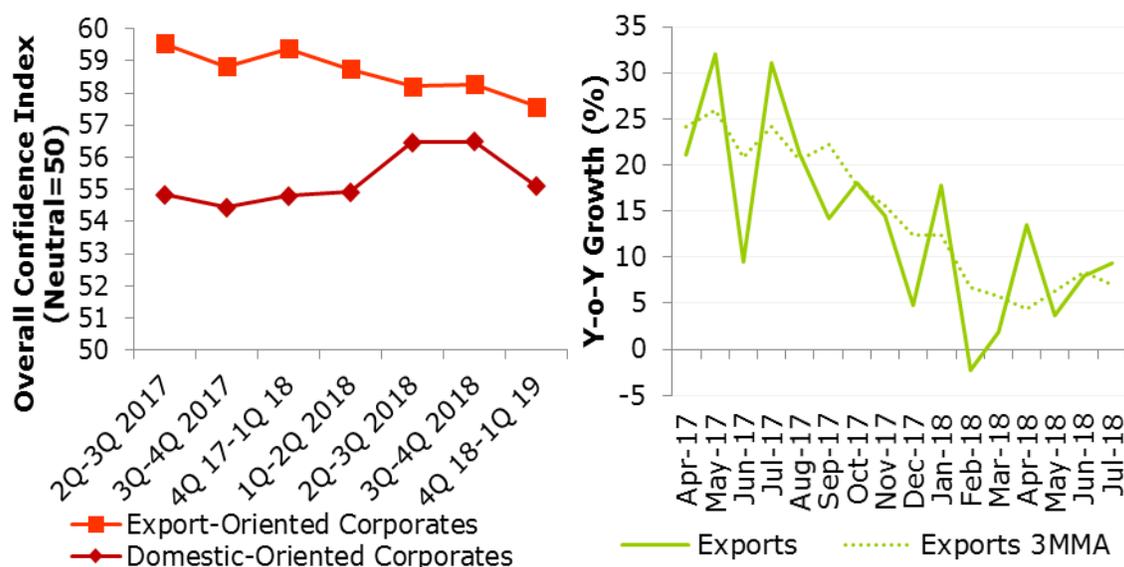


Source: RAM BCI

Escalating trade war risks dampen sentiment of export-oriented firms

The latest survey results also show that firms with more exposure to the ongoing trade spat between the US and China are now less optimistic. The export-oriented Corporate Index has been declining since 2017 (Figure 2); this trend is also consistent with the slower export growth observed to date, following the rebound last year. Given the forward-looking nature of the survey responses, we do not expect export growth to pick up in the near term, although growth should remain sturdy given the still-positive reading of 57.6. The external downside risk pressures have also weakened the sentiment of the manufacturing Corporates and SMEs.

Figure 2: Less upbeat export-oriented corporate sentiment signals limited support for export rebound in next six months



Sources: RAM BCI, Department of Statistics Malaysia
 Note: 3MMA – 3-month moving average

Transition to SST exerting downward pressure on performance-centric sentiment indicators

Apart from the external outlook, manufacturers are also undergoing a transitional period on account of the reinstatement of the Sales and Services Tax (SST), which commenced on 1 September. This affects their expectations on future demand and profitability; the corporate turnover and profitability sub-indices dipped a respective 9.9 points and 10.3 points to 50.8 and 49.5 while those for SMEs fell 1.7 points and 2.3 points to 52.0 and 51.6. After several months of front-loaded purchases, during which downstream and final consumers capitalised on the tax-free period from June to August, turnover expectations are envisaged to taper off from these highs. Additionally, the incremental cost element of the SST for some firms will also affect margins, especially when there is less scope to pass on such costs. This tax impact is not only confined to the manufacturing sector as the margins of the wholesale sector, which serves as a bridge between manufacturers and retailers, may also be compressed by the potential pass-through of additional SST expenses by manufacturers. As such, this sector also registered a drop in their sentiment on turnover and profitability, by a respective 6.3 and 7.0 points. Greater concern over heightened competition within the wholesale sector¹ also limits firms’ ability to pass on this cost, thus compounding their pessimism.

The trends in sentiment of the other sectors are sector-oriented, such as the steep decline in the agriculture/mining performance-based indices to negative sentiment

¹ Proportion of firms citing “more competition” as their main challenge in the next 6 months rose 5.6%points to 26.8% of firms

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territory due to sector-specific policy changes, price weakness and demand challenges. On a brighter note, transport and storage firms' sentiment on business performance remained strong, with the overall sentiment reading for transport and storage corporates rising 1.9 points to 62.1 - the only Corporate sector to post an increase. Its SME counterpart also improved 1.8 points to 55.1, as sentiment on turnover and profitability became positive (i.e. to 58.9 and 57.6, respectively). The more upbeat outlook on this sector is mainly attributable to logistics, shipping and oil tanker services (particularly oil and gas support services), which are enjoying healthier business prospects amid strong oil prices.

Moving forward, short-term economic uncertainties remain, most notably from the repercussions of the ongoing US-China trade war on the manufacturing sector, and the ensuing second-round effect on the domestic sectors. More guidance on future economic policies that will shape the overall business environment will be crucial to business confidence among firms, and will help drive sustainable economic activities.

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

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RAM Credit Information Sdn Bhd (RAMCI) is Malaysia's leading and trusted credit and business information bureaus and has a comprehensive database that has been built over the past 25 years. The vast majority of RAMCI's clients are financial institutions, large multinationals, professional firms as well as business corporations, to whom it provides various products that assist them in making critical business and credit decisions. 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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