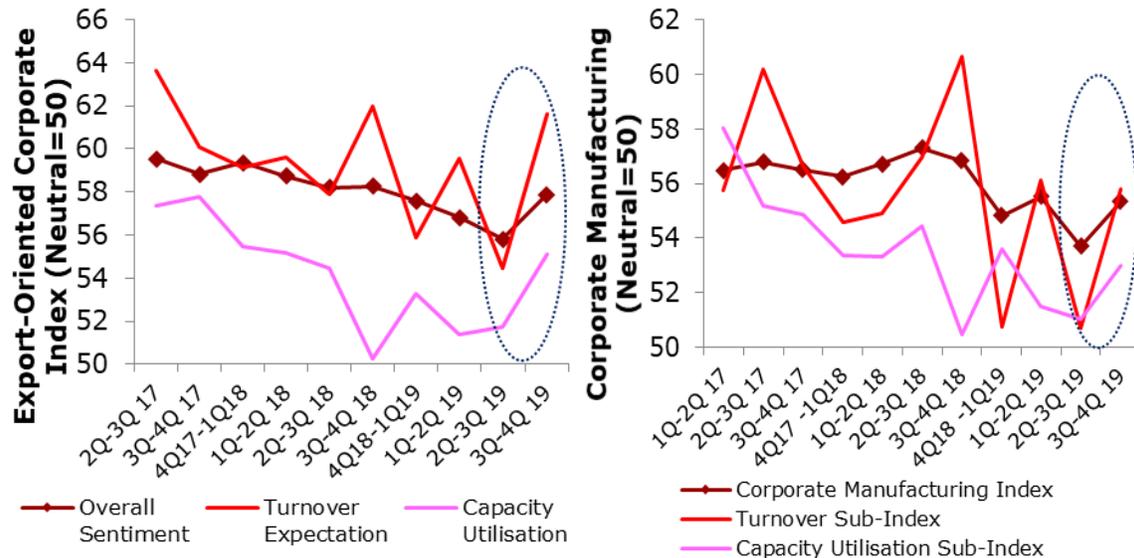

RAM Business Confidence Index indicates evidence of trade diversion benefits

The latest RAM Business Confidence Index (RAM BCI) for 3Q-4Q 2019 indicates a rebound in the sentiment of export-oriented Corporates in Malaysia. The overall index for export-oriented Corporates jumped 2.1 points – the first uptick in the last three quarters and the biggest increase to date. At 57.9, the surge in optimism is mainly attributable to a steep spike in Corporates' turnover and profitability sub-indices (+7.2 points to 61.6 and +7.5 points to 61.6, respectively).

The above, coupled with an improved reading for the Corporate manufacturing sector in particular, may have stemmed from positive trade diversion effects. Malaysia is one of the key beneficiaries of the ongoing US-China trade war, which has prompted the realignment of global supply chains away from China. A sample of our export-oriented survey respondents reported more orders, mostly from other Asian economies such as Thailand and South Korea.

Anticipating a recovery in their order books after the sluggish performance this year to date, the proportion of export-oriented firms that expect to operate above normal capacity (> 95% capacity utilisation rate) also swelled 25.9%, compared to 14.3% in the last survey. The rise in net FDI inflow and foreign investment approvals in 1Q 2019 is also consistent with the greater need for more capacity by export-oriented firms and supporting businesses along the supply chain.

Figure 1: Healthier demand prospects suggest trade war diversion benefits



Source: RAM BCI

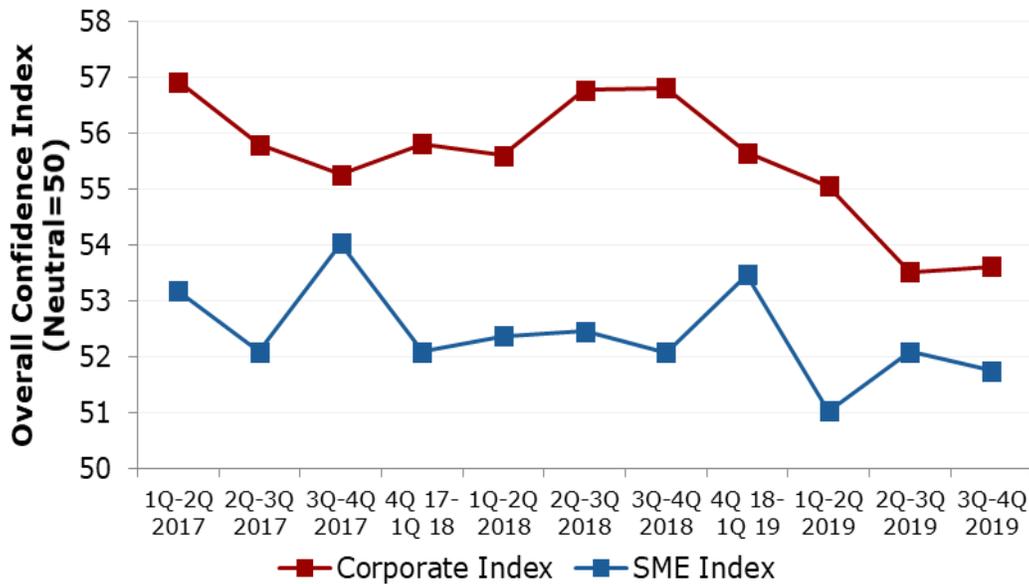
Overall RAM BCI trend still signals cautious optimism

Despite more positive readings for export-oriented Corporates, the overall RAM BCI still indicates a subdued level of optimism through the next six months. The overall indices for both Corporates and SMEs are little changed from the last survey, at a respective 53.6 (+0.1 points) and 51.8 (-0.3 points). The cautiously optimistic sentiment is not surprising given the challenging operating environment, particularly amid the disruptions caused by the US-China trade tensions, BREXIT complications and uncertainties amid a scenario of moderating global growth. Firms mostly still believe that the next six months will remain challenging, despite signs of trade diversion benefits. The heightened concern is reflected in the higher number of firms citing “weak economic conditions” as their main challenge in the next six months. This proportion has risen to record highs of 43.1% for Corporates and 44.8% for SMEs. As such, the improvement in performance-based indicators may be short-lived given the lingering economic ambiguity.



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Figure 2: Corporates and SMEs cautiously optimistic on 3Q-4Q 2019



Source: RAM BCI

Cooperation between Corporates and SMEs vital for shared prosperity

The RAM BCI also suggests that the economic headwinds in 2H 2019 have a more pronounced impact on smaller SMEs rather than bigger Corporates. While larger manufacturing and export-oriented firms have expressed more positive sentiment despite the tougher operating conditions, smaller SMEs do not appear to share the same bullishness. The turnover and profitability sentiment of export-oriented SMEs weakened a respective 0.6 and 0.7 points while that of manufacturing SMEs fell 0.7 and 0.2 points. This could be due to their relatively small stature and less diversified supply chains as well as client bases, which render them prone to fluctuating business volumes. SMEs' sensitivity to sudden changes in global conditions is also evident from the more subdued sentiment (overall index reading of 51.1) of those surveyed after the US's additional tariffs on China, compared to those surveyed before the tariff escalation (51.9). As such, it is crucial that the Government enact policies and mechanisms to enhance cooperation and business relations between SMEs and Corporates. This would improve the business ecosystem, for more sustainable development through shared prosperity.

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 (or 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) 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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