



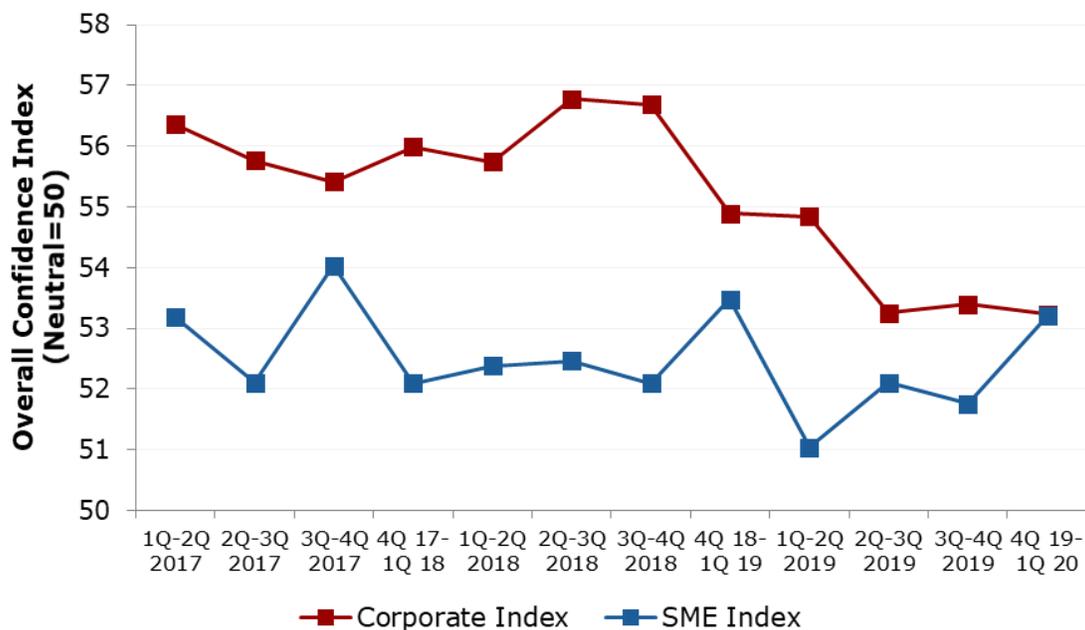
Media Release

RAM Business Confidence Index highlights Malaysian firms' heightened uncertainties

The latest RAM Business Confidence Index (RAM BCI) for 4Q 2019-1Q 2020 indicates that overall business optimism is still sluggish - a persistent trend since the beginning of this year. That said, firms have maintained a cautiously optimistic outlook through the next six months. The Corporate Index slipped 0.2 points to 53.2 while the SME Index inched up 1.4 points to 53.2.

Although the latest readings for Corporates and SMEs converged at 53.2, we highlight that these two cohorts face different circumstances and prospects. The main drivers of better SME sentiment this quarter are greater optimism on access to bank financing and improved performance indicators. SMEs' performance is highly influenced by new orders and projects. As such, their business prospects tend to be quite volatile.

Figure 1: Latest SME index converged with that of Corporates, buoyed by greater optimism on access to bank financing



Source: RAM BCI

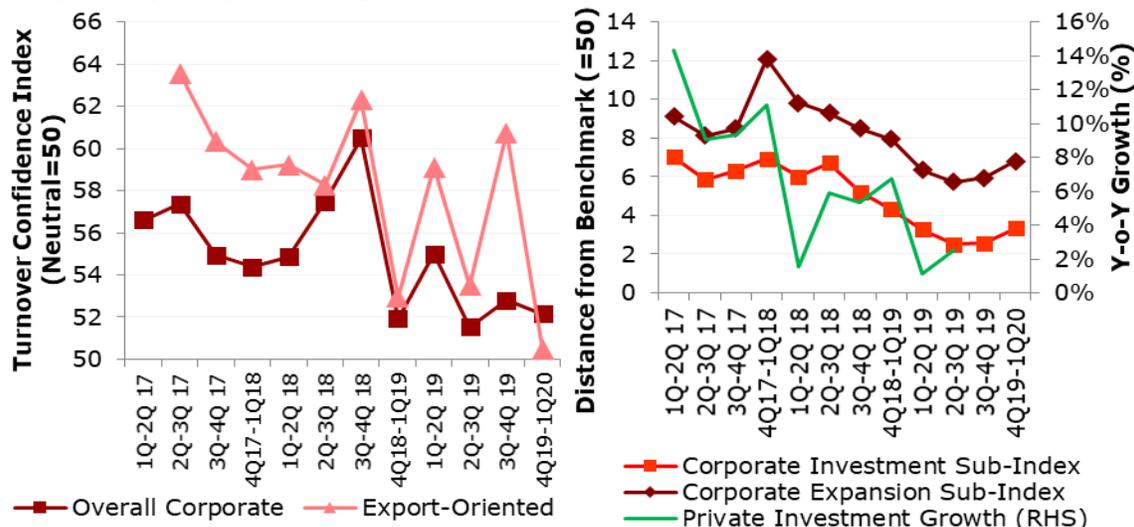
Note: Due to a change in sector coverage from 4Q 2019-1Q 2020 onwards, retrospective adjustments have been made to the Corporate Index

The persistently sluggish corporate sentiment signals their view on the current economic environment, which has been plagued by uncertainties since 4Q 2018. At the same time, US-China trade tensions have worsened, along with firmer signs of weaker global demand this year. In particular, the sentiment of export-oriented firms declined 3.6 points to 54.0 in the latest survey. Moreover, a higher proportion of firms (45.6% for surveyed Corporates and 44.8% for SMEs) now cite “weak economic conditions” as their main challenge in the next six months.

Global uncertainties challenge sustainability of business performance

Prolonged global uncertainties have also led to large swings in firms’ business performance expectations, underlining the challenges faced by their business operations. Previously a trait only observed among SMEs, Corporates now also have yo-yoing expectations on their performance in 2019. The volatility is significantly stronger among export-oriented firms given their direct exposure to the US-China trade war. Based on our interaction with selected respondents, firms have pointed the finger at softer demand from China and local clients that service the Chinese market amid the impact from the US-China trade spat. Moreover, order sizes have shrunk and become lumpier as their clients have become more cautious in inventory management. Such uncertainties have also affected Corporates’ capacity-building intentions, which have undergone successive declines through most of 2018 and 2019.

Figure 2: Uncertainties triggered expectations of more volatile performance and put capacity-building efforts on back-burner



Source: RAM BCI

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Domestic resilience to support business optimism in near term

On a brighter note, the most recent survey results suggest that the earlier downtrend in capacity-building activities has been arrested, with improvement sighted in the last two surveys. The majority of firms are operating at normal capacity, with little sign of industrial slack. They are also maintaining their headcounts. SMEs' better access to bank financing is yet another element that will support capacity-building activity and operations. The access to bank financing sub-index for SMEs spiked up 4.6 points to 54.4. in the latest survey - the highest reading in the last two years.

Going into 2020, the comparatively stable domestic-oriented sectors - which experienced a slight improvement in sentiment this quarter - will remain the underlying economic driver. The resumption of big-ticket construction and public-sector infrastructure projects, as well as the resilience of the business services sector, bode well for Malaysia's growth prospects. Corporate sentiment on construction showed relatively broad-based progress in the latest survey, especially on business performance expectations amid the resumption of job flows. This sector's healthier prospects may help balance the downside risks from external headwinds, given the notable multiplier effect it has on 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 since the 4Q 2019-1Q 2020 edition based on a survey of approximately 2,000 SMEs and Corporates (previously 3,500) across five main SME and four main Corporate (previously five) industry segments. Consequently, the prior quarters' Corporate indices have been retrospectively adjusted for the change in industry coverage. 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 seven key aspects that are pertinent to their business operations over the next six months. The seven 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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Date of release: 25 September 2019



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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

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