

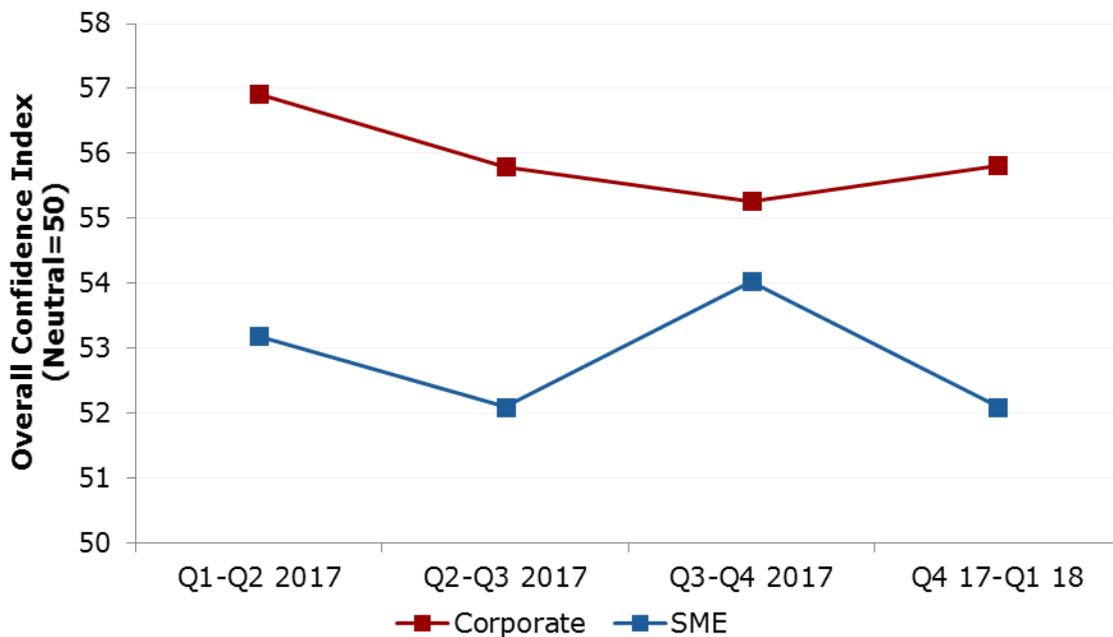


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RAM Business Confidence Index: Business confidence still upbeat heading into 2018

The fourth RAM Business Confidence Index (“RAM BCI”) indicates that firms are optimistic about business prospects for the next 6 months. The Corporates Index and SME Index continued to show positive sentiment, with respective readings of 55.8 and 52.1 for 4Q 2017-1Q 2018 (refer Figure 1). We note that Corporates have been consistently more sanguine throughout all 3 earlier readings. Relative to SMEs, the Corporate segment’s more stable and stronger sentiment throughout the observed periods is attributable to their economies of scale, operational flexibility, client bases and bargaining power to ride through short-term economic vagaries. Viewed in this light, SMEs’ sentiment is more volatile, in tandem with the greater uncertainties faced by their businesses.

Figure 1: RAM BCI overall index values

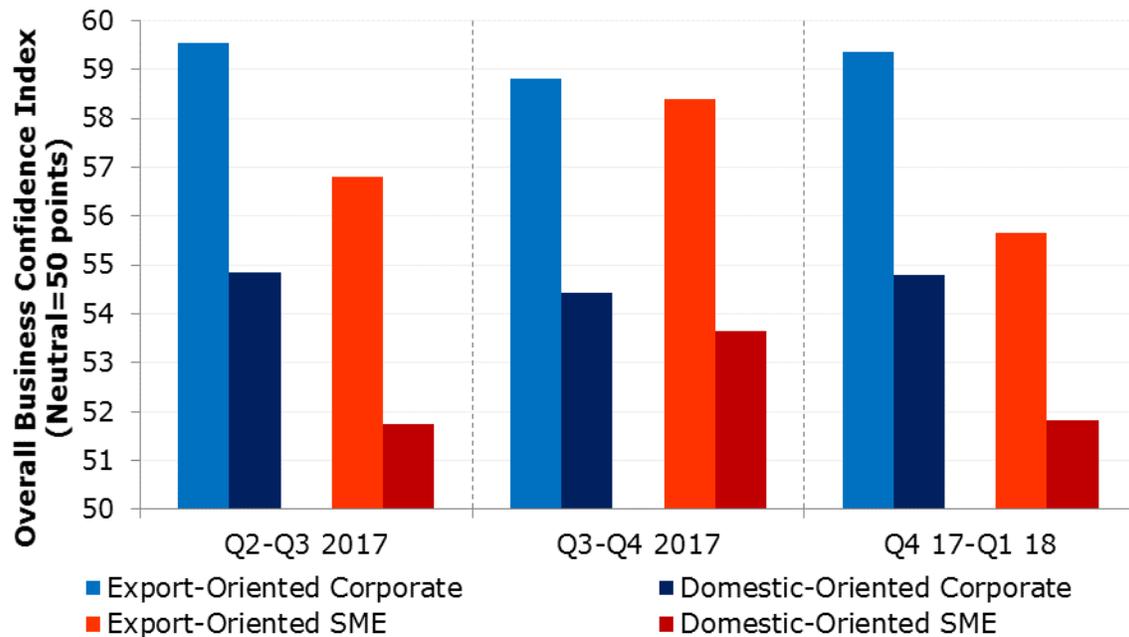


Export-oriented firms see more upside potential

The survey results reveal that export-oriented firms are more bullish than their domestic-centric counterparts (refer Figure 2). Given the momentum of global trade

recovery, which has led to 7 months of double-digit export growth for Malaysia since December 2016, export-oriented businesses stand to gain from this thrust in external demand. This affirms the higher index values for turnover and profitability expectations, in all the 4 previous surveys for both SMEs and Corporates to date.

Figure 1: Export-oriented firms charting notably higher index values



Corporates positive on all front through next year

Analysing the Corporate segment data within the survey, the observed trend suggests that Corporate optimism is broad-based going into 2018; all 7 component indices boast values of above 50 for the third consecutive reading. Corporates are the most positive about business expansion at 61.8. On the other hand, capacity utilisation recorded the lowest reading of 53.0, with close to 75% of respondents expecting normal capacity utilisation rate of between 75% and 95%. The more muted sentiment could be reflective of previous consecutive quarters of robust capacity building, that is likely creating transitory slack in capacity. A sectoral-analysis of the survey data among the Corporate segment reveals that the agriculture/mining sector is again the most bullish sector for the third consecutive round of this survey, coming in at 57.4. This was largely driven by intentions to hire and expand businesses, in order to increase capacity after production was disrupted by adverse weather conditions last year. Meanwhile, the transport/storage sector is the least bullish at 53.7, on account of continuing challenges in the shipping and oil & gas sectors, among others.

SME Index more volatile, but still above 50

The overall sentiment of SMEs, on the other hand, still showed greater variation with



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each survey; this quarter's reading has reversed from the higher readings of the previous quarter. In particular, the areas that show the least optimism for 4Q 2017-1Q 2018 were turnover and profitability, which fell back below 50, to 49.6 and 48.7 respectively, from 52.2 and 50.6 in the preceding survey. Despite the poorer performance outlook, SME respondents in our survey still expressed optimism on business expansion (55.8) and hiring sentiment (56.3) in the next 2 quarters. This performance uncertainty is also more prominent among construction, manufacturing, transport/storage and retail players, whose operations may be contract-based and/or dependent on narrower or niche clientele, thereby rendering their performance more volatile. Conversely, business services that cater to a more diversified clientele across a wide spectrum of sectors continue to exhibit positive business expectations, albeit having lowered to 54.7 from the spike the previous survey.

Is the economic recovery sustainable?

To conclude, despite some downside prospects in business outlook among SMEs, both Corporates and SMEs at large have maintained overall positive sentiments going into 2018. This is perhaps a welcome indication that the momentum of economic recovery in Malaysia has an element of sustainability. This is especially so when firms have continued to express intentions to expand capacities and keep up hiring as well as capital investments. Nonetheless, the findings of our survey suggest that SME agencies and regulatory authorities would need to continue to monitor SMEs' performance closely and increase assistance to help these firms overcome short-term challenges and uncertainties, if needed.

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About RAM Holdings Berhad

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