



Media Release

Businesses maintain positive sentiments for Q2-Q3 2017 despite headwinds to profitability

Corporates and SMEs remain optimistic of their business prospects for Q2-Q3 2017, according to the latest release of the survey-based RAM Business Confidence Index. Consistent with the results of the previous survey completed in Q4 2016, Corporates continued to be the more optimistic of the 2, recording a positive sentiment of 55.8, albeit marginally lower than 56.9 recorded in the previous survey. Similarly, SMEs logged a positive sentiment of 52.1, compared to 53.2 for the previous period of Q1-Q2 2017.

Both export-oriented Corporates and SMEs registered higher overall index values than their domestic-oriented counterparts on the back of an expected pick-up in trade activities. The manufacturing, agriculture/mining and transport/storage sectors recorded the highest index readings for the Corporate sector at 56.8, largely driven by its optimism towards turnover and business expansion, while the construction sector was the least bullish at 53.9, weighed down by a negative profitability sentiment. On the SME side, the business services sector was the most sanguine at 53.9 on the back of strong hiring and business expansion sentiment while the retail sector was the least positive at 50.9, due to a negative outlook on turnover and profitability.

Corporates positive on all aspects, keen on expansion

All 7 component indices for Corporates registered values of above 50, suggesting broad confidence about business prospects over the next 6 months. They were most positive about business expansion and turnover, with values of 58.0 and 57.3, respectively. Consistent with this finding is the higher proportion of firms seeking new bank financing in the same period, at 18.9% compared to 17.1% previously.

Nonetheless, firms have signalled that they expect increasing headwinds to the pace of profitability growth in the next 6 months, mainly attributable to rising costs of production, compounded by a persistently weak Ringgit. The profitability component index for Corporates moderated to 52.1 from 53.4 in the last survey period.

SMEs forge ahead with business expansion despite challenges ahead

Of the 7 aspects measured, SMEs are less sanguine about turnover and profitability in Q2-Q3 2017, which carried below-benchmark values of 46.8 and 45.7,

respectively. Like Corporates, profitability was the main concern for SMEs, more so given their relatively weaker bargaining power amid rising cost pressures in the supply chain. As such, this might lead SMEs to increase prices as a way to manage the profitability squeeze. The less optimistic profit outlook is also largely matched by a weaker turnover outlook, premised on lower demand for goods and services due to competitive pressures and economic sluggishness. Further, from our discussions with SMEs, the slower rate of collections from their clients had also crimped the pace of existing work progress, posing further downside risks to turnover expectations for the next 6 months.

Nevertheless, the weaker sentiment in these 2 aspects was moderated by the more bullish outlook on hiring, capacity utilisation and business expansion, which recorded higher index values compared to the previous survey. Forging ahead with business expansion activities despite weaker performance prospects may be partly attributed to the entrepreneurial and survivalist nature of SMEs, as they continue to strengthen the groundwork to improve their business prospects and competitiveness.

Analytical contact

Woon Khai Jhek
(603) 7628 1093
khaijhek@ram.com.my

Media contact

Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

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