'Perfect storm' gathering pace

Global Pulse report from Asian CEOs points to weaker sentiment on pessimistic outlook next year

Guest writer

BY CLEMENT CHEW

CHIEF executives in Asia have become progressively less optimistic on prospects in recent quarters, according to the latest third quarter (Q3) survey of the Young President's Organisation (YPO).

Worryingly, its Global Pulse report indicates that the weaker sentiment is more pronounced in Malaysia where the outlook has actually turned pessimistic for next year.

YPO is a global network of CEOs with 23,000 members in 130 countries and Global Pulse is the only CEO economic sentiment survey that spans the globe on a quarterly basis. As part of the survey, YPO CEOs give their views on the overall economic climate as well as issues relating to changes in sales, headcount and fixed investment for their respective businesses.

The latest Q3 survey was conducted in the first two weeks of October. It gathered responses from 1,915 CEOs across the globe, including 224 in Asia and 43 in Malaysia.

Confidence index

For Malaysia, the confidence index plummeted 12.1 points from 57.2 in the second quarter (Q2) to 45.1 in Q3 (see chart 1).

The confidence index is an indicator of YPO-WPO members' sentiment about the overall economic outlook. An index of 50 represents a neutral outlook – neither optimistic nor pessimistic. A reading below 50 indicates a more pessimistic outlook. A reading above 50 indicates a more optimistic outlook.

The confidence index is at its lowest level since the survey began six years ago. While Malaysia's fall was in sync with the decline in Asia, the Q3 result indicated that CEOs were actually pessimistic on future prospects. This contrasts with their Asean counterparts who were still optimistic at 52.6 (chart 3).

The survey for Malaysia also produced the following findings.

Firstly, only 45% of CEOs expect their sales to increase in the next 12 months (chart 2). In contrast, 55% of members surveyed expected sales to decrease or stay unchanged over the next 12 months.

Secondly, 70% of CEOs expect their companies' fixed investments to decline or stay unchanged in the next 12 months. Lastly, an overwhelming 79% of CEOs expect their headcount to decline or stay unchanged over the next year. Significantly, 61% of CEOs expect a freeze in their staff headcount over the next 12 months.

The survey may provide pointers on what to expect next year.

In the Q3 reporting season for Bursa Malaysia-listed companies that was just concluded, companies geared towards the domestic economy struggled to grow their top line. Revenue growth for companies in the construction, property, telco, cement, media and automotive industries were generally under pressure. Earnings forecast for the corporate sector were once again revised down.

The banking sector, under margin compression, have already announced plans to reduce headcount in the coming quarters.

Commodities such as palm oil and crude oil have remained weak. An oversupply situation and tighter bank lending conditions threaten to deepen the property market's correction.

Unprecedented cost pressures

Arguably, the most bearish factor is the unprecedented cost pressures that have permeated through the economy. This has been driven by the ringgit depreciation,

Chart 1: Malaysia Confidence Index vs Global and China

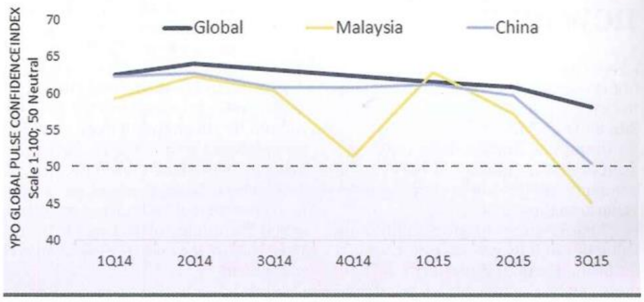
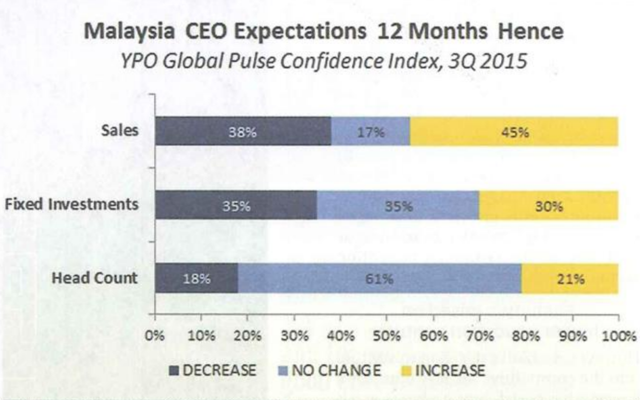
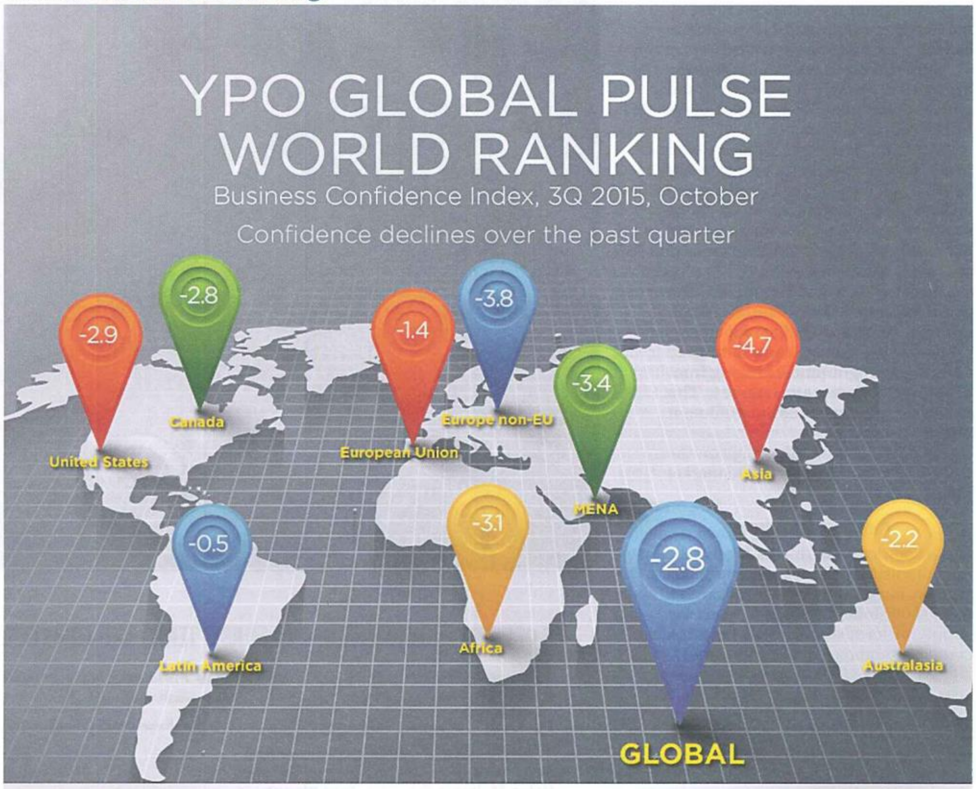


Chart 2: Malaysian CEO expectations Confidence Index



Source: YPO Global Pulse, 3Q 2015

Chart 5: Global Pulse ranking



Results Quarter	Global	Africa	Asia	Australasia	Canada	European Union	Europe non-EU	Latin America	MENA	United States
2Q 2015	60.9	57.4	62.0	61.4	60.0	61.6	57.7	50.1	60.8	62.8
3Q 2015	58.1	54.3	57.3	59.2	57.2	60.2	53.8	49.6	57.3	59.9

introduction of the goods and services tax, increase in utility bills, wage hikes, toll increases, higher grocery bills, etc.

The confluence of such cost pressures have never been experienced before in our recent history. The result is the affordability and spending power of the average consumer have been seriously eroded.

Externally, global economic growth has consistently disappointed since the 2007 global financial crisis. Although economic stability has returned, growth has been weak. This is in spite of quantitative easing programme in many countries to revive their respective economies! Separately, with the US Federal Reserve on the cusp of a new rate cycle, easy liquidity will not return to emerging markets for a while.

A saving grace is that the corporate sector is still making good profits. However, its ability to grow the bottom line next year will remain severely constrained, in my view.

Global and regional confidence level falling

Next, we turn our attention to Asia. Chart 3 indicates that the confidence index for Asia fell 4.7 points from 62 in Q2 to 57.3 in Q3. This was the biggest drop of any region globally. It was also the fifth consecutive decline for Asia and the lowest level of confidence since the survey started six years ago.

We believe the fall in Asia's confidence index was driven very much by China which saw its index plummet eight points from 60.7 in Q2 to 52.7 in Q3.

Last year, confidence among Asia's CEOs was one of the highest in the region (chart 3). However, the confidence index has progressively declined and now gone below the global average of 58.1. In a nutshell, CEOs in Asia have become significantly less optimistic than last year although they are not yet in the pessimistic category.

> "We believe the confidence index was adversely impacted by concerns over a China slowdown, continued weakness in oil prices, range-bound commodity prices, volatile stock markets and expectations of higher US interest rates."

Chart 3: **Asia Confidence Index**

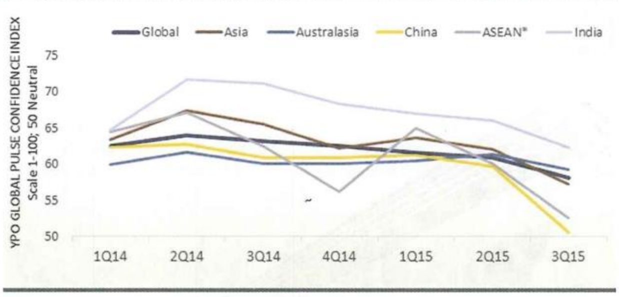
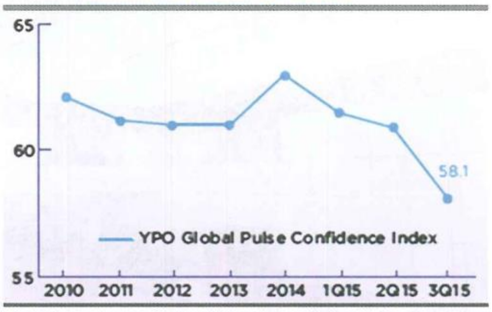


Chart 4: **Global Confidence Index**



The global picture

The Global Pulse Confidence Index declined 2.8 points from 60.9 in Q2 to 58.1 in Q3 (chart 4).

For the global index, this is its fifth consecutive quarterly decline in confidence level. It is also a four-year low. The previous quarterly declines were moderate. However, the Q3 drop was noticeably more pronounced.

We believe the confidence index was adversely impacted by concerns over a China slowdown, continued weakness in oil prices, range-bound commodity prices, volatile stock markets and expectations of higher US interest rates.

As a side note, the EU has overtaken the US as the most optimistic region in the world (chart 5).

This year was labelled as a perfect storm for Malaysia. If it was, it is probably about to get worse. For the business community, it is time to hunker down and batten down the hatches. As the Global Pulse survey indicates, CEOs expect things to get tougher before they get better. FocusM

Clement Chew is a member of YPO Malaysia Chapter working committee and its immediate past Chapter chair. He is also managing director of Apex Investment Services Bhd