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INSEAD

Outlook  
worsens at  
Asia's top  
companies  
in the second  
quarter of 2012

# Thomson Reuters/INSEAD Asia Business Sentiment Survey

JAPAN/CHINA/INDIA/AUSTRALIA/KOREA/TAIWAN/SINGAPORE/MALAYSIA/INDONESIA/THAILAND/PHILIPPINES

# Asia business sentiment does an about face in the second quarter of 2012

By Eveline Danubrata and Aradhana Aravindan

SINGAPORE/MUMBAI, June 20 (Reuters) - Asia's top companies are less upbeat on their business outlook than in the first quarter, with mounting concern over the euro zone crisis and a slowdown in China's growth story, according to the latest Thomson Reuters-INSEAD Asia Business Sentiment Survey, published on Wednesday.

The Thomson Reuters-INSEAD Asia Business Sentiment Index (RACSI) slid to 69 in June from 74 in March, when it saw a dramatic 14-point jump from the December survey. A reading above 50 indicates an overall positive outlook.

"It's obvious there are a few macro headwinds," said James Koh, analyst at Maybank Kim Eng in Singapore. "Companies are understandably a little worried. On one hand, you have the Greek fall-out and, on the other hand, we have already seen a mild deceleration of growth in China."

Of the record 177 Asian companies polled, 78 said their business outlook for the next six months was positive, while 87 said it was

neutral, and 12 were negative. The poll was conducted by Thomson Reuters in association with INSEAD, a global management and business school in Singapore and France, between June 4-15.

Asked what was the biggest risk factor they face, 111 said global economic uncertainty, and 28 cited rising costs.

"Things are looking tougher with what's happening in the global economy. Asia is not fully insulated but will still do relatively better given that most governments in the region still have leeway to stimulate domestic economies," said Kristy Fong, investment manager at Aberdeen Asset Management Asia.

"Cost pressures are another issue, such as rising inflationary pressures in Singapore (and) infrastructure and logistical bottlenecks in India."

Carey Wong, analyst at OCBC Investment Research, said end-consumers were turning more cautious in placing orders. "As long as customers don't give them very clear order

## HIGHLIGHT BY COUNTRY

### AUSTRALIA: DOWNBEAT

Australian firms were the most downbeat since the 2011 third quarter, gripped by worries over global economic uncertainty. Of the 12 respondents, four were negative, two positive and six were neutral. In the last quarter, three were neutral and four positive.

### CHINA: LESS POSITIVE

Easing growth in Asia's largest economy was reflected in the companies' responses, which were the least positive since the survey began in 2009. Four companies were positive, while 13 were neutral and two were negative, compared with eight positive, eight neutral and one negative in the previous quarter.

### INDIA: LESS OPTIMISTIC

Indian companies were less positive than in the quarter before, with growth in Asia's No.3 economy slumping to its lowest in nine years amid a sluggish policy making environment and a weakening local currency. However, no company in the survey was negative, with seven neutral and six positive.

### JAPAN: MORE UPBEAT

Japanese respondents, which included Toshiba Corp, Sharp Corp and Canon Inc, reported improved sentiment as robust private consumption and rebuilding from last year's earthquake and tsunami should offset slowing global growth. Five companies were positive, 18 neutral and one negative.

### SOUTH KOREA: SLIGHT IMPROVEMENT

Sentiment improved after being neutral for two quarters, reflecting some recovery in the country's first-quarter economic growth. Of 24 respondents, 17 reported neutral sentiment, five were positive and two were negative.

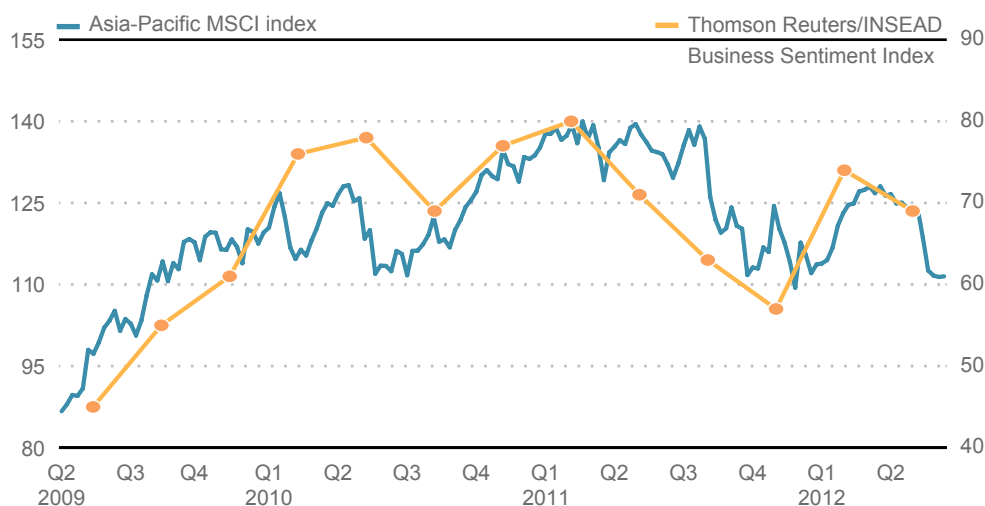
### TAIWAN: SIGNIFICANTLY LESS OPTIMISTIC

Taiwanese companies grew markedly less optimistic from the previous quarter, with one positive response, one negative and five neutral. In the previous quarter, all four respondents were positive. Most of the companies in the survey saw economic uncertainty as the biggest risk to their outlook, while one said it was worried about rising costs.

### SOUTHEAST ASIA: MOSTLY POSITIVE

Although sentiment declined at the majority of south-east Asian countries, it was still higher than most of their counterparts. The Philippines was the most optimistic, with all respondents positive, but they flagged risks from currency fluctuations and the global economy.

## Thomson Reuters/INSEAD Asia Business Sentiment Survey



Sources: Thomson Reuters, INSEAD, MSCI

# HIGHLIGHT

## BY SECTOR

### AIRLINES: SLIGHTLY MORE POSITIVE

Carriers were slightly more upbeat about their outlook after jet fuel prices trended downwards recently, with three of five responding positively and two neutral in this quarter, compared with one positive and one negative in the previous three months. Rising fuel costs remained the top concern, however, with two airlines citing them as the main business risk.

### AUTOS: IN NEUTRAL

A majority of the auto companies surveyed - six of the nine - had a neutral view, while three were positive. This compares with three neutral and two positive in the previous quarter. Most were worried about the impact of slowing economic growth on car sales. Companies responding included Indonesia's Astra International.

### BUILDING: LESS OPTIMISTIC

Sentiment in the building sector has dipped, with two of the five companies responding positively, two holding a neutral view and one negative. In the previous survey, three companies were positive and one negative. Rising costs and the global economic uncertainty, which affect profitability and construction demand, remained the major concerns for builders. Companies surveyed included Thailand's Siam Cement.

### FINANCIALS: LESS BULLISH

Banks and insurers were less bullish on their outlook, with 16 of 30 surveyed being neutral and 12 responding positively this quarter, compared with seven positive and six neutral in the previous survey.

Indonesian banks were the most optimistic, with all five surveyed giving positive replies. Indonesia was followed by the Philippines, with two banks surveyed there also giving a positive outlook. The global economy was the dominant concern, with 25 financial companies citing it as the key risk.

### FOOD: MORE POSITIVE

Food and drinks companies were turning more bullish about their outlook, with 10 of 16 responding positively and the rest neutral. This was an improvement over the last quarter when two were positive and two neutral.

### DRUGS: MORE POSITIVE

Four of six surveyed responded positively, led by Indonesian companies, marking an uptick from the previous quarter when three of four firms were neutral. The global economy was the main concern for two of the companies surveyed, while two others were worried about rising costs. Companies responding included Japan's Daiichi Sankyo Co Ltd and Takeda Pharmaceutical Co Ltd.

### PROPERTY: NEUTRAL

Sentiment in the property sector was largely in line with the last quarter, with seven of 10 firms surveyed holding a neutral view, compared with three of five being neutral previously. Two Chinese developers surveyed had a neutral outlook after a sharper-than-expected slowdown in the world's second-largest economy and government cooling measures dragged property sales.

### RESOURCES: LESS POSITIVE

The mood among the 44 resources firms surveyed was slightly worse, with 20 companies reporting a positive outlook, 20 neutral and four negative. This compares with six positive, four neutral and one negative

in the previous quarter. More than half the companies were worried about slowing economic growth, which could hit demand for commodities such as coal, iron ore and palm oil. Others cited concerns such as government policies, political stability and commodity prices. Companies responding included Coal India Ltd and Sinopec Corp.

### RETAIL: MORE BULLISH

Retail companies turned more upbeat, with seven of 12 surveyed reporting a positive outlook, up from three of seven firms in the previous quarter. More than half the companies were concerned about the global economy, while rising costs were the second-biggest worry. Companies responding included the Philippines' SM Investments Corp.

### SHIPPING: LESS POSITIVE

Shipping companies were less optimistic, with five of eight surveyed holding a neutral view, two positive and one negative, compared with two positive and one neutral in the previous quarter. Four of the five South Korean shipping firms were neutral about their prospects. All eight companies surveyed cited the global economy as the key risk as reduced trade pushes down shipping rates. Respondents included Daewoo Shipbuilding & Marine Engineering Co Ltd, Hyundai Heavy Industries Co Ltd and STX Offshore & Shipbuilding Co.

### TECHNOLOGY: LESS POSITIVE

Technology firms were less bullish this quarter, with 13 of 32 companies polled saying they were positive about their outlook, 18 neutral and one negative, compared with nine positive and seven neutral in the previous survey. Nine of 10 Japanese tech companies surveyed were neutral, and one positive. Most firms were concerned about slowing demand for electronic components, TVs, mobiles and services, as well as other technology products. Several also flagged regulatory risks and increasing competition. Companies responding included Canon Inc, Hitachi Ltd, Sharp Corp, Toshiba Corp and Softbank Corp.



A worker takes a break from welding a bridge under construction on the outskirts of Beijing. REUTERS/David Gray



indications, sentiment won't be that good. As a business owner, you can't plan ahead, such as planning capital expenditure."

## GLOBAL EXPOSURE

Europe's ongoing debt crisis and worries over a slowing China battered stock markets globally in the second quarter, knocking the MSCI world equity index down by more than 13 percent.

Sentiment in industry sectors heavily dependent on the global economy, such as shipping and financials, deteriorated the most, the survey showed.

"Asian businesses - the big exporters - face potential weakness in essentially most of their end-markets," said Nick Paulson-Ellis, the India head at Espirito Santo Securities.

"It's clearly not going to be an easy time. You've got slowdowns domestically after pretty aggressive tightening last year in a lot of developing economies and you've got weakness in end-markets, so it's a very, very tough period for Asian corporates."

Shippers, including Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, saw the biggest drop in sentiment from the March survey, but consumer-related

sectors such as retail, drugs and food were more positive than in March.

"Companies in consumer staples such as instant coffee and supermarkets seem to be slightly more bullish, especially those more concentrated in ASEAN," said Maybank Kim Eng's Koh. "They're less affected by any slowdown in industrial production and higher-end spending, and their exposure is more local rather than macro."

## DOWN UNDER

By country, Australia had the lowest reading of 42 - the only score below 50 - while all Philippine companies polled were positive.

Sentiment among Chinese firms fell to the lowest level since the survey began in 2009, ahead of only Australia and Taiwan, as the world's second-biggest economy showed signs of slowing.

But Elvic Ng, Hong Kong-based head of research at UOB Kay Hian, sees a pick-up in China's economic growth and business sentiment in the next 6-12 months, as a June 7 interest rate cut and monetary easing are signs the government has shifted to pro-growth monetary and fiscal policies.

(Writing by Kazunori Takada, Editing by Ian Geoghegan)

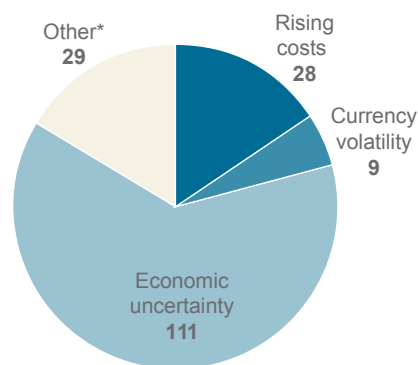
## REUTERS INSIDER



ILJAN MIHOV, DEPUTY DEAN OF INSEAD

<http://r.reuters.com/xaf88s>

## Biggest perceived risks to business outlook



Reuters, 177 respondents

\*Includes policy changes, regulations and infrastructure etc.

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An employee is pictured in a luxury brand store in Sendai, northeastern Japan. REUTERS/Yuriko Nakao

COVER PHOTO: A woman walks down a staircase at a business complex in Tokyo REUTERS/Yuriko Nakao