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

- Business sentiment rises slightly in Q4
- Food sector is most positive, Airlines and Building negative
- Global economic certainty continues to rank as highest risk to business

Thomson Reuters/INSEAD Asia Business Sentiment Survey

Asia business sentiment edges up in the last quarter of 2012

By Miyoung Kim

Business sentiment among Asia's top companies improved slightly in the fourth quarter, reversing two consecutive quarters of declines, while global economic uncertainty remained the biggest concern for the region's firms, a Thomson Reuters/INSEAD survey showed.

The Thomson Reuters/INSEAD Asia Business Sentiment Index <RACSI> rose to 63 in the fourth quarter from 62 in the third quarter of 2012, having peaked at 80 in the first quarter of 2011. A reading above 50 indicates an overall positive outlook, while one below 50 points to pessimism.

The results showed a stark contrast between companies in Southeast Asia, a region of about 600 million people now benefiting from an increase in foreign investment and which showed some of the highest positive readings, and manufacturing-heavy northeast Asia, which is more susceptible to the global economic downturn and had some of the lowest index readings.

China, where exports support an estimated 200 million jobs, showed the most resilient rebound in sentiment in the northeast Asian region, but companies in other export-focused economies such as Japan, South Korea and Taiwan remained more cautious.

"External risk factors that may pose problems in Asia are European debt crises re-escalating and if U.S. growth disappoints," said Juuso Mykkänen, chief executive of JOM Fund Management Ltd in Helsinki, which is running an investment company that has funds focused on investing in Asia.

"Asian own-risk factors are political ones that should be watched carefully. Territorial disputes should be also watched carefully."

The poll, conducted by Thomson Reuters in association with INSEAD, a global management and business school, was compiled between December 3-14 and covered sectors such as autos, finance, property, resources and technology. There

were 96 responses out of 100 of Asia-Pacific's top companies in 11 economies.

Indonesia, India, Malaysia and the Philippines all had the maximum scores of 100, followed by Thailand and China, whose indexes improved to 75 and 64 respectively from 64 and 50 in the previous quarter. South Korea also showed a sharp improvement from 20 to 50.

"Indonesia will remain our favourite destination in Asia due to very attractive structural forces in play currently. However, having said that, we have tactically increased weight in China in recent months as cyclical factors are on our side and valuations remain very compelling," said Mykkänen.

In contrast, companies in Taiwan were the most negative in Asia with a 33 index reading, the lowest level since the third quarter of 2011. It also compared with a reading of 40 in the third quarter.

Companies in Japan were the second-most negative, with a reading of 44 compared with a third-quarter reading of 48. It was the lowest reading in a year, underscoring the slow pace of recovery in the world's third-largest economy.

Many economists are betting Japan will ease monetary policy this week to pull the country out of a shallow recession, a Reuters poll showed last week.

Japan's economy recovered earlier this year from damage caused by March 2011's devastating earthquake, tsunami and subsequent nuclear crisis on spending for reconstruction.

As that boost tapered off, and the global slowdown hit Japan's export markets harder, the economy suffered a second straight quarterly contraction in July-September, putting it in a technical recession.

Offering a glimmer of hope, sentiment in the auto industry, a core part of Japan's manufacturing base, improved to 60 in the fourth quarter from 50.



A woman walks by at Bank Indonesia's headquarters. REUTERS PHOTO/Yusuf Ahmad

HIGHLIGHTS BY ECONOMY

AUSTRALIA: UPBEAT (53 vs 50)

Corporate sentiment in Australia picked up for a second successive quarter, but global economic uncertainty remained the biggest concern.

Ten respondents said their new orders increased, while two said orders decreased. James Hardie, the world's largest manufacturer of fibre cement products, and Australian warehouse operator Goodman Group took part in the survey.

CHINA: MORE UPBEAT (64 vs 50)

Sentiment among Chinese companies rebounded in the fourth quarter from an all-time low in the previous quarter. Two companies were positive, while five were neutral and none reported negative sentiment, compared with one positive, four neutral and one negative in the third quarter of 2012.

Most were worried about the global economy, while one cited rising costs. Three out of seven respondents said employment levels were higher, a significant improvement compared with only one respondent in the previous quarter.

INDIA: HIGHEST SINCE Q1 2011 (100 vs 80)

Indian respondents grew significantly more upbeat and the country's sentiment index reached its highest level since the first quarter of 2011, with all of the seven companies surveyed positive about their outlook.

Economic uncertainty and rising costs were still the top risks cited by companies in Asia's No.3 economy.

REUTERS INSIDER

Ilian Mihov, Deputy Dean of INSEAD
<http://link.reuters.com/nuf74t>

DEFENSIVE SECTORS MORE POSITIVE

As uncertainty over the global economy persists, with the so-called “fiscal cliff” impasse in the United States now adding to the debt crisis in Europe, companies in defensive industries such as food showed more positive sentiment.

Asian companies are closely awaiting the result of last-minute negotiations in Washington on the fiscal cliff -- nearly \$600 billion of tax increases and spending cuts set to take effect in January that could cause a sharp slowdown in growth or even tip the United States into recession.

“Generally in Southeast Asia we are focusing on the consumer sector due to rising wages, the infrastructure/construction sector, property developers, some insurance companies as they have very low valuations and good growth prospects due to low starting value,” said Mykkänen.

The food sector was the most positive among industries, with a reading of 77 compared with 73 in the third quarter, followed by the drug

sector with a reading of 72, although that was a decline from the 80 recorded in the third quarter.

The retail sector also posted a solid improvement, with its index reading rising to 75 from 50 in the third quarter, with four participants saying they were positive and the remaining four neutral, as the industry gears up for the year-end shopping season.

Fast Retailing Co Ltd, the operator of the Uniqlo casual clothing chain, reported a nearly 14 percent jump in November same store sales in Japan due to strong sales of its down jackets and winter wear. Its shares hit 2012 highs this week, fuelled by solid earnings recovery.

The shipping industry also saw an improved reading to 67 from 50.

Sentiment for shipping companies also improved sharply, with none of the six companies polled being bearish. None of them said they were worried about rising costs or foreign exchange volatility, and most of them expected customer payments to remain the same.

In contrast, the airline and building sectors were the most negative with index readings of 0 and 25 respectively.

High fuel prices and regulatory uncertainty remain concerns for Asia-Pacific carriers, while global economic uncertainty threatens to curb long-haul travels.

(Additional reporting by Janeman Latul in JAKARTA and Anurag Kotoky in NEW DELHI; Editing by Alex Richardson)

HIGHLIGHTS BY ECONOMY

JAPAN: NEW LOW IN 2012 (44 vs 48)

Sentiment among Japanese respondents, which included Toshiba Corp, Nippon Steel and Sumitomo Metal Corp. and Canon Inc continued the pessimistic tone of the previous quarter.

None of the Japanese companies had a positive outlook for the first time since the survey started in 2009, with 15 out of 17 respondents neutral and two negative.

Foreign exchange volatility was seen as the biggest risk by three companies, while economic uncertainty worried the majority.

SOUTH KOREA: IMPROVEMENT (50 vs 20)

Sentiment improved after the country's sentiment index hit its lowest level since the third quarter of 2011 in September.

Global economic uncertainty was the top business risk for Korean companies, while one saw foreign exchange volatility as a concern.

TAIWAN: LOWEST SINCE Q3 2011 (33 vs 40)

Taiwan's sentiment index hit its lowest level since the third quarter of 2011. Two of three respondents were neutral about their outlook, while one was negative.

All of the companies in the survey saw economic uncertainty as the biggest risk to their business outlook. Yuanta Financial Holdings Co. was among those taking part in the survey.

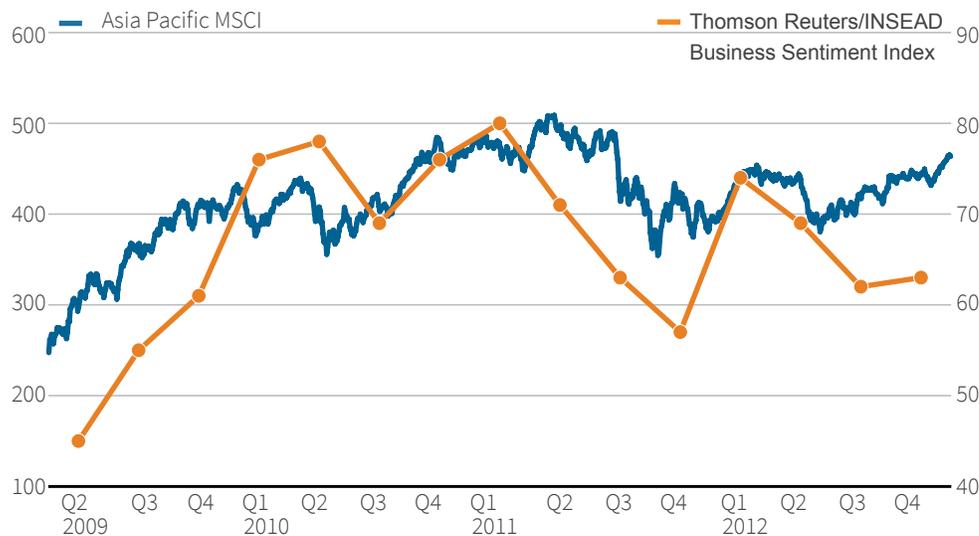
SOUTHEAST ASIA: MOSTLY OPTIMISTIC

Corporate sentiment from Southeast Asia was mostly upbeat, with Malaysia (100), Indonesia (100) and Philippines (100) recording the highest scores. All of the 15 respondents from the three countries were positive about their business outlook.

Thai firms (75) also grew more upbeat as the country's index improved from the last quarter, with three out of six companies reporting positive sentiment and three neutral.

However, Singapore's sentiment index (50) fell to its lowest level since the fourth quarter of 2011.

Thomson Reuters/INSEAD Asia Business Sentiment Survey



Source: Thomson Reuters, INSEAD, MSCI



Cargo ships at an industrial port in Tokyo in September
 REUTERS PHOTO/Kim Kyung-Hoon

HIGHLIGHTS

BY SECTOR

AIRLINES: MOST PESSIMISTIC (0 vs 67)

The only carrier polled was negative in its outlook, making airlines the most pessimistic sector. Global economic uncertainty that hurt travel mostly to and from the euro zone has eaten into airlines' margins in recent quarters.

High fuel prices and regulatory uncertainty remain concerns for Asia-Pacific carriers.

AUTOS: MOSTLY NEUTRAL (60 vs 50)

Four out of five automakers polled had a neutral outlook, while just one respondent had a positive outlook. Apart from economic uncertainty, the risk of foreign exchange volatility kept carmakers uncomfortable.

BUILDING: MORE BEARISH (25 vs 33)

Sentiment for the building sector continued to deteriorate, with one respondent having a negative outlook, and the other a neutral view. One of the participants cited global economic uncertainty as a risk, while another participant said declining business confidence dented the outlook.



A cleaner mops the floor of an Apple store, during the release of the iPhone 5 in Beijing's Wangfujing shopping district. REUTERS PHOTO/Petar Kujundzic

FINANCIALS: WORSE (50 vs 57)

Financials were mostly neutral with all but one of the 18 respondents saying that global economic uncertainty may hurt their businesses going forward.

FOOD: MOST BULLISH (77 vs 73)

Food and drinks companies were the most bullish with an index reading of 77 for the quarter, an improvement on the last quarter's 73. Higher costs were a concern, and commodity price volatility and changes in consumption trends also posed a risk. An overwhelming eight respondents said new orders were likely to increase.

DRUGS: OPTIMISM FADES (72 vs 80)

Four of the nine drugmakers had a positive outlook for the fourth quarter and the rest were neutral, but the average index still fell for the second straight quarter.

Drugmakers mostly cited global economic uncertainty as the biggest concern. Six respondents said they expected new orders to rise.

PROPERTY: WEAKENS (69 vs 75)

Property companies saw a fall in sentiment during the fourth quarter and were mostly neutral. These companies had seen significant improvement in business sentiment in the third quarter, when five of 10 surveyed responded with a positive view and the others with a neutral view. One company cited regulatory uncertainty as the biggest risk in the fourth quarter.

RESOURCES: TICKS UP (68 vs 63)

Half of the 14 resource firms were positive on their outlook, and most of them expected customer payments to remain stable. Three participants said rising costs was the biggest risk they faced, while most others worried about global economic health. Seven participants saw no change in new orders.

RETAIL: IMPROVES (75 vs 50)

Retail companies showed strong improvements in sentiment in the fourth quarter, with four participants saying they were positive, while the rest were neutral. Rising costs and the health of the global economy were cited as the main risks to the outlook by retailers.

One of the eight respondents, which included CP All, Fast Retailing and Galaxy Entertainment, said increased competition posed another challenge.

SHIPPING: TURNS BULLISH (67 vs 50)

Sentiment for shipping companies improved, with none of the six companies polled being bearish.

None of them said they were worried about rising costs or foreign exchange volatility, and most of them expected customer payments to remain the same. This was in contrast to the mixed responses from shipping companies in the previous quarter, when one company held a positive view, one neutral, and a third negative.

TECHNOLOGY: ERODES (57 vs 58)

Technology firms were less optimistic. Ten of 14 companies polled were neutral about their outlook, three were positive, and one was negative. In the last survey, 13 of 18 participants were neutral and four were positive.

The majority of the tech companies surveyed cited global economic uncertainty as their biggest business risk. Two said regulatory uncertainty was their biggest risk.

Biggest perceived risks to business outlook



Reuters; 88 respondents out of 99
*Includes policy changes, regulations and infrastructure etc.

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COVER PHOTO: Looking out over Tokyo's skyline.
REUTERS PHOTO/ Yuriko Nakao

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