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

- Confidence rises in Q1 2013 at Asia's top companies
- Resource sector highest since Q1 2012; Food sector hits record high
- Global economy remains region's biggest perceived risk followed by rising costs

Thomson Reuters/INSEAD Asia Business Sentiment Survey

Asia Business Sentiment Index rises for the second consecutive quarter

By Anshuman Daga

Asia's top companies, especially those in the export engines of China, Japan and South Korea, are wary about their business outlook, while Southeast Asia is outperforming as a result of strong local consumption, the latest quarterly Thomson Reuters/INSEAD Asia Business Sentiment Survey showed.

Global economic uncertainty ranks as the chief business risk across all sectors and all countries, as it has for the past year and a half, and is mainly responsible for the cautious sentiment despite a flood of global liquidity benefiting most economies.

The Thomson Reuters/INSEAD Asia Business Sentiment Index <RACSI> rose to 65 in March from 63 in December, when it edged up by 1 point from the September survey. A reading above 50 indicates an overall positive outlook.

Business sentiment in Southeast Asia's \$1.5 trillion economy was mostly optimistic, thanks to government-driven investment in infrastructure and robust domestic spending. Malaysia and the Philippines were the most positive with readings of 100 each.

This is the second consecutive quarter of 100 readings for both countries.

"I think the good news so far this year is just kind of consistency. We have continued to see modest upgrades to GDP forecasts for Malaysia, Philippines and to some extent, Indonesia," said Gary Dugan, chief investment officer for Asia and the Middle East at private bank Coutts.

"People continue to enjoy the same old thing, which is growth that surprises forecasts, companies therefore delivering good earnings numbers which beat expectations," said Dugan.

The availability of adequate funding is driving growth in Southeast Asia.

"Domestic consumption across most ASEAN countries has been very robust and I think that's the key reason why the domestic businesses are confident," said Hozefa Topiwalla, ASEAN equity strategist at Morgan Stanley.

Unlike in previous cycles when funding was a big constraint, there is no impact on funding for corporates, Topiwalla said.

Companies in China, Japan and South Korea were the least positive with index readings of 50. The result from China was a steep drop from the 64 recorded in the fourth quarter of 2012.

The troubles facing major consumers such as Europe and the United States have hit export-reliant economies, with South Korean exports falling sharply last month.



Advertising at a Tokyo electronics mall. REUTERS PHOTO/Kim Kyung-Hoon

HIGHLIGHTS BY ECONOMY

AUSTRALIA: BIG GAIN (63 vs 53)

Business confidence among companies in Australia improved for the third successive quarter, propelling the country's sentiment index to its highest level since the first quarter of 2012. Fewer participants were worried about the global economy, though rising prices were a concern.

Under 50 percent of the participants said world economic uncertainty was their top worry, a big shift from nearly three-quarters in the December survey.

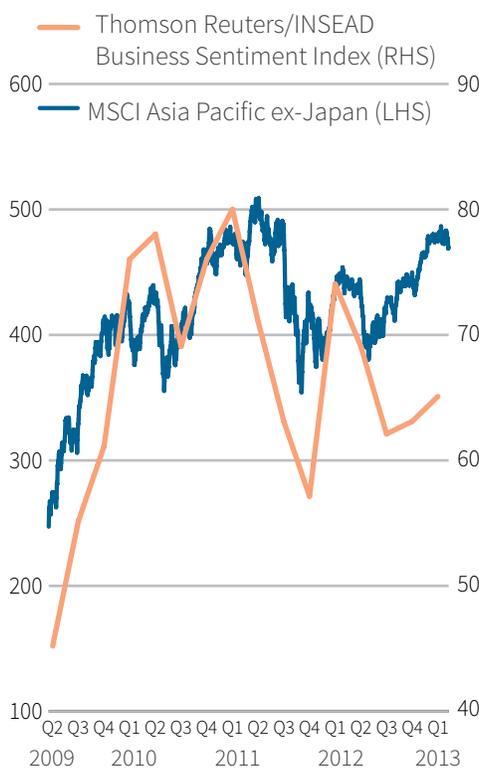
CHINA: MATCHES ALL-TIME LOW (50 VS 64)

Corporate sentiment in China turned shaky after a rebound in December, weighed down by global economic uncertainty and rising prices. All eight respondents were neutral on their business outlook, but the index slumped to match a record low struck in the September survey.

Three companies said the world economy was their biggest concern, two cited inflation, and one said other risks were a primary worry. One respondent said employment levels improved, compared with three in the previous survey. While two said new orders were higher, five said they remained the same.

INDIA: LOSES STEAM (80 VS 100)

Citing rising costs as the biggest hurdle, companies in India tempered their outlook to pull the index down from December's level.



REUTERS INSIDER

Antonio Fatas, Professor of Economics, INSEAD
<http://link.reuters.com/dek76t>

Across the Asia-Pacific region, rising costs were the second greatest business risk, ahead of regulatory uncertainty, political instability and foreign exchange volatility.

The index for financials rose to the highest in a year, with four firms reporting a positive outlook and none a negative view. Sentiment among property companies brightened, and firms in the resources sector were also optimistic.

The survey polled 100 executives in 11 Asia-Pacific economies from companies including Hyundai Heavy Industries Toshiba Corp and PT Bumi Resources. Of the 93 that replied, nearly 69 percent reported a neutral outlook,

about 30 percent were positive and 1 percent reported a negative outlook.

The poll was conducted by Thomson Reuters in association with INSEAD, a global management and business school, between March 4 and March 15.

INDIA LOSES STEAM, JAPAN IMPROVES

Citing rising costs as the biggest hurdle, companies in India tempered their outlook to pull the index down to 80 from December's level of 100.

The survey showed that business sentiment in Japan was slightly better, but the global economic environment, currency fluctuations and rising costs remained major obstacles to any strong rebound from the 2012 low struck in December.

Among sectors, food and beverage companies were the most bullish with an index reading of 88 for the quarter, its highest mark since this survey started in 2009.

*Additional reporting by Ranjit Gangadharan in MUMBAI and Janeman Latul in JAKARTA
 Editing by Daniel Magnowski and Alex Richardson*

HIGHLIGHTS BY ECONOMY

Three companies said rising prices were the biggest challenge, while one cited other risks.

No one saw the global economy as a worry, compared with three in the previous survey. Four companies said new orders were higher.

JAPAN: IMPROVING (50 VS 44)

Business sentiment in Japan was slightly better, but the global economic environment, volatile currency fluctuations and rising costs remained major roadblocks to any strong rebound from the 2012 low struck in December.

Ten companies said the world economy posed the biggest challenge, while five cited currency swings and four said rising costs were their primary concern.

SOUTH KOREA: UNCHANGED AT 50

Business confidence was unchanged for the second quarter in a row, after its September pullback from its lowest level since the third quarter of 2011.

All 13 respondents were neutral about their outlook. An overwhelming majority said the global economy was their top business risk, while three saw foreign exchange volatility as a concern.

TAIWAN: HIGHEST IN A YEAR (88 VS 33)

Optimism returned to lift Taiwan's sentiment index to its highest level since a year earlier, and up from deep in negative territory in December.

Three out of four respondents turned positive in their outlook, compared with none in the previous survey. Most companies saw economic uncertainty as the biggest risk to their business.

SOUTH EAST ASIA: MOSTLY UPBEAT

Sentiment in Southeast Asia was mostly optimistic, with Malaysia and the Philippines maintaining their confidence as all 13 respondents from the two countries were optimistic about their business outlook.

SINGAPORE AT (61 vs 50)

Singapore's confidence strengthened with two out of nine companies reporting positive sentiment, while eight said the global economy remained the biggest risk.

THAILAND (60 vs 75)

Thailand's sentiment index dropped to its lowest level since the third quarter of 2012, with just one out of five respondents positive about the business outlook.

INDONESIA (75 vs 100)

Indonesia, the region's biggest economy, fell but three respondents were positive on their outlook, up from two in the last quarter.



A food vendor prays at his stall near Sudaman Business District in Jakarta **REUTERS PHOTO/Beawiharta**

HIGHLIGHTS**BY SECTOR****AUTOS: NEUTRAL (50 VS 60)**

Nine of nine auto makers polled reported a neutral outlook, suggesting ongoing anxiety about economic uncertainty and foreign exchange volatility. New orders improved as four firms saw higher orders compared with two firms in the previous quarter. Indonesia's Astra International took part in the survey.

BUILDING: IMPROVING (50 VS 25)

Sentiment for the building sector rebounded in the first quarter after a decline in the previous two quarters. All four companies had a neutral view. Two of the participants cited global economic uncertainty as a risk, and another said low consumer confidence marred the outlook.

FINANCIALS: TURNS BULLISH (70 VS 50)

The index for financial reached its highest level in a year, with four firms reporting a positive outlook and none a negative view. Most said global economic uncertainty remained the biggest concern. Indonesian mid-size lender Bank Permata took part in the survey.

FOOD: NEW RECORD-HIGH (88 VS 77)

Food and beverages companies were the most bullish with an index reading of 88 for the quarter, reaching its highest mark since this survey started in 2009. Rising costs were a concern for half of the companies in the survey, and five respondents said new orders were likely to increase. Japan's Kirin Brewery and Philippine's Universal Robina were among the respondents.

DRUGS: LOWEST SINCE Q1 2012 (63 VS 72)

Two of the eight drug makers had a positive outlook for the first quarter, a contrast from the previous quarter when four respondents were positive. In the main, drug makers cited global economic uncertainty and rising costs as their biggest concerns. Japan's Daiichi Sankyo Co Ltd and India's Lupin Pharmaceuticals were among those polled.

PROPERTY: REBOUNDING (75 VS 69)

Sentiment among property brightened in the first quarter with five of 10 respondents

reporting a positive outlook. Most firms saw global economic uncertainty as the biggest concern, though said levels of employment were expected to increase. One company cited intensified competition as the biggest risk.



A worker installs models at a real estate exhibition in Shanghai. **REUTERS PHOTO/Aly Song**

RESOURCES: HIGHEST SINCE Q1 2012 (73 VS 68)

Six of the 13 resources firms polled were positive in their outlook and no respondents had a negative view, an improvement from the previous quarter. Two participants said regulatory uncertainty was the biggest risk they faced. Asia's biggest thermal coal exporter PT Bumi Resources and Indonesia's No.2 coal miner PT Adaro Energy took part in the survey.

RETAIL: DOWNBEAT (50 VS 75)

The outlook darkened for retail companies, with global economic uncertainty and rising costs named as the biggest risks.

All 11 respondents, which included Thailand's CP ALL, Japan's Fast Retailing and casino operator Galaxy Entertainment Group Ltd, had a neutral

view. No firm took a positive outlook, compared with four in the previous quarter.

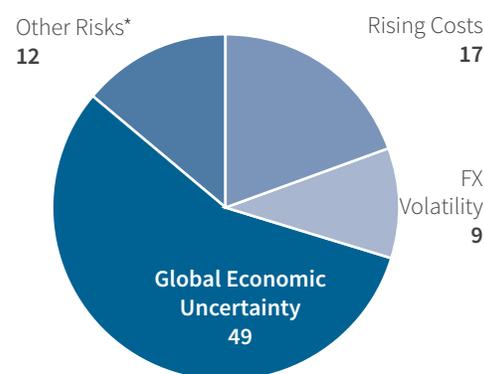
SHIPPING: VOLATILE (50 VS 67)

Sentiment for shipping companies has been volatile over the past 12 months. All eight respondents surveyed in the first quarter had a neutral outlook, poorer than the previous quarter when two participants had a positive view. One respondent reported a decline in new orders while the others had unchanged sales. South Korea's Hyundai Heavy Industries was among the participants.

TECH: IMPROVING (67 VS 57)

Technology firms were more upbeat. Five of 12 companies polled were positive about their outlook, six were neutral, and one was negative. In the last survey, 10 of 14 participants were neutral and three were positive. The majority of the tech companies, including Japan's Toshiba Corp and PLDT from the Philippines, surveyed cited global economic uncertainty as their biggest business risk. One said political instability was their biggest risk.

Note: Companies sampled for the survey may change from one quarter to the next.

Biggest perceived risks to business outlook

Reuters; 87 respondents

*Includes policy changes, regulations and infrastructure etc.

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COVER PHOTO: Residents playing basketball outside Singapore's Pinnacle @Duxton.

REUTERS PHOTO/ Edgar Su

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