• Sentiment index at 58 in Q4 vs 60 in Q3
• Philippine firms most positive, Singaporean least
• Optimism strengthens in S.Korea, drops in Taiwan
• Building sector among most positive, shipping least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey
China slowdown sinks Asia sentiment to four-year low

By Rujun Shen

Sentiment at some of Asia’s biggest firms deteriorated again in the fourth quarter, falling to a four-year low under the weight of concerns about slowing growth in China, the region’s biggest economy, a Thomson Reuters/INSEAD survey showed.

The Thomson Reuters/INSEAD Asian Business Sentiment Index, representing the six-month outlook at 103 firms, was 58 in the December quarter from 60 in September and 72 a year prior. A reading over 50 indicates a positive view.

China’s economy - growing at its slowest pace in six years - ranked as the chief risk to corporate forecasts for the second consecutive quarter, with volatile financial markets also of concern, showed the survey whose respondents included SoftBank, Kia Motors, Tata Steel and Olam International.

“A very strong revision to the expected growth rate of China (in recent months) is having a bigger effect on all these numbers, across all countries, across all sectors,” said Antonio Fatas, economics professor at INSEAD in Singapore.

“If you think of growth in Asia, Asia will do well, Asia will grow faster than most of the regions of the world, but it will grow at a rate very different from the previous 10 years.”

At the start of the December quarter, analysts estimated China’s 2016 growth at 6.5 percent versus 6.7 percent estimated three months prior.

After polling closed for the Thomson Reuters/INSEAD survey over the weekend, China reported November data that beat market estimates including factory output, retail sales and investment. The showing indicated that stimulus measures might be steadying the economy, analysts said, though falling property prices and high domestic debt featured among challenges.
The impact of change in China’s economy is particularly acute for the region’s smaller and less diverse countries.

In Singapore, which counts China as its top trading partner, the business sentiment index was at 21, the lowest among the 11 economies in the poll. The reading for Australia, a major supplier of resources to China, was also the lowest in three years.

Thomson Reuters and global business school INSEAD conducted the poll from Nov. 30 to Dec. 12. Of 103 respondents, 21 percent were negative - the most in over six years - while 42 percent were neutral and 37 percent positive.

Philippine companies emerged as the most optimistic for a second consecutive quarter with a reading of 77, followed closely by those in South Korea, while firms in Taiwan were only a little less pessimistic than those in Singapore.

**UPTURN IN INDONESIA, MALAYSIA**

Indonesia recorded the survey’s biggest rebound in sentiment from the previous quarter with a 36 point jump to 63, with China more of a concern than a rise in U.S. interest rates.

Some market watchers had said a U.S. hike, widely expected this week, would prompt an outflow of funds from emerging markets, but INSEAD’s Fatas said these fears appeared to be receding in countries such as Indonesia and Malaysia.

Sentiment in Malaysia remained pessimistic albeit improved at 41 from 25 three months prior, with five of 11 respondents saying their view of the next six months was negative.

“When interest rates or exchange rates or material prices turn volatile, it definitely brings more pressure and problems to many businesses,” said Edward Yip, corporate affairs general manager at survey respondent Kossan Rubber Industries, which makes gloves for the healthcare industry. “Nevertheless, the effects can be mitigated via active hedging.”

**SHIPPING SENTIMENT SINKS**

Shipping-related firms comprised the most downbeat sector for the third consecutive quarter, with a record four negative responses from seven yielding an index of 36. China topped their risk list while others cited oil prices at seven-year lows.

Both food and financial firms ended the poll with a neutral reading of 50. For food, that matched the sector’s lowest-ever reading of two years earlier, while for finance firms, which included Yuanta Financial, the result improved over a lowest reading of 44 hit in September.

At the other end of the sentiment scale were building-related firms including DLF with a reading of 90, followed closely by pharmaceutical companies.

**Biggest perceived risks to business outlook**

By number of respondents

- 2 Security threats
- 11 U.S. interest rate rise
- 18 Volatile financial markets
- 29 China economic slowdown
- 35 Other*

Note: Total no. of respondents = 103; includes multiple responses
* Includes domestic politics, increased competition, oil price slump etc.

**Business sentiment index**

![Business sentiment index chart](chart.png)

Source: Thomson Reuters/INSEAD

* MSCI International All Country Asia Pacific Price Index USD monthly
SINGAPORE: 2ND TIME MOST PESSIMISTIC AT 21 IN Q4 VS 14 IN Q3
Singaporean firms saw nothing positive in the first half of 2016, with three saying their outlooks were neutral and four negative. Four cited China’s economic slowdown as the top worry while one flagged a U.S. interest rate rise expected this week as a concern.

In the three months before polling, two firms booked more orders and sales while one said business fell. Five retained staffing levels whereas two took on more hires.

TAIWAN: WEAKENING EXPORTS PUSH INDEX TO 38 VS 50
Taiwan’s reliance on weakening exports and a brush with recession in the third quarter turned sentiment negative from neutral in the last survey, the culmination of a year’s steady descent into pessimism.

Two of eight respondents were negative and the rest neutral. Volatile financial markets topped the risk list for four firms, with two worried about the economy across the Taiwan Strait. The volume of business was stagnant at half of the respondents while staffing was unchanged at six.

MALAYSIA: SURVEY’S MOST NEGATIVES PUTS INDEX AT 41 VS 25
Five of 11 Malaysian respondents rated their outlooks as negative, in a quarter which saw official data confirming economic growth was the slowest in over two years. Other firms were equally split between neutral and positive.

With the ringgit Asia’s worst-performing currency of 2015, five firms cited financial market volatility as their top risk. Other risks included falling asset quality and oil prices. Staffing was unchanged at eight firms while three lost business.

CHINA: TWO FEAR U.S. RATE RISE AS INDEX FALLS TO 50 VS 80
Three Chinese firms were neutral in their outlook while two each were positive and negative. Just one cited the slowdown in Asia’s biggest economy as a risk to its prospects, while two were more concerned about the impact of a U.S. interest rate rise.

None of the firms added staff over the past three months, during which time one gained business while two lost out.

The overall neutral outlook contrasts with the upbeat view of three months prior, when five firms responded to the survey.

THAILAND: LEAST OPTIMISTIC IN NEARLY TWO YEARS AT 58 VS 60
Four Thai firms were upbeat about the coming half-year, with seven indifferent and two less enthused. China’s slowdown was keeping four firms on edge, while others brooded over rising competition and oil prices falling to seven-year lows.

One firm saw its chief risk as uncertainty in the domestic economy, managed by a military government for a year and a half.

Six booked more business over the past three months versus four that reported a decline. Staffing was unchanged at seven.

AUSTRALIA: CHINA RESOURCE WORRY PULLS INDEX TO 61 VS 83
Sentiment at five of nine firms was positive, while one was neutral and three negative. The top worry for four was China - the top buyer of natural resources - whose economic slowdown is spurring Australia to shift reliance to services from resources.

Four reported increased orders and sales and three added personnel, versus two firms that lost business and cut staff.

The overall outlook compared with the more upbeat view of three months prior, when three firms responded to the survey.

INDONESIA: SURVEY’S STEEPEST RISE IN SENTIMENT AT 64 VS 29
Two of seven Indonesian firms were upbeat about the first half of 2016, with none
negative. Three said China’s economy was the chief risk to their outlooks, whereas two feared the global impact of a U.S. rate hike.

Two booked more business over the past three months while three saw less. Staffing was flat at almost all respondents.

**INDIA: VOLATILE FINANCIAL MARKETS PULL INDEX TO 71 VS 79**

Seven Indian firms expressed optimism for the coming half-year whereas three were neutral and two pessimistic - the first time the economy has garnered more than one negative response.

Four firms cited volatile financial markets as the top risk, with others citing climate change, weak consumption and the pace of economic reform.

Three enjoyed more business over the past three months while most others reported no change. Staffing, on the whole, was also unchanged.

**JAPAN: SENTIMENT STAYS AT ALMOST SIX-YEAR HIGH OF 73**

Sentiment in Japan was unchanged from the previous survey - keeping the index at its highest since the beginning of 2010 - with five respondents again providing a positive view and the remaining six again neutral.

Seven said China’s slowdown was their chief risk, as in the last survey, while two pointed to a U.S. rate hike. One firm raised staffing and three booked a rise in sales and orders.

**SOUTH KOREA: ECONOMIC DATA SPURS SENTIMENT TO 75 VS 50**

South Korean firms were more bullish towards the near-term compared with three months previously, since when data showed an economy growing at its fastest rate in five years.

Six respondents were equally split between positive and neutral, with China’s economy worrying two while others fretted about oil prices. Two booked more business while one reported a decline. Most said staffing was the same as three months prior.

**PHILIPPINES: 2ND TIME SURVEY’S MOST OPTIMISTIC AT 77 VS 95**

Seven of 11 firms were positive about the coming six months, with one firm negative - versus 10 of 11 in the last survey with no negatives. In the interim, data showed economic growth in the third quarter was slower than market estimates.

Causes for concern included U.S. rates, financial market volatility, increased competition and political uncertainty ahead of elections next year. Seven companies reported increased sales and orders, with four taking on more staff to accommodate.

*Note: Companies surveyed change from quarter to quarter*

*Writing by Siddharth Iyer*

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**Outlook by economy**

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<th>Country</th>
<th>Business Outlook for the coming six months</th>
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Source: Thomson Reuters/INSEAD

103 companies responded to the Thomson Reuters/INSEAD poll, conducted Nov. 30-Dec. 12, 2015.
Highlights

BY SECTOR

SHIPPING: 3RD TIME MOST PESSIMISTIC AT 36 IN Q4 VS 25 IN Q3
Four of seven shipping-related respondents were negative about their six-month business outlook - the sector’s highest-ever number - while two were positive and one neutral.
Two considered a slowing Chinese economy to be the top risk to their outlook while others cited geopolitics and oil prices mired at seven-year lows. Over the past three months, five said their volume of business fell while two cut staff.

FOOD: HIGHEST NUMBER OF NEGATIVES PUTS INDEX AT 50 VS 79
Japan’s Asahi Group Holdings and Universal Robina of the Philippines were among nine firms where four positives cancelled a record four negatives.
Three saw China’s slowdown as their chief risk, while others were worried about their domestic economies, input prices and competition. Over the past three months, four increased sales versus one that lost business, while three added headcount.

FINANCIALS: INDEX NEUTRAL AT 50 VS LOWEST-EVER AT 44 IN Q3
Respondents including Bank Rakyat Indonesia and Bank of the Philippine Islands yielded nine neutral outlooks and three each positive and negative.
Financial market volatility ranked as the chief risk for six, while two feared the impact of a U.S. interest rate rise widely expected this week.
Six booked a rise in the volume of business versus four that reported a decline.
Personnel was unchanged at eight, while three each added and cut.

PROPERTY: SURVEY’S STEEPEST FALL IN SENTIMENT TO 57 VS 90
Two of seven respondents could see a bright start to 2016 while one was of the opposite opinion. Two said financial market volatility was their top concern, while two others pointed to China’s slowing economy. One each cited increased competition and a U.S. rate rise as a worry. Over the past three months, three increased business and added staff.
The overall outlook compared with the more upbeat view of three months prior, when five firms responded to the survey.

RESOURCES: RECORD NEGATIVES HOLD OPTIMISM AT 58 VS 50
Of 19 resource-related firms - including Australia’s Oil Search and Thailand’s PTT Exploration and Production - eight viewed the coming six months positively while a record five were negative.
Eight were concerned about economic slowdown in China - the sector’s top consumer - while five said low oil prices posed the greatest risk. Six reported increased sales compared with four that lost business, while staffing was mostly unchanged.

AUTOS: STEEPEST RECOVERY IN OPTIMISM WITH INDEX AT 60 VS 33
South Korea’s Kia Motors and India’s Hero MotoCorp were among five automotive-related firms where one forecast a positive six months and four were neutral.
One each cited a U.S. rate rise, a China slowdown and slower domestic consumption...
among risks to their outlooks. Staffing levels and volume of business were unchanged from the previous three months, bar one auto firm that booked increased sales.

The overall outlook compared with the more upbeat view of three months prior, when three firms responded to the survey.

**RETAIL: SENTIMENT WEAKEST IN TWO YEARS AT 60 VS 63**

Japan’s Fast Retailing was among 10 retail-related respondents where four expressed optimism towards the coming six months compared with two that were downbeat.

Three companies said the biggest risk to their outlooks was volatility in financial markets, while two each were concerned about sluggish consumption, China’s slowdown and security threats. Four reported an increase in business over the past three months versus one that lost out, and three raised staff.

**TECH: OPTIMISM DIPS FOR FIRST TIME THIS YEAR TO 60 VS 73**

Twenty firms - including Japan’s Canon and Hitachi - yielded six positive outlooks and two negatives. Eight saw China’s economic slowdown as their primary concern whereas three each saw more risk in a U.S. rate hike, increased competition and financial market volatility.

Seven booked increased business over the past three months versus five that lost out, while staffing was broadly unchanged.

**DRUGS: INCREASED BUSINESS HELPS LIFT SENTIMENT TO 88 VS 75**

Japan’s Daiichi Sankyo and India’s Lupin featured among four respondents of which three had a positive outlook and one neutral. Chief risks were higher U.S. rates, a China slowdown, financial market volatility and risks inherent to the companies’ domestic economy. One increased sales over the past three months, and three staff.

**BUILDING: MOST OPTIMISTIC IN A YEAR AT 90 VS 70**

Four of five building-related firms that included India’s Larsen & Toubro and Asian Paints offered a positive outlook for the coming half-year while one was neutral. None agreed on a dominant business risk, while two reported increased business and one raised headcount.

**AIRLINES: SOLE POSITIVE RESPONSE LEAVES INDEX AT 100**

Just one airline responded to this quarter’s survey, saying the biggest risk to its positive six-month business outlook was a rise in U.S. interest rates.

Note: Companies surveyed change from quarter to quarter

Writing by Krishna Eluri

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**Outlook by sector**

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Source: Thomson Reuters/INSEAD

103 companies responded to the Thomson Reuters/INSEAD poll, conducted Nov. 30-Dec. 12, 2015
Links

Previous polls

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COVER PHOTO: Workers on a gondola resume work at a high rise luxury residential apartment block as haze clears in Singapore, June 21, 2013. REUTERS/EDGAR SU