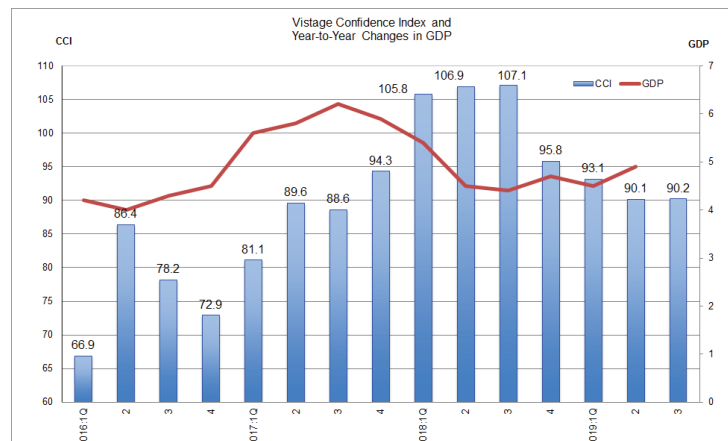


## SENTIMENTS REMAIN CAUTIOUS

Confidence among CEOs remained muted as the soft global economy and trade tensions continued to pose challenges for the Malaysian economy and their businesses. This is reflected in the VISTAGE-MIER CEO Confidence Index which, at 90.2, is relatively unchanged from the prior quarter's 90.1. The Index has been in the red for four quarters now, indicating a lack of confidence amongst CEOs who have been adopting a wait-and-see attitude to the economy and the prospects of their firms moving forward.



The latest current economic conditions index picked up three points on the quarter to 71. This is the fourth consecutive quarter that this index has remained below the 100-point optimism threshold, suggesting that CEOs' sentiments on the economy have improved recently, but they are not optimistic yet that the economy has performed better. Of the 670 CEOs who responded to the survey, 13% rated the economy favourably, while 45% saw no change and 42% said it has worsened in 3Q2019. Their projections of the economy are equally cautious, as shown by the expected economic conditions index which, at 109, has lost two points from 2Q2019. 30% of the CEOs opined that the economy will improve soon, down from 32% in 2Q2019.

CEOs are keeping expectations of their businesses on low key for the months ahead. Except for revenue, all the other indicators pertaining to expectations shifted lower from the previous quarter. The expected index for revenue rose seven points from 2Q2019 to 132 lately. Although the 51% planning to inject more capital into their businesses soon are almost the same as the 52% formerly, those planning to reduce theirs have shrunk to 19% in 3Q2019 from 27% in 2Q2019. The index for planned fixed investment fell to 124 from 127 in 2Q2019, implying that capital expenditure is expected to be rationalised in the next quarter or two. 40% planned on increasing their capital soon, down from 43% a quarter ago. Lower profits are also anticipated for the coming months, with the expected profitability index shedding three points quarter-on-quarter to 119. While those looking forward to higher profits soon remained at 42% as in the last quarter, those expecting otherwise have grown to 23% from 20% previously.

Hiring plans are also expected to be moderate for now. This is shown by the index for expected employment which, at 127, has little changed from 2Q2019's 128. 41% of the CEOs are planning to increase their headcount soon, while 45% will put theirs on hold, compared to 40% and 48% in 2Q2019, respectively. Weaker domestic and external demand are weighing on local and export orders which are expected to wane for the second quarter in a row.

43% in 3Q2019 are expecting an increase in local orders soon, down from 45% in 2Q2019 and 46% in 1Q2019. Orders from abroad are projected to increase by 30% of the CEOs in the near term, down from 31% and 35% in 2Q2019 and 1Q2019, respectively. Selling prices will remain stable for the rest of the year, amid signs of an uptrend going forward. 63% of the CEOs will maintain their prices in the coming months, while 22% will raise theirs, up from 16% in 2Q2019.

## VISTAGE-MIER CEO Confidence Index Highlights

**51%** of CEOs projected better revenues, down from 52% in 2Q2019 and 59% in 3Q2018

**42%** of CEOs estimated higher profits, compared to 42% in 2Q2019 and 51% in 3Q2018

**30%** of CEOs forecasted an increase in export orders, down from 31% in 2Q2019 and 34% in 3Q2018

**22%** of CEOs will increase their selling prices in the coming months, compared to 16% in 2Q2019 and 34% in 3Q2018

**38%** of CEOs believed that sales will be a major business decision they have to make in the next 12 months

**29%** of CEOs opined that their major investment in the next 12 months will be related to market development

**31%** of CEOs sold more in 2018 and they projected another increase in sales in 2019

**40%** of CEOs ranked serving new customers/markets with a scale of 7 (quite strongly agree)

**64%** of CEOs listened/responded to customer needs in facilitating innovation in their companies

**32%** of CEOs said focusing too much on existing work is greatest hindrance to innovation in their companies

**52%** of CEOs named shortage of skilled workers the top factor affecting their cost of doing business

**59%** of CEOs faced labour shortage in their businesses

**28%** experienced shortage of skilled workers in sales, and

**17%** faced shortage of professional workers in sales

	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019
VISTAGE-MIER CEO CONFIDENCE INDEX	105.8	106.9	107.1	95.8	93.1	90.1	90.2
Current Economic Conditions	101	92	107	80	75	68	71
Expected Economic Conditions	118	142	146	113	105	111	109
Expected Change in Employment	140	140	136	130	128	128	127
Planned Fixed Investment	140	140	136	130	128	127	124
Expected Revenue Growth	157	153	148	142	145	125	132
Expected Profit Growth	144	141	137	129	123	122	119

Note: All component questions are scored as the percent giving favorable replies minus the percent for unfavorable plus 100. The VISTAGE-MIER CEO Confidence Index is the sum of the components calculated as a percentage of the level recorded in 2<sup>nd</sup> quarter 2003 survey.

### 3 MAJOR BUSINESS DECISIONS IN THE NEXT 12 MONTHS

The three major decisions that CEOs are planning to make regarding their businesses in the next twelve months are sales (38% votes), hiring, recruitment and sourcing (33%) and market development (29%). These are followed by, in descending order of responses totalling 22%-17%, strategic planning, marketing, performance management/human resource, productivity and execution, as well as retention and engagement. Only up to 4% of the CEOs will likely make decisions pertaining to ownership and governance, economic/future trends, and infrastructure in the next twelve months.

### 3 MAJOR INVESTMENT PLANS IN THE NEXT 12 MONTHS

Topping the list of major investments CEOs are planning for their businesses in the next twelve months is market development (29% responses), followed by hiring, recruitment and sourcing (28%), and sales (25%). Between 16%-23% of the CEOs have plans to invest in marketing, technology, productivity and execution, strategic planning and employee development. Ownership and governance, economic/future trends, risk management, and communication and alignment will be invested by only 1%-4% of the CEOs. March 2019.

### SALES TREND: 2018 PERFORMANCE VIS-À-VIS 2019 PROJECTION

Most (31%) of the CEOs opined that their sales last year have increased and they are projecting another increase this year. 13% sold more in 2018, but they foresee otherwise for 2019. Sales are expected to increase this year for another 13% of the CEOs, albeit their lower sales last year. While 12% described their sales in 2018 as flat, their projection for 2019 is favourable. Almost 5% experienced lower sales in 2018 and they are predicting the same for this year as well. Sales last year were flat for more than 4% of the CEOs who are also expecting their sales to decline in 2019.

### RANKING OF SELECTED INDICATORS

On a scale of 1 (strongly disagree) to 7 (strongly agree), most CEOs rated all selected indicators with a scale of 6 (quite strongly agree). Of these seven indicators given, serving new customers/markets received the most votes (40%), while providing new products/services and incremental innovation (e.g. improvements on existing products/services) generated the second and third highest responses of 34% and 33%, respectively. Next on the list were the development of new processes of making/providing existing products/services (32%) and the creation of operational efficiencies that result in reduction of time and/or cost (32%). Radical innovation (e.g. novel products/services, major technological breakthroughs) was ranked 6 by 24% of the CEOs, while 21% also quite strongly agree with the development of new technologies (e.g. patents).

### FACILITATION OF INNOVATION

To facilitate innovation in their companies, most (64%) CEOs considered it best to listen/respond to customer needs and focus on continual improvement. Employees was third on the list in terms of total responses, followed by corporate culture and incentive/reward programmes.

### HINDRANCE TO INNOVATION

Focusing too much on existing work was, to most (32%) CEOs, the greatest hindrance to innovation in their companies. 20% believed resistance to change/management change was their biggest hindrance, while 19% named limited capital investment and 17% said it was low employee engagement.

### TOP 3 FACTORS AFFECTING COST OF DOING BUSINESS

The top three factors affecting CEOs' cost of doing business were, namely, the shortage of skilled employees (52% responses), higher salaries and higher costs of raw materials. The fourth factor (by total responses) was financial costs. Inefficient bureaucracy was next, followed by excessive regulations, the sales and services tax (SST) and corruption.

### LABOUR SHORTAGE

When asked if they face any problems of labour shortage in their businesses, 59% of the CEOs confirmed they do. In terms of skilled labour, most CEOs face shortages in sales, technical/engineering, production and marketing. For unskilled labour, the shortages are more prevalent in production and sales. Where professional staff are concerned, CEOs encounter shortages in the areas of sales, technical/engineering, marketing and production.

### TOP WISHES FOR MALAYSIA BUDGET 2020

For Malaysia Budget 2020, CEOs were asked to list down their wishes, both business and personal. On a business level, the wish of CEOs in general was predominantly tax-related, especially corporate taxes which they hoped would be reduced. Lower import and excise duties, interest rate for business loans and credit facilities, sales tax for raw materials and stamp duty for properties were also on their list. CEOs also hoped that higher grants from Government will be included in Malaysia Budget 2020, especially for SMEs, and research and development. They also called for an increase in the government development fund, allocation for schools and hospitals, incentives and loans to SMEs, double tax deduction, food export, budget for higher education/professional studies, tax allowance and incentives, and import tax. Other suggestions included the abolishment of the SST and re-introduction of the GST at a lower rate, and provision of incentives for digitalization, innovation, capital reinvestment, green technologies, adoption of technologies/IT transformation, and food production. It is also the wish of CEOs that more be done to attract FDIs, besides calling for the foreign labour issue to be addressed, provision of export incentives to ASEAN countries and strengthening of the Ringgit.

Most wishes of CEOs on a personal level were also tax-related. In particular, CEOs have suggested for a reduction in personal taxes, real property gain tax, rate for bank loans, SST, tax on imported cars, import duties on cars and bikes, and toll charges. Higher personal tax reliefs, incentives, exemptions and rebates, parental care, insurance allowance, deductible allowance for healthcare and children's education, educational tax reliefs were also on their personal wish lists. While some CEOs proposed for an improvement in public transport, education policy/system, government services, education tax rebates and national security, others called for a better fuel subsidy, healthcare insurance and services, as well as an elimination of the domestic travel taxes, and taxes on hybrid and electric cars.

### ABOUT THE CEO CONFIDENCE INDEX

Since its inception in 2003, the CEO Confidence Index, a quarterly survey of Vistage members in Malaysia, has become a leading indicator of what leaders of small and mid-sized companies are thinking about and planning for the future. These insights provide a leading indicator for employment, capital expenditure, sales and revenue trends. Each quarter, Vistage International polls its membership in Malaysia, USA, Canada, UK and Australia.

### ABOUT VISTAGE MALAYSIA AND MIER

Vistage Malaysia is a licensee of Vistage International, USA, the world's leading chief executive leadership development organization, providing unparalleled access to issue resolution and better performance through monthly peer advisor groups, one-on-one business coaching, expert speaker presentations, and extensive online connectivity spread over 1,800 cities in 22 countries with more than 23,000 members worldwide. Vistage Malaysia has more than 800 members with combined annual revenue of RM60 billion and employing over 100,000 employees. Vistage member companies grow, on average, 2.2 times faster than they did prior to joining Vistage. In 4Q2005, Vistage Malaysia entered into a strategic alliance with the Malaysian Institute of Economic Research (MIER) to co-brand the CEO Confidence Index. MIER is an independent, private, non-profit organization, devoted to economic, financial, and business research that would serve as a think-tank for the government and private sector by providing an objective and impartial understanding of socio-economic issues of national, regional and global importance.