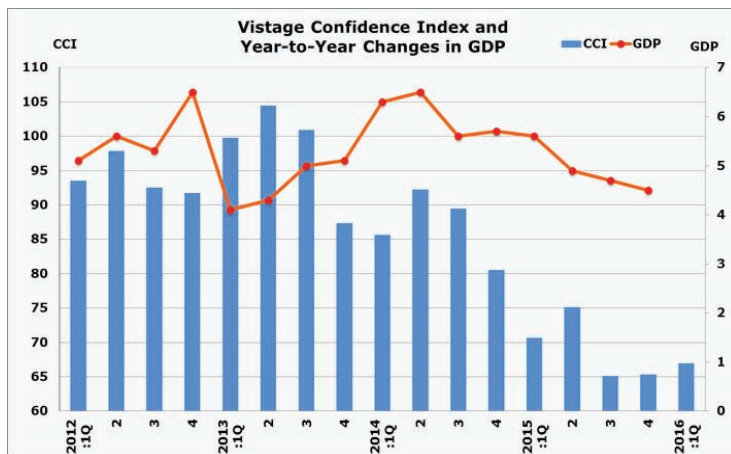


VISTAGE-MIER CEO Confidence Index

Surveying CEOs, Executives
of small and mid-sized
businesses since 2003

CAUTIOUS SENTIMENTS

Low oil prices and holiday cheer have not lifted the spirits of CEOs as uncertainties in the Malaysian and global economic landscapes continue to weigh on their sentiment and confidence. This is reflected in the Vistage-MIER CEO Confidence Index which settled at 66.9 in 1Q2016. Although it was up 1.6 points from 4Q2015, it has fallen 3.7 points from 1Q2015 and persistently stayed below the 100-point threshold of optimism, indicating that CEOs' confidence has continued to remain on low ebb.



CEOs' assessment of economic conditions in 1Q2016 was generally better than last quarter but worse than a year ago. This is shown in the latest current economic conditions index which stood at 66.9, compared to 17 and 34 in 4Q2015 and 1Q2015, respectively. 81% of the 485 CEOs believed that current economic conditions have worsened, compared to 84% in 4Q2015 and 68% in 1Q2015. They are also less positive going forward, with the expected economic conditions index dropping to 35 from 40 a quarter ago. 69% are anticipating a deterioration in economic conditions in the coming months, up from 65% in 4Q2015.

The near-term business outlook is mixed, with renewed confidence for employment, revenue and profitability. The expected revenue index, at 122, was little changed from 1Q2015's 123, but rose five points quarter-on-quarter, indicating that revenue growth is likely to gain some momentum soon. A majority of 43% in 1Q2016 are expecting better revenues in 2Q2016, up from 39% in 4Q2015. After staying two straight quarters below the 100-point demarcation level, the index for expected profitability finally breached this level to reach 104 points in 1Q2016, portending a pick-up in profitability soon. 31% revised their profitability projection upwards, compared to 29% in 4Q2015.

Planned headcount is expected to improve in the near-term. The expected employment index gained three points from 4Q2015 to 120 in 1Q2016, with 34% of the CEOs saying they are likely to recruit more in the months ahead, while 52% will put their staffing on hold for now. The latest expected planned fixed investment index was three points down from last quarter's 108, suggesting a slowdown in capital investment is expected in the coming months.

THE U.S. INTEREST RATE HIKE

The US Federal Reserve raised interest rates recently and pledged a gradual pace of increases, with many analysts and fund managers expecting the greenback to climb higher in the coming years as well. This trend of successive rate hikes, according to half of the respondents, will negatively affect their businesses, while 32% do not think they will be affected at all and 17% responded positively.

With the US\$/RM rate hovering around RM4.30, 44% and 15% described themselves as net losers and net gainers, respectively, while 41% were neutral, saying it has no effect on them.

VISTAGE-MIER CEO Confidence Index Highlights

43% of CEOs expected revenues to improve, compared to 39% in 4Q2015 and 44% in 1Q2015.

31% of CEOs projected better profits, compared to 29% in 4Q2015 and 38% in 1Q2015.

50% of CEOs opined that the U.S. interest rate hike would negatively affect their businesses.

44% of CEOs are net losers when US\$/RM hovers at RM4.30.

73% of CEOs planned to be more involved in Renmimbi-based transactions.

80% of CEOs likely to implement selective recruitment of the 'best' talent.

68% of CEOs named higher operating costs their biggest threat in 2016.

60% of CEOs planned to explore new strategic alliances and/or joint ventures for business synergies.

41% and **37%** of CEOs raised salaries of their managerial and non-managerial staff by 1%-5%, respectively.

36% and **39%** of CEOs rewarded their managerial and non-managerial staff bonuses of >1-2 months, respectively.

58% of CEOs have annual medical check-up.

44% of CEOs planned to invest in fixed deposits/cash in the next six months.

	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
VISTAGE-MIER CEO CONFIDENCE INDEX	80.6	70.6	75.1	65.1	65.3	66.9
COMPONENTS						
Current Economic Conditions	60	34	34	16	17	20
Expected Economic Conditions	57	28	47	36	40	35
Expected Change in Employment	123	125	131	121	117	120
Planned Fixed Investment	123	114	116	109	108	105
Expected Revenue Growth	135	123	131	114	117	122
Expected Profit Growth	111	110	109	96	95	104

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 2nd quarter 2003 survey.

MEASURES TO MITIGATE IMPACT OF US INTEREST RATE HIKE

For those CEOs who felt the brunt of the US rate hike, they undertake measures to mitigate such negativity on their businesses. The most popular of these measures include increasing their prices, short-term hedging, regionalizing and localizing their sources of raw materials, increasing export sales, reducing imports and costs, and negotiating prices with their suppliers. Productivity increase, value engineering, margin reduction, overhead reduction, overseas investment, new market expansion and diversification were some of the other measures cited by the respondents.

CHINA'S RENMINBI

China's Renminbi was recently added to the International Monetary Fund's (IMF) basket of reserve currencies, the fifth nation to qualify for this esteemed status, joining the US Dollar, Euro, Pound and Yen. Notwithstanding this, CEOs generally do not have much Renminbi-based businesses but 73% intend to be more involved soon. 27% are, however, currently conducting their business transactions in Renminbi while 14% are already holding and operating Renminbi accounts.

RECRUITMENT PLANS AMID THE CHALLENGING BUSINESS CONDITIONS

Given the challenging business conditions that are expected to persist for the next 6-12 months, 8-in-10 of the CEOs are planning to implement selective recruitment of the 'best' talent while 22% will allow for natural attrition. 2-in-10 will not recruit anytime soon and 8% will reduce their workforce such as via a voluntary separation scheme (VSS). Only 4% plan to, among others, further develop and train their staff, increase their headcount, and recruit staff on a contractual basis.

TALENT RETENTION

Retention of talent is critical to an organization. In this context, 65% of the CEOs provide continual value-added training and development programmes for their staff, while 62% and 61% believed in providing a good working environment and attractive career development, respectively. Better benefits and perks are granted by 43% of the CEOs and 34% offer higher salaries to attract the best brains.

TOP THREE THREATS IN 2016

Given the challenging Malaysian economic outlook ahead, the top three threats CEOs think their businesses would face in 2016 are higher operating costs (68% responses), Ringgit depreciation (63%) and cash flow issues (56%). Lower propensity to consume was also seen as a threat to 41% of the CEOs, while 3% listed, among others, the weak US economy and the Eurozone, cut in budgets by clients, and reduced margins due to intense competition.

TOP THREE OPPORTUNITIES IN 2016

Overall the top three opportunities named by CEOs for their businesses in 2016 are the recruitment of more and cheaper talent, increase in exports (especially the ASEAN markets), and acquisition of property, land and businesses in distress. Other opportunities also commonly listed by the CEOs include: increase in the use of local products and services, increase in local tourism, increase in market share when competitors are squeezed out of the market, reduction in costs and better management of cash flow, increase in e-commerce/online businesses and development of new business and joint ventures, mergers and acquisitions.

BUSINESS STRATEGIES IN THE NEXT 3 YEARS

To sustain and grow in the next three years amid the economic challenges, 6-in-10 of the CEOs planned to explore new strategic alliances and/or joint-ventures for business synergies, while 53% hoped to increase and/or initiate new efforts to export to ASEAN countries and regionally/globally.

47% will be looking into exploring new business(es) outside their current core business(es), 45% will likely focus on their core activities and outsource all their non-core activities and another 45% are considering allocating more resources to leverage on the growth of digital technologies. 5% will likely wind down their existing facilities and move offshore to remain cost-competitive.

SALARY INCREMENTS AND BONUS PAYOUTS 2015

For financial year ended 31 December 2015, the rate of salary increment was generally uniform for both managerial and non-managerial staff. Salary increments for both categories of personnel given by most of the CEOs were mainly in the range of 1-5%. A more generous 12% raised their managers' salaries by >7-10% while the same quantum was given by 17% of the CEOs for their non-managers.

In terms of bonus, most CEOs rewarded both their managerial and non-managerial staff with bonuses of >1-2 months. While 36% and 39% paid their managers and non-managers bonuses of 0.5-1 month, respectively, 21% and 17% settled on a rate of >2-4 months for their managers and non-managers, respectively.

HEALTH CHECK UP

A health check-up is recommended once every two years for those aged below 40 years and once annually for those more than 40 years old. 58% of the CEOs have their health check-up annually, while 23% have theirs done when necessary and 19% go for one bi-annually.

INVESTMENT IN THE NEXT 6 MONTHS

In the next six months, 44% of the CEOs are planning to invest in fixed deposits/cash, while 38% find the local real estate attractive and 36% will likely invest in equities. 25%, 12% and 7% of the CEOs are contemplating on investing in unit trusts/mutual funds, foreign real estate and bonds, respectively.

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-advisory groups, one-on-one business coaching, expert-speaker presentations, and extensive online connectivity spread over 1,800 cities in 16 countries with more than 20,000 members worldwide.

Vistage Malaysia has more than 500 members with combined annual revenue of RM45 billion and employing over 60,000 employees. Vistage member companies grow, on average, 2.5 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.