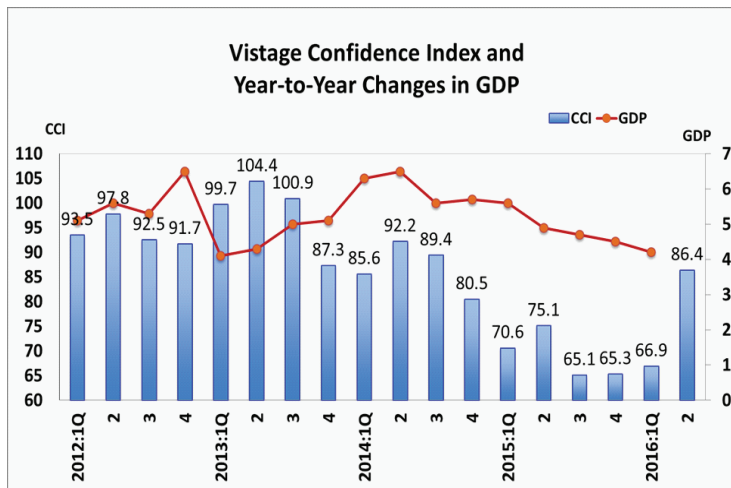


VISTAGE-MIER CEO Confidence Index

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

SENTIMENTS IMPROVE BUT REMAIN CAUTIOUS

CEOs are looking less negative about the economy lately and the prospects of their firms going forward. Their confidence, as reflected in the Vistage-MIER CEO Confidence Index, rose to 86.4 points over the April-June 2016 period, up 19.5 points on the quarter and 11.3 points year-on-year. The Index, however, remained below the 100-point demarcation level of optimism, suggesting that while sentiments have improved, confidence has yet to return and CEOs remain cautious but hopeful.



CEOs generally believed that economic conditions in 2Q2016 have improved from a year ago. Depicting this is the current economic conditions index which rose to 51 points from 20 and 34 in 1Q2016 and 2Q2015, respectively. There were more CEOs this quarter (7%) than a quarter ago (1%) who responded positively, while those who perceived otherwise have shrunk to 56% from 81%. Their economic outlook in the coming months is also looking up, with the index for expected economic conditions rising to 89 points from 35 and 47 in 1Q2016 and 2Q2015, respectively. Compared to 1Q2016 and 2Q2015, more CEOs this quarter are anticipating an economic pick up in the near term, while those expecting a downtrend are fewer this time around.

CEOs are raising the bar for their business outlook in the coming months as they brace for improvements in all aspects of their businesses, from revenue to manpower. The index for expected revenue rose to 138 in 2Q2016 from 122 in 1Q2016 and 131 in 2Q2015. 52% of the CEOs are projecting higher revenues soon, up from 43% and 49% in 1Q2016 and 2Q2015, respectively. The expected profitability index, at 122 this quarter, also performed better than 1Q2016's 104 and 2Q2015's 109. 41% of the CEOs are looking forward to reaping higher profits in the months ahead, up from 31% in 1Q2016 and 36% in 2Q2015.

A better prognosis for manpower is in the pipeline. This is shown in the latest expected employment index which surged to 132 from last quarter and a year ago, with 42% of the CEOs planning on expanding their headcount soon, up from 34% in 1Q2016 and 40% in 2Q2015. The index for expected planned fixed investment climbed eighteen points from 1Q2016 and thirteen points from 2Q2015 to 121 currently, with almost 4-in-10 of the CEOs contemplating an additional capital injection soon.

TARGETED INCOME BY 2020

Malaysia's current per capita income is US\$9291. To achieve a developed and high-income nation status by 2020, Malaysia needs to grow at an annual rate of 8% during 2010-2020, with a per capita income of US\$15,000 by 2020. To achieve this target, 7-in-10 of the respondents suggested shifting to high technology/skilled labour to lower our dependency on low-skilled labour.

VISTAGE-MIER CEO Confidence Index Highlights

41% of CEOs expected profits to improve, up from 31% in 1Q2016 and 36% in 2Q2015.

52% of CEOs forecasted higher revenues, up from 43% in 1Q2016 and 49% in 2Q2015.

70% of CEOs opined that the country should shift to high technology/skilled labour to reduce dependence on low-skilled labour.

68% of CEOs preferred giving reasonable/higher incentives rather than higher salaries to retain talent.

57% of CEOs faced greatest difficulty in recruiting sales and marketing talent.

81% of CEOs listed salaries and wages as the main component of their higher operating costs.

51% of CEOs were not affected by the Ringgit vis-a-vis the US\$ at RM3.70:US\$1.

57% of CEOs likely to explore new foreign strategic alliances and/or joint ventures for business synergies, particularly ASEAN and China.

46% of CEOs believed that their businesses are still growing amid current challenges of global and domestic business conditions.

33% of CEOs were affected by the recent government's freeze on new intake of foreign workers.

54% of CEOs were not affected by the GST implementation to date.

46% of CEOs planned to invest in fixed deposits/cash in the second half of 2016.

	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016
VISTAGE-MIER CEO CONFIDENCE INDEX	70.6	75.1	65.1	65.3	66.9	86.4
COMPONENTS						
Current Economic Conditions	34	34	16	17	20	51
Expected Economic Conditions	28	47	36	40	35	89
Expected Change in Employment	125	131	121	117	120	132
Planned Fixed Investment	114	116	109	108	105	121
Expected Revenue Growth	123	131	114	117	122	138
Expected Profit Growth	110	109	96	95	104	122

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.

62% felt that the education syllabus should include skills that are required by industries in Malaysia, while 5-in-10 opined that more incentives should be provided for knowledge-based foreign direct investments to Malaysia and 45% saw it necessary to increase the budget allocation for human resource development. Others suggested addressing corruption, increasing accountability, efficiency and transparency in government, increasing the use of the English language from the primary level and providing more business- and investment-friendly policies and incentives.

STRATEGY FOR TALENT RETENTION

Several surveys reported that remuneration is a top factor in talent retention. But only 34% of the CEOs in the 1Q2016 survey indicated paying higher salaries as a strategy to retain talent in their organizations. For those who do not adopt such strategy, 68% said they prefer giving reasonable/higher incentives instead. 42% stated high overhead costs as a reason for not doing so, while 18% do not require top-notch talent for their businesses and 10% have employees who mostly do not have degrees. Some CEOs, however, believed that low-skilled workers should be upgraded through effective training and be rewarded as they grow, and that manpower development is more effective than higher salaries to retain talent.

DIFFICULT AREAS IN RECRUITING TALENT

In the recruitment of talent, the area in which a majority (57%) of the CEOs face greatest difficulty is sales and marketing. 34% listed engineering, while 26% and 23% nominated finance and information technology, respectively. 22% found production talent hard to come by and 20% have difficulty recruiting human resource management talent. Another 13% of the CEOs identified, among others, research and development, professional management, digital/social media, technician, customer service, food and beverage, warehouse operation/logistics, project management and interior design.

COMPONENTS OF HIGHER OPERATING COSTS

In the 1Q2016 survey, 68% of the CEOs indicated that higher operating costs is one of the top threats faced by their businesses. Of the components that comprised the bulk of their operating costs, salaries and wages (including benefits and perks) and raw materials were listed by 81% and 35% of the CEOs, respectively. Sales and marketing (including advertising and promotion) garnered 29% votes, while utilities (electricity, water and gas) and borrowing costs received 18% and 15% responses, respectively. Rental, license fees, infrastructure/access costs, and outsource/sub-contractor costs were some of the other components named by some of the CEOs.

RM VIS-A-VIS US\$

Most major banks opined that the Ringgit vis-à-vis the US\$ should fundamentally be at RM3.70:US\$1. At this rate, however, 51% of the CEOs do not think they are affected at all (neutral), while 25% and 24% claimed to be net gainers and net losers, respectively. Among them, 77% have businesses that are primarily domestic-oriented, while 23% are net exporters.

STRATEGIC ALLIANCES

It was indicated in the prior survey that 6-in-10 of the CEOs planned to explore new strategic alliances and/or joint ventures for business synergies to sustain and grow in the next three years. Should the CEOs implement such a move, 43% said they would likely forge a strategic alliance and/or joint venture domestically. 57% would opt for a foreign one instead, with ASEAN topping the list as potential partners as a majority of 59% of the CEOs indicated their interest in them, followed by China (35% responses), the U.S.A. (19%), Europe (14%) and Japan (13%). Another 14% named Australia, Germany, the Middle East, the U.K., India, Korea, Sri Lanka, Holland, Spain, Africa, South America, Bangladesh, Hungary, Eastern Europe and Romania.

AMID GLOBAL AND DOMESTIC BUSINESS CHALLENGES

Given the challenging global and domestic business conditions over the past year, 46% believed that their company businesses are still growing, while 37% are maintaining theirs and 18% felt that their businesses are declining.

FREEZE ON NEW INTAKE OF FOREIGN WORKERS

The government recently froze the new intake of foreign workers and a plea was made by the construction and glove industries to lift the freeze. Only 33% of the CEOs surveyed shared the sentiments of these two industries as they are affected as well. Most (67%), however, are not affected at all.

Of the CEOs affected by this new ruling, most resorted to hiring more local contract workers and outsourcing, with 48% and 43% being polled, respectively. 25% offered locals higher salaries, while 15% shifted/relocated their production to other countries where labour costs are low, and 14% reduced their production capacities/lines. Others shifted to automation, legalised their existing foreign workers, and trained their local workers to multi-task.

IMPACT OF GST TO DATE

Since the implementation of the Goods and Services Tax (GST) last April 2015, most (54%) CEOs said their businesses have not been affected so far, while 37% and 9% responded negatively and positively, respectively.

INVESTMENT IN THE NEXT SIX MONTHS

In the second half of 2016, most (46%) CEOs intend to park their money in conventional fixed deposits/cash, while 36%, 35% and 23% are setting their sights on local real estate, equities and unit trusts/mutual funds, respectively. 11% are interested in foreign real estate, 9% in gold and 6% in bonds. Others are planning to expand their businesses, invest in a solar power plant, agriculture and foreign exchange.

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 550 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.