

SURVEY RESULT

Q2 2005 TEC Confidence Index – Malaysia

TEC Confidence Index Falls. The TEC Malaysian Confidence Index declined in the 2nd quarter of 2005 as CEOs became less optimistic about prospects for the future growth of their firm's revenues and profits. In the 2nd quarter of 2005, the TEC 2nd Confidence Index fell to 99.3, down from 112.7 in the prior quarter and below the year-ago level of 123.1. Firms anticipate some further slowing of GDP growth from the 5.7% recorded in the 1st quarter during the balance of 2005. A slowdown in export growth was partially offset by continued strong private consumption spending.

Most firms believe the slowdown in overall GDP growth will be temporary, given the maintenance of their robust plans to increase investment spending and expand their workforce. Smaller increases in profit expectation reflected slower revenue growth as well as higher costs. The vast majority of Malaysian firms reported that highly competitive markets limited their ability to pass along price increases for oil and raw materials. The recent liberalization of exchange control rules prompted more firms to think the reevaluation of the Ringgit vis-a-vis the U.S. dollar is more likely.

Slower Economic Growth Expected. The 2nd quarter 2005 survey recorded a significant shift toward the view that the economy was in the midst of a slowdown and that the slowdown would continue through the balance of 2005. Assessments of the pace of economic growth during the past year and for the year ahead were the least favorable in the two years that this survey has been conducted. Just 10% reported gains compared with last year and just 19% expected better economic conditions in the year ahead.

Hiring Plans Remain Strong. Hiring plans were virtually unchanged at very favorable levels. Planned increases in employment were cited by 54% of all firms in the 2nd quarter survey, barely below the 57% recorded one quarter ago. Just 6% of all firms anticipated reducing the number of employees. Retaining staff was linked to mutual respect and compensation that is related to performance. Nearly half of all firms had performance-linked plans that represented between 10% and 50% of their total compensation.

Majority Plan New Investments. Planned increases in expenditures for new plant and equipment were reported by 55% of all Malaysian firms in the 2nd quarter, just below the 57% recorded one quarter ago. These robust investment plans are a clear sign that most firms expect the economic slowdown to be brief.

Slower Growth in Revenues Expected. Two-thirds of all firms expected higher revenues in the year ahead in the 2nd quarter survey, down from three-quarters of all firms in the prior quarter. Importantly, despite the expected slowdown in the overall economy, just one-in-ten firms expected revenue declines.

Profit Rise Expected By Majority. Profits were expected to rise by 51% of all firms in the 2nd quarter survey, down from 65% in the prior quarter. This change in the profit outlook was due to the recognition that highly price competitive markets would not allow firms to pass along all of the increases for energy, commodities, and other costs of production. Just 3% of firms expected to pass along all cost increases.

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	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
TEC confidence Index	127.8	123.1	114.6	111.9	112.7	99.3
Components						
Current Economic conditions	161	157	121	113	104	67
Expected Economic Conditions	181	154	132	127	115	97
Expected Change Employment	151	138	148	141	151	148
Planned Fixed Investment	145	158	152	148	152	146
Expected Revenue Growth	180	171	164	171	175	157
Expected Profit Growth	149	153	149	146	155	136

NOTE: All component questions are scored as the percent giving favorable replies minus the perfect unfavorable plus 100. The TEC Confidence Index is the sum of the components calculated as a percentage of the level recorded in 2nd quarter 2003 survey.

Internal Organizational Challenges. More than 49% of CEOs polled were of the opinion that a clear communication of goals and strategies and the availability of high-calibre staff were key to being able to successfully achieve the organization's objectives.

In addition, between 38-52% of respondents felt that performance-related compensation schemes plus an organizational climate of mutual trust and respect, were also essential in helping ensure such goals could be more readily accomplished.

Use of IT in Corporations. Between 42-53% of CEOs polled, responded to say that the IT facilities they employed in their companies were primarily directed at CRM and ERP improvements, as well as for use as a competitive tool for overall planning and strategy purposes.

Growing Interest in Branding. 52% of respondents declared that they were in varying stages of allocating more time and financial resources to Branding efforts for their organization's products and services, reflecting the steadily growing importance being attached to Branding as a key contributory factor to businesses succeeding.

Personal Wealth Management. Most CEOs (42%) stated that they were inclined to investing in real estate over the course of the next 12 months, with the next possible alternative being to merely retain their investments in cash or low-yielding but safe fixed deposit form. The shunning of investment in shares is not surprising considering the dismal performances currently reflected in the equity bourses in the region.

ABOUT THE MALAYSIAN TEC CONFIDENCE INDEX

TEC Asia members comprise of businesses and companies with annual sales between RM5 million to RM1 billion. Today, it has more than 200 members in more than 65 different businesses. The opinions of these CEOs provide a clear snapshot of their current economic market as well as industry trends and their plans for growth over the next 12 months.

The TEC Index is a compilation of responses from these TEC CEOs, of whom 70% are small to medium sized companies and is the only comprehensive report of their opinions and projection. These insights provide a leading indicator for employment, capital expenditure, sales and revenue trends. Each quarter, TEC International polls its membership in Malaysia, United States, Canada, UK and Australia.

TEC Asia Centre has the license from TEC International to offer TEC programmes for ASEAN countries since 1994 and has offices in Kuala Lumpur and Penang.

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