



# Q3 2005 TEC Confidence Index - Malaysia

## SURVEY RESULTS

### TEC CONFIDENCE INDEX FALLS

The TEC Malaysian Confidence Index has declined during the past six months as CEOs became less optimistic about prospects for the future growth in the overall economy. In the 3rd quarter of 2005, the TEC Confidence Index fell to 94.0, down from 99.3 in the prior quarter and 112.7 two quarters ago. In reaction to the anticipated slowdown in economic growth, firms reduced their investment and hiring plans. Although prospects for sales were slightly less favorable, there was a halt to the steep slide in expected revenues recorded in the 2nd quarter. The anticipated reductions in investments and hiring were sufficient to neutralize the expected impact on profits. Nonetheless, just 6% of all firms reported that they were able to pass on higher oil costs. Importantly, two-thirds of all firms reported that eliminating corruption should remain a top priority of the government.

Since mid 2004, Malaysian firms have expected a slowing pace of economic growth during the following year, and they have correctly anticipated the declines in the official GDP data. To be sure, even with the anticipated slowdown, Malaysian firms continued to expect a favorable overall pace of economic growth during the year ahead.

### SLOW ECONOMIC GROWTH EXPECTED

The 3rd 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 5% reported gains compared with last year and just 14% expected better economic conditions in the year ahead.

### REDUCED HIRING PLANS

Planned increases in employment were cited by just 40% of all firms in the 3rd quarter survey, down from 54% recorded one quarter ago, and the smallest proportion recorded in two years. Importantly very few firms planned cutbacks (just 6%), with the majority of firms (54%) planning no overall change in the number of employees. When asked about their most pressing challenges, the most common response was maintaining a high caliber staff, with retention dependent upon staff being able to achieve career objectives within an environment of respect and trust.

### SLOW PACE OF INVESTMENT SPENDING

Planned increases in expenditures for new plant and equipment were reported by 49% of all Malaysian firms in the 3rd quarter, down from 55% recorded one quarter ago.

### SLOW GROWTH IN REVENUES EXPECTED

Higher revenues in the year ahead were expected by 62% of all firms in the 3rd quarter survey, down from 67% last quarter, and the lowest level recorded in two years. However, the percentage of firms reporting decreasing revenues remain unchanged in both the 3rd and 2nd quarters survey.

### PROFIT RISE EXPECTED BY MAJORITY

Profits were expected to rise by 60% of all firms in the 3rd quarter survey, up from 51% last quarter and nearly regaining the 65% recorded in the 1st quarter. This shift indicates that despite higher oil prices firms expect to cut costs sufficient to increase their profit margins.

### DE-PEGGING OF THE MALAYSIAN RINGGIT

Most CEOs acknowledge that while the de-pegging of the Ringgit vis-à-vis the US Dollar will essentially manifest in a strengthening of our local currency, they reckon that there will be a significant impact on the profitability of their businesses only if such Ringgit appreciation was in the range of between 5%-7% or better.

### THE IT CHALLENGE IN THE CORPORATION

58% of CEOs polled cited a lack of appropriate technical resources as their major hurdle to effectively implementing IT in their companies, while 36% admitted to a lack of appreciation as to how IT could be suitably employed as a competitive strategic tool. For now, it appears that IT is primarily used more for CRM and ERP enhancements within their organizations.

#### Economic Trends

	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
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#### TEC Confidence Index

TEC Confidence Index	123.1	114.6	111.9	112.7	99.3	94.0
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#### Components

Current Economic Conditions	157	121	113	104	67	60
Expected Economic Conditions	154	132	127	115	97	80
Expected Change Employment	138	148	141	151	148	134
Planned Fixed Investment	158	152	148	152	146	140
Expected Revenue Growth	171	164	171	175	157	151
Expected Profit Growth	153	149	146	155	136	146

### PLANNING VERSUS OPERATIONAL FOCUS

The survey revealed that most Malaysian CEOs (52%) of larger organizations and belonging to TEC groups, typically allocate 50% or more of their time to planning, and relatively less focus on operational tasks, while conversely, the majority of CEOs (62%) of the relatively smaller businesses and belonging to TEE ('TEC for Emerging Entrepreneurs') groupings, tended to allocate much more (i.e. decidedly higher than 50%) of their time in pursuit of resolving operational issues.

### PERSONAL WEALTH MANAGEMENT

A large and obviously confident 50% of CEOs polled stated a readiness to continue reinvesting in their businesses, while for those others with surplus funds, real estate (32%) and fixed deposits (30%) remained the most preferred investment havens.

### 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 230 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.

### ABOUT TEC INTERNATIONAL & TEC ASIA

Founded in 1957, TEC International ([www.teconline.com](http://www.teconline.com)) provides business leaders with tools to outperform both the competition and their own goals. The comprehensive toolset includes peer-group sessions and one-on-one executive coaching for the sharing of best practices and opportunities to seek confidential help in critical situations.

TEC's professional development model also includes access to world-class business experts, and a global community of more than 11,000 members. TEC member companies have revenues between US\$1 million and US\$1 billion, and combined have a total of more than US\$280 billion in annual sales and more than 1.1 million employees. They outperform the Fortune 500, the S&P 500 and the 14 million companies in the ARC Analytics database. In addition, TEC member companies grow, on average, 2.5 times faster than they did prior to joining TEC.

TEC Asia Centre has offices in Kuala Lumpur (603-22842199), Penang (604-6426799) and Singapore (65-63398505).

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