



Q4 2005 TEC-MIER CEO Confidence Index - Malaysia

SURVEY RESULTS

MODEST REBOUND IN TEC CONFIDENCE INDEX

Breaking from the opposite trend of the past six months, the TEC Malaysian Confidence Index ended 2005 on a more positive note as CEOs turned less jittery about the short-term prospects of the economy. In line with the turnaround in economic activity in the 3rd quarter of 2005, the TEC Confidence Index climbed modestly to 97.4% in the final quarter of the year from 94.1% in the prior quarter. Attitudes about the future state of the economy and expected revenue growth led the gain, offsetting the drag from planned fixed investment and expected profit growth. On the issue of hiring, firms are back in hiring mode with the cyclical economic up-tick now underway, but only just. On the policy front, the fight against corruption and the need for transparency in government's procurement are leading issues, demanding the government's priority attention.

Notably, the improvement in attitudes about the future conditions of the economy is the first since the second quarter of 2004. Despite that, the economy is not expected to show sizable pick-ups with headwinds such as the uncertainties over oil, inflation and interest rate hikes still weighing heavily on prospects. Yet, it is encouraging to note that a resounding 41% of CEOs still expect their respective businesses to perform in the coming months.

SLIGHTLY BETTER ECONOMIC GROWTH EXPECTED

The 4th quarter 2005 survey shows that more CEOs are of the view that further economic recovery lies ahead. A higher 10% (5% in the previous quarter) and 21% (14% in the previous quarter) of respondents experienced improved current economic conditions and expect better economic conditions in the year ahead, respectively. Still, their optimism is tempered somewhat by 28% of the respondents expecting economic conditions to worsen over the next 12 months.

REBOUND IN HIRING PLANS

With sustained economic recovery providing the justification, companies are in hiring mode with 45% of respondents planning to increase headcount. This was up modestly from the 40% recorded one quarter ago. Adding fuel to the opinion of improving job prospects is the low percentage of firms planning to cut back, which remain capped at 6%. With human factor now becoming more critical, finding and hiring qualified staff have clearly become the biggest organizational challenge for 43% of the CEOs surveyed followed by the ability to effectively implement defined strategies (23%).

INVESTMENT SPENDING FIZZLES FURTHER

Improving economic prospects have not changed the companies' lack of enthusiasm to ramp up their investment. As the component score for planned fixed investment hit a new low, the percentage of firms increasing expenditures in new plant and equipment extended the fall since early 2005 to end the year at 42%. Limited access to capital could be one possible restraining factor. Among firms facing difficulty securing bank loans, harsh collateral requirements (65%) and the lack of robustness in company's balance sheets (34%) are seen as the two biggest obstacles.

BETTER GROWTH IN REVENUES EXPECTED

In assessing their own industries, 41% (39% in the previous quarter) of the respondents expect their respective businesses to perform over the next six months. Eventually, this will filter through to higher revenue for 67% (62% in the previous quarter) of the companies interviewed and a lower percentage of companies expecting lower revenue (5% versus 11% previously) in 2006. However, despite the stronger tone in expected sales, the drag from higher business costs will outstrip the improvement in revenue, resulting in fewer firms expecting higher profits (54% in 4Q05 versus 60% in 3Q05).

DE-PEGGING OF THE MALAYSIAN RINGGIT

The movement of the ringgit exchange rate since the de-pegging has not had any material impact on the profitability of nearly 80% of the companies surveyed. That was simply because the ringgit exchange rate has hardly moved since the de-pegging, hovering instead at just above the previously fixed rate of 3.80 to the dollar.

THE IT CHALLENGE IN THE CORPORATION

Similar to the previous quarterly results, 54% of CEOs polled noted the lack of technical resources as the major stumbling block to effectively implementing IT in their companies. The problem was compounded by the lack of appreciation as to how IT could help improve the competitive edge of a company, as indicated by 33% of the firms surveyed. Future IT investment will concentrate on CRM and ERP enhancements within their organizations.

Economic Trends	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005
TEC Confidence Index	114.6	111.9	112.7	99.3	94.0	97.4
Components						
Current Economic conditions	121	113	104	67	60	69
Expected Economic Conditions	132	127	115	97	80	93
Expected Change Employment	148	141	151	148	134	139
Planned Fixed Investment	152	148	152	146	140	132
Expected Revenue Growth	164	171	175	157	151	162
Expected Profit Growth	149	146	155	136	146	141

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

PLANNING VERSUS OPERATIONAL FOCUS

The survey revealed that most Malaysian CEOs (54%) of larger organizations and belonging to TEC groups, typically allocated 50% or more of their time to planning, and less time on operational tasks. Conversely, the majority of CEOs (59%) of the relatively smaller businesses and belonging to TEE ('TEC for Emerging Entrepreneurs') groupings tend to focus more (i.e. higher than 50%) on operational tasks.

PERSONAL WEALTH MANAGEMENT

Real estate investment (39%) is the preferred investment vehicle for 39% of the CEOs interviewed while reinvesting in their businesses (38%), which topped the list in the previous quarter, fell to the second spot. Interestingly, 29% of the CEOs prefer holding cash/ fixed deposits over investment in financial assets, reflecting the fading attractiveness of the latter in a rising interest rate environment.

ABOUT THE TEC-MIER CEO CONFIDENCE INDEX

TEC Asia has been conducting the Confidence Index since 2nd quarter 2003. Effective 4th quarter 2005, TEC Asia entered into a strategic alliance with the Malaysian Institute of Economic Research (MIER) to co-brand the Confidence Index under a joint effort known as the TEC-MIER CEO Confidence Index.

TEC Asia members comprise of businesses and companies with annual sales between RM5 million to RM1 billion. Today, it has more than 240 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 AND MIER

Founded in 1957, TEC International (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).

MIER is an independent, private, non-profit organization, devoted to economic, financial, and business research that would serve as a thinktank for the government and the private sector. It is committed to serve the government and private sectors as well as the public at large by providing an objective and impartial understanding of socio-economic issues of national, regional and global importance.