

# RAM-CTOS Business Confidence Index

3Q 2023



Business  
confidence falters  
amid lingering  
pressures

October 2023



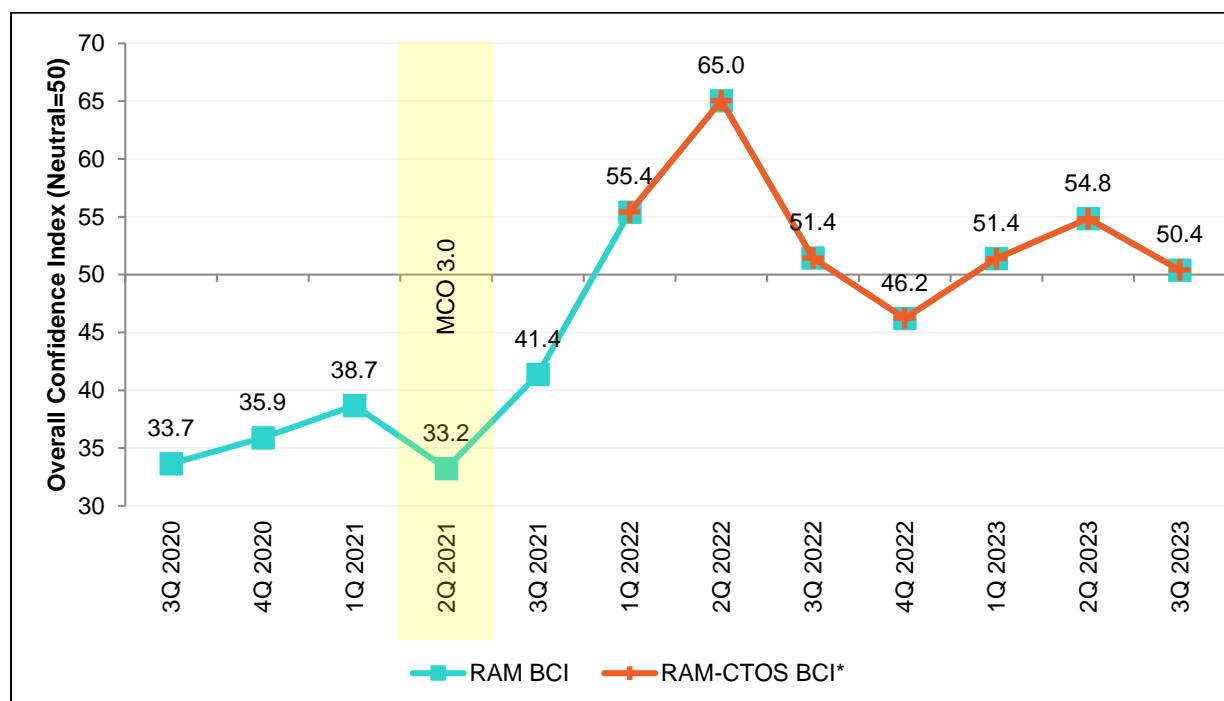
# RAM-CTOS Business Confidence Index

## Broad-based moderation of business sentiment in 3Q 2023

*Editor's Note: The latest RAM-CTOS Business Confidence Index (BCI) survey was conducted online from 1 September 2023 to 20 September 2023. The results and analysis derived from this poll are anecdotal evidence from a sample of 165 firms, chiefly small and medium enterprises (SMEs). The results may not be reflective of the larger population of these segments nor is it our intention to interpret them as such. However, the survey provides some insights on the sentiment among SMEs and challenges faced by these businesses.*

### A. Business optimism in 3Q 2023 softens to weakest level since start of 2023

Figure 1: Forward-looking business sentiment deteriorated after two quarters of improvement



\* The **RAM-CTOS sub-index** commenced in 1Q 2022. Data points prior to 1Q 2022 are derived from the main RAM BCI.

Sources: RAM BCI and RAM-CTOS BCI

**Note:** An index value of 50 is the neutral benchmark, a value of above 50 indicates positive sentiment, and below 50 indicates negative sentiment.

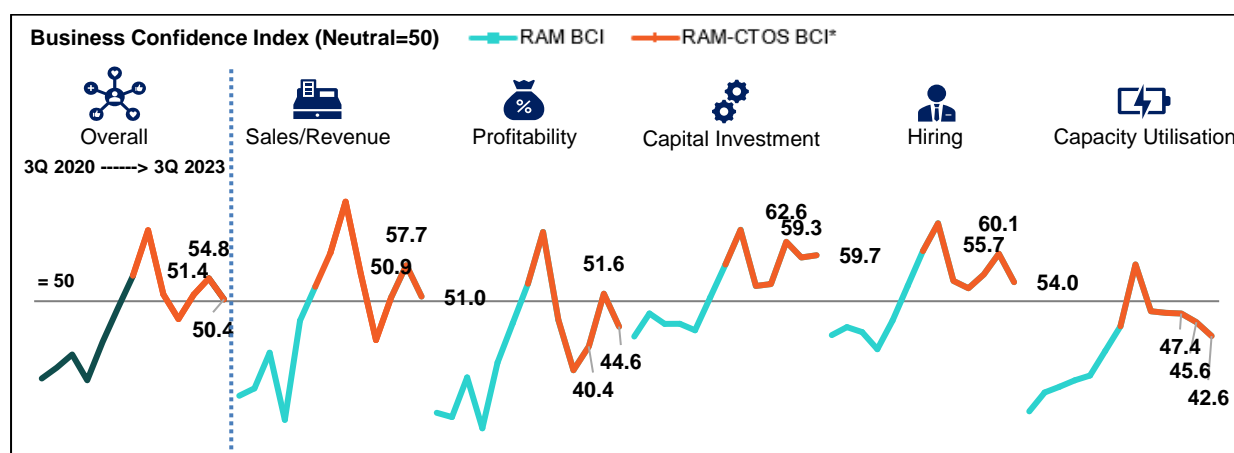
MCO = Movement Control Order

The **RAM-CTOS BCI**, which tracks three-month forward-looking business sentiments, **declined to 50.4 in 3Q 2023** (2Q 2023: 54.8), **ending a two-quarter improvement streak**. Despite the notable drop, the overall index **remained marginally above the neutral 50 points**, still indicating an **overall positive sentiment reading** for the latest survey, albeit a **fairly weak** one. This is also **the third consecutive**

**survey with a positive sentiment finding**, after the index fell briefly below the neutral mark of 50 in 4Q 2022 (46.2). All sub-indices, save for capital investment, registered lower readings, attributable to the return of some key business challenges faced by firms surveyed.

- Deterioration in sentiment was led by business performance indicators (**revenue** and **profitability**), suggesting that firms expect weak demand conditions and cost pressures to continue to be a major drag on their near-term outlook.
- The **sales sub-index** fell **6.7 points** to **51.0** in 3Q 2023 as a higher proportion of firms (34%; 2Q 2023: 21%) expect revenue to decrease over the next three months. This corresponds with the softening economic momentum, especially on the global front.
- The **profitability sub-index slid back to a negative reading** of 44.6 (-7.0 points q-o-q) in 3Q 2023 after briefly coming above 50 in 2Q. The sub-index was below 50 for three successive quarters before that.
- The return to negative sentiment signals that firms foresee cost pressures to continue escalating. This coincides with the recent uptrend in global crude oil and food prices.
- Prospects of incoming orders are softer, which is consistent with the **weakening in capacity utilisation outlook**, the most pessimistic business aspect in **3Q 2023 with a reading of 42.6** (-2.9 points q-o-q) – the lowest since 3Q 2021.
- Firms surveyed remain most optimistic about their outlook for **capital investment and hiring**, as seen in **four successive surveys**, with respective sub-index readings of **59.7 (+0.5 points)** and **54.0 (-6.1 points)**.
- The sustained capacity building sentiment despite weaker near-term demand and profitability suggests that firms generally are still hopeful of growth over the longer term and do not see a need to downsize.

**Figure 2: Forward-looking sales and profitability sentiments deteriorated the most in 3Q 2023**



\* The **RAM-CTOS sub-index** commenced in 1Q 2022. Data points prior to 1Q 2022 are derived from the main RAM BCI.

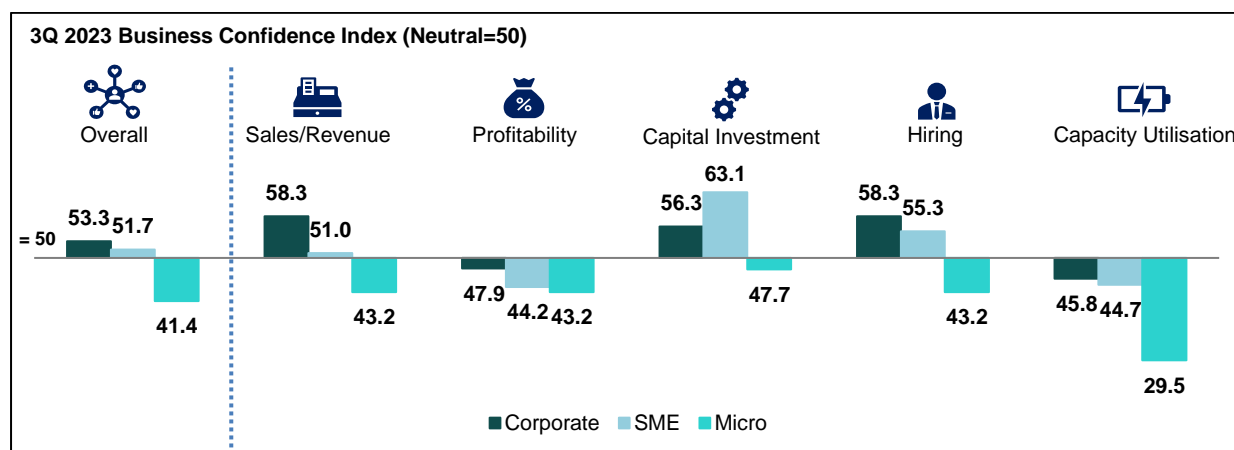
Sources: RAM BCI and RAM-CTOS BCI

**The decline in overall sentiment is more pronounced among smaller firms.**

- The overall indexes of **SMEs and micro firms** decreased to **51.7** and **41.4**, respectively, from 55.7 and 54.5 in 2Q 2023.

- The **weaker sentiment among SMEs** was primarily driven by **ebbing business performance-related indicators** (revenue sub-index: -8.8 points; profitability sub-index: -8.7 points).
- The **pessimism among micro firms** surveyed was more **broad-based** as all five sub-indices registered negative sentiment readings (index < 50), having declined q-o-q.
- Only the **corporate segment** indicated an improved overall sentiment (+2.7 points to 53.3) although still sharing the common challenge of cost pressures as implied by the **negative sentiment on profitability outlook (47.9)**.

Figure 3: Pessimism on profitability seen across firm sizes

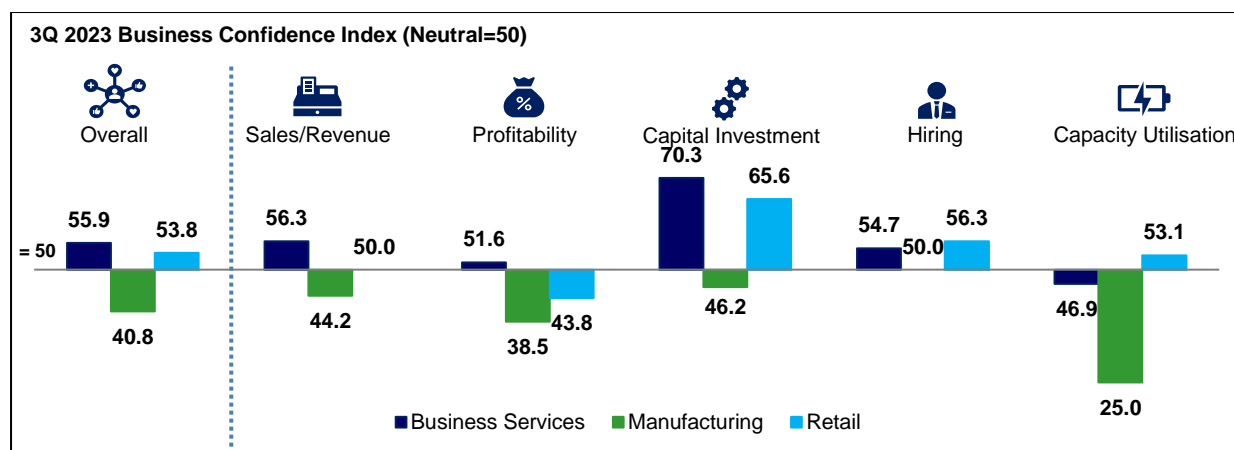


Source: RAM-CTOS BCI

The manufacturing sector was broadly pessimistic in 3Q 2023, consistent with its more **export-oriented** nature, as the **slowdown in global demand** weighs on business prospects.

- The overall index of the **manufacturing sector** fell deeper into **negative sentiment** territory (3Q 2023: 40.8; 2Q 2023: 49.2), primarily driven by pessimism on sales (44.2) and profitability (38.5).
- Domestic-oriented sectors like **business services** and **retail** still showed **positive sentiment**, with respective overall index readings of 55.9 (-4.3 points q-o-q) and 53.8 (+1.8 points q-o-q).

Figure 4: Manufacturing firms likely to be more downbeat as export momentum softens



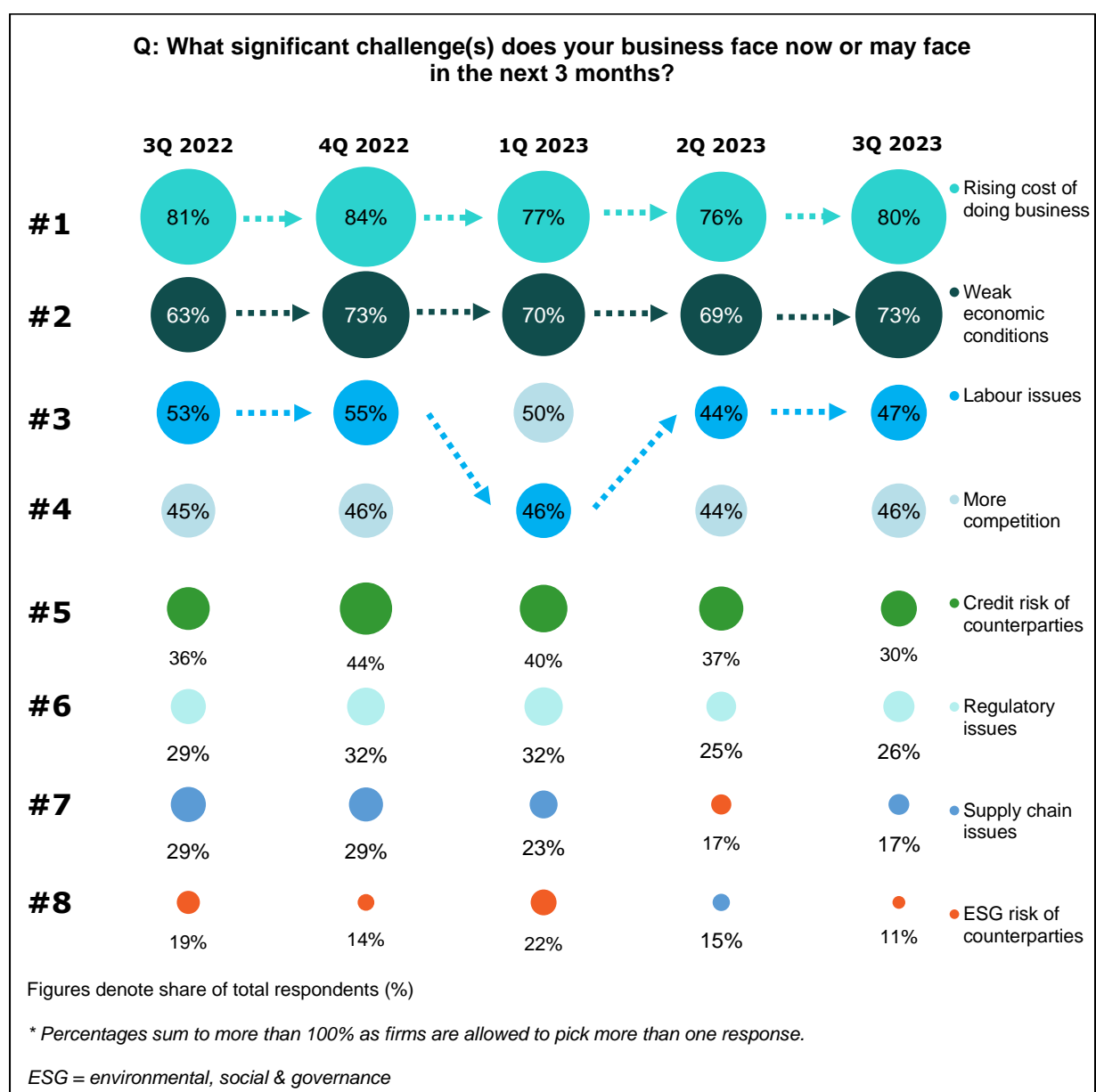
Source: RAM-CTOS BCI

## B. Key challenges – rising costs and weak economy

The weaker sentiment towards sales and profitability corroborates our survey findings on the main challenges facing businesses. The share of firms citing a **weak economy** or **rising costs** as their most significant challenge rose again after showing signs of easing over the preceding two quarters.

- **Rising cost** tops the list of concerns for the **seventh consecutive survey** in 3Q 2023, with **80% of firms citing it**, up from 76% in 2Q 2023.
- The share of firms worried about **weak economic conditions** also rose to **73% in 3Q 2023** after having declined for two straight quarters (2Q 2023: 69%; 1Q 2023: 70%).
- **Labour issues** were the third most cited challenge at **47%** (2Q 2023: 44%).

Figure 5: Concerns over rising costs and weak economy rose in 3Q 2023

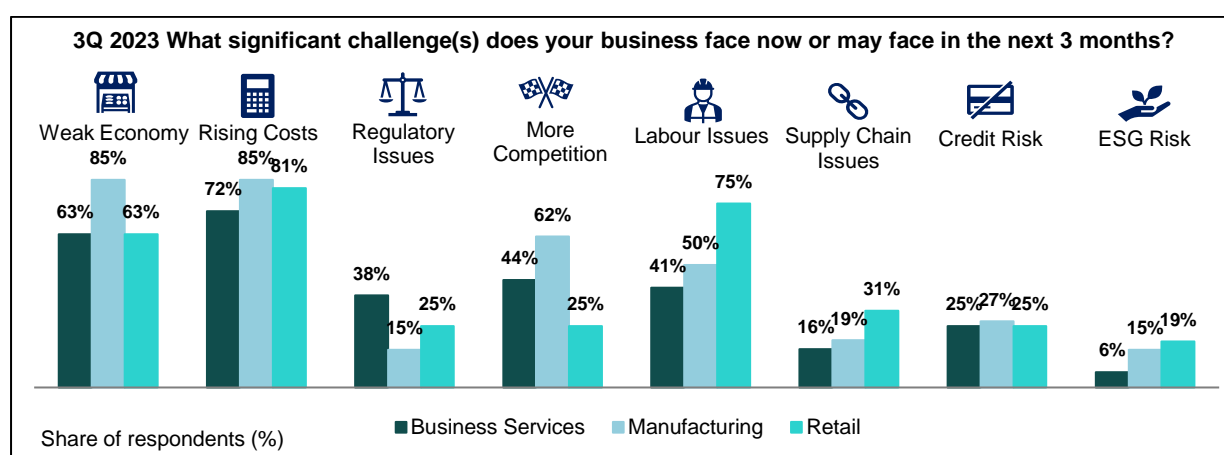


Source: RAM-CTOS BCI

Rising costs and weaker economic prospects remain **common gripes across sectors** but are **particularly prevalent among manufacturing firms**.

- The share of **business services, manufacturing and retail** firms surveyed which said they are hampered by **rising costs** stood at a respective 72%, 85% and 81% in 3Q 2023, compared to 65%, 84% and 80% in the previous quarter.
- **Poor economic conditions remained a prevalent challenge in 3Q 2023**, affecting some **63%, 85% and 63%** of **business services, manufacturing and retail** firms polled, respectively (2Q 2023: 68%, 84% and 50%).

**Figure 6: Rising costs and weak economy still among most cited concerns across sectors**



\* Percentages sum to more than 100% as firms are allowed to pick more than one response

Source: RAM-CTOS BCI

## C. Rising costs and weak demand still critical challenges over longer term

Longer-term hurdles cited by firms surveyed remain similar, with **rising costs and weak demand most expected to be challenges within the next 12 months**.

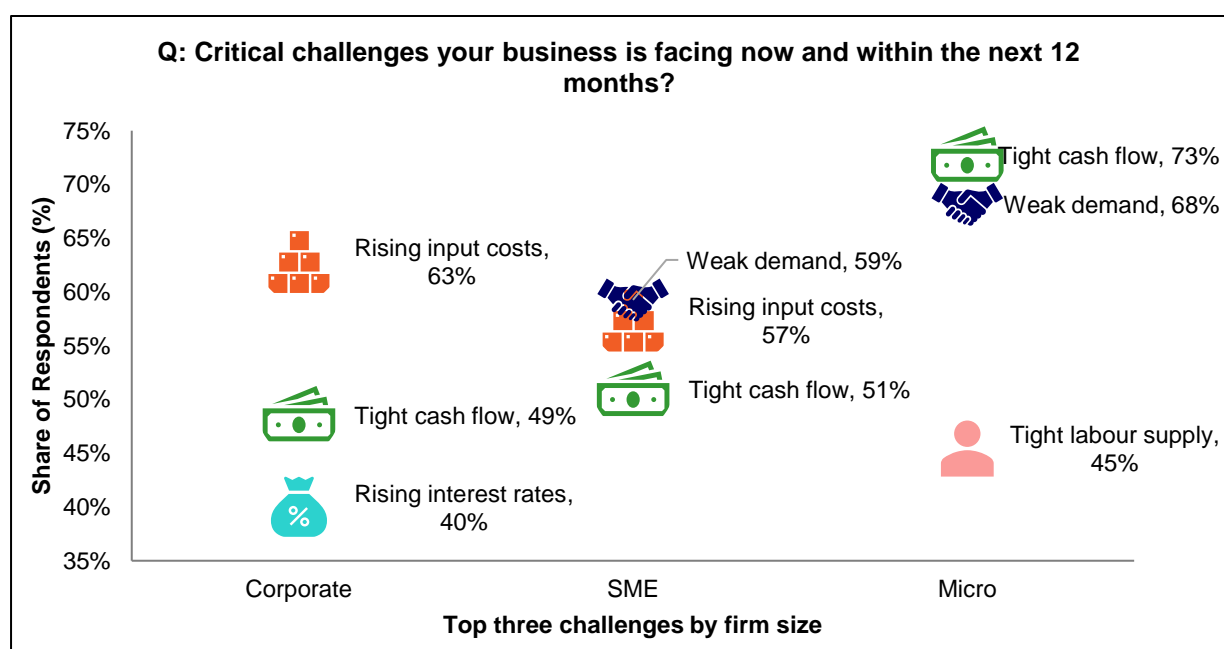
- Both **rising input costs** and **weak demand** were cited by **56% of firms** surveyed as **critical challenges** they face now and expect to face within the **next 12 months**.
- This suggests that most firms envisage cost pressures and sluggish demand to continue to be teething issues over the longer term.
- Firms surveyed were also concerned about issues arising from **tight cash flow** (53% of firms).

**Figure 7: Cost and demand still top concerns over 12-month horizon**

Source: RAM-CTOS BCI

The primary concern, however, differs across firm sizes. Challenges posed by **tight cash flow** appear to be substantially **more prevalent among smaller micro firms** than SMEs and larger corporates.

- Tight cash flow was cited by **73% of micro firms** surveyed – more widespread compared to the respective 51% and 49% of SMEs and corporates that said it is their main concern.
- A **larger share of corporates and SMEs** cited **rising input costs**, respectively 63% and 57% as against only 41% of micro firms surveyed.

**Figure 8: Larger firms more likely to be concerned about rising input costs**

\* Percentages sum to more than 100% as firms are allowed to pick more than one response

Source: RAM-CTOS BCI



## D. Lower income tax rate most requested Budget 2024 measure

An overwhelming majority of firms surveyed cited lower income tax rates as the most beneficial measure for introduction in Budget 2024.

- Around **64% of firms** cited **lower income tax rates**, followed by **44% that said utility tariffs should be lower**.
- These two measures are also the most popular across firm sizes, likely given the **need to reduce expenditure to stem margin compression**.
- That said, **lower income tax rates were less requested by smaller micro firms**, likely because this segment is already in the lower tax bracket.
- Notably, larger **corporates** showed a greater appreciation for **ESG incentives (43%)** compared to SMEs (37%) and micro firms (18%).

**Figure 9: Measures to lower business expenses most popular across firm sizes**

**Q: What measures in Budget 2024 will be most beneficial to your business?**

(Share of respondents, %\*)

	By Firm Size			ALL Firms
	Corporate	SME	Micro	
Lower income tax rates	60%	69%	45%	64%
Lower utility tariffs	51%	43%	41%	44%
Grants/Tax breaks for automation and R&D	23%	42%	32%	36%
Preferential treatment for SMEs in government procurement	14%	42%	41%	36%
Financial incentives/tax breaks for adoption of ESG practices	43%	37%	18%	36%
Ease rules for hiring of foreign labour	31%	34%	32%	33%
Assistance to facilitate better export market access	17%	27%	18%	24%
No government assistance required	6%	5%	14%	6%
Other measures	14%	16%	14%	15%

\* Percentages sum to more than 100% as firms are allowed to pick more than one response

R&D = research and development

Source: RAM-CTOS BCI

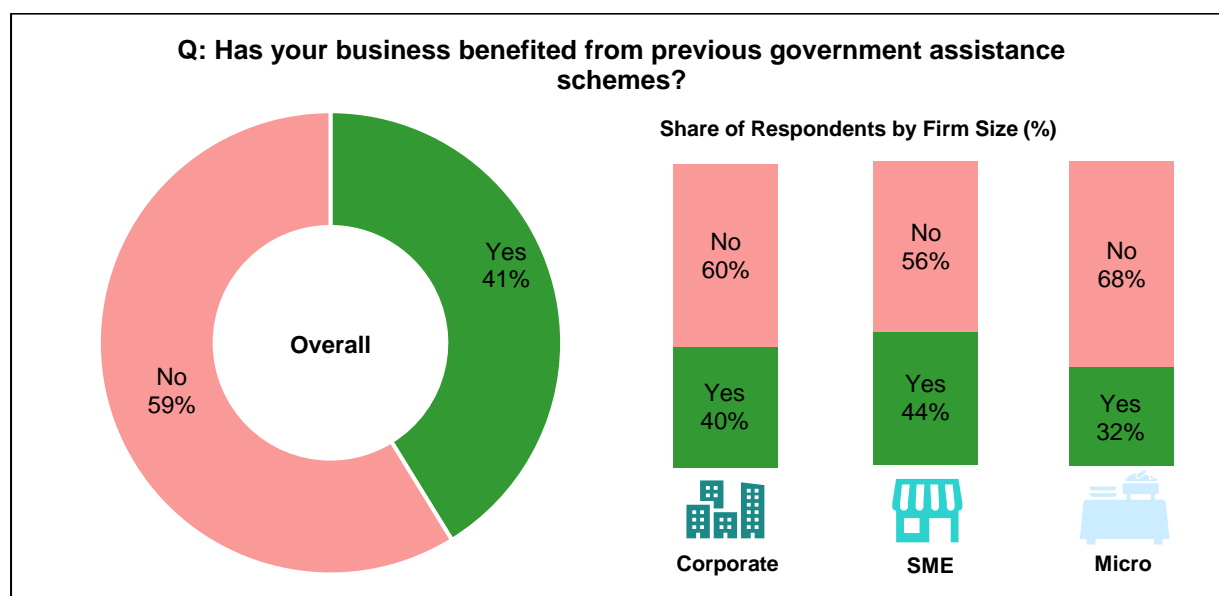


## E. More than half of firms surveyed said they had not previously benefited from government assistance schemes

The majority of firms in our survey sample were not previous beneficiaries of government assistance schemes.

- Around **59%** of firms surveyed had not previously been beneficiaries of government relief.
- The proportion of **micro firms** that said this was higher at **68%**, relative to around 56% and 60% of SMEs and corporates, respectively.

**Figure 10: Around 60% of firms are not previous government assistance scheme beneficiaries**

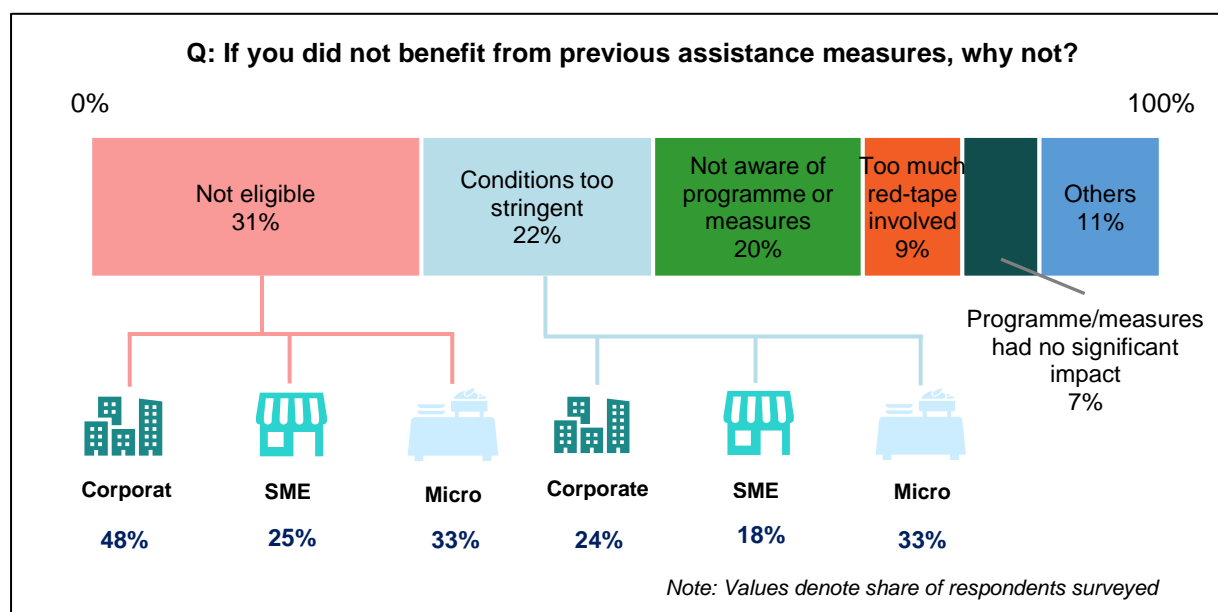


Source: RAM-CTOS BCI

Some of the reasons most cited by **firms that had not received assistance** include ineligibility, overly stringent conditions and unawareness of the schemes. However, the top impediments slightly differ across firm sizes.

- About **31% of firms that had not benefited** said **they were not eligible** for the said programmes. This is consistently the **most cited reason across firm sizes** (corporate: 48%; SME: 25%; micro: 33%).
- **Excessively stringent conditions tied to the schemes** was the second most cited reason at **22%**. This factor was **particularly prevalent among micro firms (33%)** compared to SMEs (18%) and corporates (24%).
- **Smaller firms might find it difficult to apply** for relief given the numerous **conditions to fulfil** and business **requirements to meet** during the process, owing to resource and expertise limitations.
- Around **20%** of respondents said they had **not been aware of the programmes or measures**.

**Figure 11: Ineligibility and stringency of conditions are the two most common reasons cited for not having benefited from past government assistance**

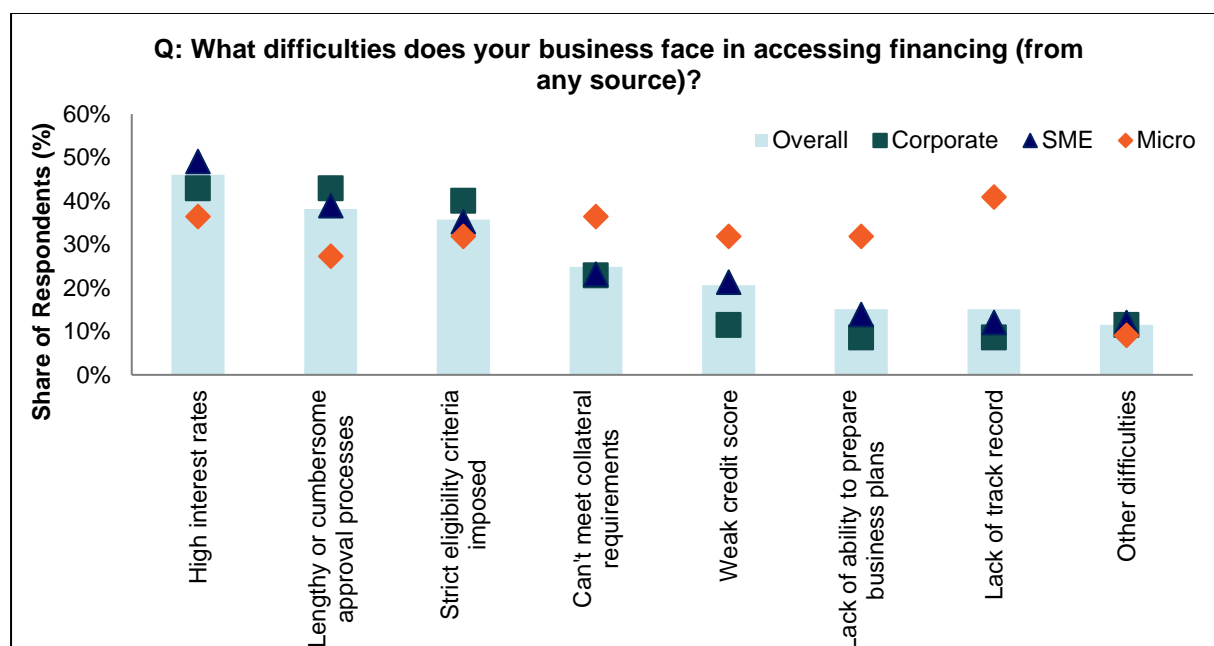


Source: RAM-CTOS BCI

## F. High interest rates the most cited difficulty in accessing financing

**High interest rates top the list of difficulties faced by businesses polled** in accessing financing from any source. While key concerns are somewhat consistent across larger corporates and SMEs, **hurdles faced by micro firms appear to be different.**

- Around **46%** of firms surveyed cited high interest rates while **38%** found the **approval process cumbersome** and **36%** said the **criteria imposed** are strict.
- **High interest rates** are also the **most cited difficulty among corporates** (43%) and **SMEs** (49%) but notably less prevalent among micro firms (36%).
- **Micro firms** were more challenged by issues unique to smaller firms such as the **lack of a track record to show in obtaining financing. This was cited by 41% of micro firms** compared to only 9% and 12% of corporates and SMEs, respectively.
- Other factors that seem to affect micro firms significantly more are a **lack of expertise in preparing business plans, which was cited by 32%** (corporates: 9%; SMEs: 14%) and the **inability to meet collateral requirements at 36%** (corporates: 23%; SMEs: 23%).

**Figure 12: Difficulties faced by micro firms not as prevalent among SMEs and corporates**

\* Percentages sum to more than 100% as firms are allowed to pick more than one response

Source: RAM-CTOS BCI

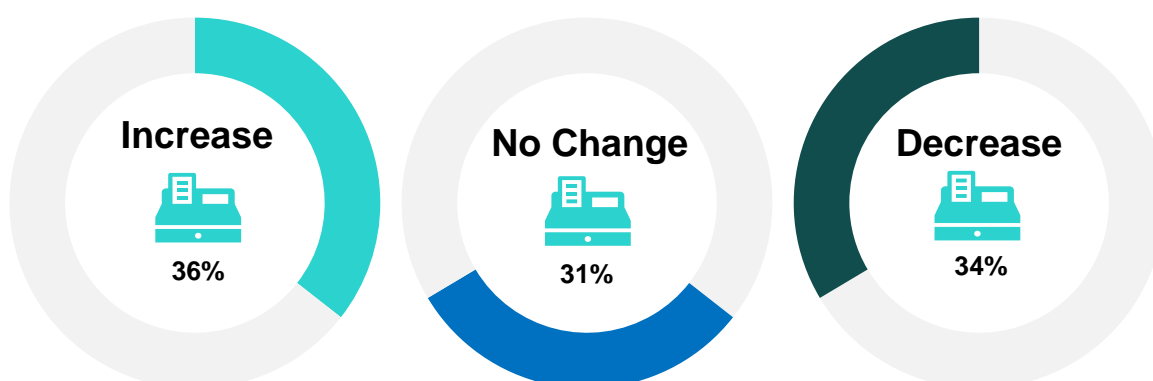
## G. Recovery delayed as businesses confront headwinds

After successive quarters of improvement in business sentiment over the last two surveys, this trend was set back by lingering economic headwinds from rising costs and weaker demand prospects. Still-challenging operating conditions dented business confidence for the next three months, with all sub-indices except capital investment declining q-o-q. The deterioration is particularly pronounced in sales and profitability sentiments, consistent with the uptrend in global food and commodity prices and softer global economic momentum. Such pressures also appear to disproportionately affect the smaller SMEs and micro firms, with the latter showing broad-based negative sentiments across all sub-indices. Smaller firms additionally face challenges unique to them.

Most firms still require government assistance to alleviate the impact of persistent pain points. The business community will be looking to the upcoming Budget 2024 for help to overcome immediate challenges. Provisions of the MADANI Economy framework and the New Industrial Masterplan 2030 indicate that the government is cognisant of the challenges faced. The key is to ensure firms are aware of the availability of government measures and to ensure onboarding or administrative processes are not overly complex or cumbersome for applicants. In particular, assistance must be targeted and tailored to the specific needs of smaller firms to make it available to those in need in a timely and accessible manner.

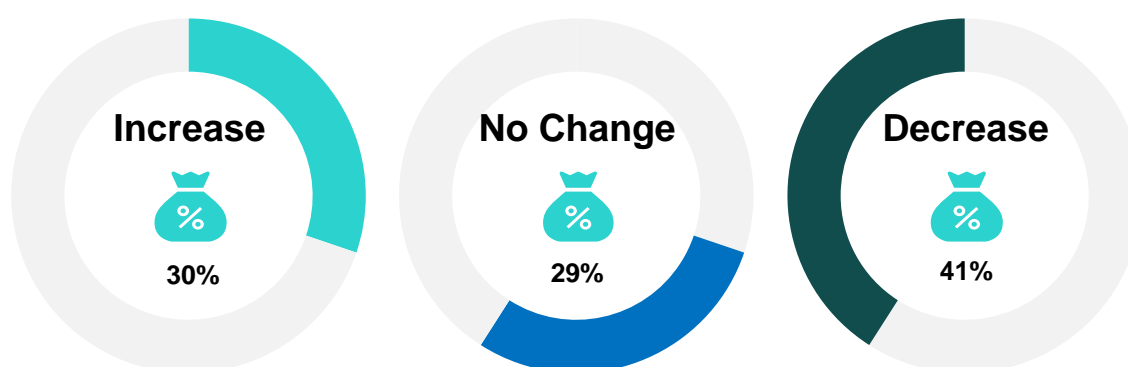
**Figure 13: Survey responses to index components**

**Sales/revenue expectations (three months ahead)**



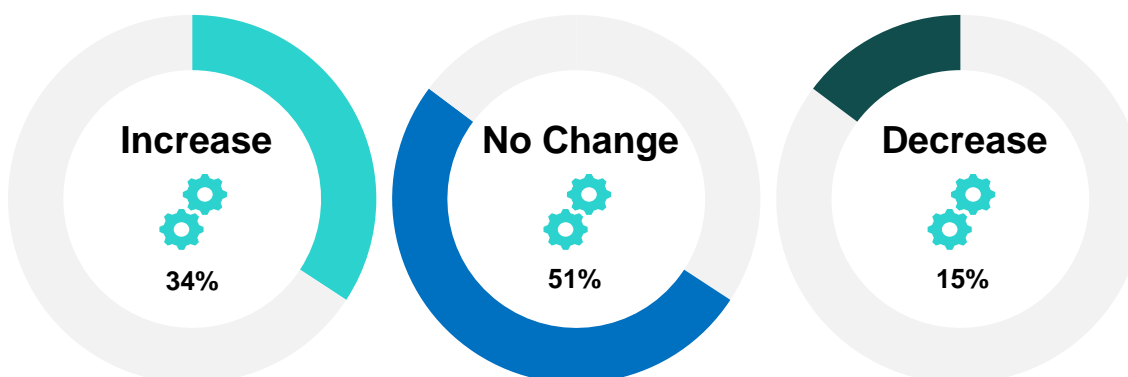
Source: RAM-CTOS BCI

**Profitability expectations (three months ahead)**



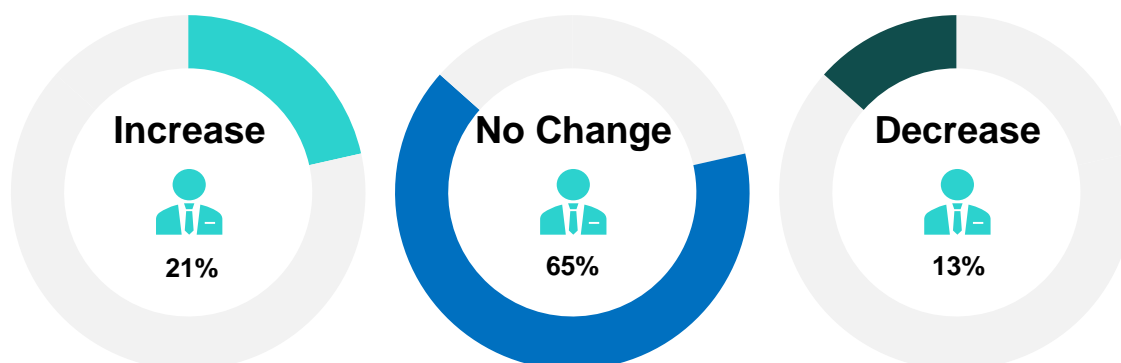
Source: RAM-CTOS BCI

**Capital investment expectations (three months ahead)**



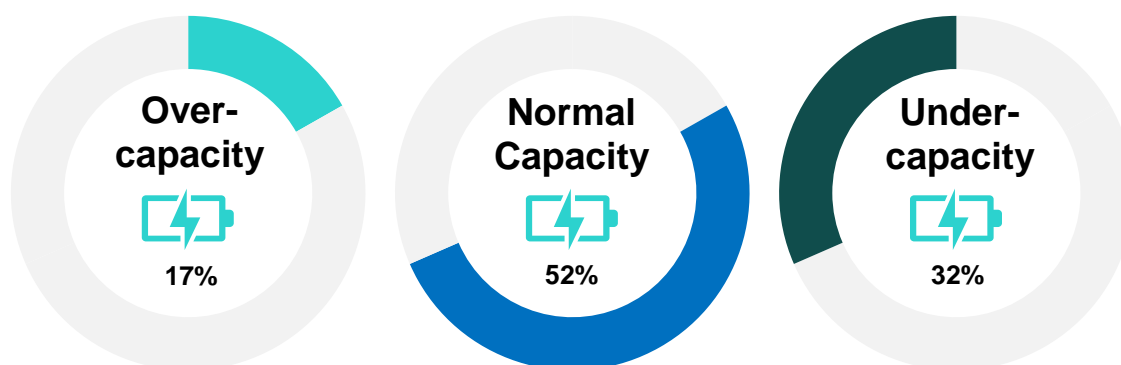
Source: RAM-CTOS BCI

**Hiring expectations (three months ahead)**



Source: RAM-CTOS BCI

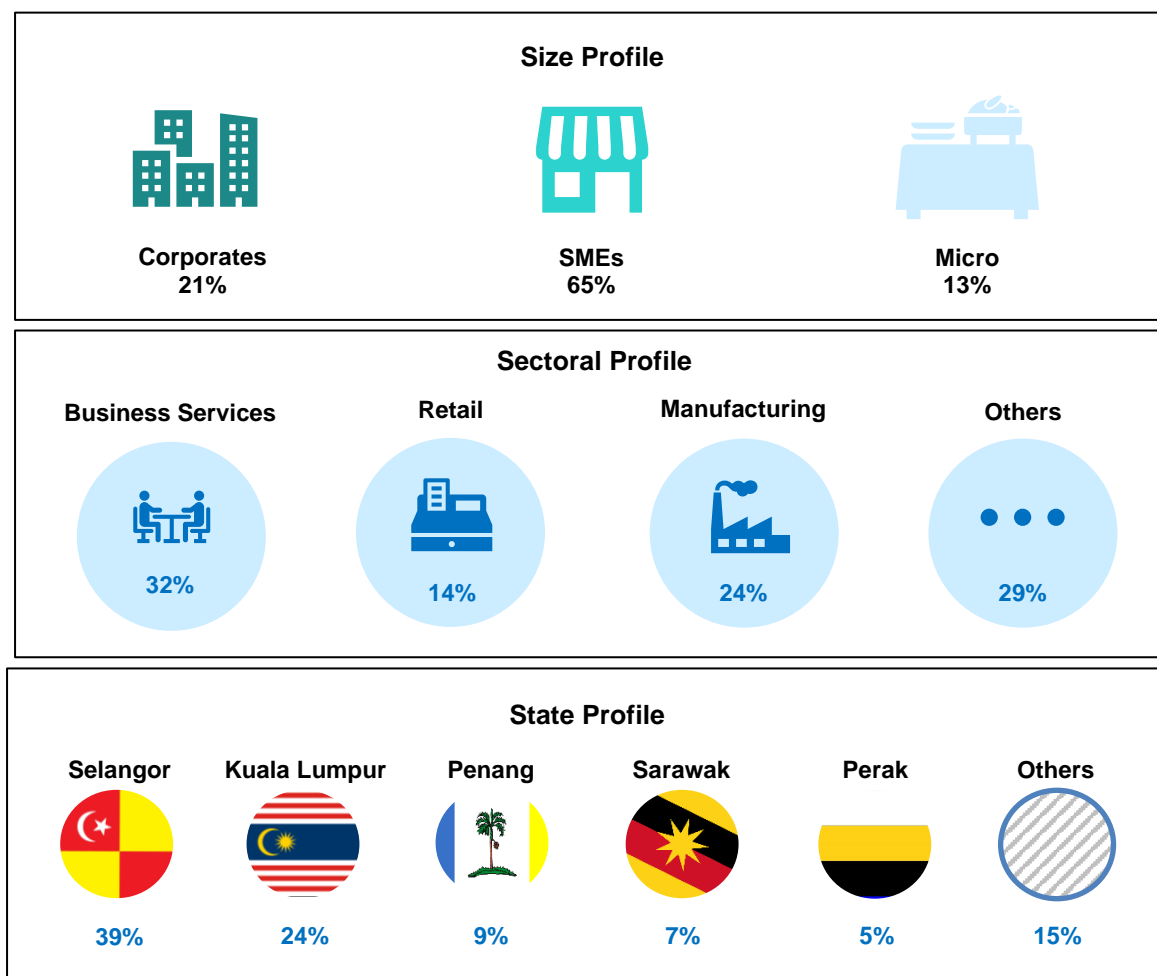
**Capacity utilisation expectations (three months ahead)**



Source: RAM-CTOS BCI

**Figure 14: Profiles of survey samples**

Respondents comprised 165 firms, with SMEs forming the bulk of the survey sample. The sample has a large exposure to the business services and manufacturing sectors.



Source: RAM-CTOS BCI

## About RAM-CTOS Business Confidence Index

The **RAM-CTOS Business Confidence Index** (RAM-CTOS BCI) is a comprehensive survey jointly conducted by RAM and CTOS, starting 1Q 2022, on forward looking business sentiment and topical issues faced by the small and medium business community in Malaysia. It offers a timely barometer on the pulse of businesses and provides meaningful inputs for strategic policymaking in Malaysia.

The Index is derived from responses to online surveys conducted every quarter. It aims to measure forward-looking expectations indicating the positive and negative sentiments of firms on five key aspects that are pertinent to their business operations over the next three months.

Aspect	Definition
Capital Investment	Capex growth rate (%)
Hiring	Changes to firm headcount
Sales/Revenue	Turnover growth rate (%)
Profitability	Profitability growth rate (%)
Capacity Utilisation	Utilisation of productive capacity (%)

*Capex = capital expenditure*

Response values of between zero and one are assigned to the corresponding expressed sentiment. The overall responses are subsequently weighted by the proportion of corresponding responses in the calculation of the overall index.

Response Value	Sentiment represented
0.00	Negative
0.50	Neutral
1.00	Positive

An index value of 50 is the neutral benchmark, a value of **above 50 indicates positive sentiment** on the part of the firm, and **below 50 shows negative sentiment**.

Index Value	Interpretation
Above 50	Positive sentiment for next three months
50 (Neutral benchmark)	Sentiment remains at status quo for next three months
Below 50	Negative sentiment for next three months



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**For enquiries about this report, please contact:****Analytical Contact:**

Woon Khai Jhek, CFA  
Head of Economic Research & Senior Economist  
[khajjhek@ram.com.my](mailto:khajjhek@ram.com.my)  
+(603) 3385 2512

**Business Contacts:**

Julie Ng Deputy CEO RAM Rating Services Berhad <a href="mailto:julie@ram.com.my">julie@ram.com.my</a> +(603) 3385 2595	Chong Kwee Siong Group Technical Director RAM Holdings Berhad <a href="mailto:kschong@ram.com.my">kschong@ram.com.my</a> +(603) 3385 2622
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**Contact Details:**

Lu Choi Wan  
Marketing Manager (SME)  
CTOS Data Systems Sdn Bhd  
[choiwan.lu@ctos.com.my](mailto:choiwan.lu@ctos.com.my)  
+(603) 2789 2256

Published jointly by RAM Holdings Berhad and CTOS Data Systems Sdn Bhd

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**RAM Holdings Berhad**

Level 8, Mercu 2, KL Eco City  
No.3, Jalan Bangsar  
59200, Kuala Lumpur

T: (603) 3385 2488

F: (603) 3385 2582

E: [ram@ram.com.my](mailto:ram@ram.com.my)

W: [www.ram.com.my](http://www.ram.com.my)

**CTOS Data Systems Sdn Bhd**

Unit 01-12, Level 9, Tower A, Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200, Kuala Lumpur

T: (603) 2722 8833

E: [contactus@ctos.com.my](mailto:contactus@ctos.com.my)

W: [www.ctoscredit.com.my](http://www.ctoscredit.com.my)





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**RAM Holdings Berhad**

Level 8, Mercu 2  
KL Eco City  
No.3, Jalan Bangsar  
59200, Kuala Lumpur  
Malaysia

T: (603) 3385 2488  
F: (603) 3385 2582  
E: [ram@ram.com.my](mailto:ram@ram.com.my)  
W: [www.ram.com.my](http://www.ram.com.my)

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**CTOS Data Systems Sdn Bhd**

Unit 01-12, Level 9, Tower A, Vertical Business Suite  
Avenue 3, Bangsar South  
No.8, Jalan Kerinchi  
59200, Kuala Lumpur  
Malaysia

T: (603) 2722 8833  
E: [contactus@ctos.com.my](mailto:contactus@ctos.com.my)  
W: [www.ctoscredit.com.my](http://www.ctoscredit.com.my)

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