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CAUTIOUS START TO 2012 BUT SMES EXPECT PROFIT TO IMPROVE IN THE NEXT 6 MONTHS

***Capacity Utilisation Expectations hold steady
SMEs appear to be adapting to this period of slowing growth
Index expanded to include Construction / Engineering Sector***

19 January, 2012 [Singapore] – Cautious and Prudent. Two words that describe the mood of SMEs as they begin 2012. Singapore's SME owners and managers are taking a 'watch and see' approach to their business, as the outlook for the economy remains uncertain.

This is the key finding of the SBF-DP SME Index for January-June 2012, which measures the business outlook and sentiment of SMEs for the upcoming six months. The SBF-DP SME Index (the Index) is a joint initiative of the Singapore Business Federation (SBF) and DP Information Group (DP Info).

The overall Index remains the same as the previous quarter's forecast (October 2011-March 2012) at 51. This means SME sentiment is neutral – a significant change from 12 months ago when the Index was 58 – decidedly in positive territory. An Index reading of below 50 indicates that more SMEs express negative sentiment for the coming six months.

Three important measures – *Business Expansion*, *Capital Investment* and *Hiring Expectations* – all indicate SMEs are pulling back on expenditure that would propel the growth of their businesses.

Business Expansion Expectations fell from 6.13 to 6.00 – with four sectors recording a drop while Commerce / Trading stayed flat (from 6.26 to 6.27).

Capital Investment Expectations is at its lowest level (5.18) since the inception of the Index in the first half of 2010 – a sign that SMEs are conserving their existing resources. This is the third consecutive quarter the Index for *Capital Investment Expectations* has fallen.

Hiring Expectations is at its second lowest level (5.43), with more SMEs expecting slower hiring in the next half year. For Construction / Engineering, the revised foreign worker policy and other factors have contributed to the decrease in *Hiring Expectations* in this sector from 5.51 to 5.34.

Mr Ho Meng Kit, Chief Executive Officer of SBF, commented, "Such neutral business sentiments come as no surprise. During this period of economic uncertainty, the manpower shortage in certain sectors, rising business costs and slowing demand from key export markets will affect bottom lines. Amidst this period of sluggish growth, companies should focus on increasing their resilience and capability; they should restructure their operations to be more competitive".

SBF-DP SME INDEX OUTLOOK – JANUARY TO JUNE 2012

Overall Index (out of 100)	2Q10 – 3Q10 F	3Q10 – 4Q10 F	4Q10 – 1Q11 F	1Q11- 2Q11 F	2Q11 – 3Q11 F	3Q11 - 4Q11 F	4Q11 - 1Q12 F	1Q12 – 2Q12 F
Commerce / Trading	54	61	57	56	57	54	51	52
Construction / Engineering	-	-	-	-	-	-	-	51
Manufacturing	55	51	57	57	55	56	48	48
Transport / Storage	50	68	55	57	57	54	50	47
Business Services	49	56	63	60	59	59	51	51
Overall	51	56	60	58	59	57	51	51

All industries except Construction / Engineering, expect profits to improve during January and June 2012, partly due to their pull back in expenditure. The overall Index for profitability increased from 5.23 to 5.29.

Construction / Engineering, Manufacturing and Transport / Storage SMEs all expect their capacity utilisation rates to rise. The overall Index for *Capacity Utilisation Expectations* stands at 6.94; with an Index reading of 7.00 indicating that SMEs are operating at capacity.

It is not all pessimistic, and Mr Ho added that "with the recently established SBF-led SME Committee (SMEC), we hope to further assist businesses to tap into current government assistance schemes, and in exploring new opportunities in emerging markets. We are optimistic that the growth impetus in Asia will continue to drive demand for our goods and services. In addition, regional integration efforts and trade agreements such as the Trans-Pacific Partnership and ASEAN Economic Community 2015 initiative will boost trade and investments, increasing growth opportunities for businesses".

SMEs have benefitted from being cautious; a lesson that they have learnt during previous periods of slow growth. Their trimming of costs has helped them better manage their profitability and hold steady their *Capacity Utilisation Expectations*.

According to Ms Chen Yew Nah, Managing Director of DP Info, SMEs are taking prudent measures to prepare for a possible downturn in the global economy.

"With the outlook for 2012 so uncertain, SMEs are responding by pulling back on their business expansion, holding off on capital investment and slowing down their hiring plans. SMEs are unsure how the global economy will perform in 2012."

"SMEs are conserving their resources as an insurance against a possible deterioration of the economy. So the first six months of 2012 will see lower levels of expenditure and fewer new hires by SMEs compared to the end of 2011," Ms Chen said.

CONSTRUCTION / ENGINEERING SMEs NOW PART OF THE INDEX

SMEs representing Construction / Engineering have now been added to the Index, in recognition of the sector's growing contribution to the Singapore economy. The addition is due to the rise in both engineering and construction activities from institutional, residential buildings, industrial and infrastructure projects (e.g. Downtown MRT line and Marina Coastal Expressway) in the past two years.

The Index for the Construction / Engineering sector starts at 51. The Index readings were taken prior to the implementation of new residential property cooling measures in December 2011.

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APPENDIX A - INDEX METHODOLOGY

The Index is based on the responses to a series of questions to determine the outlook and economic activity of SMEs, as well as a series of financial indicators to determine the financial performance of each of the sectors.

Qualitative Components

Telephone interviews with senior managers or business owners.

The interviews serve to gather the views of SME decision makers on the current economic situation in comparison to the previous quarter, including their assessment of the business situation in the next six months.

To ensure the responses reflects that of the decision maker, each interview is conducted only with the business owner or key management.

Invitations are extended to randomly selected entities from five sectors – Commerce / Trading, Construction / Engineering, Manufacturing, Business Services and Transport / Storage.

These sectors are selected on the basis of their contribution to the Singapore GDP. In 2010, the five sectors contributed to around 72% of the GDP.

Tracked questions

Covering both current and prospective views, the questions looked into four key components:

- Financial Performance / Outlook
- Turnover expectation for the next six months
- Profitability expectation for the next six months

The questions aim to provide projection of the community / sector growth in the near term

Employment

- Company level employment plans for the next six months

The question provides a measure of the level of activity of the community / sector in relation to growth expectations

Investment & Financing

- Capital investment (Machinery, IT hardware and Software, etc) in the next six months
- Business expansion within the same industry in the next 6 months
- Expectation on SME's access to external funding in the next six months

The questions highlight the perception of SMEs with regards to obtaining finance as well as their commitment to developing their business through capital investment.

Capacity

- Level of operations relative to optimal capacity

The question measures the present level of the company's operational activities. Where all companies are operating at capacity, it suggests that the level of activities within the sector is high. Measured together with turnover expectation and hiring intention, the question gives a good indication of the growth potential of the sector for the next six months.

Quantitative Components

Using DP Information Group's vast database of financial data, the quantitative elements provide data on more than 3,000 SMEs measuring the actual financial performance of SMEs in the following key components:

- Movement in Average Quarterly Turnover by Industry
 - Turnover serves as one of the key fundamental measure of a company's financial performance.
- Movement in Average Quarterly Profitability by Industry

- Net profit measures the return that a company is able to generate after deducting all cost of sales and operating expenses. It serves as a key indicator on the sustainability of a company moving forward.
- Movement in Average Quarterly PD (Probability of Default) by Industry
 - Probability of Default (derived through DP Information Group's proprietary DP Credit Rating) measures the chances that a company will default on a debt in the next 12 months. Expressed as a percentage, the PD serves as a fundamental measure of the credit standing of a company in their ability to meet their obligations moving forward.
- Movement in Average Quarterly DTC (Days Turn Cash) by Industry
 - Based on DP Information Group's SME Commercial Credit Bureau data, which covers 800,000 payment records and are refreshed on a monthly basis, DP Information Group's Proprietary DTC (Days Turn Cash) measures the average number of days that a company takes to pay its debtors.
- Movement in FTSE-ST Small Cap Index
 - Launched on 10 January 2008, the FTSE ST series, which are built in accordance to the ICB (Industry Classification benchmark), is a joint venture between FTSE, Singapore Exchange and Singapore Press Holdings. The inclusion of a market element into the Index, allows for the incorporation of investors sentiment towards smaller corporations in Singapore.

Index Computation

In calculating the overall Index, each of the 10 questions is assigned a point of between 1 to 10, with 1 being the most negative and 10 being the most positive.

In addition, weights are assigned to each of the 10 questions, to provide for a more robust, rigorous and balanced measure of qualitative and quantitative components.

Reading the Index

The Index provides information on the current level of business activities with the community / sector, its business outlook and the sustainability of the SMEs within the community.

A reading of above 50 indicates an improvement.

For example, an Index reading of 65 indicates the outlook for the next six months is promising, the level of business activity is expected to be active and business sustainability of the SMEs is expected to be good, while an Index reading of 25 indicates the outlook for the next six months is very pessimistic, the level of business activity is expected to be nominal and business sustainability of the SMEs is expected to be low.

ABOUT THE SINGAPORE BUSINESS FEDERATION (新加坡工商联合总会)

As the apex business chamber, the Singapore Business Federation (SBF) champions the interests of the business community in Singapore, in trade, investment and industrial relations. Nationally, SBF acts as the bridge between the government and businesses in Singapore to create a conducive business environment. Internationally, SBF represents the business community in bilateral, regional and multilateral for the purpose of trade expansion and business networking. For more information, please visit our website: www.sbf.org.sg

ABOUT DP INFORMATION GROUP

DP Information Group (DP Info) is Singapore's leading credit and business information bureau. A veteran of over 3 decades, it currently serves 98% of Singapore's financial institutions and 75% of its leading law firms. Through its online information portal, QuestNet, DP Info enables clients to make confident credit management decisions everyday based on comprehensive, accurate and reliable information.

DP Info offers a credit scoring solution for the national credit consumer market and is also a developer of DP Credit Ratings, a proprietary corporate credit ratings model based on the probability of default.

DP Info is an advocate of the SME and entrepreneurial communities. Through its ACRA-appointed service bureau, DP Bureau, it assists these 2 segments in starting their business and operating them effectively and efficiently through their initial years.

DP Info Group is part of the Experian® Group, one of the world's largest credit reference agencies. Experian delivers global technical and developmental expertise in a wealth of areas including consumer and corporate credit analytics. Additionally, it enhances DP Info's existing services and enables the implementation of international best practices to meet the demands of a global economy. Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index.

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