The Insight Bureau

From the Desk of...

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Raising the No 8 signal; business prospects for Asia's economy: Graeme Maxton summaries the current mood among heads of Asia operations

When a tropical cyclone approaches Hong Kong the Observatory raises different flags, to indicate the closeness and severity of the storm. The No 8 signal means that workers should go home and stay there. The storm might still pass by but there will be damage and risk. There is still a chance that it will get stronger or that it will make a direct hit. When the No 8 signal goes up, it is the time to protect yourself, just in case.

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In a series of lunches in Hong Kong and Singapore with more than 40 regional CEOs, The Insight Bureau took the business pulse of the region. We talked to heads of companies in a wide range of industries - from shipping to property, from clothing to chemicals, from electronics goods to oil and from retail and market research to advertising. And, of course, several of the business heads who attended worked in banking, for local banks and European and American ones. Our conclusion? It is time to raise the No 8 signal for Asia's economy.

Until now, Asia has been mostly unscathed by the credit-crunch meltdown in the US and Europe. Some Asian banks have lost some money, several sovereign investment funds have been stung and currencies have been volatile. But demand and investment have stayed generally strong. This relative immunity, so far, was reflected in the views of many CEOs at our lunches. Most said they had experienced a very good year so far.

But would it stay that way? Those in oil and commodities said that they anticipated a slowing in 2009 but that there would still be growth. The head of one of the world's leading production equipment manufacturers said he expected strong growth throughout the region in 2009, even if the pace was slightly slower than this year. Others, notably some of those in consumer goods, said that they thought sales would be flat. They pointed to the large budget reserves many Asian governments had on hand to stimulate their economies. Local demand would offset falling exports, they said. And, with the forecast for Europe and the US so bleak, no growth or low growth would still be a very good performance. Those in property and banking were the gloomiest, perhaps naturally enough. Property prices in much of the region are already softening and many storm clouds remain in the finance sector.

Each of these lunches lasted two hours. In almost all of them though, the mood turned darker the longer we talked. One or two CEOs admitted that they really had no idea what was going to happen next year. One said that he knew he would have to make cuts but he could not yet tell where. Another said he had spent the previous week in budget meetings and in the end had torn up the results because they just seemed so meaningless. Another said that his country heads were coming to him with extrapolative budget projections for next year, much as usual. He said his problem was to make them understand that they had to approach their plans differently this year, because of the uncertainties. But he said he had difficulty explaining, with any great substance, exactly why.

Many started telling tales of markets collapsing suddenly. Demand dropping by 30%- 40% - 50% or more. Shipbuilders in China that were going out of business. The tens of thousands of toy factories in southern China that were closing. The dearth of foreign buyers at this year's Canton Fair.

Volatility in exchange rates were also causing confusion. One CEO pointed to Korea where sentiment was certainly much less positive than elsewhere in the region. He told us how they were engaged in a running debate over what the right won rate should be for the 2009 budget. Even when it came to the US dollar, despite its recent strengthening, there seems to be consensus that the dollar would likely fall in coming months.

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So in the end, there was optimism but also great uncertainty and a growing nervousness.

Many said that they were facing an additional headache from HQ. Some said they were being told to grow faster, to make up for the shortfall in revenues in Europe and the US. Others said they were being told to cut costs, despite staring at growth opportunities and rivals with battered share prices, ripe for picking. Most, however, said they were being told to do both – boost revenues and cut costs. A difficult equation.

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So what were they doing about this volatile mix of opportunity, risk and uncertainty? Five responses came up consistently.

1. First, businesses in Asia need to develop early warning signals to help guide them through the fog. They need to identify signs, perhaps from other industries, which can help them navigate away from trouble and cut costs in the right area at the right time.

2. Almost every CEO said he was going to manage his business for cash for the time being.

3. Company chiefs also saw the next 6-12 months as a time to tidy up their Asian businesses. They had grown too fast in the last five years and needed to consolidate, weed out where necessary and become leaner.

4. Some also saw a time of great opportunity ahead. For those who can survive and retain cash, assets and rivals will become cheaper. Property and stocks will be attractive again for investment – in perhaps 6-9 months – and markets will be easier for the lithe to attack.

5. Finally, many CEOs said that the next year gave them the best chance for years to upgrade their staff. With such a staff shortage in the last few years, business heads in the region felt that they had often taken on people who were not ideal – as long as they could breathe they were hired, said one CEO. Now they saw the chance to attract the best talent.

And what were they doing personally in response to the turmoil? Most CEOs said that had sold out their stocks and shares and were holding cash in a variety of different currencies and banks. Safety was the rule.

The Insight Bureau's outlook for the next few years is gloomy. Asset prices in Europe and the US will fall sharply. Unemployment will rise quickly. There will be many more defaults and companies getting into trouble, even healthy ones. There will be other Icelands. The best place to be though remains Asia. Growth will slow but it will remain the healthiest region for business. And these views were reflected in the lunches. Most people were optimistic still but increasingly wary. And almost all were prepared to hunker down for the storm that still might come.