

ACCCIM Malaysia's Business and Economic Conditions Survey (M-BECS) Briefing
马来西亚中华总商会 商业与经济前景调查简介

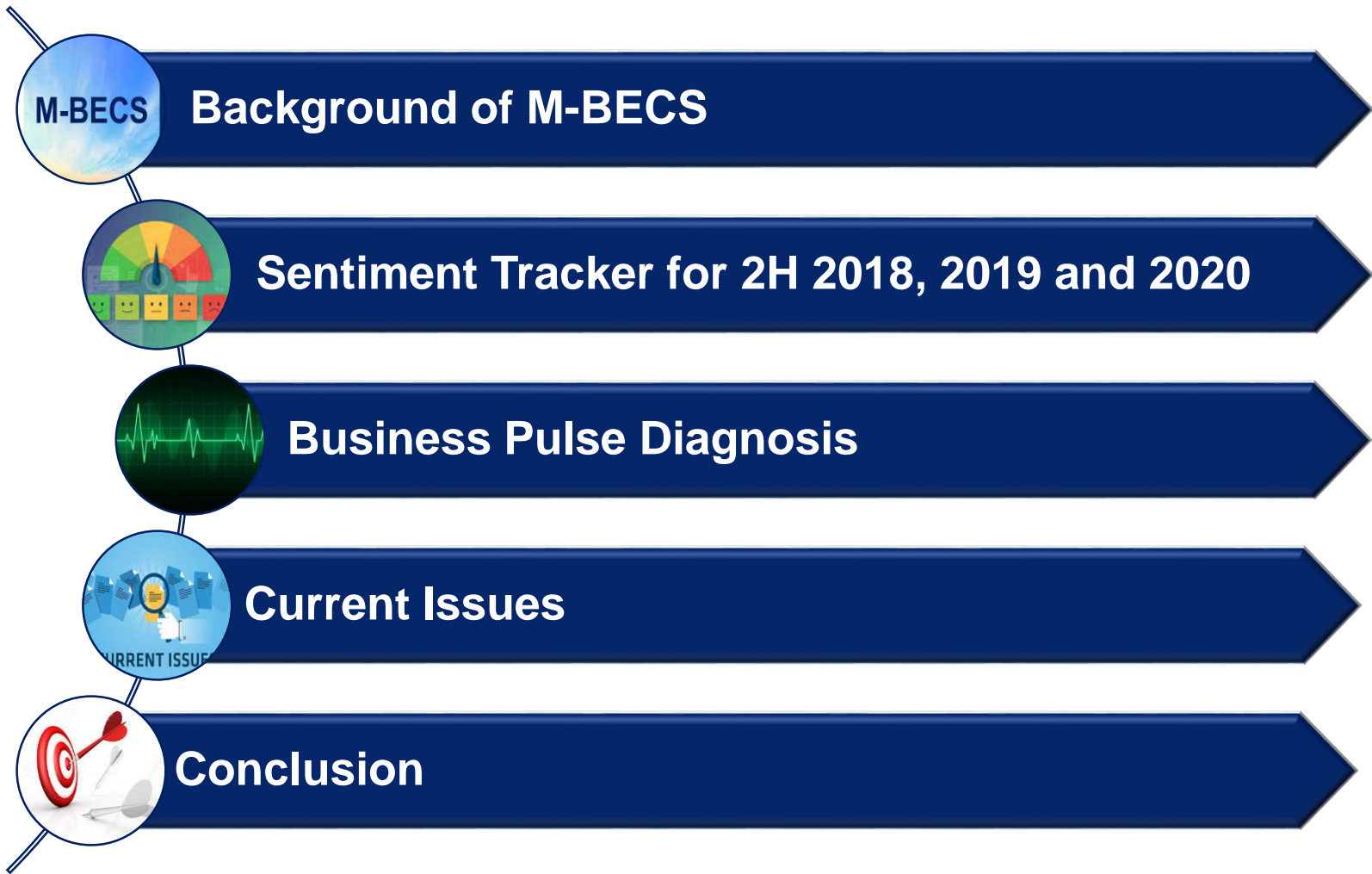


ACCCIM M-BECS

2H 2018 - 1H 2019F

2nd April 2019

Key agenda



Background


- ACCCIM's Survey on Malaysia's Economic Situation was **launched since 1992**.
- **Starting 1 January 2019**, the survey was renamed as **Malaysia's Business and Economic Conditions Survey (M-BECS)**, covering the following scopes:
 - I. **Economic and Business Performance as well as Outlook;**
 - II. **Factors Affecting Business Performance;** and
 - III. **Current Issues Confronting Businesses**

Significance of the Survey

1. To assist the Government in gauging **Chinese business community's perspectives**
2. To obtain **feedback and suggestions** regarding the issues and problems faced
3. To provide **feedback** on the implementation of **government's measures and initiatives**
4. To provide **a basis for ACCCIM to prepare memoranda and policy proposals** for submission to the Government and relevant ministries
5. To serve as **a source of reference** for business community and investors in business expansion and investment planning

Survey Methodology

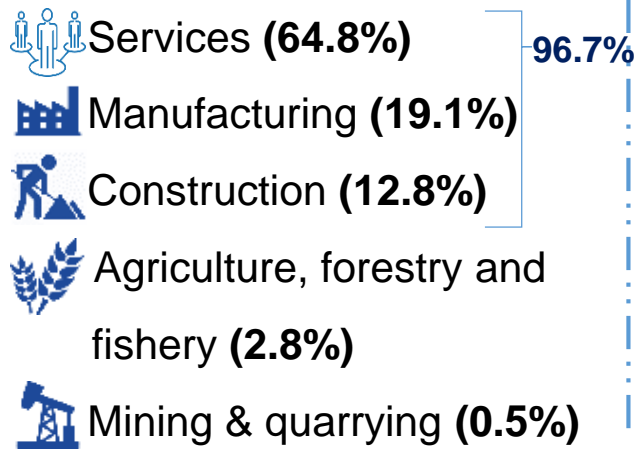
- Distributed to direct and indirect memberships of ACCCIM Constituent Chambers comprise Malaysian Chinese companies, individuals and trade associations.

 **Response rate of 66.3%**, with a total of **1,027 responses** out of 1,550 questionnaires, which exceeded the target of 1,000 responses.

Profile of Respondents

 **81.8% Domestic market vs 14.1% Overseas market vs 4.1% Both markets** 

By sector:



By size: Large Enterprises (5.9%) SME (94.1%)

Top Five industries (75.0%):

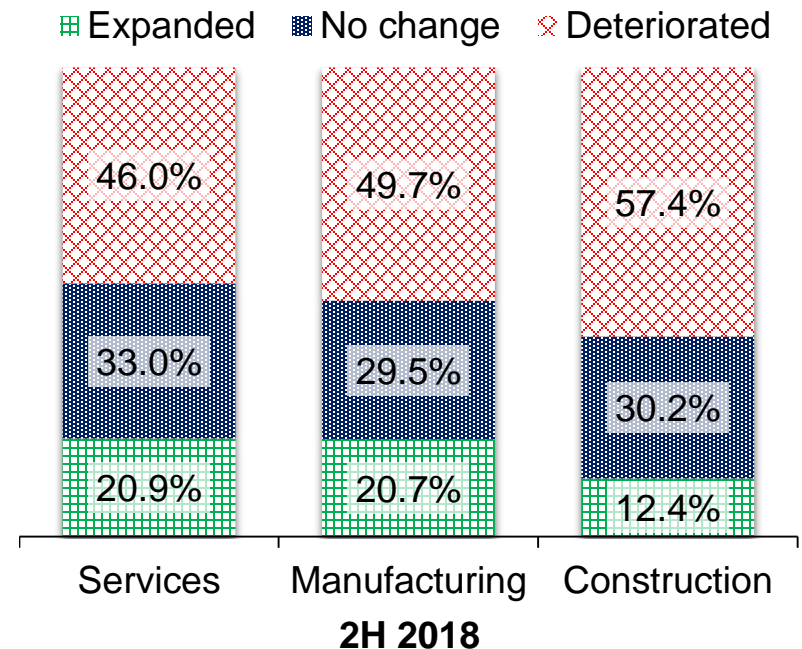
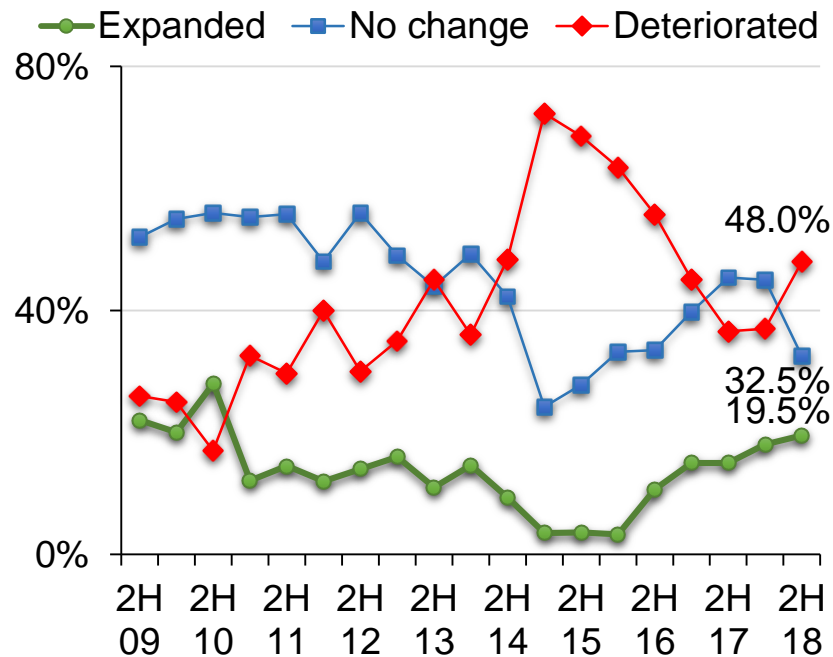




Sentiment Tracker

Business conditions “DETERIORATED” in 2H 2018

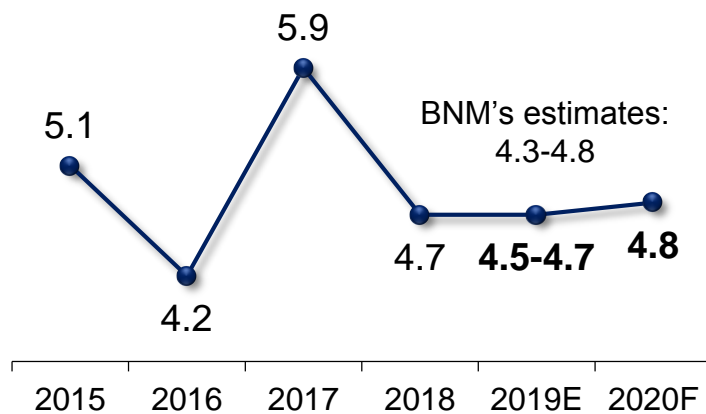
- **Construction sector (57.4%)** – near completion of large petrochemical projects and delays in highway construction as well as shrinking government’s contract jobs
- **Manufacturing sector (49.7%)** – continued strength in export-oriented industries offset by slower growth in construction-related building materials
- **Service sector (46.0%)** – resilient consumer spending and demand for services related to trade and transportation as well as communications



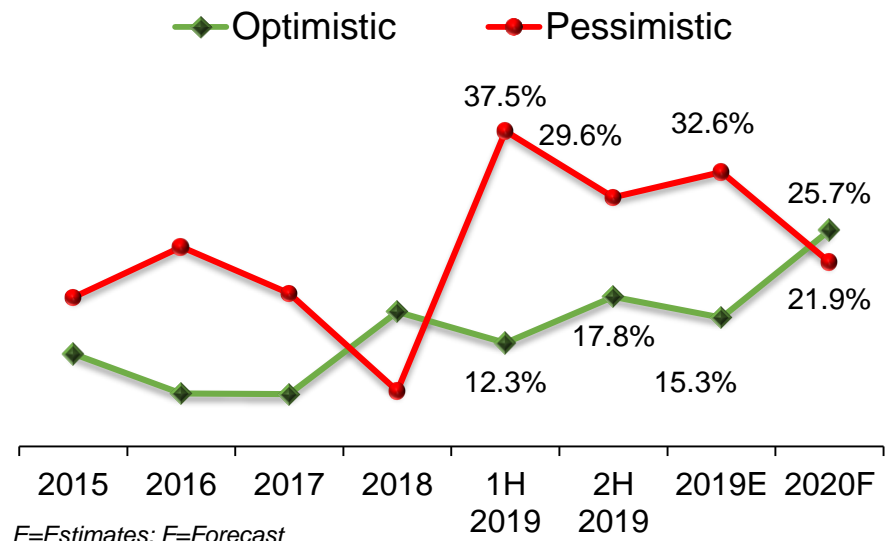
Economic Conditions and Prospects

- Businesses are **cautious about the economic outlook in 1H 2019** with 50.2% of respondents were “neutral and 37.5% were pessimistic. Their **wariness about the economy will likely to improve in 2H 2019** relative to 1H (pessimistic drops to 29.6% from 37.5% in 1H 2019; optimistic rises to 17.8% in 2H from 12.3% in 1H 2019).
- On balance, businesses are of the view that the **economy would remain challenging in 2019** as there are **higher respondents (32.6%)** who are ‘pessimistic’ relative to being ‘optimistic’ (15.3%).
- **Rising optimism about the economy in 2020 (25.7% respondents “optimistic” vs. 15.3% in 2019)** is probably premises on a more stable domestic policy landscape as well as the expected improvement of the Federal government’s fiscal balance sheet in 2020.

Real GDP Growth (%)



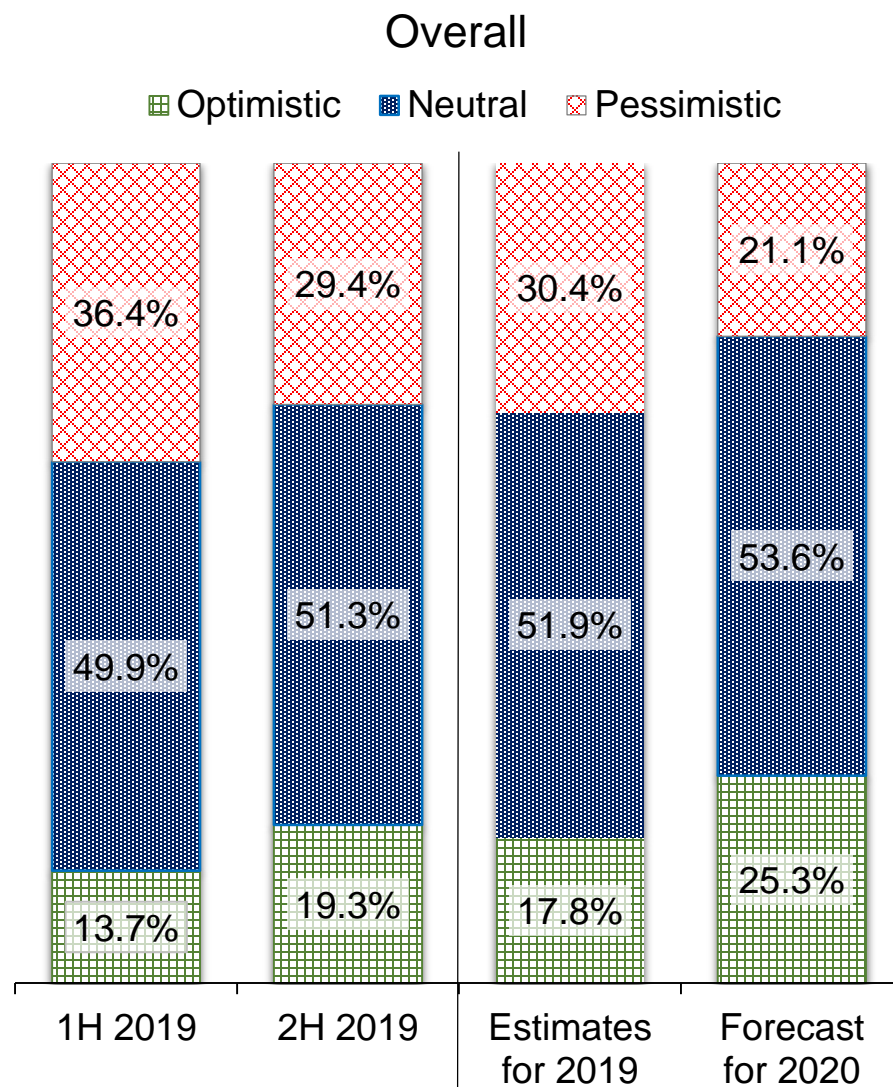
Source: DOSM; SERC's estimates



E=Estimates; F=Forecast

Business Conditions and Prospects

- Business are clearly **cautious about business prospects in 2019** as influenced by concerns about external environment as well as domestic policy transition and challenges
- Generally more **guarded positive in 2H 2019** compared to 1H 2019
- **Pessimistic views** declined by seven percentage points from 36.4% in 1H 2019 to **29.4% in 2H 2019**
- **Optimistic views improved to 19.3% in 2H 2019** from 13.7% in 1H 2019





Business Pulse Diagnosis

Top FIVE factors affecting business performance

1st



Domestic competition
(49.7%)

2nd



Lower domestic demand
(41.5%)

3rd



Ringgit's fluctuations
(27.9%)

4th



Increase in prices of raw materials
(25.8%)

5th



Government policies
(25.1%)



Domestic Competition (49.7%)

- Limited domestic market share amid increasing domestic competition. Scaling up of market liberalisation pressure for domestic players
- Innovative in marketing and sales; better and quality products, reliable after-sales services
- **Domestic SMEs** should be **encouraged to venture abroad**: business matching, expos participation; technical assistance on readiness to expand into overseas (such as products development, branding, funding structure, the management of expansion risks)



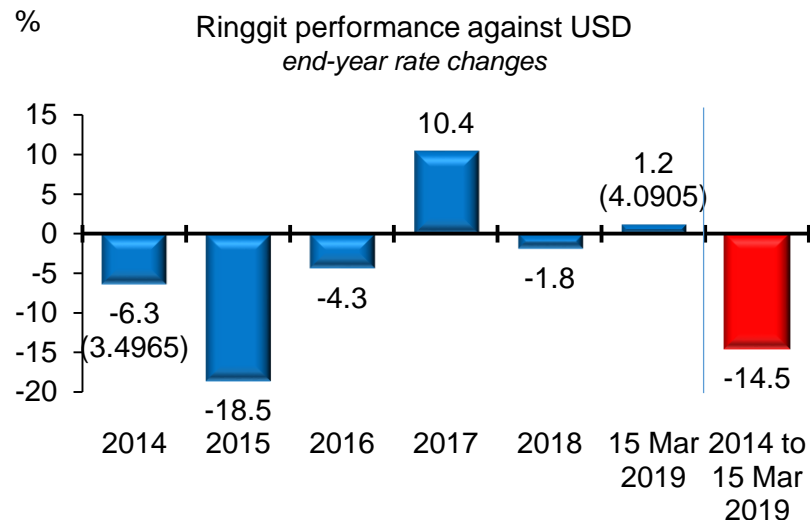
Lower Domestic Demand (41.5%)

- **Real estate, construction, external trading, wholesale and retail trade, and information, communications technology (ICT)** reported lower domestic demand
- **Construction sector** – experienced reduction in sales volume due to the consolidation of public projects, slower growth in residential and commercial estate development
- **Wholesale and retail trade sector** – suffered a reduction in sales volume in 1H 2018. In 1H 2019, more respondents expect a decline in sales (37.3%) relative to 33.5% of businesses expect increases in sales



The Ringgit's Fluctuations (27.9%)

- **A stable ringgit is vital for business and investment planning**
- A weak ringgit would result in an increase cost of imported inputs
- Impact on industries that **have high import content** and sell in the domestic market



Increase in Prices of Raw Materials (25.8%)

- 60.0% and 58.9% of respondents indicated **increases in the cost of local and imported raw materials** respectively in 2H 2018
- **SST tax rate of 10%** compared to GST of 6%
- **Cumulative effect of weakening ringgit** resulted in higher imported cost
- **Indirect cascading effects from cost of transportation and cost of doing business** (+17 sen/mmBtu in natural gas tariff and +2.87 sen/kWh for electricity tariff respectively in 2H 2018 compared to 1H 2018)

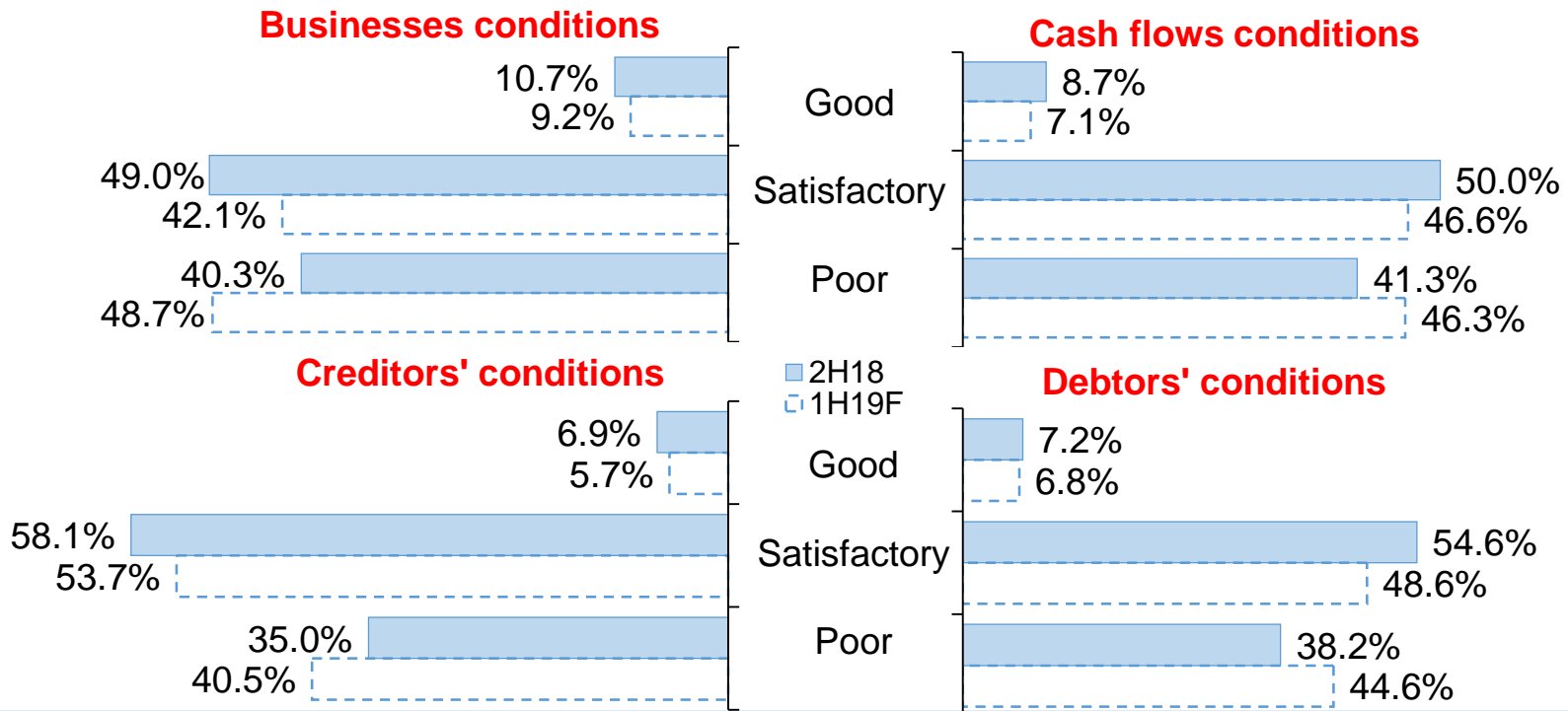


Government Policies (25.1%)

- **Provide a stable and conducive business environment** for economic growth, investment and business expansion.
- Businesses have **adopted wait and see approaches** because of the uncertainties they face in the global environment and some still getting in tune with domestic policy transition.
- Faced with cautious economic outlook and trying demand conditions, businesses **would want some flexibilities to respond to changing rules and policies.**
- The immediate priority is to **address the shortage of foreign workers (FWs)**, We propose the following measures and initiatives:
 - a) **Expedite the “replacement of FWs”** first once FWs completed their contract and returned to their own country
 - b) **A Single Ministry/One-stop Agency** vested with the authorities to address all issues concerning FWs. Ministry of Home Affairs and Immigration Department should only confined to the issuing of document papers for the employment of FWs after approval by Ministry of Health and Ministry of Human Resource
 - c) **A moratorium freeze on FWs levy hikes for next three years** starting 2019

Business Assessment in 2H 2018 and 1H 2019F

- 49% of respondents were “satisfactory” and 40.3% cited “poor” about their business conditions in 2H 2018. More businesses expect tough business environment in 1H 2019 (48.7% vs. 40.3% in 2H 2018).
- More respondents are expecting “poor” outcomes in **cash flows, creditors’ and debtors’ conditions**, suggesting a tough business environment ahead.
- **Cash flows conditions** are expected to remain tight; **Debtors’ conditions** are expected to worsen in 1H 2019.



Business Operations Diagnosis

Sales

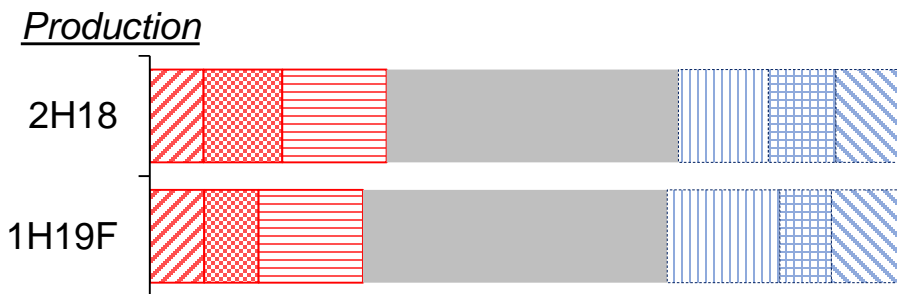
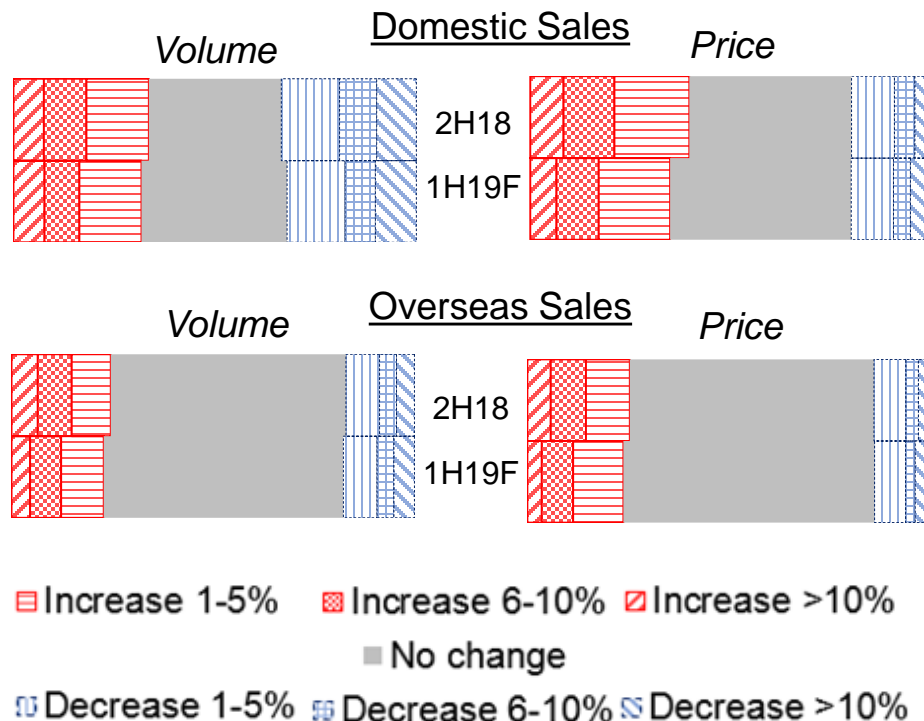


- A majority of respondents (66.4% in 2H 2018 and 68.0% in 1H 2019) indicated that they **could at least sustain their domestic sales volume**
- **In 1H 2019**, a more moderate increase in sales volume and prices, mainly from the manufacturing sector

Production

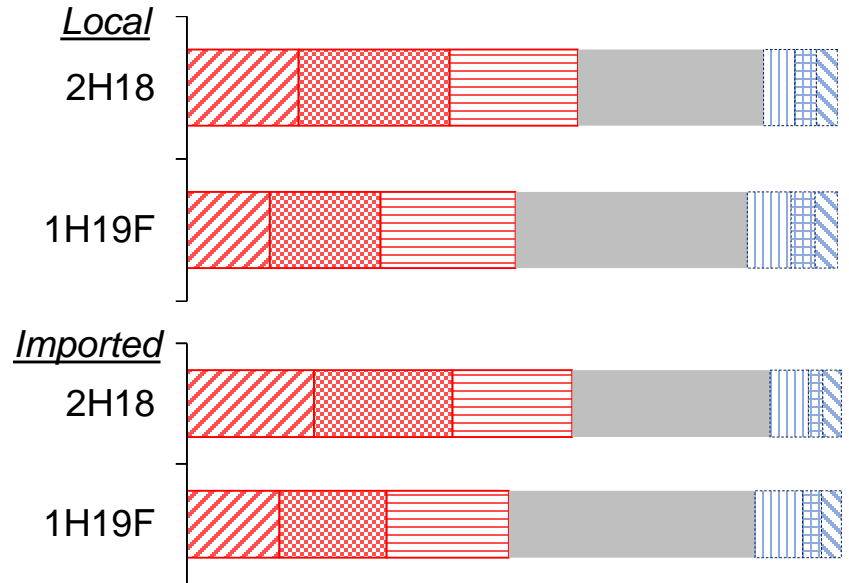


- In 2H 2018, a total of 31.3% of respondents have **increased their production levels to meet demand**
- However, there is a **decline** in the number of respondents to **28.2%** indicating their plans to increase production in 1H 2019



Cost of raw materials

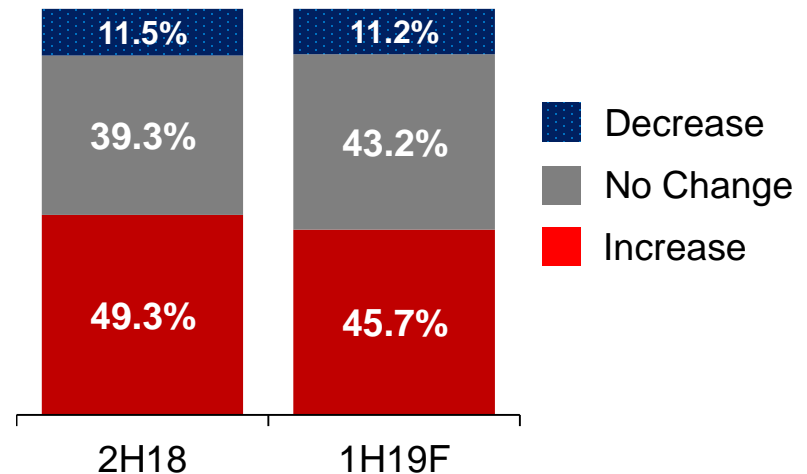
- 60.0% and 58.9% of respondents indicated **increases in the cost of local and imported raw materials** respectively in 2H 2018
- **Half of total respondents** expect cost of materials either local or imported will **increase largely between 1.0-5.0%**




























































Capital expenditure

- Businesses have become **cautious about their capex spending plans. Less than half** of total respondents (49.3%) have **increased capital expenditure in 2H 2018**
- Going into 1H 2019, the percentage of **businesses planning to increase capital investment declined by 3.6 percentage points to 45.7%**

Capital Expenditure



By sector scorecard - 1H 2019F vs 2H 2018

	Business condition	Production	Sales (Volume)		Cost of raw materials		Capital expenditure
			Local	Overseas	Local	Imported	
Overall	 						 
 Wholesale and retail trade	 	 					
 Manufacturing		 					 
 Professional and business service						 	
 Construction			 				
 Real estate					 	 	

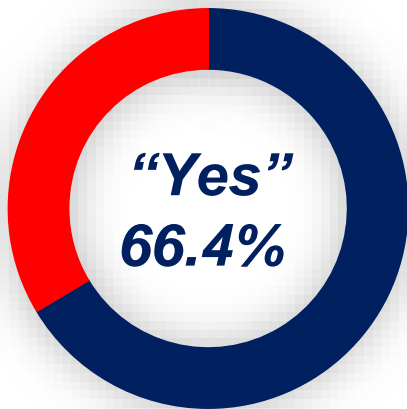
 Good
  Satisfactory
  Poor
  Increase
  No change
  Decrease



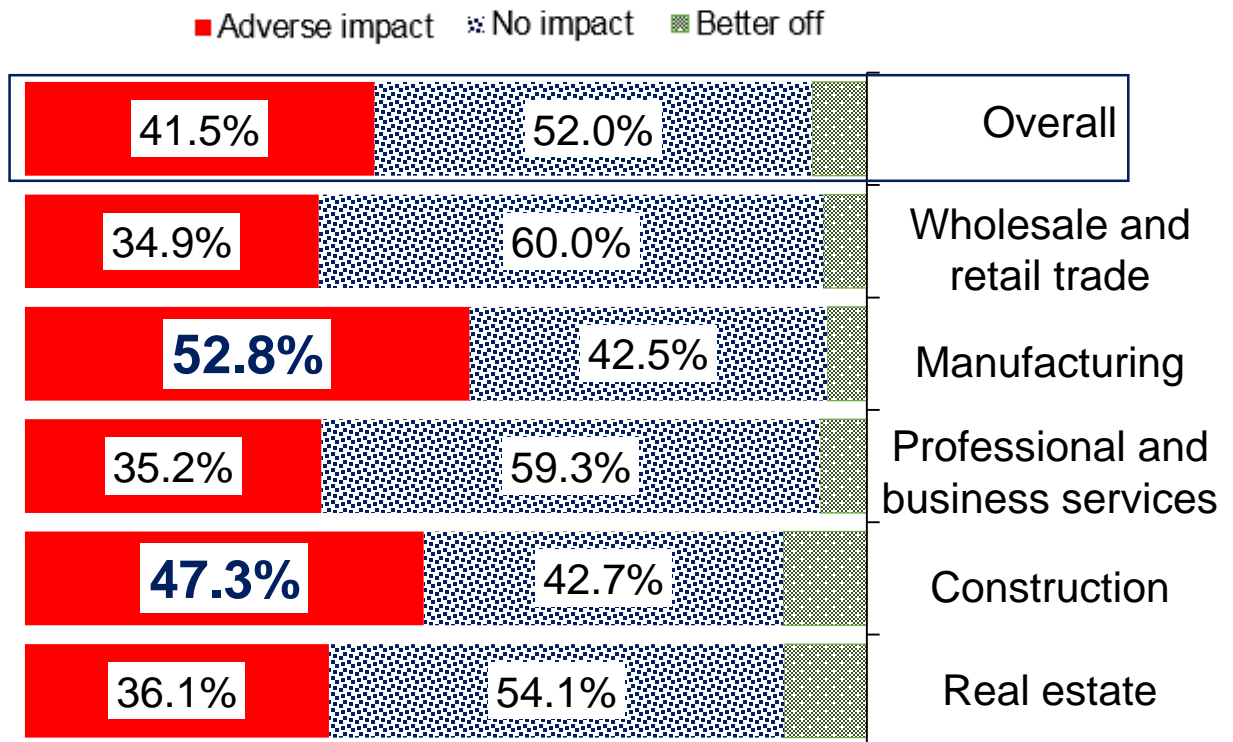
Current Issues

Reintroduction of *SST*

Does the transitional implementation of SST go smoothly?

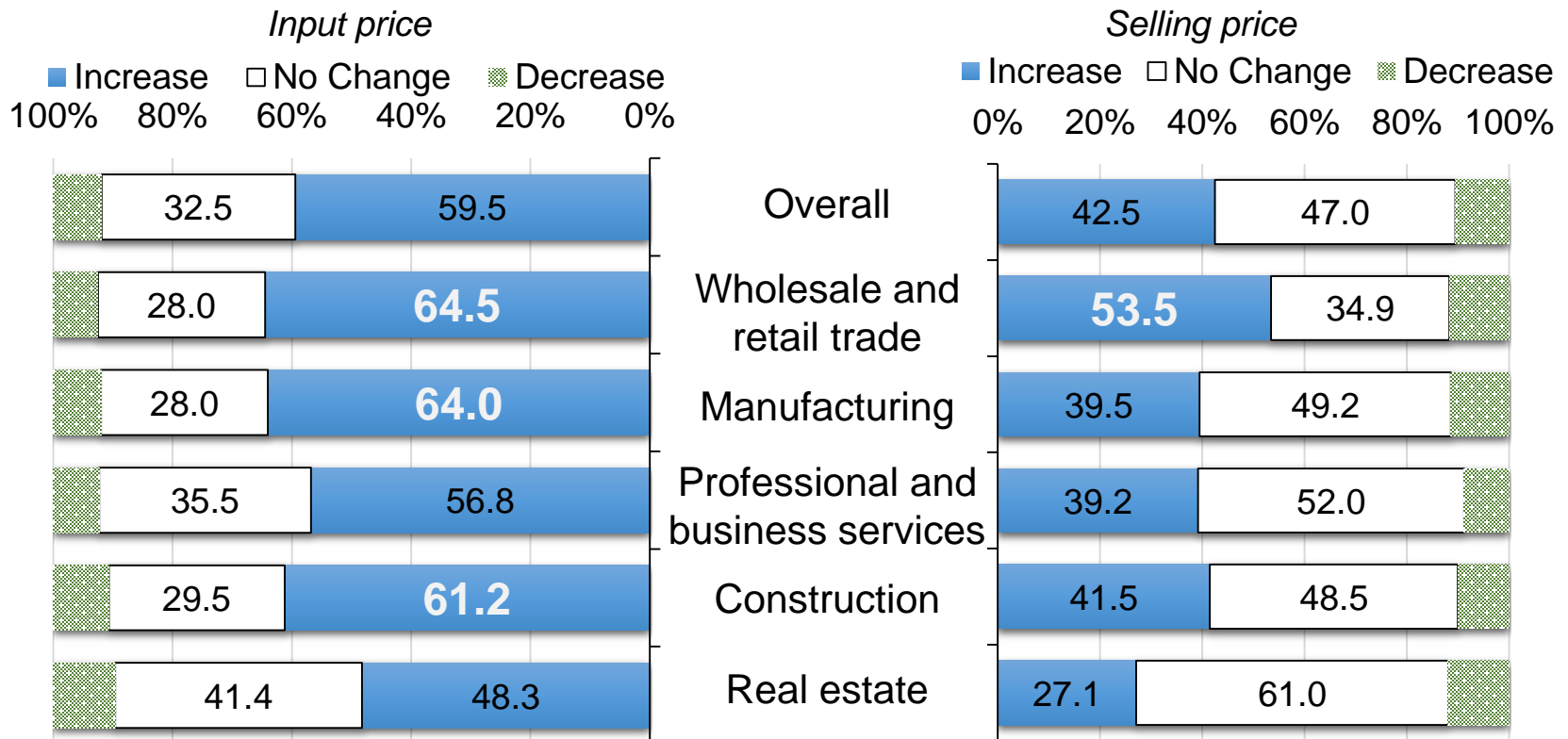


52% of respondents indicated that **SST has no impact** while **41.5% stated adverse impact** and mostly in manufacturing and construction sectors



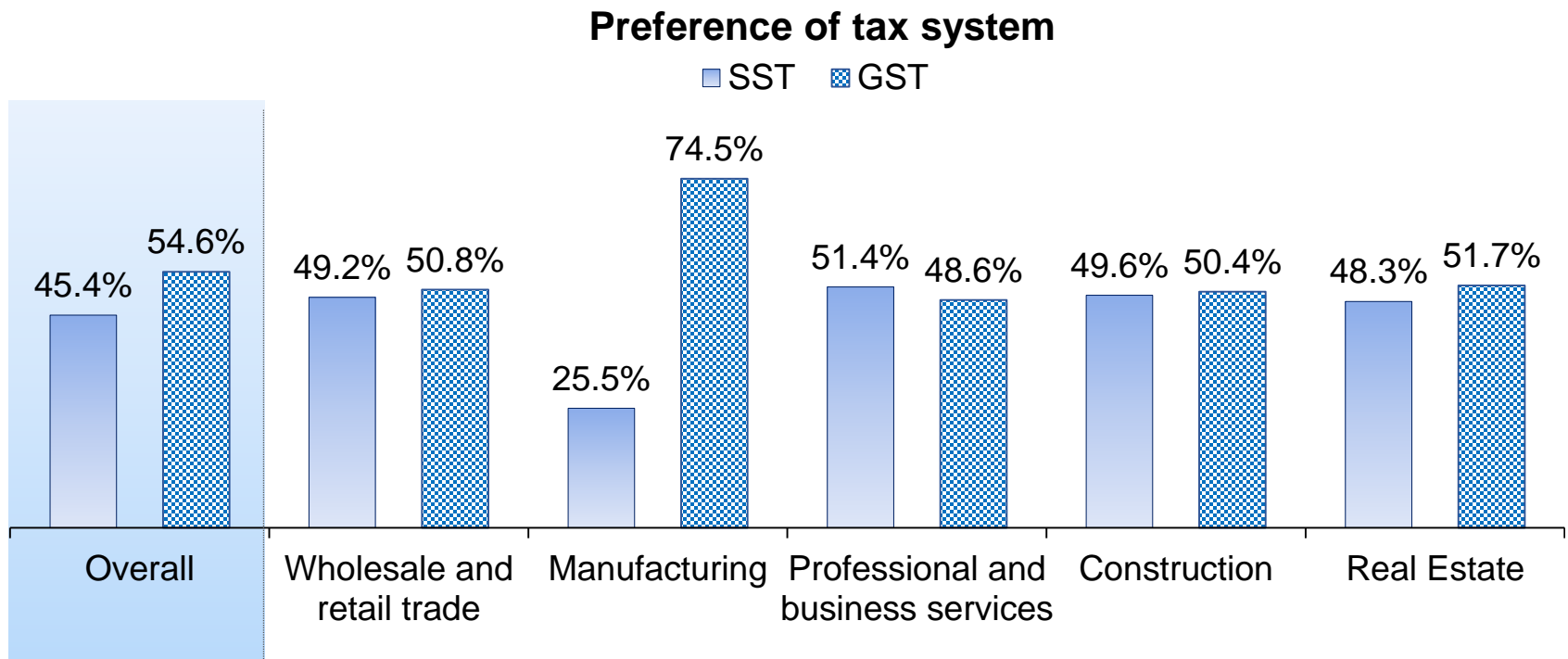
Businesses **PARTIALLY ABSORBED** increased costs

- **48.3% and 64.5% in major industries** reporting an **increase in input prices**, they generally have raised their selling prices as indicated by 66.1% of businesses.
- Some could not absorb the increased costs and partially pass-through onto consumers.



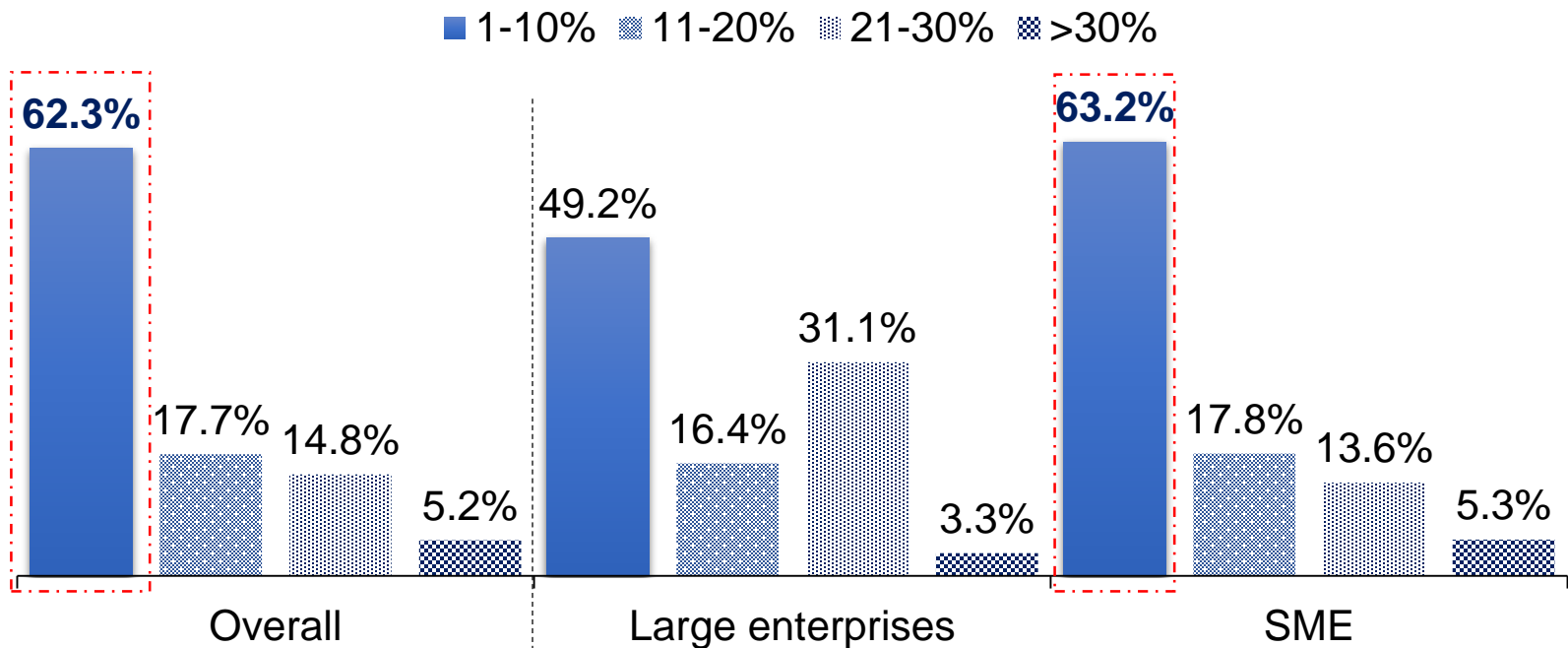
SST vs GST – State your preference

- Slightly more than half of respondents (54.6%) indicated that **GST** is a more preferred tax system than SST.
- By size of companies, with the **exception of manufacturing sector and trading companies**, which were impacted directly, **SMEs in most other sectors rated SST** over GST as a preferred taxation system.



GST and income tax refunds

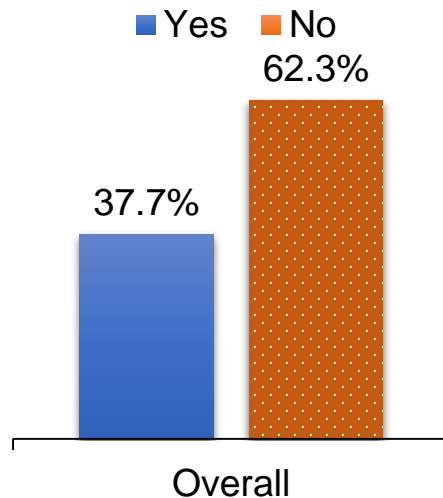
- Overall, **62.3% of total respondents** are expected to utilise **1.0-10.0% of GST and income tax refunds** for capital spending and consumption, which would augur well for domestic economic activities.
- By size of companies, **49.2% of large companies** indicated their intentions to spend **1-10%** of total refunds (GST and income tax) while **63.2% for SME**.
- Only 5.2% will spend more than 30% of total refunds and they were mainly from real estate and professional and business service sectors.



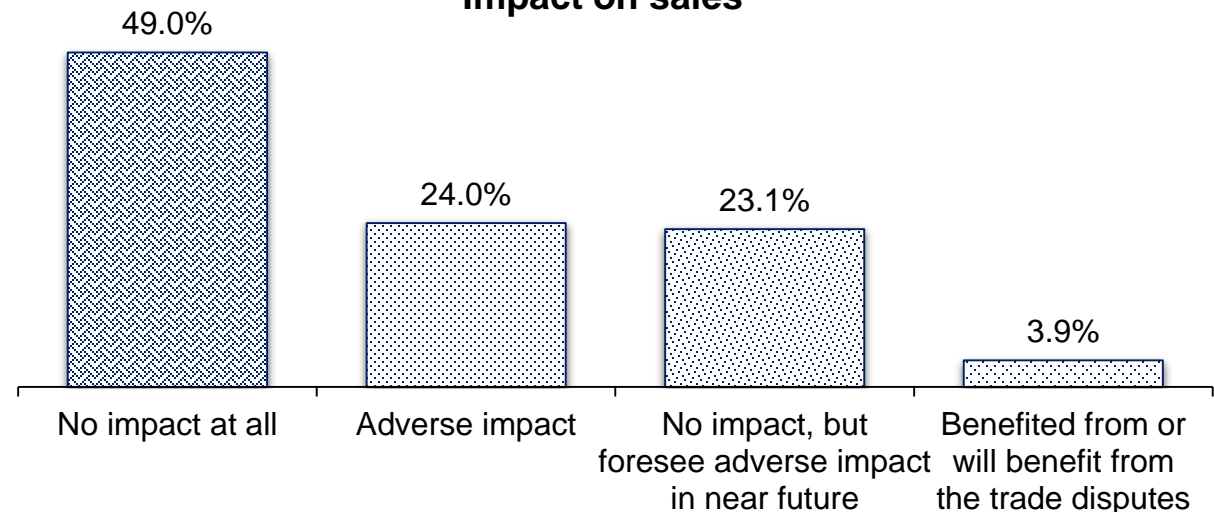
The US-China's trade war

- The US-China trade dispute **generally did not disrupt the supply chains** as indicated by **62.3%** of total respondents.
- While Malaysian manufacturers benefitted from the short-term trade diversion and the relocation of supply chain, the **net positive impact would be negated by broader weakness in global demand.**
- Malaysia must **leverage on its endowments and strategic location** not only as a production centre but as a trans-shipment hub in ASEAN.

Impact on supply chain

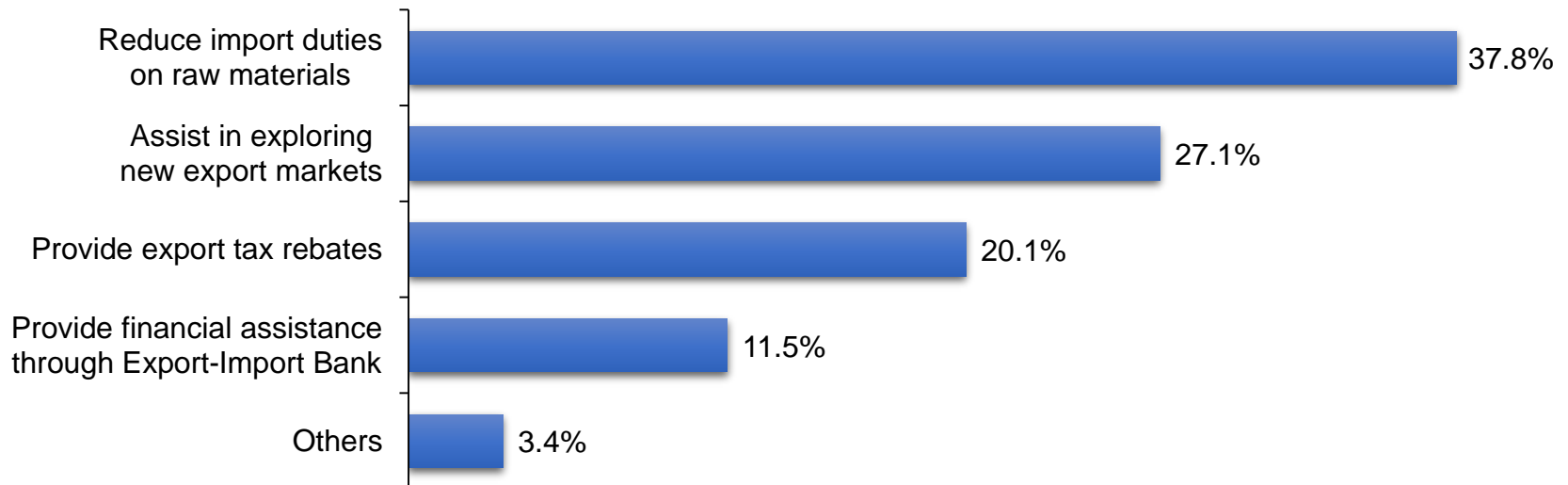


Impact on sales



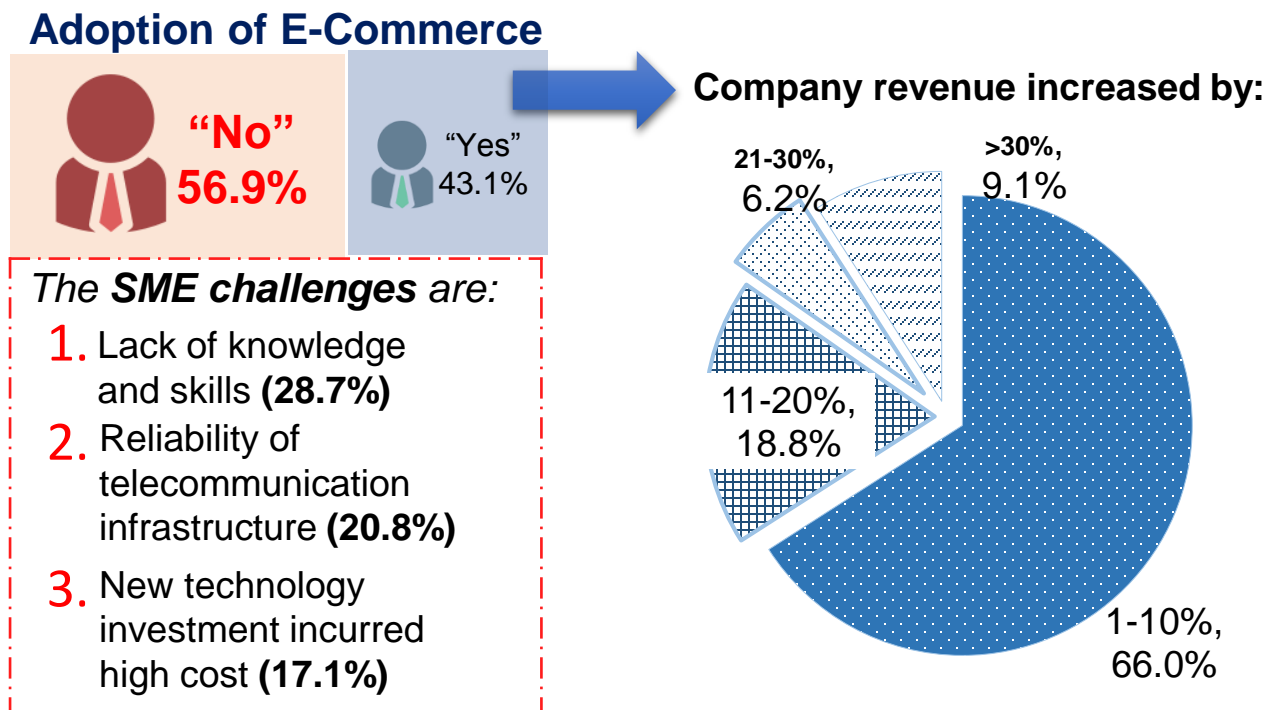
- **37.8%** respondents wish the Government can **reduce import duties on raw materials**. The government may provide **some form of exports credit scheme to domestic SMEs** if the trade war prolongs and deepens.
- Provide **attractive incentives to conglomerates and MNCs to establish their principal hub**.
- Malaysia **must widen and deepen its trade relationships** – actively participate in multilateral trade agreements or mutual trade relations. The immediate priority is to intensify Regional Comprehensive Economic Partnership (RCEP). Revisit the EU-Malaysia FTA negotiations.

Government can assist businesses to mitigate the impact through:



E-Commerce

- **56.9% of respondents did not utilize E-Commerce platform** in business transactions while **66% of E-Commerce users indicated that their sales revenue has increased by 1.0-10.0%.**
- The respondents cited that the **lack of IT knowledge, and reliability of internet speed and high investment cost** as the main three challenges for adoption of E-Commerce.
- To facilitate E-Commerce adoption, the Government need to look into **providing incentives, facilitation fund, and enhancing security system.**



Conclusion

- Overall, the survey results indicated that **business in Malaysia are generally cautious about economic outlook and business prospects in 2H 2018 and 2019** as influenced by a combination of external and domestic challenges. These include moderating global growth, the on-going trade talks between the US and China, the Brexit impasse as well as domestic policy transition amid weakening consumer sentiment and investor confidence.
- Businesses continued to **face challenging operating environment amid still-high cost of doing business and compliance costs.**
- **Government policies** are deemed important to provide **a stable and conducive as well as predictable business environment** for economic growth, investment and business expansion.
- In this regard, the Government and policy makers can foster an **environment of certainty and stability** that businesses and investors crave by **implement and execute right and market friendly policies** with **sufficient engagements and consultations** with the chambers and industry players.



谢谢

Thank you

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