ACCCIM M-BECS 1H 2019 and 2H 2019F

5 August 2019

Key agenda

 ACCCIM M-BECS: Survey Coverage

 Sentiment Tracker for 1H 2019, 2019E and 2020F
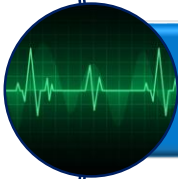
 Business Pulse Diagnosis

 Current Issues: Tourism and DDI
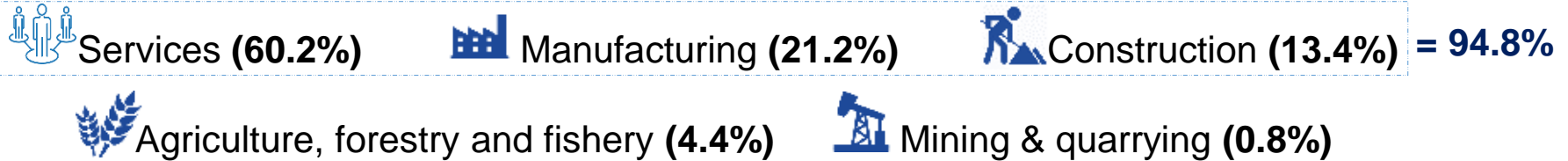
 Conclusion

Survey Coverage

- **ACCCIM Malaysia's Business and Economic Conditions Survey (M-BECS)** is a key barometer measuring the **sentiments and expectations of Chinese business community**.

- The survey, which was conducted in May-early July 2019 covers the **first half-year of 2019 (Jan-Jun or 1H 2019)** and **expectations for the second half-year (Jul-Dec or 2H 2019)** as well as **outlook for 2020**.

- M-BECS is intended to gauge:

    i.   **Economic and Business Performance and Outlook**;

    ii.   **Factors Affecting Business Performance**; and
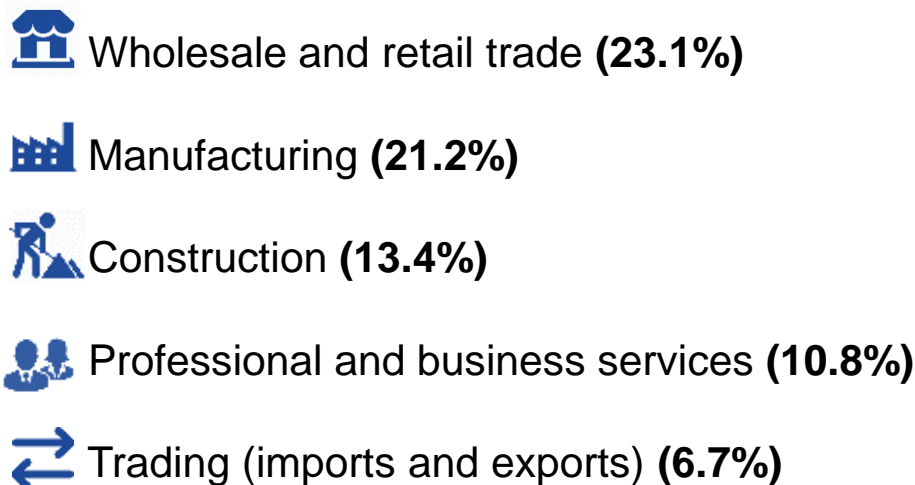
    iii. **Current Issues Confronting Businesses**.

Profile of Respondents

924 active responses encompass a broad-based of sectors and industries.

By sector:

Services **(60.2%)**   Manufacturing **(21.2%)**   Construction **(13.4%)** = **94.8%**

Agriculture, forestry and fishery **(4.4%)**   Mining & quarrying **(0.8%)**

Top FIVE industries (75.2%):

Wholesale and retail trade **(23.1%)**

Manufacturing **(21.2%)**

Construction **(13.4%)**

Professional and business services **(10.8%)**

Trading (imports and exports) **(6.7%)**

By size

Large enterprises (8.5%)

SMEs (91.5%)

By sales orientation

Domestic market (83.5%)

**Overseas market (12.7%)**

Neutral (3.8%)

M-BECS 1H 2019 and 2H 2019F

Sentiment Tracker

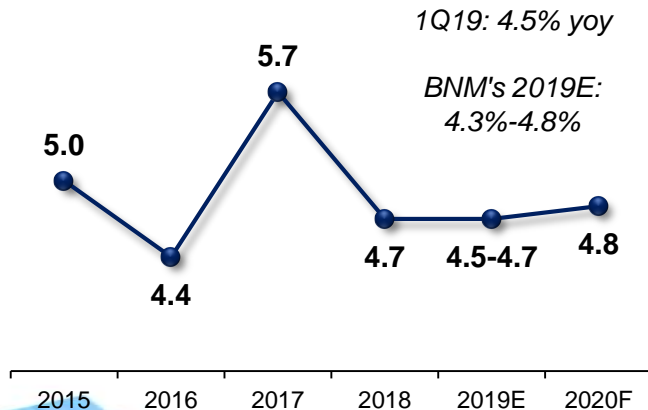# Business Conditions "Deteriorated" albeit at lower percentage in 1H 2019

- **Manufacturing sector (49.0% of respondents)** – Lingering concerns about a slowing global economy, a protracted trade tensions as well as slower domestic economic growth

- **Service sector (41.1%)** – Resilient consumer spending and demand for services related to trade and transportation as well as communications

- **Construction sector (37.4%)** – Revival of the mega projects (e.g. ECRL, Bandar Malaysia) has somewhat improved the business sentiment
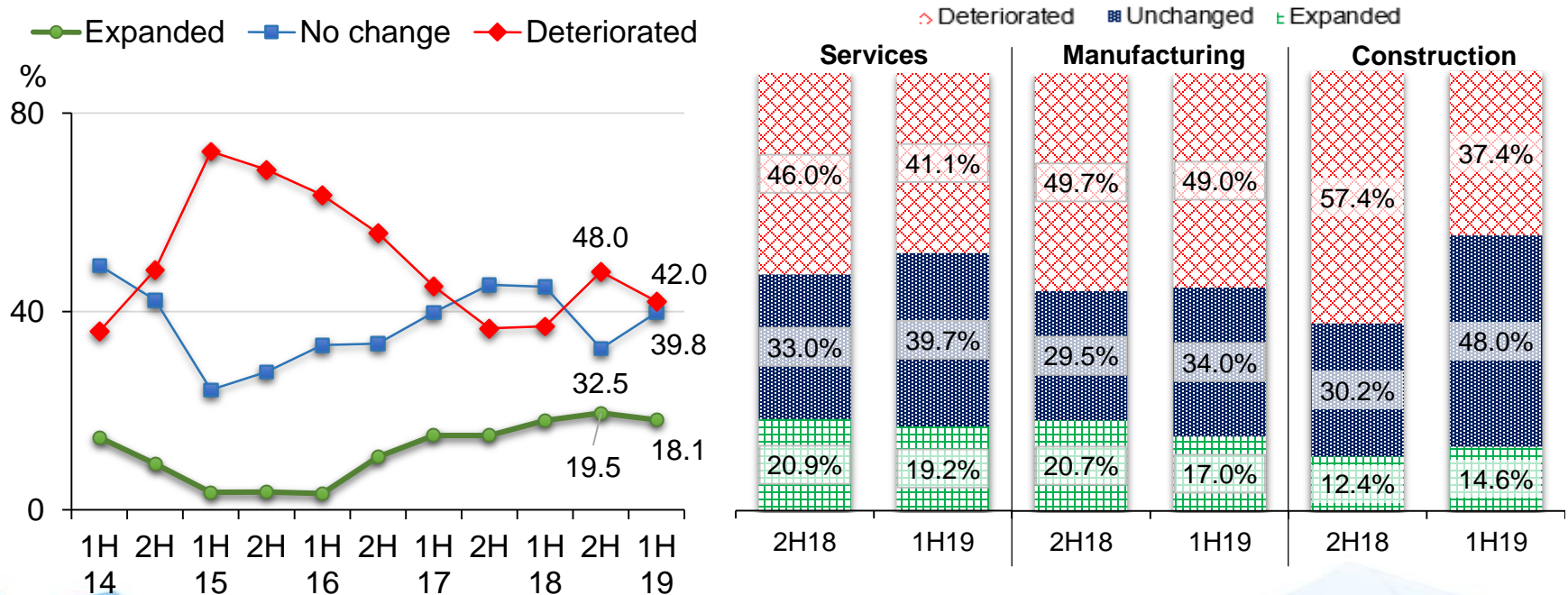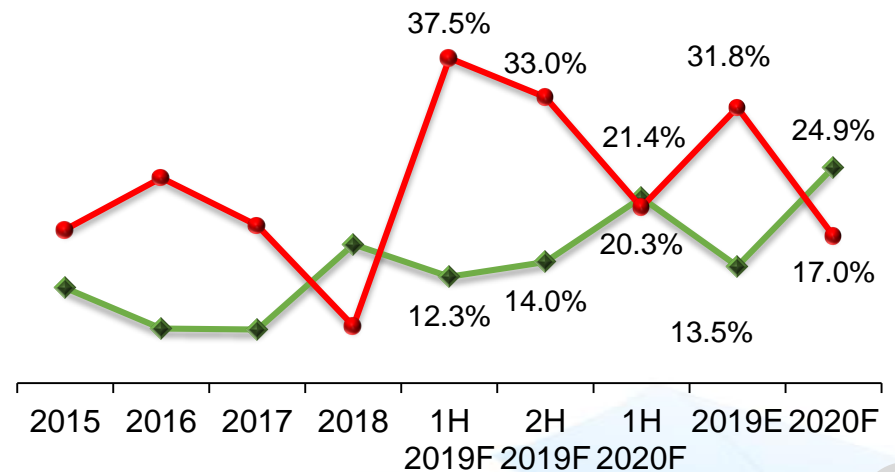
Economic Conditions and Prospects

- **Maintain cautiousness about the economy in 2H 2019**. **53.0%** respondents were **"neutral"**; **33.0%** having **"pessimistic"** views, which is **3.4% points higher** in the previous survey when asked about their expectations for 2H 2019.

- Businesses expect **domestic economy to remain challenging in 2019. 31.8%** rated **"pessimistic"** and only **13.5% of respondents** were **"optimistic"**.

- **Businesses are positive on economy in 1H 2020** as reflected in **a higher percentage of optimistic views** (21.4% from 14.0% in 2H 2019) while **pessimism sentiment** was **12.7% points lower** (20.3% in 1H 2020 vs. 33.0% in 2H 2019). **Businesses' expectations for 2020's economic outlook have strengthened significantly from 2019**.

Real GDP Growth (%)

1Q19: 4.5% yoy

BNM's 2019E: 4.3%-4.8%

5.0

4.4

5.7

4.7

4.5-4.7

4.8

2015 2016 2017 2018 2019E 2020F

Source: DOSM; SERC's estimates

Optimistic Pessimistic

37.5%

33.0%

31.8%

21.4%

24.9%

12.3%

14.0%

20.3%

13.5%

17.0%

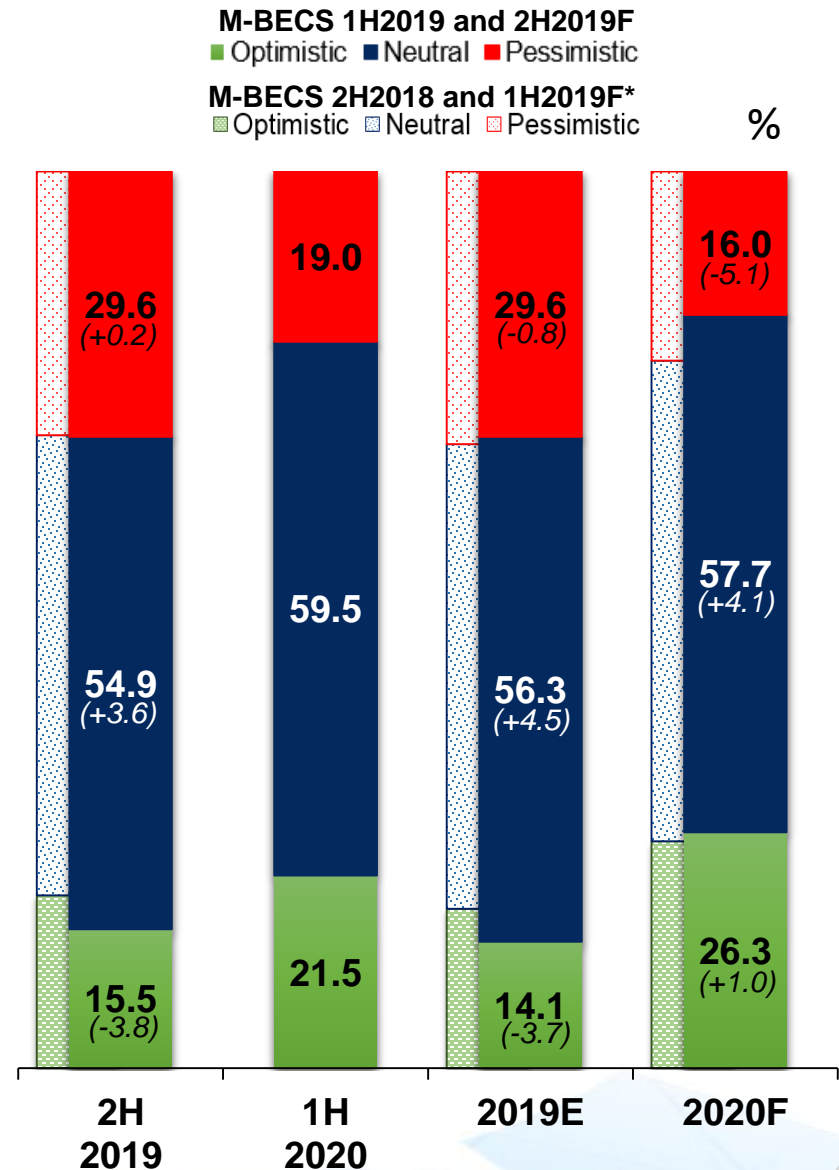2015 2016 2017 2018 1H 2019F 2H 2019F 1H 2020F 2019E 2020F

E=Estimates; F=Forecast
1H2019F was obtained from previous survey

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Business Conditions and Prospects

- **Malaysian businesses are keeping a cautious stance on business conditions** in 2H 2019 compared to 1H 2019.

- For the **full-year of 2019**, **only 14.1%** of respondents tagged **overall business conditions as "optimistic"**.

- However, **a shift in pessimism from 2H 2019 to 1H 2020 as there were lesser respondents having pessimistic views** (19.0% in 1H 2020 vs. 29.6% in 2H 2019).

- Respondents are **more positive about 2020's business prospects** with a higher percentage of respondents (26.3%) compared to 2019 (14.1%).

M-BECS 1H2019 and 2H2019F
■ Optimistic ■ Neutral ■ Pessimistic

M-BECS 2H2018 and 1H2019F*
▩ Optimistic ▩ Neutral ▩ Pessimistic

%

	2H 2019	1H 2020	2019E	2020F
Pessimistic	29.6 (+0.2)	19.0	29.6 (-0.8)	16.0 (-5.1)
Neutral	54.9 (+3.6)	59.5	56.3 (+4.5)	57.7 (+4.1)
Optimistic	15.5 (-3.8)	21.5	14.1 (-3.7)	26.3 (+1.0)

E=Estimates; F=Forecast
- *denotes data obtained from previous survey.*
Figure in parenthesis denotes changes in % of respondents from previous survey

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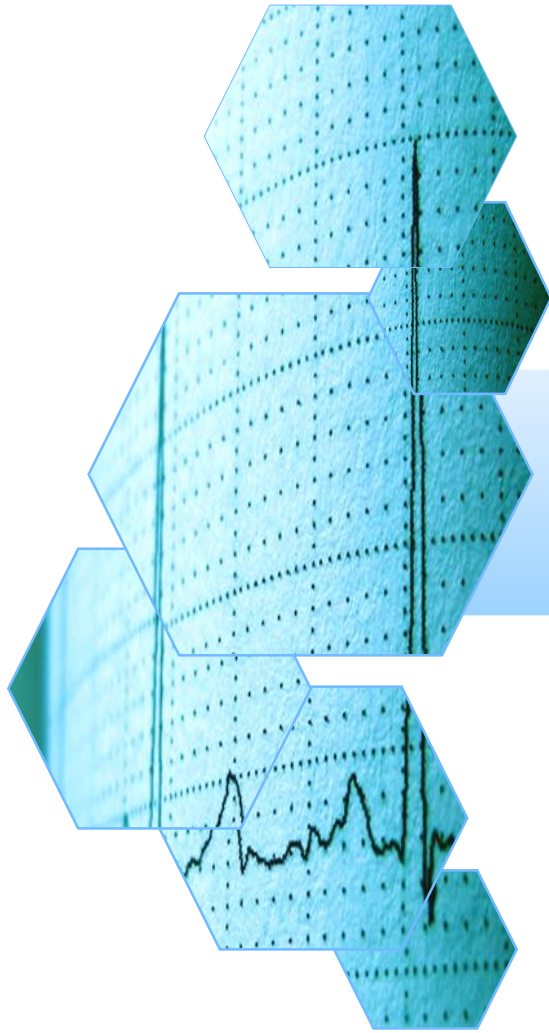
M-BECS 1H 2019 and 2H 2019F

Business Pulse Diagnosis

Top FIVE Factors Affecting Business Performance

1ˢᵗ

Domestic competition
(44.8%)

2ⁿᵈ

Government policies
(43.4%)

3ʳᵈ

Lower domestic demand
(43.0%)

4ᵗʰ

Increase in prices of raw materials
(38.3%)

5ᵗʰ

Ringgit's fluctuations
(36.1%)

Domestic Competition (44.8%)

1st = 1st

1H19 2H18
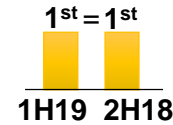
- Businesses are **sensitive and heavily influenced** by changes in domestic business operating environment, including **economic conditions and regulatory requirements**.

- Three sectors were largely impacted: **Transportation, forwarding and warehousing (58.6%), wholesale and retail trade (57.3%) as well as construction (52.4%).**

- **Greater openness and liberalisation of domestic market** with the influx of foreign players also inflicted stiff competition forces in domestic market, especially in retail and trading.

Government Policies (43.4%)

2nd

5th

1H19 2H18
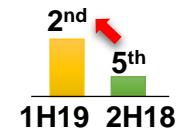
- **3Cs (Clarity, Consistency and Continuity); a competitive tax regime, investment friendly business environment and supportive regulatory landscape**. Last but not least, **an efficient public delivery service**.

- **Creating expectations about future economic growth** is a crucial role for government.

- **Malaysia is in need of a new economic narrative, a growth narrative** to convince Malaysians, domestic and foreign investors.

Lower Domestic Demand (43.0%)

3rd → 2nd

1H19 2H18
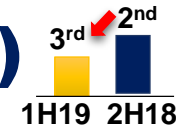
- **45.1%** of respondents have **reported lower domestic sales volume** and 16.6% of them **suffered a drop in sales volume of more than 10%**.

- Sectors that had experienced "lower domestic demand": **Wholesale and retail trade (53.1% of respondents), manufacturing (45.4%), trading (45.2%), and construction (44.4%)**.

Increase in Prices of Raw Materials (38.3%)

4th = 4th

1H19 2H18
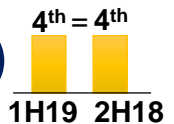
- **67.8% and 66.2%** of total respondents reported **increases in the cost of local and imported raw materials respectively in 1H 2019. In 2H 2019**, the percentage of businesses that expect the **cost of raw materials either from local or imported** would **remain high** at 64.8% and 62.1% respectively.

- A number of listed corporates had reported **lower earnings** primarily due to **increasing raw material costs, particularly in the resources, basic materials and consumer goods manufacturing industries.**
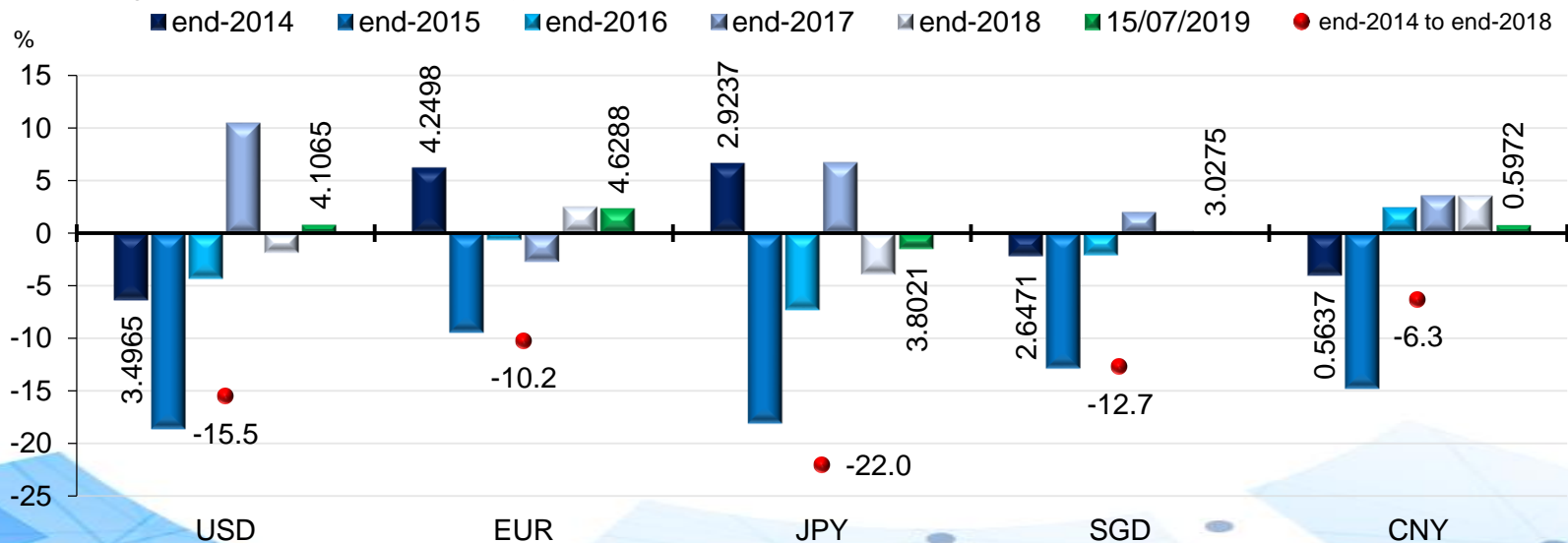
Ringgit's fluctuations (36.1%)
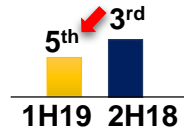
- **In 2015-18**, the ringgit **had depreciated by 15.5%** against the US dollar. Year to date (Jan-15 July 2019), the ringgit has appreciated marginally by 0.8% against the US dollar to RM4.1065/US$1 from RM4.1385/US$1 at end-2018.

- **Trading (59.7%), tourism, shopping, hotels, restaurants, recreation and entertainment (47.7%), wholesale and retail trade (41.8%), finance and insurance (37.5%) as well as manufacturing (34.2%)** were significantly impacted.

- **The headwinds and tailwinds for the ringgit would remain** given the lingering uncertainties surrounding the slowing global economy. **The Government and Bank Negara Malaysia would remain highly guarded** against the potential impact of capital flows swing on the ringgit.
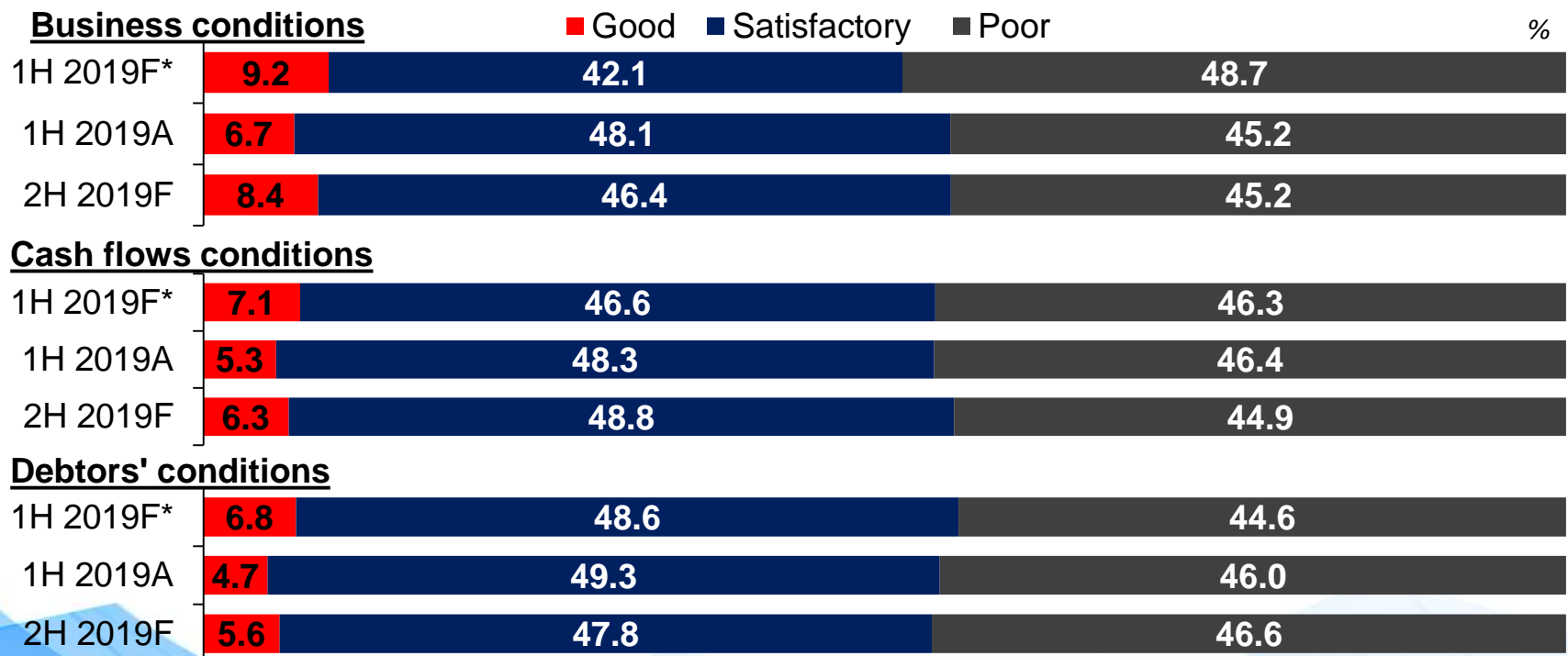
Rate changes compared to previous end-year

Legend: ■ end-2014 ■ end-2015 ■ end-2016 ■ end-2017 ■ end-2018 ■ 15/07/2019 ● end-2014 to end-2018

%

USD: 3.4965, 4.1065, -15.5
EUR: 4.2498, 4.6288, -10.2
JPY: 2.9237, 3.8021, -22.0
SGD: 2.6471, 3.0275, -12.7
CNY: 0.5637, 0.5972, -6.3

Figures shown in vertical refer to unit of ringgit per 1 unit foreign currency (100 unit for JPY)

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Business Assessment in 1H 2019 and 2H 2019F

- Businesses are **somewhat comfortable with the business conditions in 1H 2019 and 2H 2019**. **48.1%** of total respondents were **"satisfactory" and 45.2%** cited **"poor"** about their business conditions in 1H 2019.

- The number of respondents **cited "satisfactory" about their cash flows conditions (48.3%) and debtors' conditions (49.3%) in 1H 2019.**

- **For 2H 2019**, **almost the same percentage of businesses as in 1H 2019** expect the cash flows (48.8%) and debtors' conditions (47.8%) to be "**satisfactory**".

Business conditions	■ Good	■ Satisfactory	■ Poor	%
1H 2019F*	9.2	42.1	48.7	
1H 2019A	6.7	48.1	45.2	
2H 2019F	8.4	46.4	45.2	

Cash flows conditions			
1H 2019F*	7.1	46.6	46.3
1H 2019A	5.3	48.3	46.4
2H 2019F	6.3	48.8	44.9

Debtors' conditions			
1H 2019F*	6.8	48.6	44.6
1H 2019A	4.7	49.3	46.0
2H 2019F	5.6	47.8	46.6

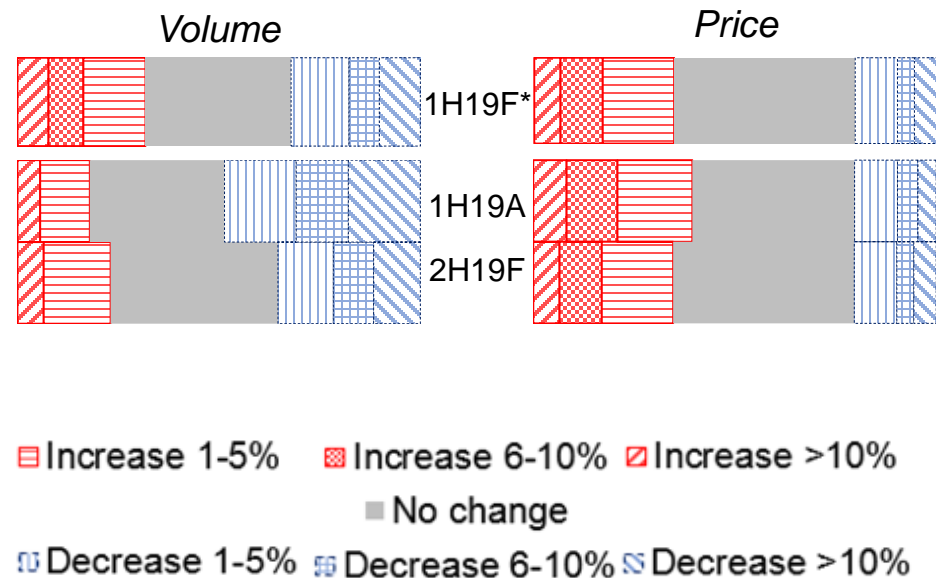*Note: A=Actual; F=Forecast; *The results of 1H 2019F were from previous survey (M-BECS 2H 2018 and 1H 2019F).*

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Business Operations Diagnosis

Domestic Sales ⬇

- Poor domestic sales performance in **1H 2019,** reflecting the impact of moderating domestic demand.

- 45.1% indicated that **domestic sales volume has decreased**.

- **In 2H 2019**, overall sales performance is **expected to be slightly better**.

Volume   *Price*

1H19F*
1H19A
2H19F

☐ Increase 1-5%   ☒ Increase 6-10%   ⬚ Increase >10%
▦ No change
⬚ Decrease 1-5%   ▦ Decrease 6-10%   ⬚ Decrease >10%

Production ⬇

- More businesses have **reduced their production in 1H 2019** (33.1%), compared to those who have scaled up their production (27.3%).

- 31.7% indicated **plan to increase production in 2H 2019** whereas 28.9% may reduce their production.
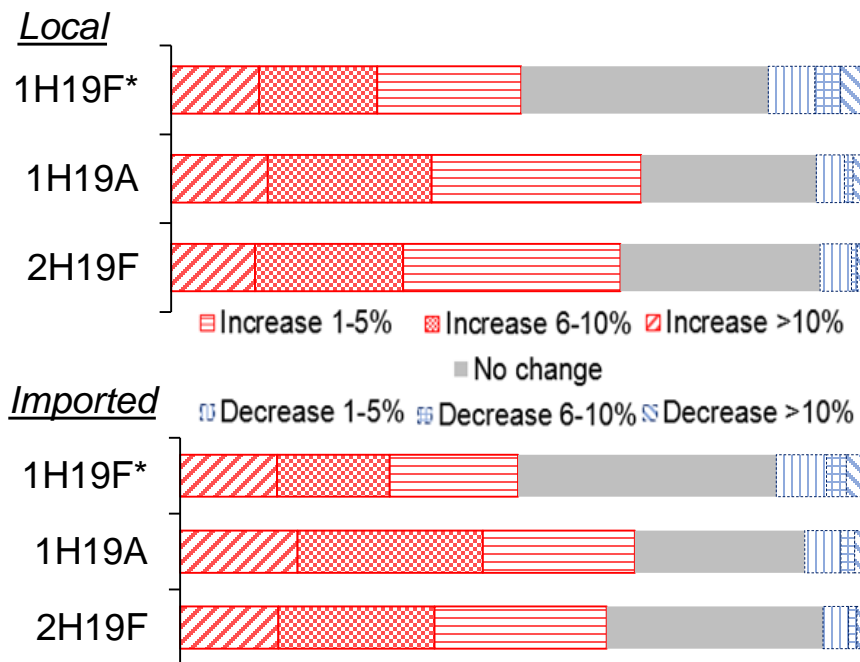
Production

1H19F*
1H19A
2H19F

Cost of raw materials ⬆️

- **67.8% and 66.2**% of respondents reported **increases in the cost of local and imported raw materials** respectively in 1H 2019.

- The cost of local (64.8%) and imported raw materials (62.1%) is expected **to increase further in 2H 2019**.

Capital expenditure ⬆️

- **Businesses' cautiousness about their capex spending plans** have **turned somewhat positive in 1H 2019**.

- **More than half of total respondents** (58.8%) have **increased their capital expenditure**.

- **More businesses (55.5%)** are expected to **increase capital expenditure in 2H 2019**.
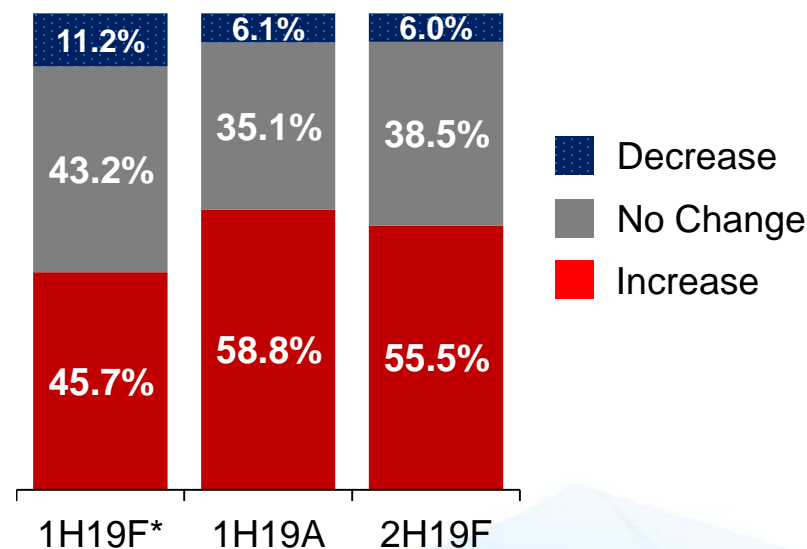
Local

1H19F*	
1H19A	
2H19F	

⊟Increase 1-5% ▦Increase 6-10% ▨Increase >10%
▨No change
◫Decrease 1-5% ▥Decrease 6-10% ◩Decrease >10%

Imported

1H19F*	
1H19A	
2H19F	

	1H19F*	1H19A	2H19F
Decrease	11.2%	6.1%	6.0%
No Change	43.2%	35.1%	38.5%
Increase	45.7%	58.8%	55.5%

*Note: A=Actual; F=Forecast; *The results of 1H 2019F were from previous survey (M-BECS 2H 2018 and 1H 2019F).*

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

	Business conditions	Production	Sales (Volume)		Cost of raw materials		Capital expenditure
			Local	*Overseas*	*Local*	*Imported*	
Overall	🙂 😐	=	=	=	⬆	⬆	⬆
Wholesale and retail trade	🙂 😐	=	=	=	⬆	⬆	⬆
Manufacturing	🙂	= ⬆	= ⬆	=	⬆	⬆	⬆
Construction	🙂 😐	=	=	=	⬆	⬆	⬆
Professional and business service	🙂	= ⬆	=	= ⬆	⬆	⬆	⬆
Trading	😐	⬇	⬇	=	⬆	⬆	⬆

🙂 Good   🙂 Satisfactory   😐 Poor   ⬆ Increase   = No change   ⬇ Decrease

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Current Issues

Harness Untapped Potential in Tourism

Domestic Direct Investment (DDI)

Tourism –
Harness the Untapped Potential

M-BECS 1H 2019 and 2H 2019F

The State of Malaysia's Tourism Sector

- The tourism industry is now the **fifth largest economic sector in Malaysia**, generating a total foreign exchange earnings of **RM84.1 billion or 5.9% of GDP in 2018**.

- The tourism-related services (wholesale, retail trade, accommodation, food and beverages, transport and storage as well as information and communication) made up 27.8% of total GDP**.**

- Malaysia's tourism industry had **enjoyed 10.8% pa growth in tourist arrivals in 2001**-2007. However, the pace of tourist arrivals has pulled back sharply to an average growth of **1.9% pa in 2008-2018**. In the **first five months of 2019**, tourist arrivals increased by **4.8% yoy to 11.0 million persons** while tourism receipts also jumped by **16.9% yoy to RM21.4 billion in the first quarter of 2019** (2019's Target is 28.1 million tourists and RM92.2 billion tourism receipts).

- The **Visit Malaysia Year 2020** (VMY 2020) is targeted to bring in **30 million foreign tourists** and **RM100 billion in tourist receipts**.

Tourist arrivals

Tourist receipts
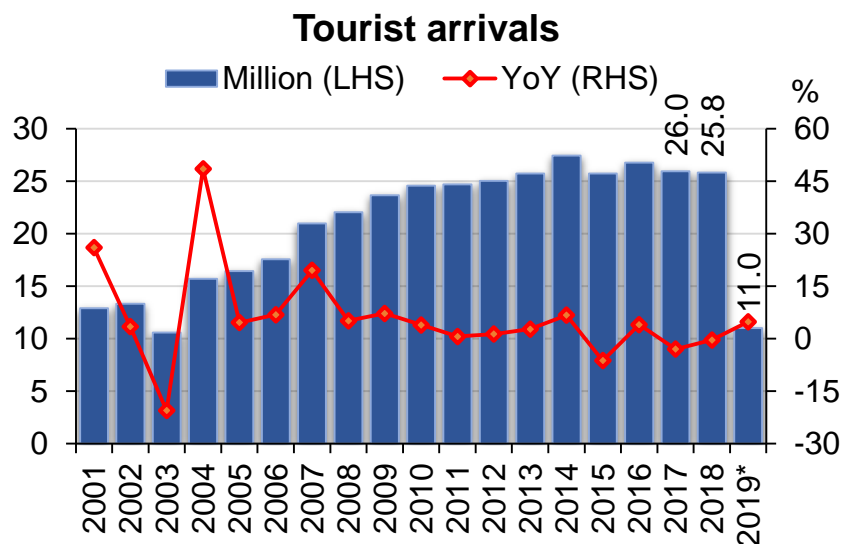
*Jan-May   Source: Tourism Malaysia
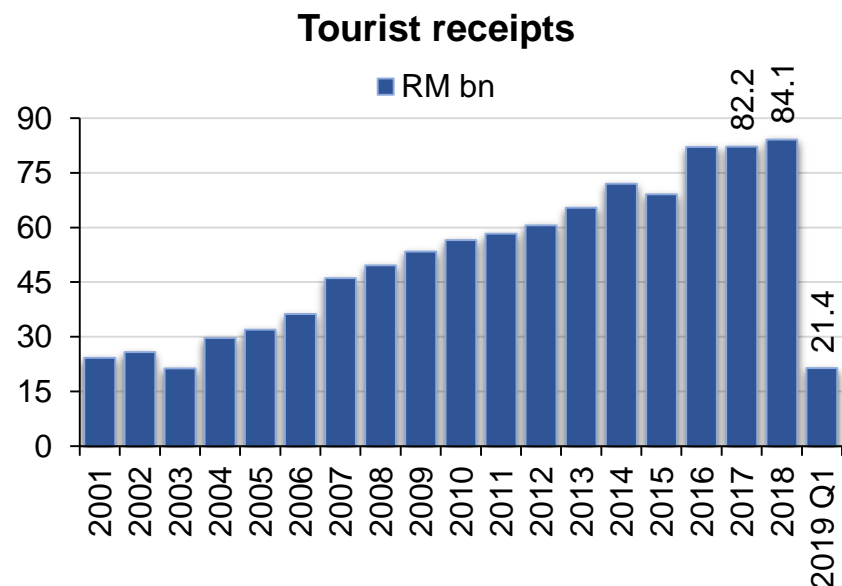
HIDDEN Potential in Malaysia's Tourism Sector

- **78.2%** of respondents **AGREE** that Malaysia **has not done enough to tap the vast potential** of tourism- related business opportunities.

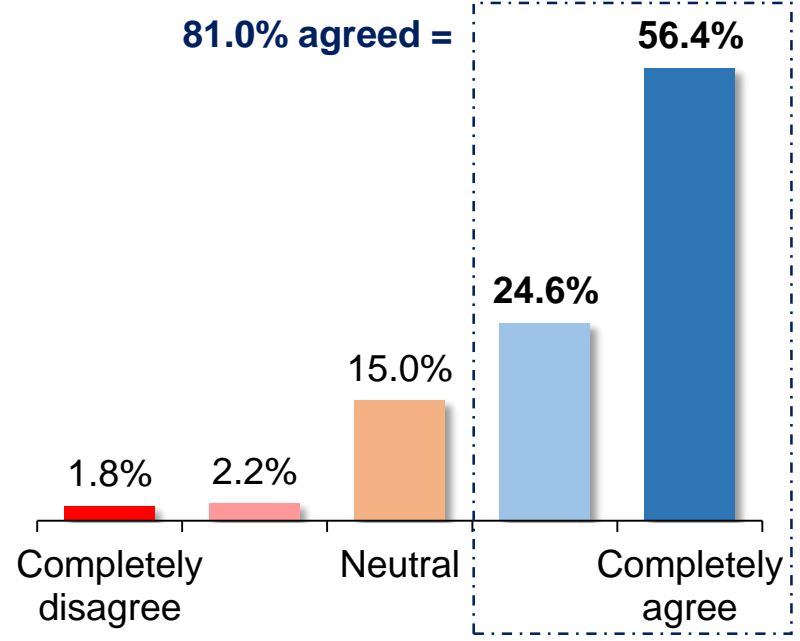- **81.0%** of respondents **CONCURRED** that **Malaysia's tourism is lagging behind its neighbours**.

Statement 1:
"Malaysia has not harnessed the full potential of tourism"

78.2% agreed =

1.5%	2.4%
	17.9%
	26.0%
	52.2%

Completely disagree — Neutral — Completely agree
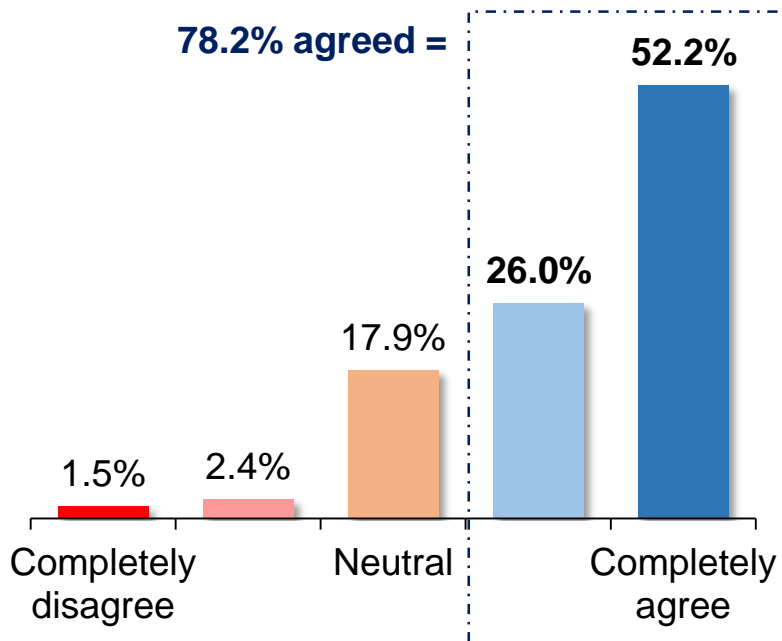
Statement 2:
"Malaysia's tourism is lagging behind its neighbours"

81.0% agreed =

1.8%	2.2%
	15.0%
	24.6%
	56.4%

Completely disagree — Neutral — Completely agree

Indeed, such PERCEPTION is supported by facts and figures …

In 2018 …

	Tourist arrivals *CAGR (2002-2018)*	Tourist arrivals *million persons*	Tourist receipts *US$ billion*	Tourist receipts per capita *US$*	Tourist receipts *(% of GDP)*
Malaysia	4.2% pa	**25.9**	**20.8**	**807**	**5.9**
Vietnam	11.8% pa	**15.5**	**26.9**	**1,735**	**11.2**
Philippines	8.4% pa	**7.1**	* **6.7**	* **1,005**	* **2.1**
Thailand	8.2% pa	**38.3**	**62.0**	**1,620**	**12.3**
Indonesia	6.8% pa	**15.8**	* **14.1**	* **1,011**	* **1.4**
Singapore	5.4% pa	**18.5**	**20.1**	**1,085**	**5.6**

Source: Officials; CEIC; cross-exchange rate (BNM)

* Data as of 2017

Important ELEMENTS for Tourism Development

Basic elements   *Level of important elements**

Personal safety and security	88.6%
Overall cleanliness of the destination	88.5%
Visa convenience	80.3%

Infrastructure and facilitation

Developed local transportation services	86.3%
Well-developed connectivity	85.9%
Tourists information with multi-languages	82.2%
Quality of accommodation	81.7%

Type of products

Nature, eco-tourism, agro-tourism	82.7%
Diversity of cultural / historical attractions	81.9%
Places of FUN, EAT and SHOPPING	80.6%
Night life and entertainment	66.0%

* Figure denotes % of respondents rated "important" and "very important"

Focus on ECO-TOURISM and CULINARY TOURISM

- Place **eco-tourism (78.0%)** as one of the main focuses of **VMY 2020** as Malaysia has **four natural and cultural sites* accorded with World Heritage** status backed by its dense rainforest.

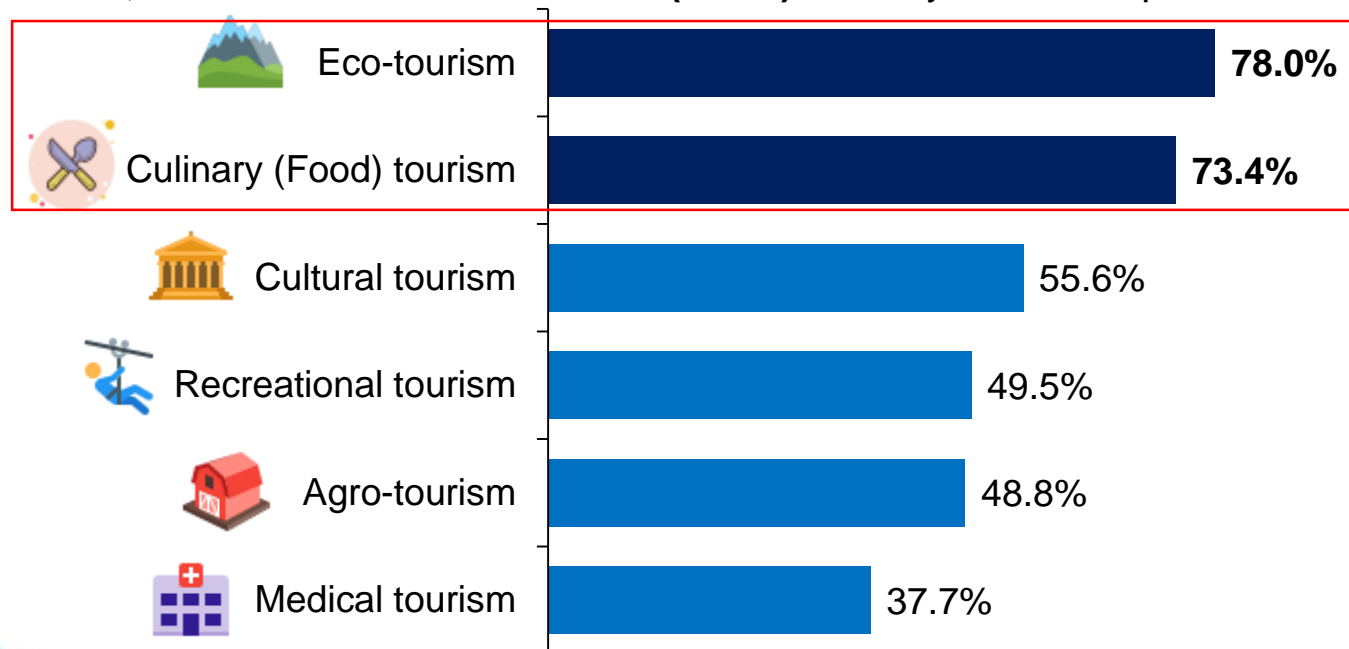- Malaysia is very popular on its **melting pot and delicious foods**. Malaysia should organise an **annual mega food fiesta in major states** to showcase colourful diversity of Malaysian food culture.

- **Niche markets such as medical tourism, education tourism as well as meetings, incentives, conferences or exhibitions (MICE)** industry should be promoted.

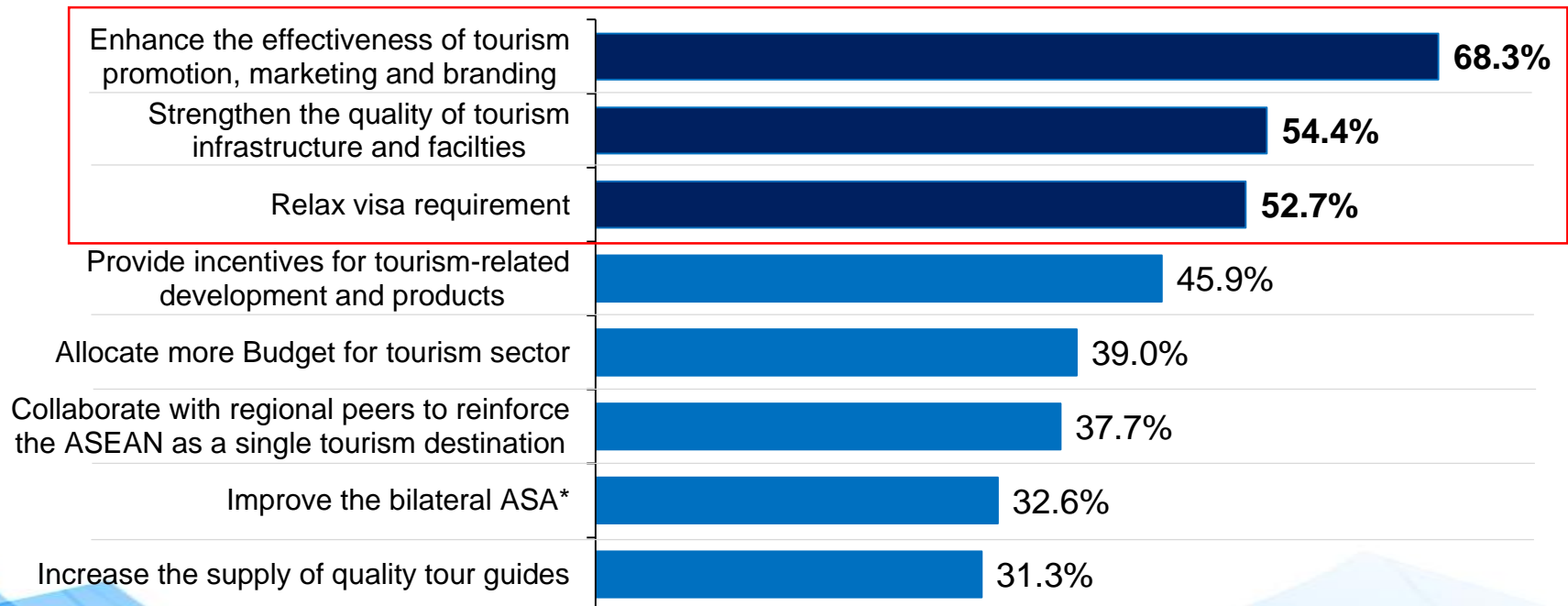| Category	Percentage
Eco-tourism	**78.0%**
Culinary (Food) tourism	**73.4%**
Cultural tourism	55.6%
Recreational tourism	49.5%
Agro-tourism	48.8%
Medical tourism	37.7%

* The four sites are: (i) Gunung Mulu National Park, (ii) Kinabalu Park, (iii) Melaka and George Town, Historic Cities of the Straits of Malacca, and (iv) Archaeological Heritage of the Lenggong Valley.

RECAPTURING Higher Contributions from the Tourism Sector via...

- **68.3%** of respondents - **Further enhance the effectiveness of tourism promotion, marketing and branding**.

- **54.5%** - **Strengthen the quality of tourism infrastructure and facilities**.

- **52.7% - To simplify and relax visa requirement**.

- **Public-private sector's collaboration** to **create new tourism destinations**.

The respondents' indication of Government's measures to drive domestic tourism growth

Measure	Percentage
Enhance the effectiveness of tourism promotion, marketing and branding	68.3%
Strengthen the quality of tourism infrastructure and facilties	54.4%
Relax visa requirement	52.7%
Provide incentives for tourism-related development and products	45.9%
Allocate more Budget for tourism sector	39.0%
Collaborate with regional peers to reinforce the ASEAN as a single tourism destination	37.7%
Improve the bilateral ASA*	32.6%
Increase the supply of quality tour guides	31.3%

Note: ASA=Air Service Agreements

74.9% say "YES" on VISA EXEMPTION for Tourists From China and India

Perception of visa exemption for tourists from China and India

■ Yes ■ No

25.1%   74.9%
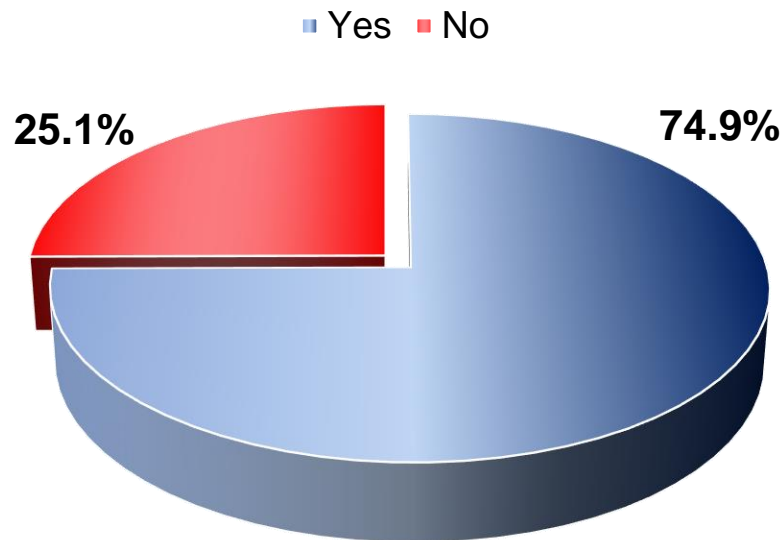
Why?

Tourists from China to…	CAGR (09-18)	2018 (million)
Malaysia	**12.0%**	**2.9**
Thailand	29.0%	10.5
Vietnam	22.7%	5.0
Philippines	22.6%	1.3
Indonesia	20.3%	2.1
Singapore	12.2%	3.4

Tourists from India to…	CAGR (09-18)	2018 ('000)
Malaysia	**0.9%**	**600.3**
Indonesia	19.3%	595.6
Philippines	14.6%	121.1
Thailand	11.5%	1,596.8
Singapore	6.4%	1,442.2

Domestic Direct Investment (DDI)

M-BECS 1H 2019 and 2H 2019F

Approved DOMESTIC DIRECT INVESTMENT (DDI) down

- Private investment's momentum moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It pulled back sharply to 4.3% in 2018 and further to 0.4% yoy in the first quarter of 2019.

- Approved investment projects (in services, manufacturing and primary sectors) contracted by 4.2% pa in 2015-18 from an increase of 10.1% pa in 2007-14, mainly dragged by a decline in **approved domestic direct investment (DDI) of 8.8% pa** from RM175.1bn in 2014 to RM121.2bn in 2018.

- In 1Q 2019, approved DDI contracted further by 30.5% yoy to RM24.6 billion from RM35.4 billion in 1Q 2018 resulted in DDI's share of total approvals declined significantly to 45.6% in 1Q 2019 from 67.7% share in 1Q 2018.

Approved private investment projects

RM billion

Legend: ■ DDI   ■ FDI

Year	DDI	FDI
2011	86.6	68.0
2012	133.0	34.9
2013	160.0	59.5
2014	175.1	64.6
2015	156.9	36.1
2016	153.4	59.5
2017	146.2	54.4
2018	121.2	80.5
2019Q1	24.6	29.3
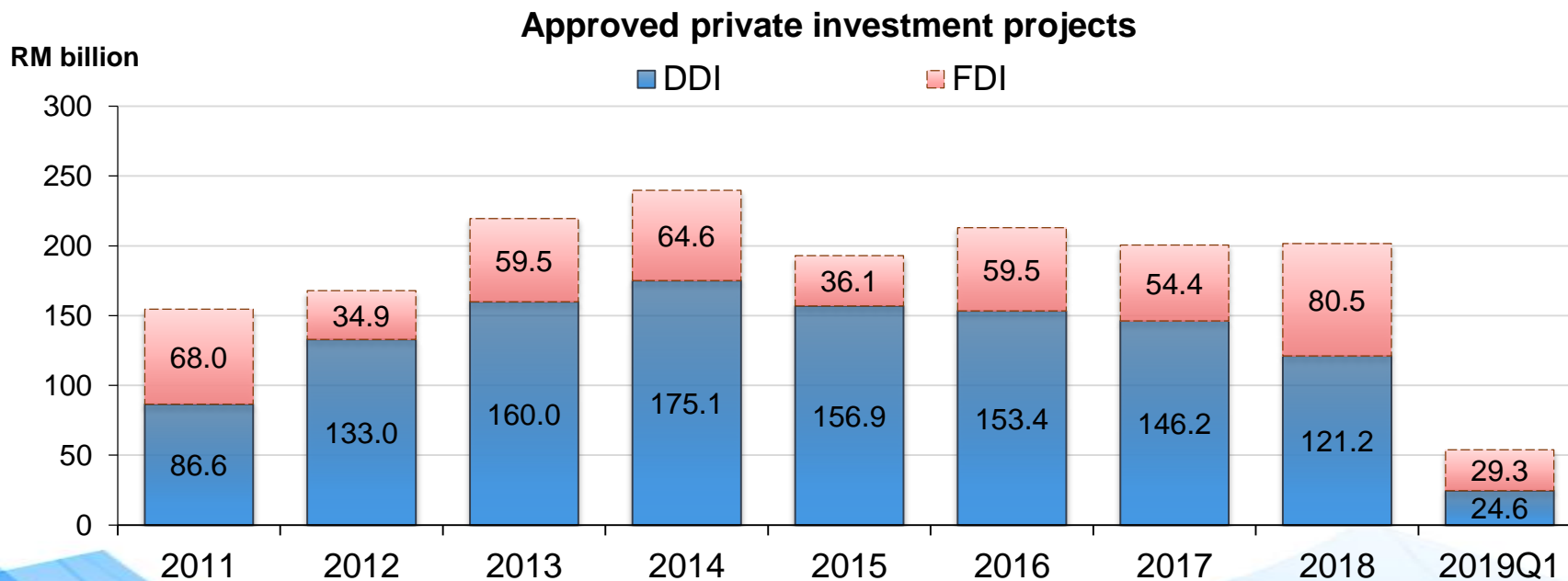
A CAUTIOUS Investment Stance

- **42.7%** of respondents indicated that they **EITHER HAVE INVESTED OR PLAN TO INVEST** in Malaysia over **next 12-24 months** while **57.3%** indicated that they **HAVE NO INTENTION** to invest.

- It can be inferred that **64.7% of respondents** will likely to **REVISIT THEIR INVESTMENT DECISIONS,** hinging on the ensuing developments in the **scenario of economic and policy landscape**.

- **Less than 10% of respondents** for each industry indicated that they will **explore investment opportunities in foreign countries**, indicating that **Malaysian investors still having their heart in Malaysia**.

Business's investment planning in Malaysia over next 12-24 months

Yes, invested/plan to invest, 42.7%	No intention to invest , 57.3%

Yes, we are readty to expand / invest	16.7%
Yes, but still adopting "wait-and-see" approach pending a clearer Government's policy landscape	26.1%
No, we have put on hold investment decision due to current economic landscape	38.6%
No, looking to explore opportunities outside Malaysia due to better prospects offered	4.6%
No plan to invest / expand	14.1%

64.7%

28

Importance of CLEAR and CONSISTENT policies

- Restrained government's budget casts doubt on its **capacity to implement projects** or **new taxes will be raised**.

- **Domestic policy uncertainty (e.g. foreign workers & minimum wage)** has restrained business investment decision.

- **Difficulty in hiring right and skilled workers** to operate high-tech machinery or advanced software.

- Businesses are hopeful for **easier loans financing and terms** to facilitate their expansion and ease cash flows in the current trying economic conditions.

Top 3 factors restraining overall business investment decision

Economic and business prospects	Domestic policy uncertainty	Shortage of skilled manpower	High cost of capital
62.5%	48.8%	26.9%	26.6%
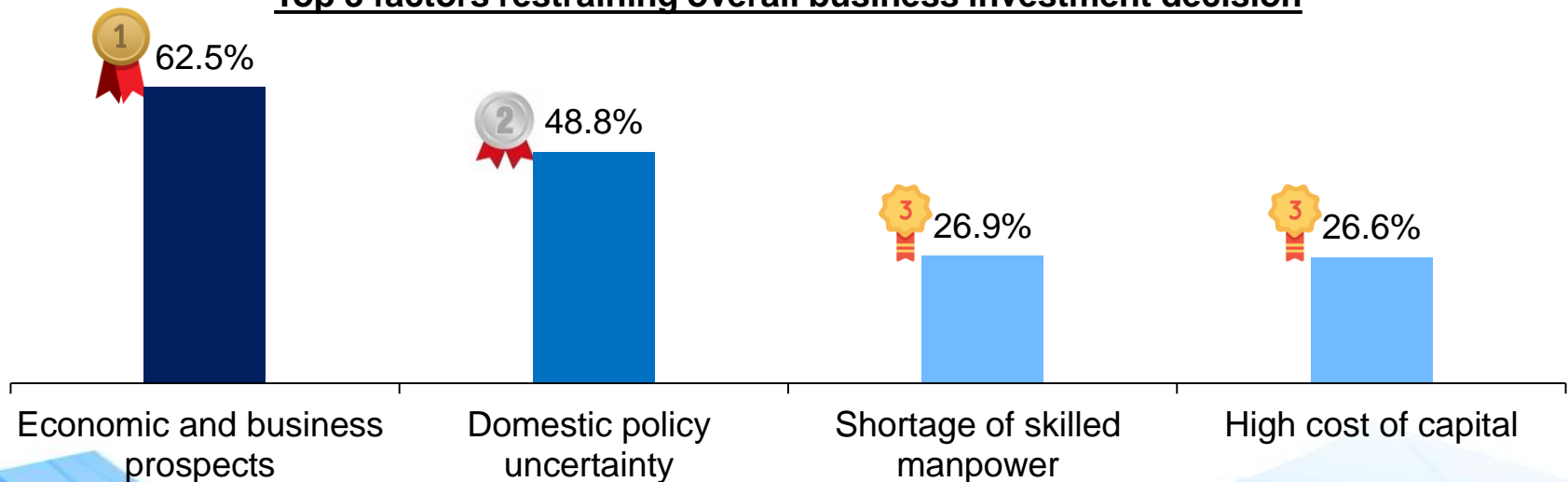
Proposed MEASURES to Stimulate DDI

a) **Provide clarity and consistency,** especially with regard to **foreign workers and minimum wage policies.**

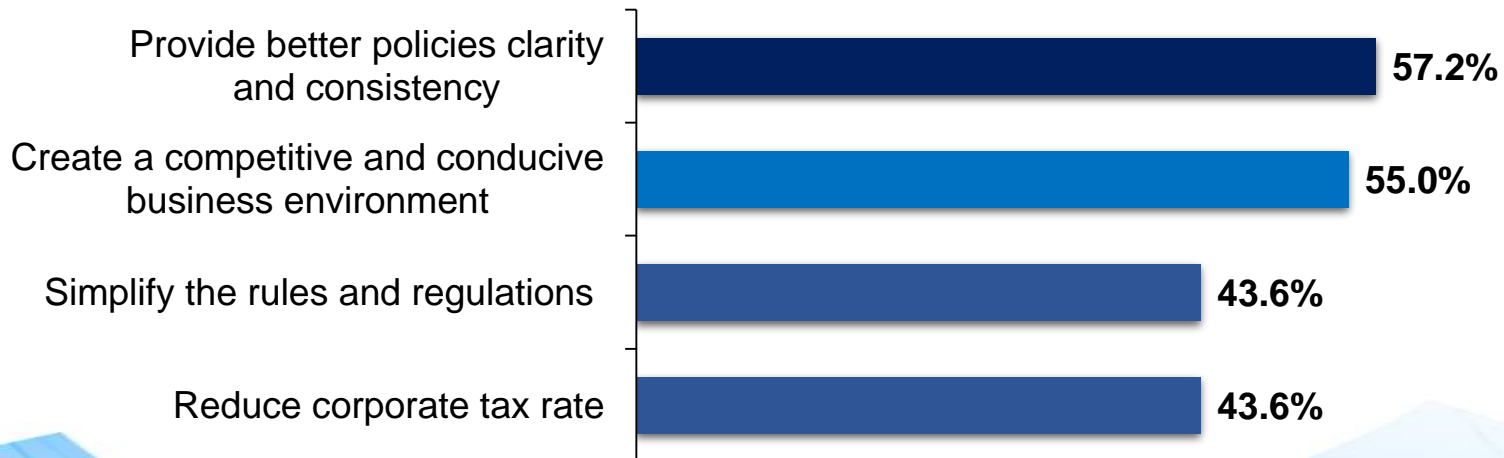b) Draw up **a National Investment Strategy Plan** to revitalise private investment.

c) **Monopoly practices must be minimized or eliminated** so that domestic businesses can become **stronger via free competition environment**.

d) The **establishment of a one-stop investment agency** to undertake all investment approvals and improve the flows of communication.

e) **An upfront announcement on a progressive reduction** in **corporate tax rate to 20**% **within next three years** in 2020 Budget.

Top 3 business expectations on the Government's measures to rejunevate DDI

Provide better policies clarity and consistency	57.2%
Create a competitive and conducive business environment	55.0%
Simplify the rules and regulations	43.6%
Reduce corporate tax rate	43.6%

LOW Awareness on Industry4WRD Related Incentives

- **64.2% of respondents** were **aware at least one of the listed incentives** while many businesses (35.8%) were unaware of the incentives.

- **Less than 15% of respondents** were **aware** of the **government's loans or grants for Industry4WRD related incentives.**

SMEs

Industry4WRD related incentives

%

■ Overall ▨ Manufacturing sector

	SLSME	SMEEF	SLSAM	ACA	IDTF	DISF	DTAP	None of all
Overall	49.6	14.6	11.4	9.8	9.1	6.2	4.8	35.8
Manufacturing sector	55.4	11.3	20.3	22.6	10.2	5.6	6.8	23.2
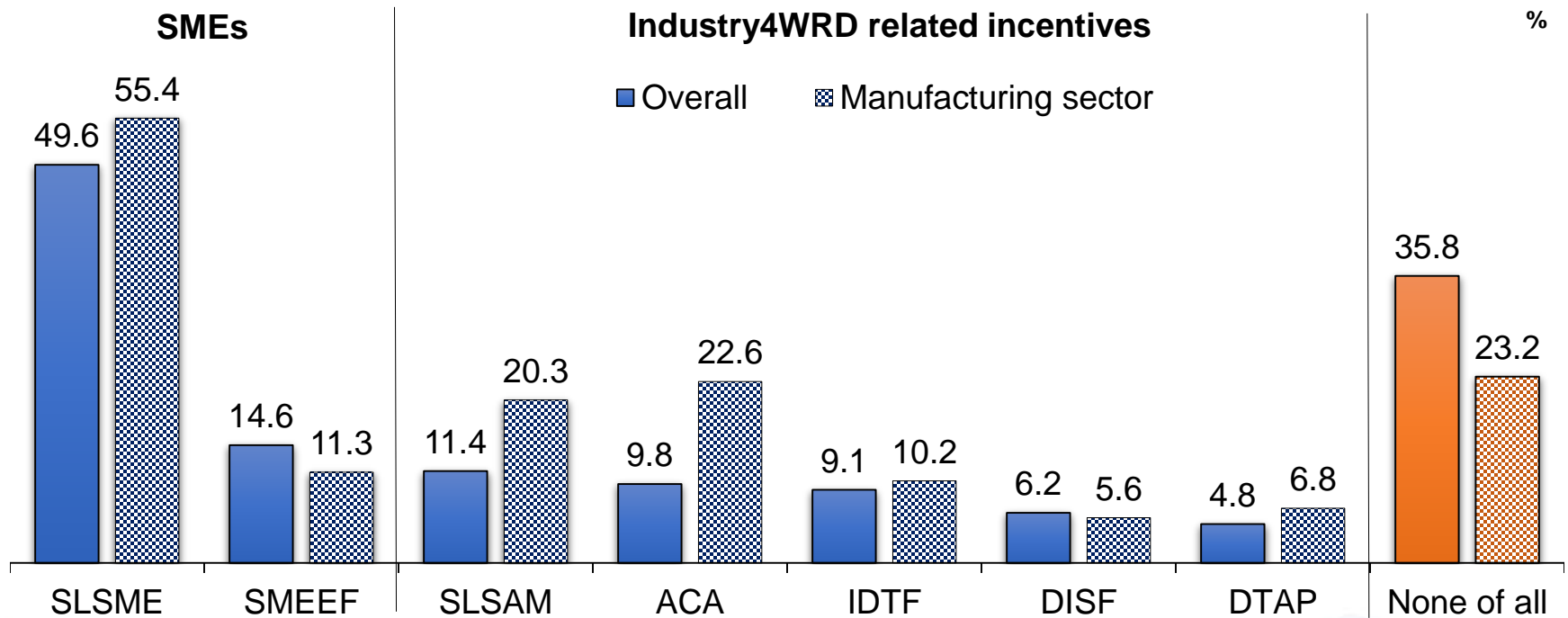
Note: SLSME=Soft Loan Scheme for Small and Medium Enterprises; SMEEF= SME Emergency Fund; SLSAM=Soft Loan Scheme for Automation and Modernization; ACA=Accelerated Capital Allowance; IDTF=Industry Digitalization Transformation Fund; DISF=Domestic Investment Strategic Fund; DTAP=Digital Transformation Acceleration Program.

Conclusion

- Continuing a weakening trend in 2H 2018, **most businesses experienced softening business performance in 1H 2019**. They continue to **keep a vigilant view about business conditions in 2H 2019.**

- The **top five factors** cited influencing and impacting business operations and domestic business environment are **domestic competition; Government policies; lower domestic demand; increase in prices of raw materials; and Ringgit's fluctuations**.

- Business operations were generally in line with the business conditions. More businesses reported **a reduction in production and domestic sales volume as well as the cost of local and imported raw materials both increased** in 1H 2019.

- Businesses' cautiousness about their **capex spending plans in 2H 2018 have turned somewhat positive in 1H 2019** whereby more than half of total respondents (58.8%) have increased their capital expenditure.

- Malaysia has **not done enough** to tap the **vast potential of tourism** related business opportunities and Malaysia's tourism is **lagging behind its neighbours**.

- **42.7% of respondents** indicated that they **either have invested or plan to invest** in Malaysia over **next 12-24 mo**nths while **57.3% have no intention to invest** over next 12-24 months.

谢谢
Thank you

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