



ACCCIM M-BECS 1H 2020 and 2H 2020F

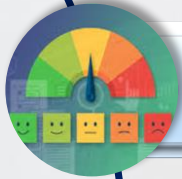
6 August 2020

Key agenda



M-BECS

ACCCIM M-BECS: Survey Coverage



Sentiment Tracker for 1H & 2H 2020, 2020 and 2021F



Business Pulse Diagnosis



MCO & Post COVID-19: Business Impact and Government's Policy Responses



Conclusion

Survey coverage

- **ACCCIM Malaysia's Business and Economic Conditions Survey (M-BECS)** is a key barometer measuring the **sentiments and expectations of business community**.
- The survey, which was conducted in mid-May 2020 – early July 2020 covers the **first half-year of 2020 (Jan-Jun or 1H 2020)** and **expectations for the second half-year (July-Dec or 2H 2020) of 2020** as well as **outlook for 2021**.
- M-BECS aims to gauge:
 - Economic and Business Performance and Outlook;**
 - Factors Affecting Business Performance;** and
 - Current Issues Confronting Businesses.**



Profile of respondents






 **828 companies** covering a broad-based of sectors and industries

By sector:

96.7%



Top FIVE industries (74.7%):


-  Manufacturing (22.1%)
-  Wholesale and retail trade (20.9%)
-  Professional and business services (13.2%)
-  Construction (9.9%)
-  Tourism, shopping, hotels, restaurants, recreation and entertainment (8.6%)

By size

Large enterprises (6.2%)

SMEs (93.8%)

By sales orientation

 Domestic market (79.3%)

 Overseas market (15.2%)

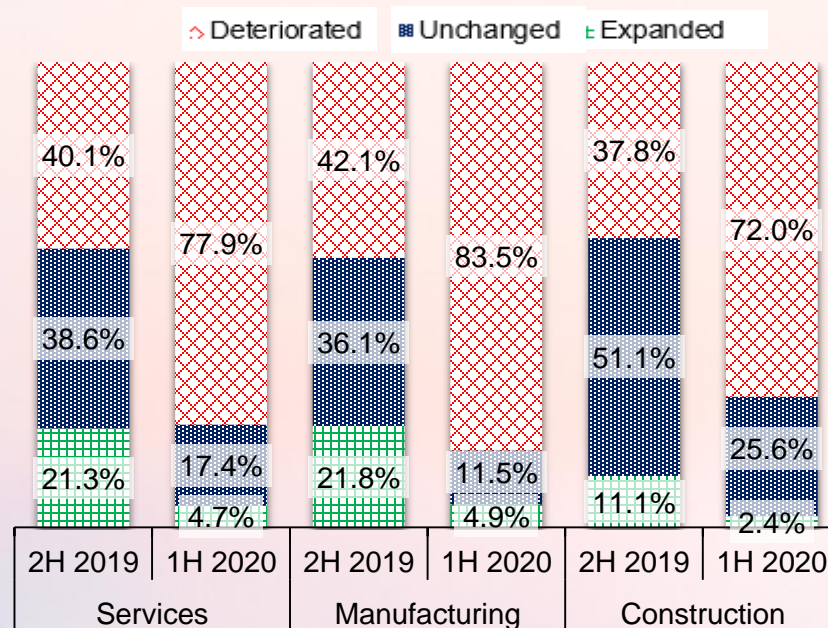
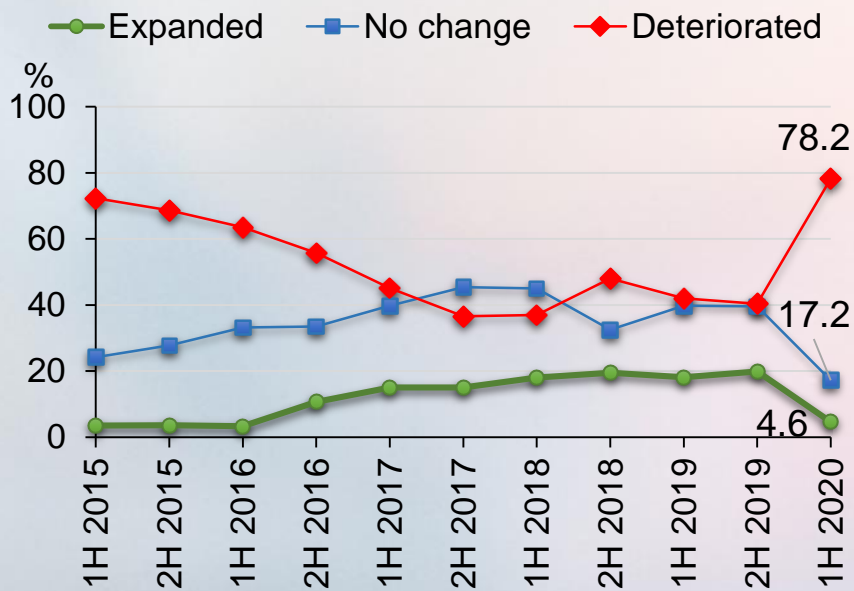
 Neutral (5.5%)

**M-BECS 1H 2020 and 2H 2020F
Sentiment Tracker**



Business conditions have worsened in 1H 2020

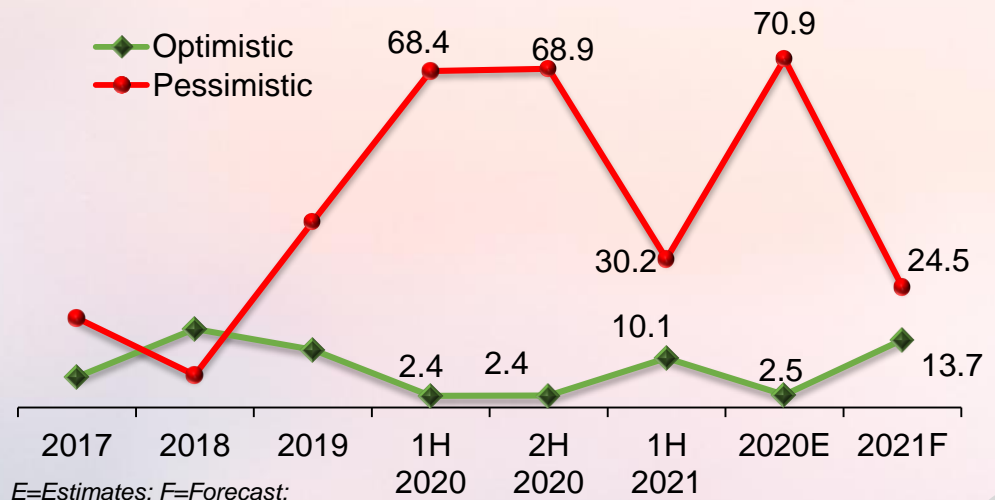
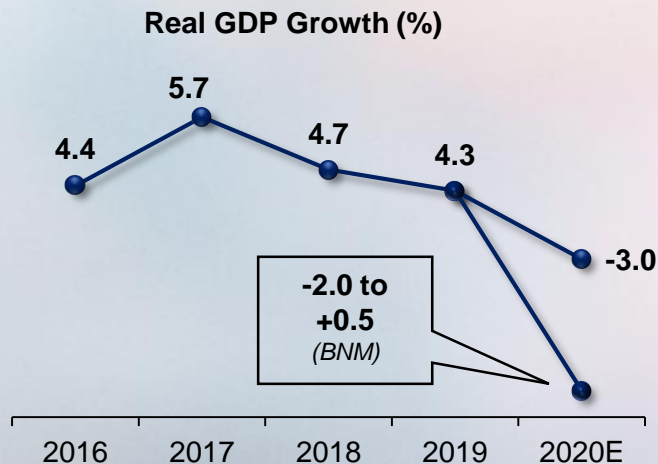
- A majority (78.2%) of respondents revealed that their business has worsened in 1H 2020, reflecting the tough economic and business environment inflicted by the COVID-19 pandemic and the consequences of Movement Control Order (MCO).
- Amongst the sectors* having more than 80% of respondents indicated deteriorating business conditions were **tourism, shopping, hotels, restaurants, recreation and entertainment (87.3%)**, **manufacturing (83.5%)**, **professional and business services (82.6%)** and **wholesale and retail trade (82.1%)**.



Note: *Only accounted for sectors with a sample size above 30, which is also applied for the rest of the report.

A widespread pessimism about the economy

- The share of respondents **having bleak views about the economy has spiked to 68.4% in 1H 2020 and will rise further to 68.9% for 2H 2020.**
- **More than 60% of respondents in all sectors are pessimistic about 2020's economic conditions and prospects** due to substantial demand and supply shocks caused by the virus outbreak in domestic and global economy.
- **A glimpse of hope in 2021 (24.5% of respondents have pessimistic views vs. 70.9% in 2020):** (i) The effectiveness of economic recovery packages; (ii) Full restoration of consumer and business confidence; (iii) Containment of virus worldwide and the availability of vaccines; and (iv) The recovery pace of Malaysia's major trading partners.



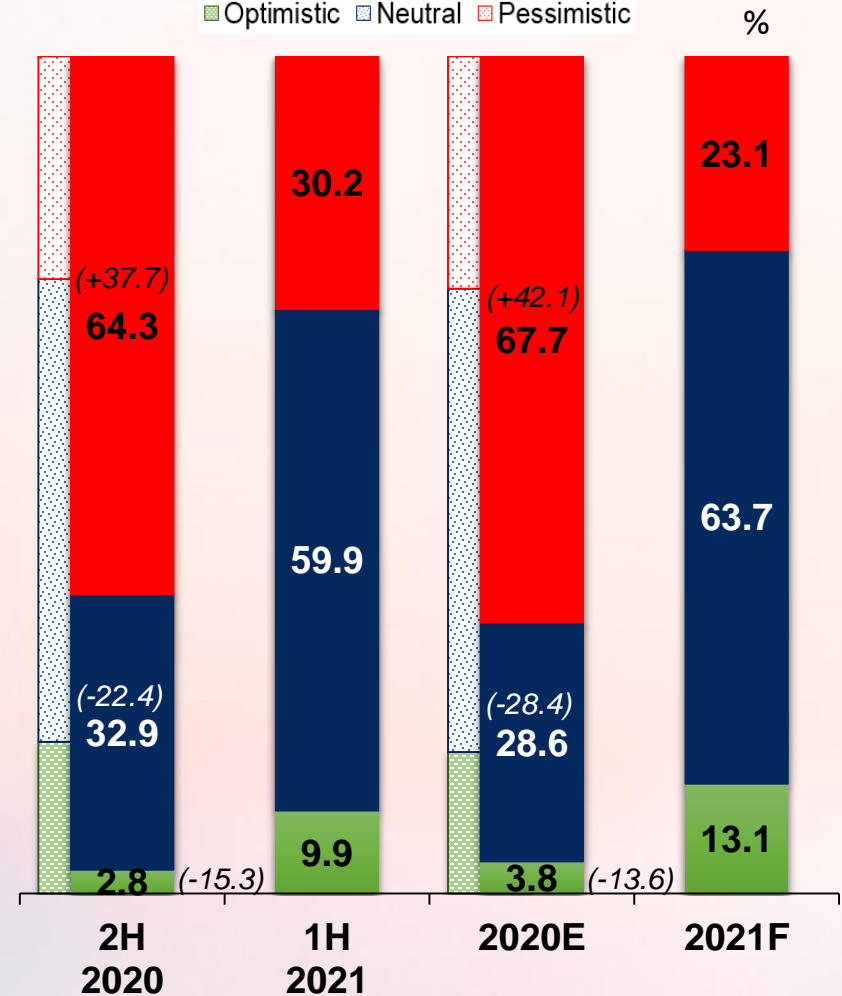
Source: DOSM; SERC estimates

Business Conditions and Prospects

- **Businesses feel pessimistic about business conditions and prospect in 1H 2020** (67.2% of respondents, which is worse than 35.6% surveyed previously).
- **Pessimism sentiment continues in 2H 2020** (64.3% of respondents).
- While most business activities have resumed operations under RMCO, they are still facing a slow pace of recovery in consumer demand and operating cost challenges.
- Businesses are generally expecting a **somewhat cautiously better business outlook in 2021**.

M-BECS 1H2020 and 2H2020F

M-BECS 2H2019 and 1H2020F*



Note: E=Estimates; F=Forecast; * denotes data obtained from previous survey. Figure in () denotes changes in % respondents from previous survey

Comparison between “M-BECS 2H 2019 and 1H 2020F” and “M-BECS 1H 2020 and 2H 2020F”

Economic prospect

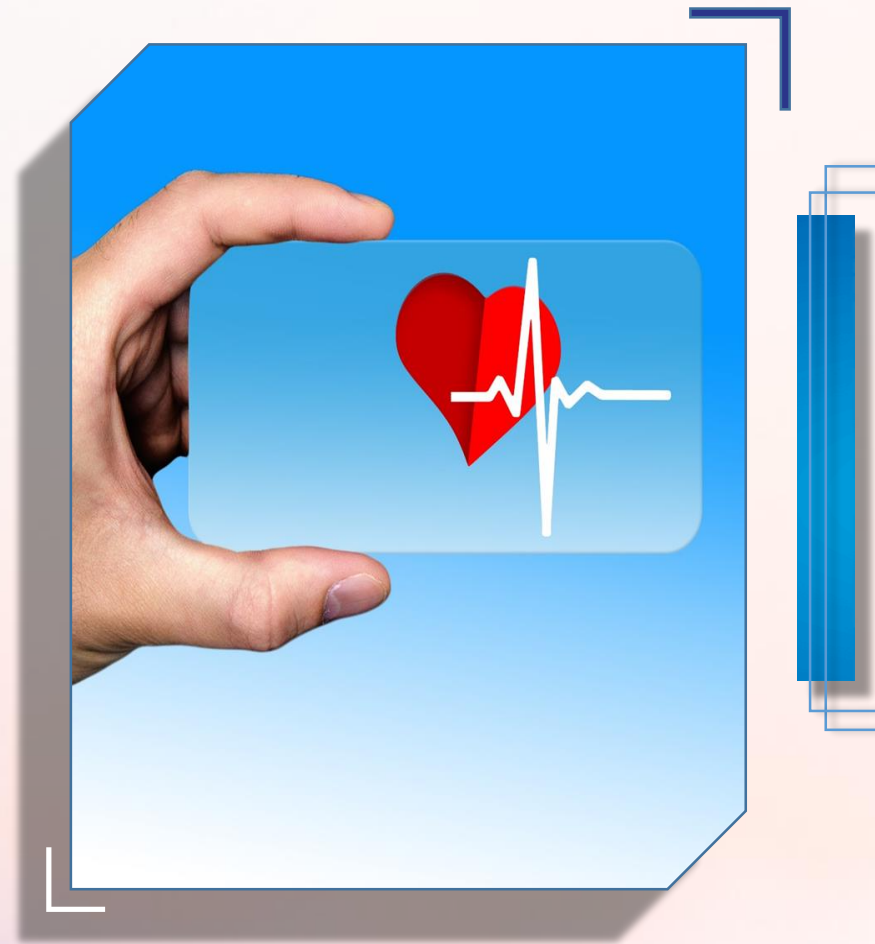
	Overall								
	1H2020			2H 2020			2020		
	Est. %	Act. %	Changes	Est. %	Est.(R) %	Changes	Est. %	Est.(R) %	Changes
Optimistic	12.8	2.2	▼	17.8	2.4	▼	15.8	2.5	▼
Neutral	49.8	29.4	▼	54.5	28.7	▼	57.6	26.6	▼
Pessimistic	37.4	68.4	▲	27.7	68.9	▲	26.5	70.9	▲

Business prospect

	Overall								
	1H 2020			2H 2020			2020		
	Est. %	Act. %	Changes	Est. %	Est.(R) %	Changes	Est. %	Est.(R) %	Changes
Optimistic	14.7	3.0	▼	18.1	2.8	▼	17.4	3.8	▼
Neutral	49.7	29.8	▼	55.3	32.9	▼	57.0	28.6	▼
Pessimistic	35.6	67.2	▲	26.6	64.3	▲	25.6	67.7	▲

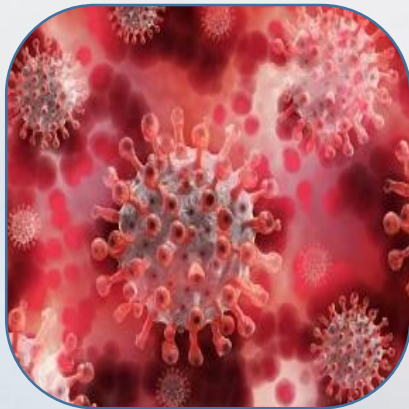
Act. = Actual; Est. = Estimates; Est.(R) = Revised estimates

M-BECS 1H 2020 and 2H 2020F
Business Pulse Diagnosis



Top 5 factors affecting business performance

1st



**Impact of the
COVID-19**
(87.7%)

2nd



**Movement
Control Order
(MCO)**
(82.5%)

3rd



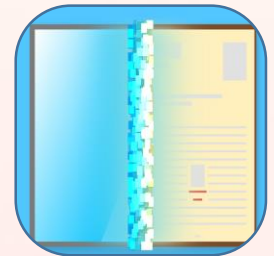
**High Operating
Costs and Cash
Flow Problem**
(44.1%)

4th



**Declining
Business
and
Consumer
Sentiment**
(44.0%)

5th



**Changing
Consumer
Behaviour**
(43.1%)



Impact of COVID-19 (87.7%)

+

Movement Control Order (82.5%)



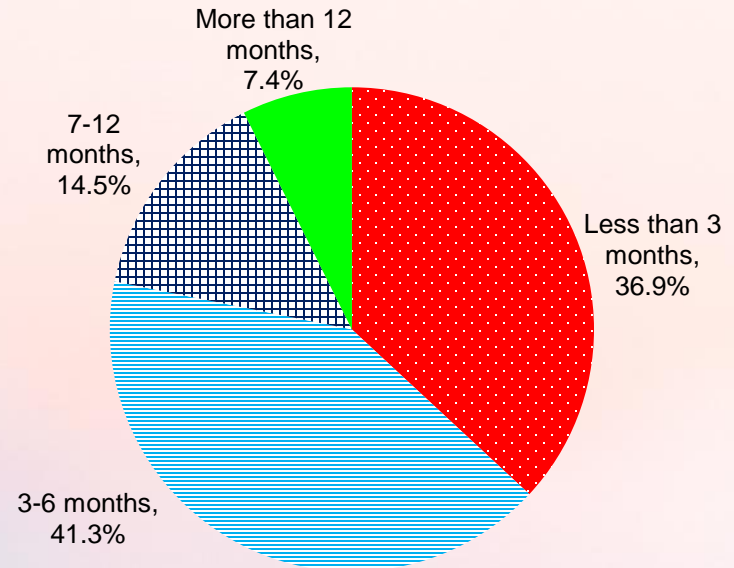
- The Government has **implemented MCO** to flatten the virus infection curve starting **18 March 2020**, **Conditional Movement Control Order (CMCO)** starting **4 May 2020**; and was subsequently freed-up more economic sectors and movement restrictions under **Recovery Movement Control Order (RMCO)** since **10 June 2020**.
- **87.7% of total respondents across all sub-sectors cited the impact of COVID-19 and MCO (82.5%)** as the core factors that have adversely affected their business performance.
- The **economic and business stabilisation and recovery** are largely **depending on**:
 - a) How deep and long-lasting impact of the COVID-19;
 - b) The effectiveness of economic stimulus measures (PRIHATIN and PENJANA); and
 - c) The recovery strength of Malaysia's major trading economies.
- The business sector is also looking forward to the **Economic Recovery Plan** that is scheduled to roll-out in October **and Budget 2021** on 6 November 2020.



High operating costs and cash flow problems (44.1%)

- Many businesses are still **struggling with 3Cs (Cash flow, Credit and Costs)** while recouping their revenue losses.
- **62.1% of respondents were loaded with monthly fixed operational expenses** (including rental charges, utilities, salary, raw materials/inventory and statutory payments) of between RM20,000 and RM300,000.
- **71.9% of respondents have experienced poor cash flow conditions in 1H 2020** and **71.6% of respondents expect the same in 2H 2020.**
- **Most respondents (68.3%) have opted to use their internal reserves** to service fixed operational expenses, however, their internal reserves may not last long.

78.2% of respondents stated that their cash flow is *unable to cover operational expenses for more than six months*



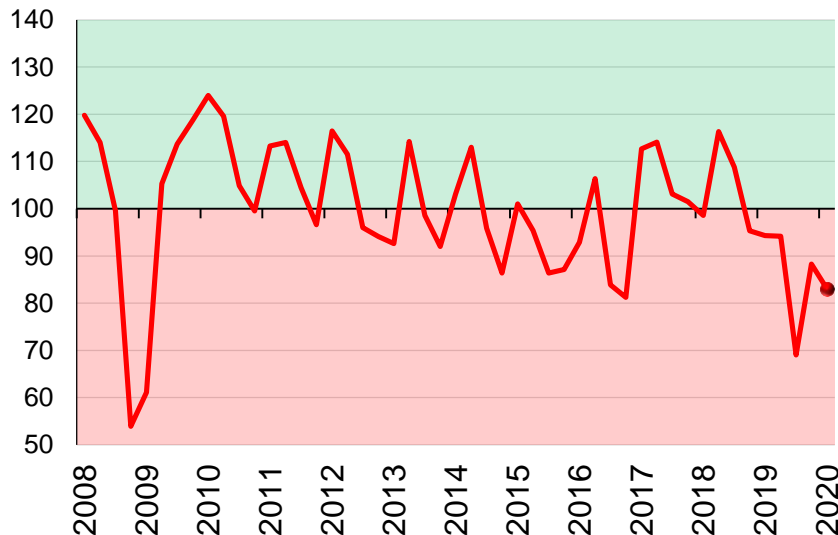


Declining business and consumer sentiment (44.0%)

- **Overall business and consumer sentiments have remained weak**, which are in line with MIER's Business Conditions Index (BCI) and Consumer Sentiments Index (CSI).
- **A quick restoration of business and consumer confidence** is crucial to help economic and business recovery.

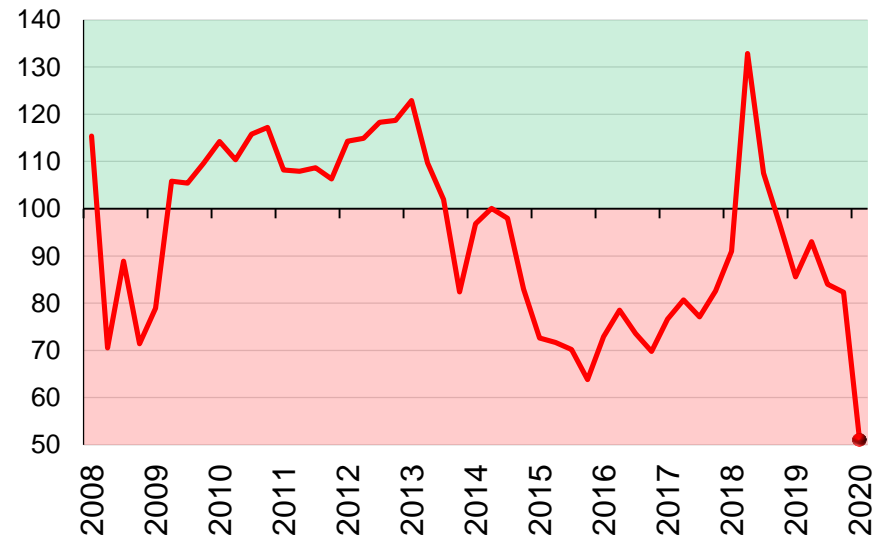
Business Conditions Index (BCI)

Above 100= Optimism; Below 100 = Pessimism

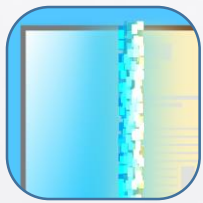


Consumer Sentiments Index (CSI)

Above 100= Optimism; Below 100 = Pessimism



Source: Malaysian Institute of Economic Research (MIER)



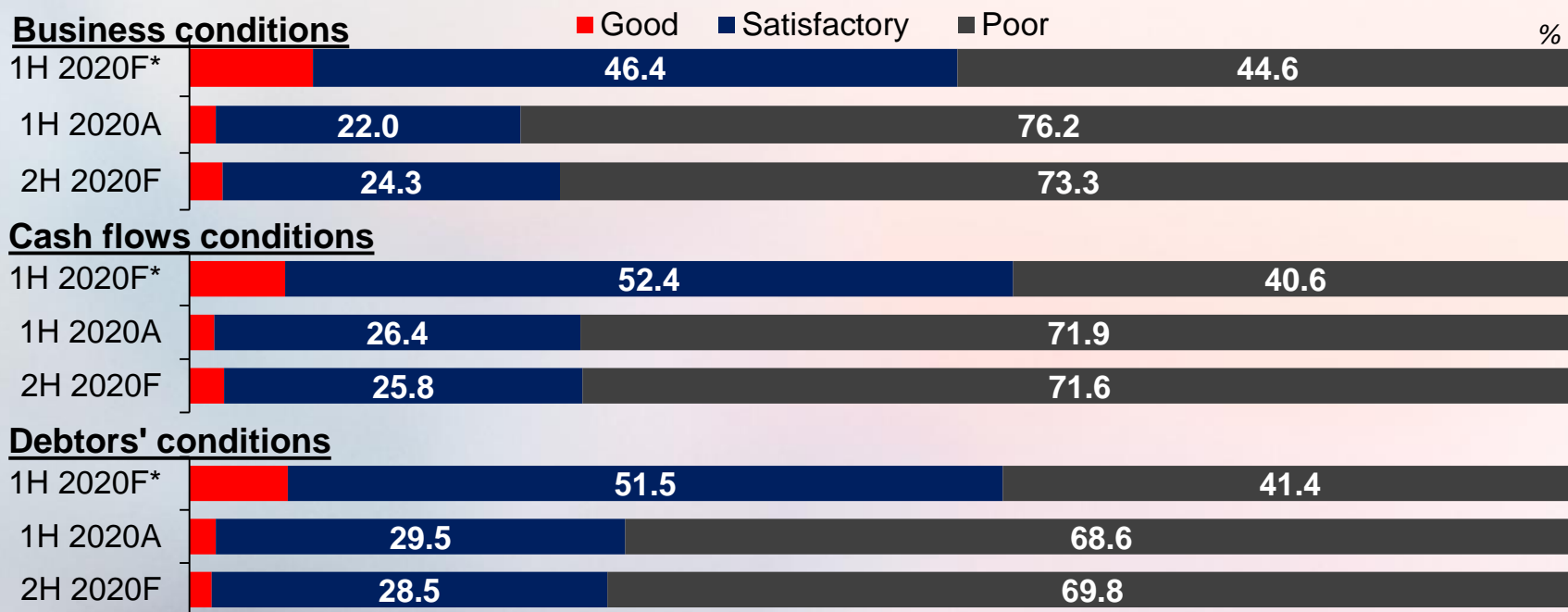
Changing consumer behaviour (43.1%)

- The COVID-19 has **accelerated businesses' and consumers' protocol and behavioural changes**, prompting them to utilise digital solutions in the delivery of goods and services.
- Domestic retailers have moved to online market to stay afloat. Businesses realise that there is a bigger market for online business.
- Businesses may need to incur more resources to address safety concerns for customers.
- Flexible working hours and remote office are a game changer to business environment (property sector, food and beverages industry and business services).



Business assessment in 1H 2020 and 2H 2020F

- **76.2%** - rated “**poor business conditions**” in **1H 2020** as the extraordinary impact induced by the unprecedented COVID-19 pandemic outbreak.
- **71.9%** - suffered “**poor cash flow conditions**” in **1H 2020** (vs. 42.2% in 2H 2019). **Large corporations (64.7% voted “poor”) vs. SMEs (72.4%)**.
- Going into 2H 2020, **69.8% of respondents expect “poor debtors’ conditions”**, especially in tourism, shopping, hotels, restaurants, recreation and entertainment sectors, construction sector and wholesale and retail trade sector.

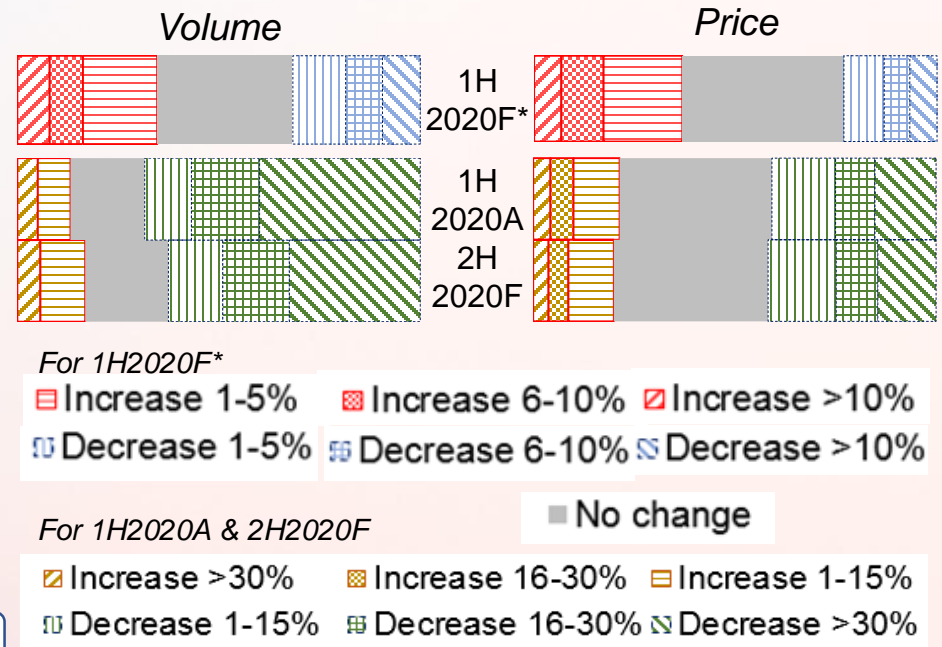


Note: A=Actual; F=Forecast; *The results of 1H 2020F were from previous survey (M-BECS 2H 2019 and 1H 2020F).

Business operations diagnosis

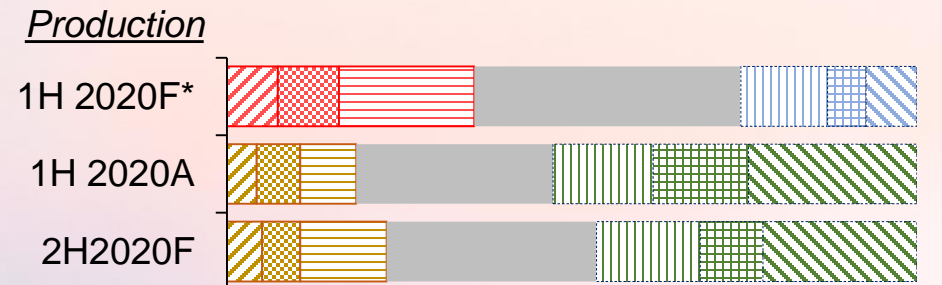
Domestic Sales - Hit by COVID-19 & MCO

- Overall domestic sales volume has dropped significantly as MCO forced to halt the operation.
- Even the CMCO and RMCO have lifted economic restrictions on nearly all businesses and sectors, the respondents expect continued weak business sentiment ahead.



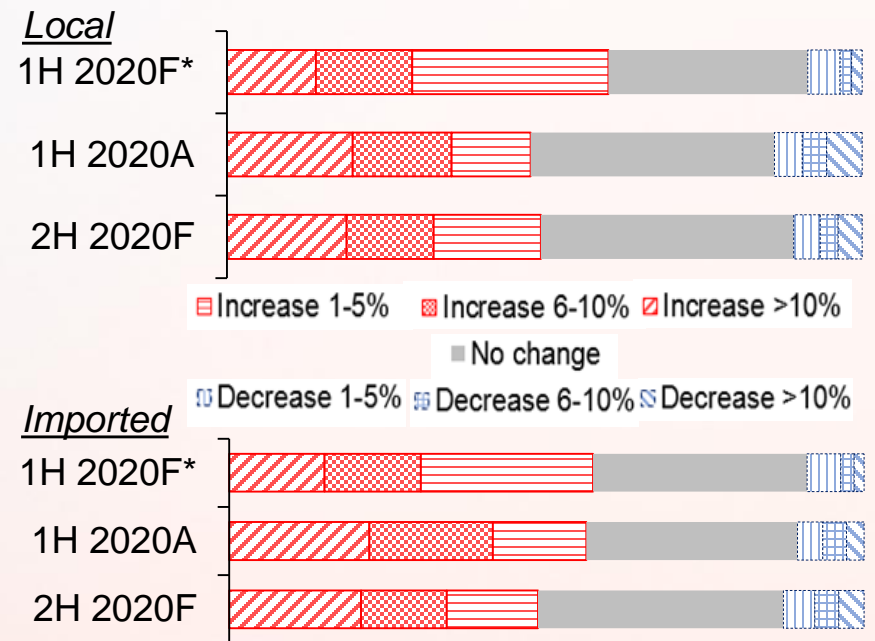
Production – Supply chain disruptions

- 52.7% of respondents recorded a drop in production level in 1H 2020. In the manufacturing sector, 64.1% claimed a decline in production with 26.9% reporting production has dropped by more than 30%.



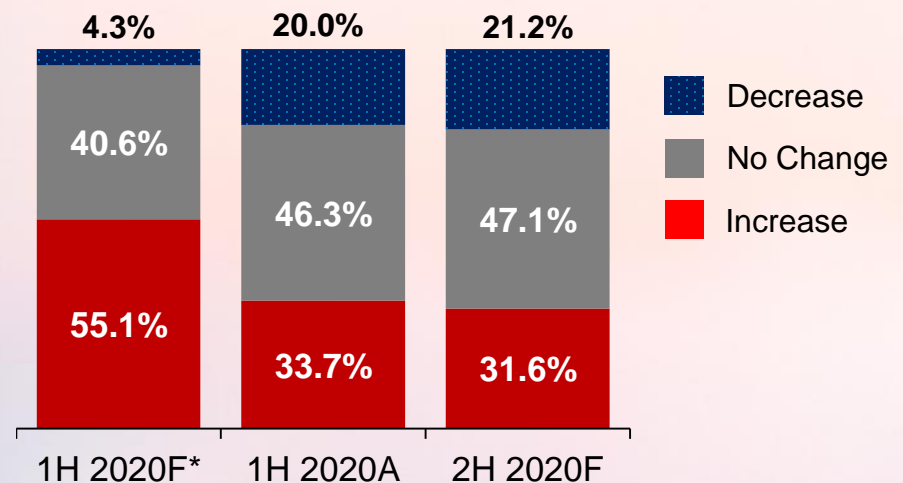
Lockdown-induced shortages led to increase in cost of raw materials

- Global supply chains are seriously disrupted and hence, **the shortage of raw materials is a growing concern for manufacturers and producers.**
- 20.2% of respondents in the manufacturing sector** pointed that shortage of raw materials have significantly affected their production.













































Capital expenditure – Capital investment plan put on hold

- Weighed by **lingering uncertainty about the COVID-19 vaccines development, global economic recovery, domestic economic conditions and political climate**, many businesses will continue to adopt a **wait-and-see approach in committing their capital investment plan.** A lower share of respondents (31.6%) allocate funds to increase capital expenditure in 2H 2020.



By sector scorecard - 2H 2020F vs 1H 2020

	Business conditions	Production	Sales (Volume)*		Cost of raw materials		Capital expenditure
			Local	Overseas	Local	Imported	
Overall				 			
 Wholesale & retail trade							
 Manufacturing							
 Professional & business services				 			
 Construction		 					

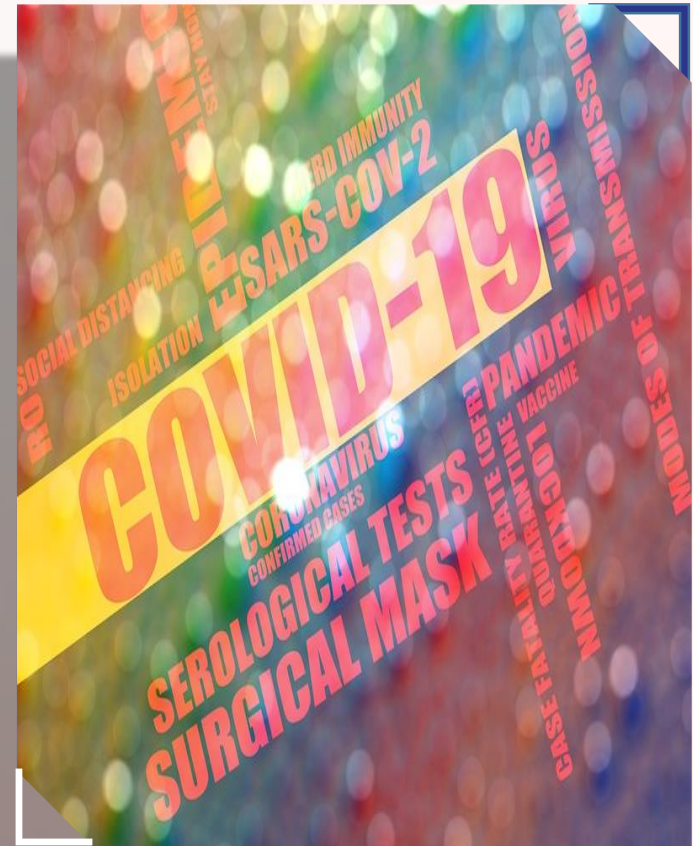
 Good
  Satisfactory
  Poor
  Increase
  No change
  Decrease

* COVID-19 outbreak is expected to change the original forecast on a significant downward bias.

M-BECS 1H 2020 and 2H 2020F

Current Issues Post COVID-19 and MCO

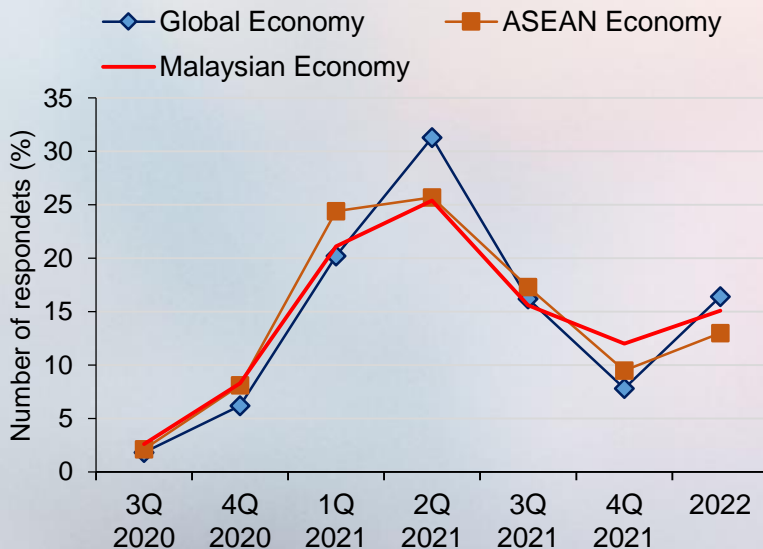
- a. *Economy Perception*
- b. *Business Sustainability*
- c. *Business Operations*
- d. *Government's Assistance and Facilities*
- e. *Government's Policy Responses*
- f. *Budget 2021 Expectations*



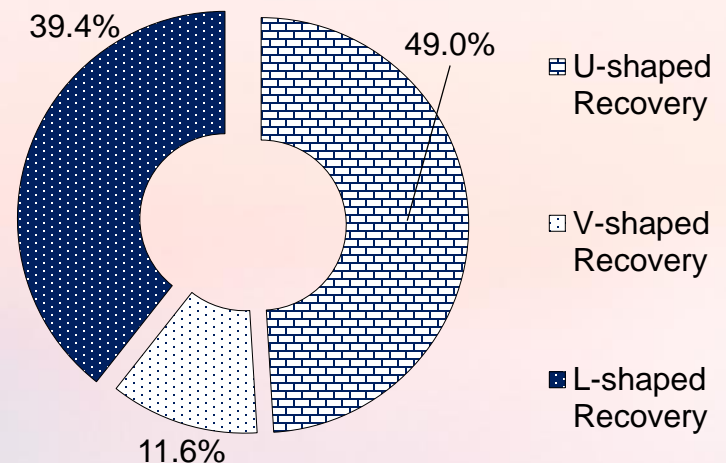
Economic recovery is anticipated in 1H 2021

- **46.4% of respondents expect the Malaysian economy to recover in 1H 2021**, with the exception from **tourism, shopping, hotels, restaurants, reaction and entertainment sectors**, which anticipate that the Malaysian economy will only recover in 2H 2021.
- **Almost 50% of respondents perceived a “U-shaped Recovery” for the Malaysian economy in 2020-2021** while **39.4% of respondents expect an “L-shaped Recovery”**.

Global, ASEAN and Malaysian economy are expected to recover in 1H 2021



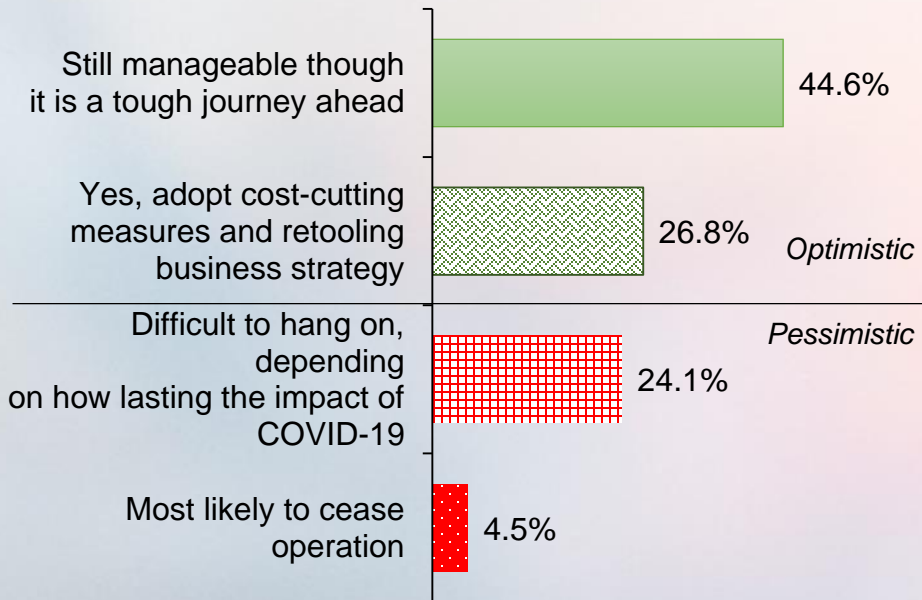
Almost 50% of respondents expect a “U-shaped Recovery” for the Malaysian economy



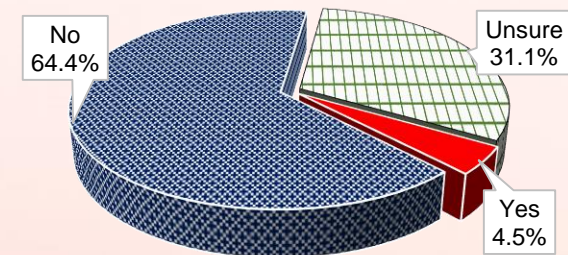
Businesses may not be able to absorb the second round of MCO's impact

- A higher percentage among SMEs (25.0% vs. 9.8% among large corporations) have “difficulty to hang on” if the impact of COVID-19 pandemic lasts longer than expected.
- 8.9% of micro enterprises are very likely to cease their operation vs. small enterprises (3.2%) and medium enterprises (3.8%).

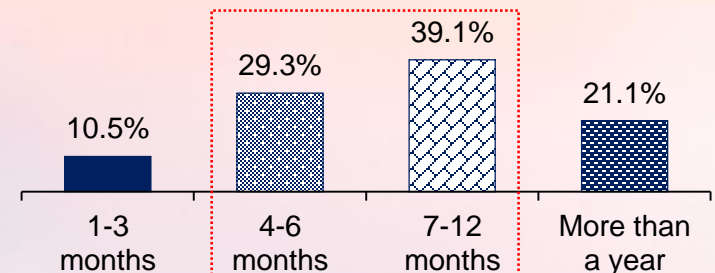
71.4% of respondents expect to survive the impact of COVID-19



64.4% of respondents can sustain their businesses in 2020 when asked whether “your business will close down in 2020”



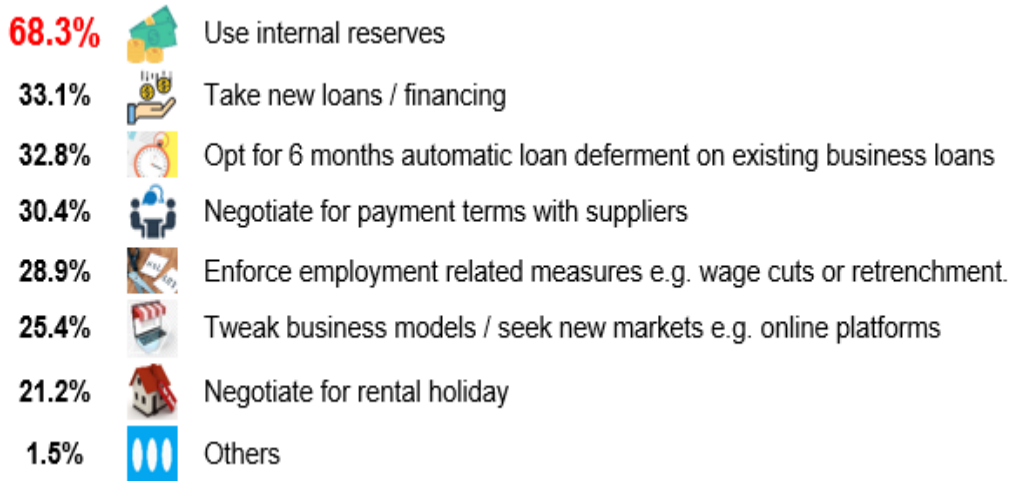
At least 4-12 months (68.4% of respondents) for business to get back on track



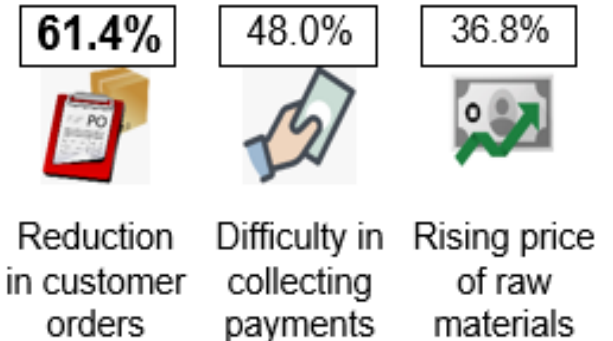
Tight cash flow position and reduction in sales

- **68.3% of respondents utilise their internal reserves to pay fixed operational expenses such as labour cost or rental fees.**
- **Businesses are facing “reduction in customer orders” and “difficulty in collecting payments”.**
- **Employers tend to engage their employees to negotiate for co-sharing of burden through pay cuts; implemented flexible working hours in order to address high employment cost due to a tight cash flow position.**

Internal reserves are the main source for company to pay fixed operational expenses during this challenging period

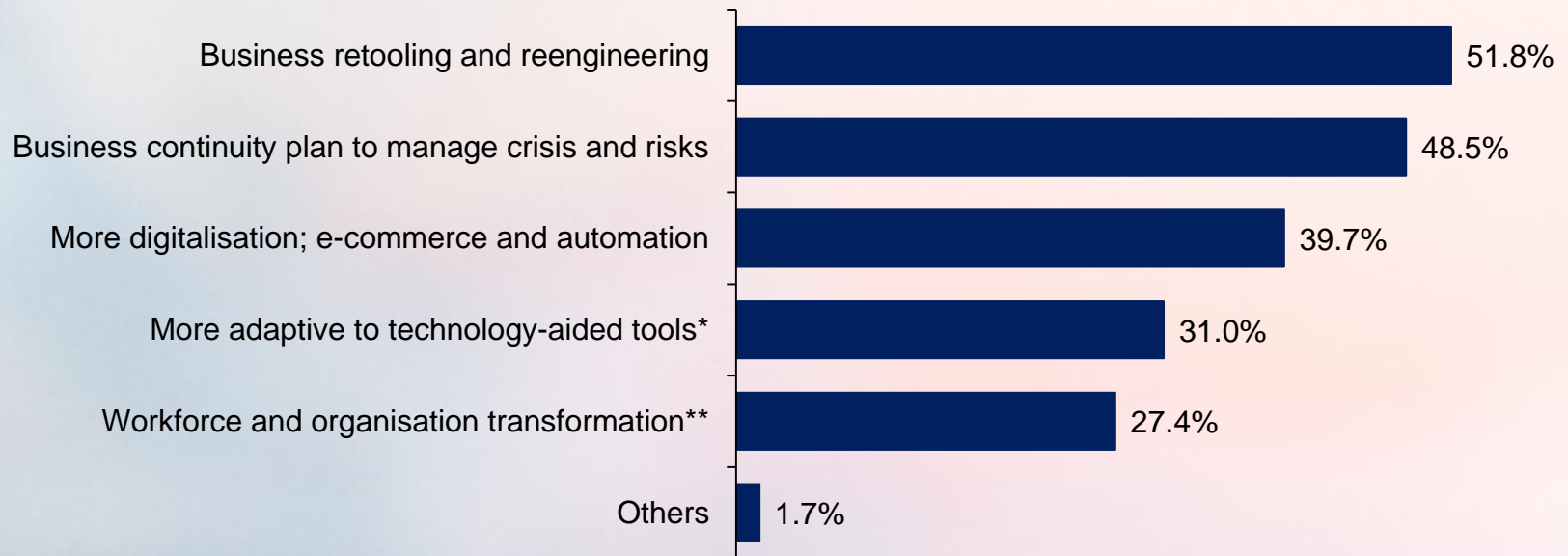


Top 3 impacts from the supply chain disruptions



Large enterprises adopted more digitalisation, E-commerce and automation

- A majority of respondents **have revamped their business structure and developed new business models as well as adopt business contingency plan** adapting to the new normal.
- **Large enterprises** (62.7% of respondents) are **moving towards more digitalisation, e-commerce and automation** in adapting to the new normal compared to SMEs (38.1% of respondents).



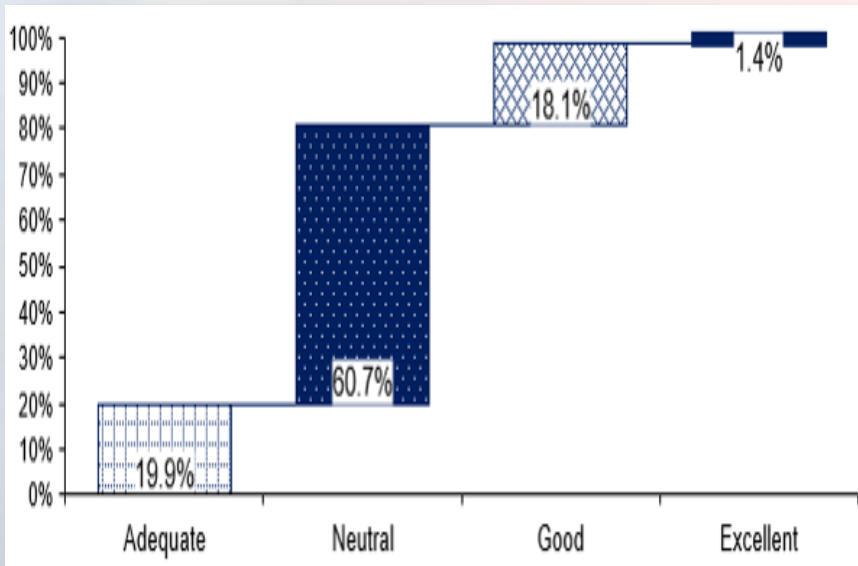
* E.g. remote office and working and video conferencing

** E.g. agile, creative and digital savvy; cybersecurity and safety, among other issues







PRIHATIN provides a timely assistance

- A majority of respondents rated RM260.0bn PRIHATIN Economic Package as a **timely assistance to blunt the COVID-19's impact on economy, businesses and households.**
- Most of respondents had **benefited from the wage subsidy program.** As of 20 July 2020, the Government has approved RM7.4 billion to 2.6 million employees.

More than 60% of respondents rated “Neutral” for PRIHATIN Economic Stimulus Package



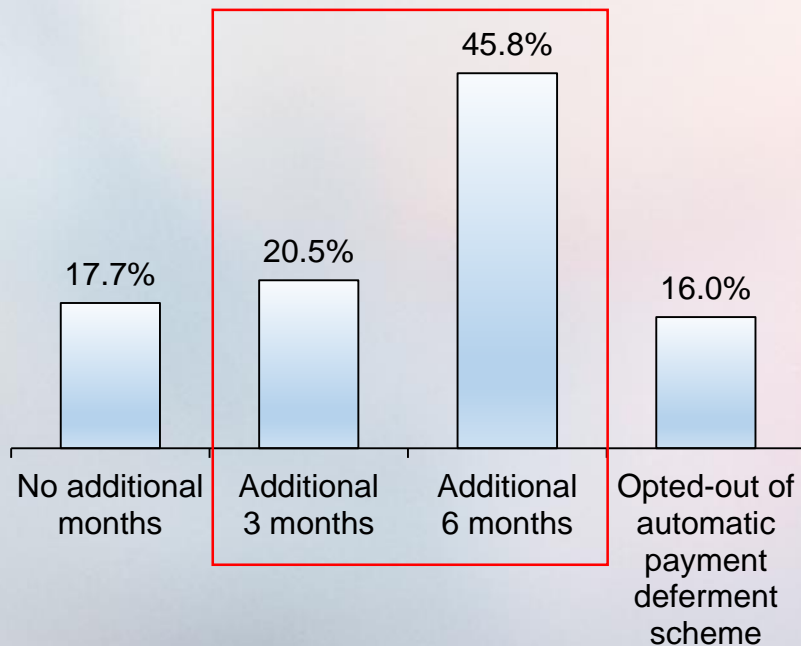
Wage subsidy is the most popular measures to ease cash flow burden

71.8%		Wage subsidy for employer
50.2%		Deferment on loan repayments
44.1%		Income tax deferment
38.0%		Loan/grant facilities
24.3%		Deferment/instalment of Employer's EPF contribution
21.9%		A 25% reduction in foreign workers' levy

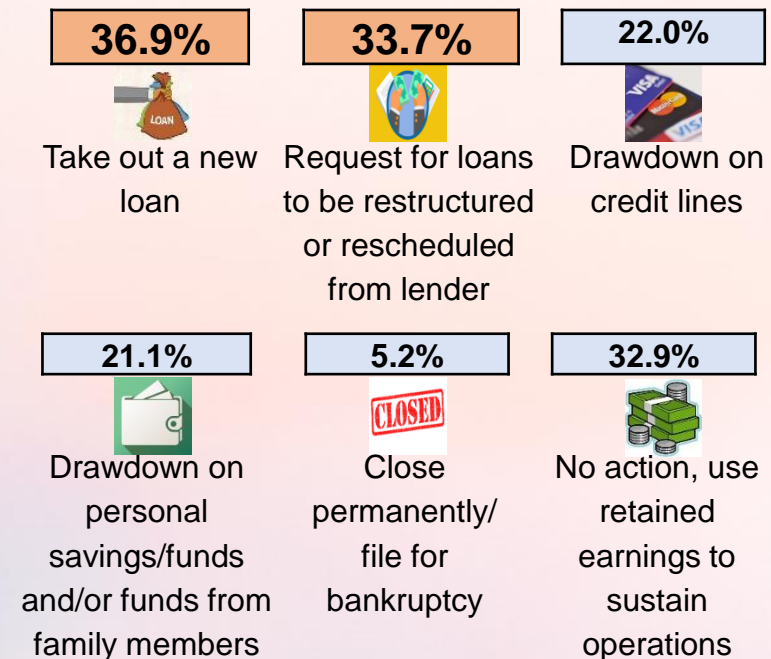
Potential tight cash flow for SMEs in 2H 2020

- **66.3% of respondents** hope that the Government to consider extending the payment deferment on **SME loans/financing for additional 3-6 months** as the business outlook remains cloudy in 2H 2020.
- On 29 July, the Government announced the extension of loan moratorium based on targeted flexible loan repayment programs after the automatic loan moratorium expire at end-September.

66.3% of respondents urge the Government to consider extending payment deferment on SME loans/financing for additional 3-6 months












Businesses will apply new loan or request loan restructuring or rescheduling after the expiry of loan moratorium








Targeted fiscal spending on public infrastructure is needed to help spur domestic demand

The elevated business operating and compliance costs need further assistance from the Government

Priority	70.5%		More measures to relieve business operating cost & lower compliance cost
	64.9%		Higher amount of wage subsidy for a longer period
	51.0%		Lower interest rate charged on Special Relief Fund and higher amount of loan per enterprise
	41.4%		Landlords who reduce rents eligible for tax deductions should cover for large companies besides for SMEs
	36.7%		More measures to help companies adapt to technological change
	35.0%		More measures to help companies raise productivity
	24.3%		More training and re-skilling of workforce for the future
	23.4%		More measures to help the retrenched employees such as reskilling
Less Priority	1.7%		Adequate. Businesses need to act

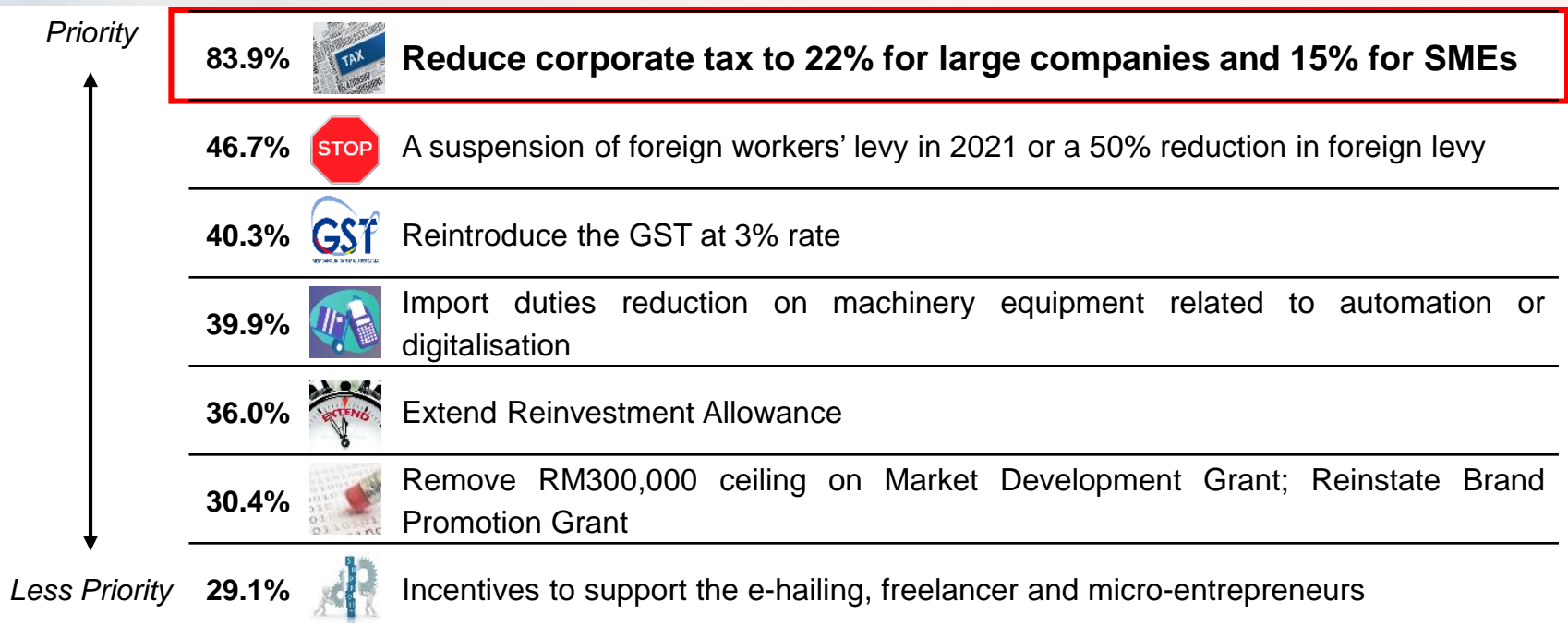
Quick and high multiplier effects from the speedy implementation of public infrastructure projects and the urgency to re-strategise national investment policy to revive both FDI and DDI

Priority	64.8%		Expedite RM4.0 billion small-scale projects as announced in the Economic Stimulus Package
	61.7%		Attract high quality and value creation FDI; step up domestic direct investment
	54.7%		Investing in “new smart infrastructure” used for high-tech, digitalisation and sustainable purposes*
	40.6%		Expedite the implementation of on-going public infrastructure projects (e.g. MRT2 & LRT3)
	37.4%		Implement MRT3, High-Speed Rail (HSR) and Singapore-Johor Bahru RTS
Less Priority			* Renewable energy, climate change, eco-green, 5G infrastructure

Budget 2021: Revive private investment

- Malaysia's corporate tax rate of 24% is higher compared to Singapore (17%), Thailand (20%), and Vietnam (20%).
- With the escalating tensions between the US and China, foreign companies are searching for a safety place to re-shore their manufacturing plants and services hubs. Malaysia may be losing such opportunity to other neighbouring countries given the uncompetitive corporate tax rate.

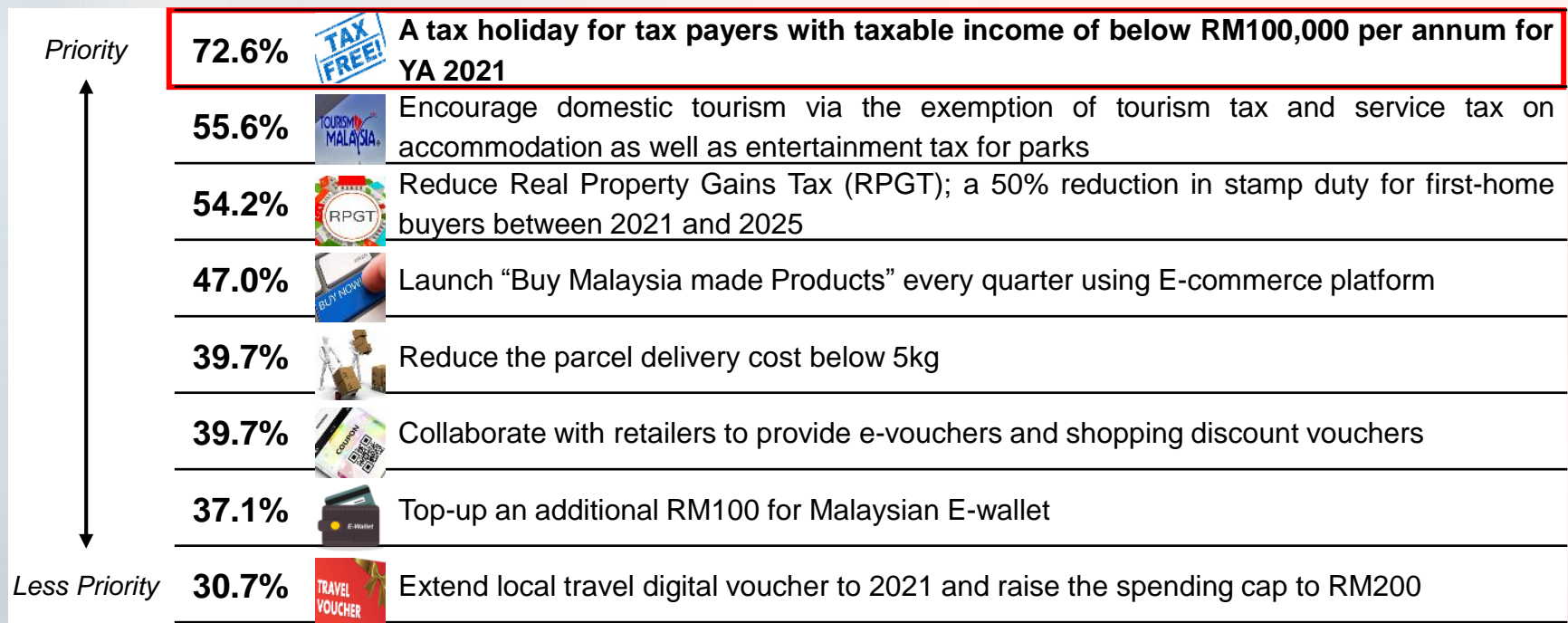
Reduce corporate tax will help motivate businesses to expand capital expenditure while reviving both domestic direct investment (DDI) and foreign direct investment (FDI)



Budget 2021: Stimulate & sustain consumer spending

- This move may benefit about 2 million individual tax payers who only contributed close to one-fifth of the individual tax revenue in 2017.
- Although this may cost the Government about RM5 billion lost in direct tax revenue, but the Government can partially recoup the lower revenue from indirect tax revenue.

Tax holiday for taxable income below RM100,000 per annum helps to increase discretionary spending, especially among the middle-income households



Conclusion

- Overall, **most businesses have pessimistic views about economic and business conditions in 1H 2020** as inflicted by the unprecedented impact of the COVID-19 and MCO.
- While PRIHATIN and PENJANA economic and financial packages have helped to ease economic damage and cash flow burden, **businesses' pessimism expectations are expected to continue in 2H 2020, albeit a marginal improvement**. At this juncture, the fragile economic and business environment remains highly vulnerable to new economic and financial shocks.
- While **most respondents anticipate the economic recovery to take place in 2021**, some cautiousness still prevail given lingering concerns about the containment of virus (through the availability of vaccines); the effectiveness of the Government's stimulus and counteract measures; the restoration of consumer and business confidence; and the recovery strength of our major trading partners.
- Businesses and investors are eyeing on **the Economic Recovery Plan in October and 2021 Budget in November 2020** to provide short-and medium-term direction and policies to get the economy back on a sustainable track.





谢谢
Thank you

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.

Tel : 603-4260 3090 / 3091 / 3092 / 3093 / 3094 / 3095

Fax : 603-4260 3080

Email : accim@accim.org.my

Website : www.accim.org.my