ACCCIM Malaysia’s Business and Economic Conditions Survey (M-BECS) 2H 2022 and 1H 2023F

马来西亚中华总商会 2022下半年及2023上半年预测 马来西亚商业和经济状况调查

20 February 2023

KEY AGENDA

- ACCCIM M-BECS: Survey Coverage
- Sentiment Tracker
- Business Pulse Diagnosis
- Current Issues

Survey coverage

- ACCCIM Malaysia’s Business and Economic Conditions Survey (M-BECS) is a key market barometer measuring the **business community’s sentiments and expectations of their business prospects and economic outlook**.

- The survey, which was conducted during the period between **15 November 2022 and 31 January 2023** covers **Jul-Dec 2022 (2H 2022)** and expectations for **Jan-Jun 2023 (1H 2023)**.

- **M-BECS contains three sections:**

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

2. **Factors Affecting Business Performance**; and

3. **Current Issue Confronting Businesses**.

Profile of survey respondents

761 companies covering a broad representation of the economy

By economic sector
n=761

Services 66.1%
Manufacturing 18.8%
Construction 9.9%
Agriculture 4.5%
Mining 0.8%

Top FIVE industries (66.7%):

- Wholesale and retail trade (20.2%)
- Manufacturing (18.8%)
- Professional and business services (14.6%)
- Tourism-related sector[1] (6.8%)
- Finance and insurance (6.3%)

By size of business operations[2]
n=761

Micro enterprises 28.3%
Small enterprises 50.3%
Medium enterprises 13.0%

= **SMEs (91.6%)**

VS.

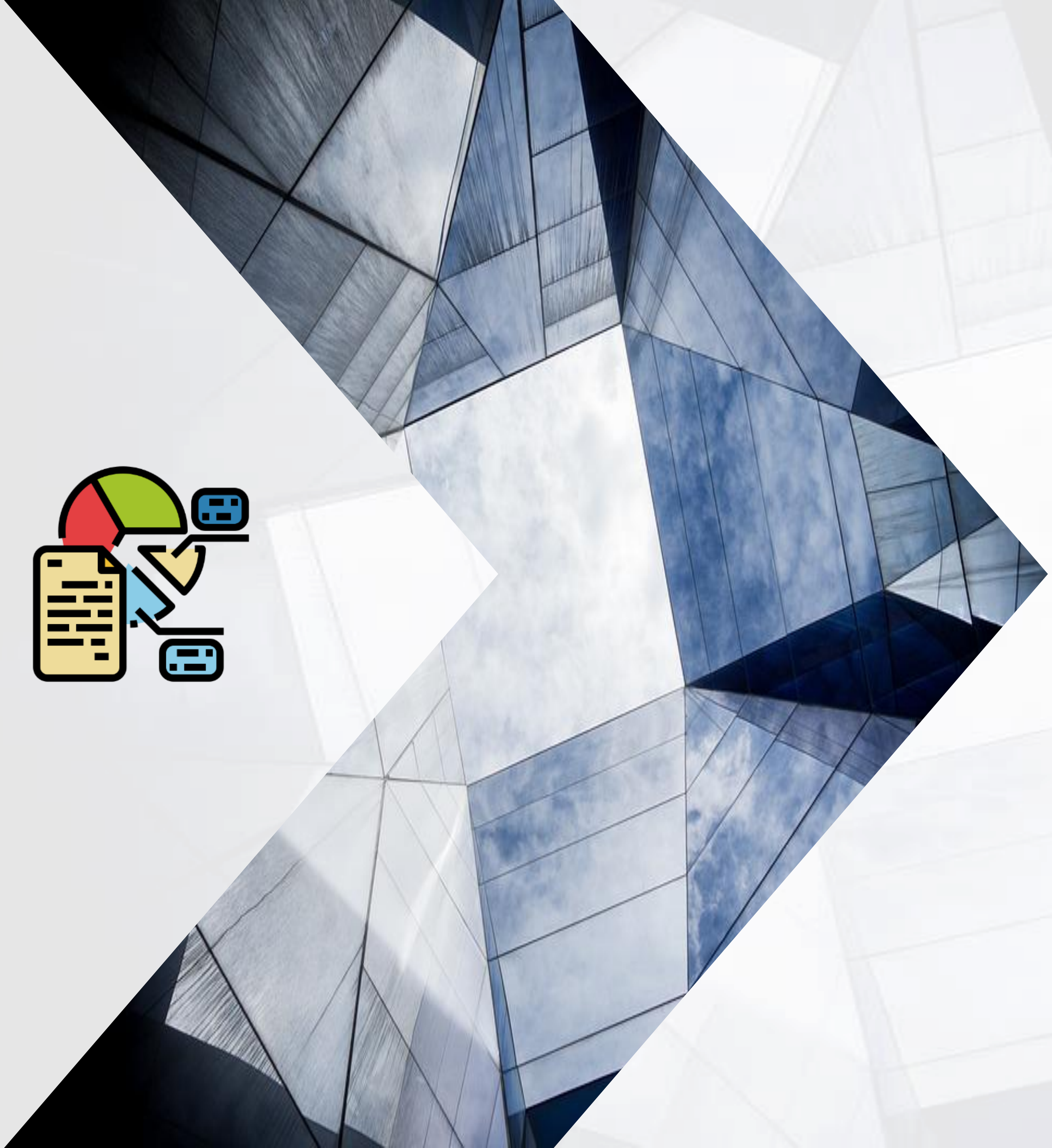
Large enterprises (8.4%)

By sales orientation
n=750

Domestic-market orientation 91.3%
Export-market orientation 8.7%

Note: Domestic-market orientation indicates at least 50% of total sales are generated from domestic market; Export-market orientation indicates more than 50% of sales generated from overseas market.

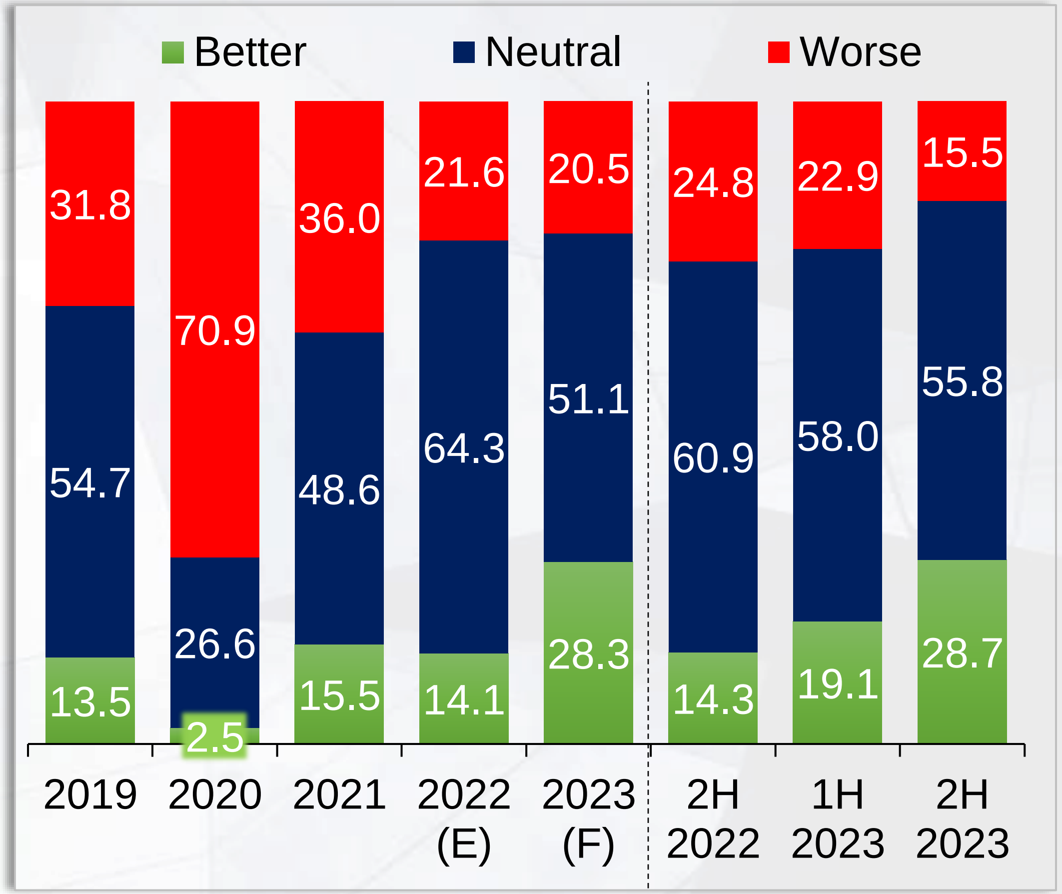
Note: Numbers may not add up to 100.0% due to rounding, which are also applied for the rest of the slides
[1] Tourism, shopping, hotels, restaurants, recreation and entertainment; [2] A business will be deemed as an SME if it meets either one of the two specified qualifying criteria, namely sales turnover or full-time employees, whichever is lower basis, as endorsed by the National SME Development Council (NSDC) and published by SME Corporation Malaysia in 2013.



Sentiment Tracker

Economic conditions and prospects: Mostly remained neutral with gradually positive expectations in 2H 2023

- The reopening of domestic economy in 2022 was challenged by a confluence of negative forces: **Prolonged military invasion in Ukraine, higher global interest rate to cool strong inflation, China's zero-covid approach, and unstoppable climate change**.
- While the economic recovery remained on track in 2022, lingering external uncertainties have caused businesses' cautiousness ahead. The survey indicated a surge in the **percentage of total respondents (24.8%) expecting "Worse" economic conditions in 2H 2022.**
- **For 2023, respondents maintained their cautious optimism about domestic economic prospects** in the face of a deceleration in global growth amid fears of a global recession. While China's reopening has eased the global recession risk, high inflation and the lagged impact of continued increases in interest rates in advanced economies will weigh on consumer spending and business activities.

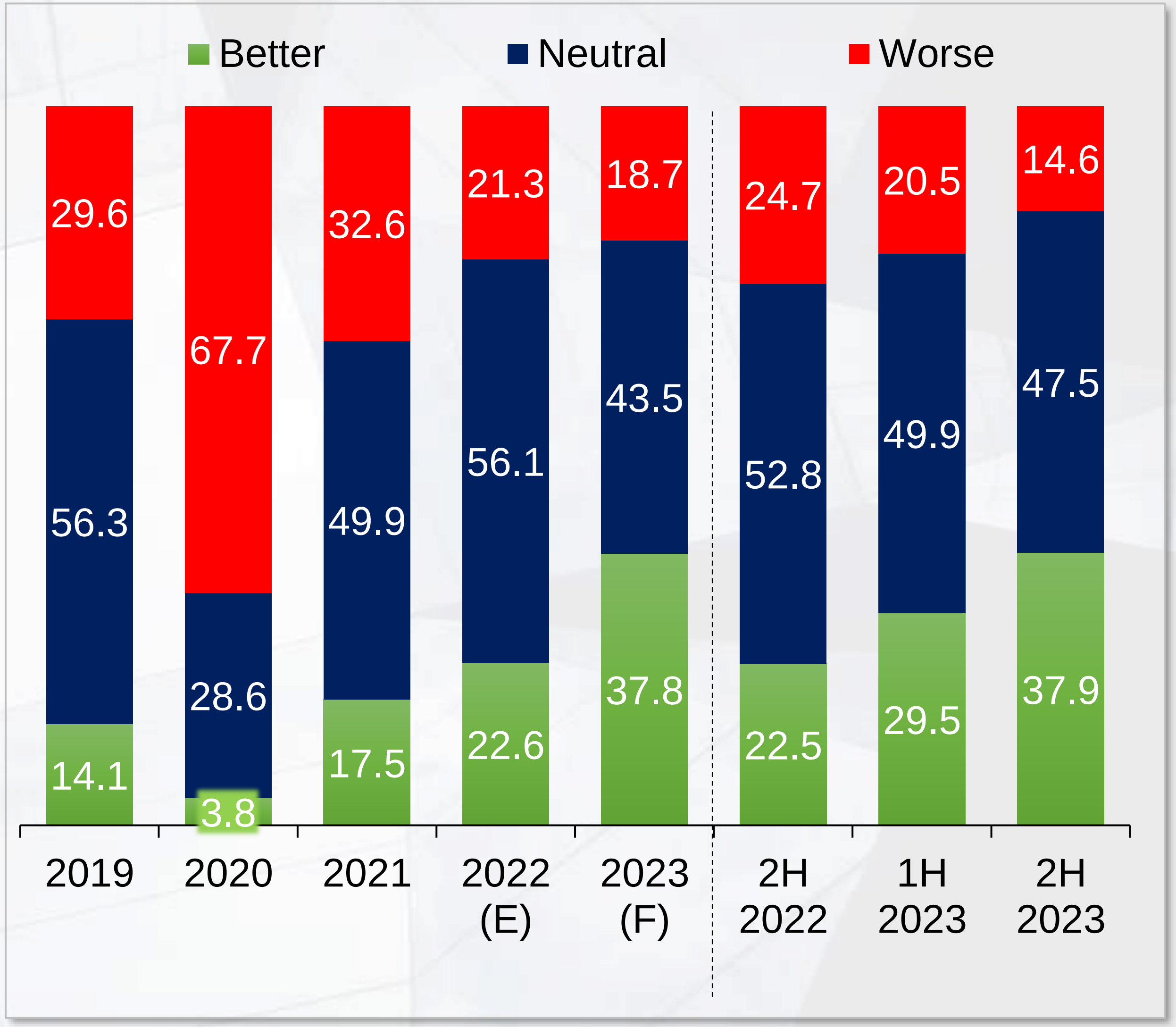


Note: E=Estimates; F=Forecast

- **More than 50% of total respondents have a "Neutral" view about domestic economic conditions in 2H 2023** (58% in 1H 2023), while **a higher percentage (28.7%) of total respondents expect "Better" prospects in 2H 2023**.

Business conditions and prospects: Mostly remained neutral with gradually positive expectations in 2H 2023

- **24.7% and 20.5% of total respondents expect "Worse" business conditions in 2H 2022 and 1H 2023,** respectively, weighed down by inflation and rising cost of living pressures, high prices of raw materials, a gradual hike in interest rate as well as external uncertainties.
- **The manufacturing (58.2%) and wholesale and retail trade (41.6%) sectors are holding "Neutral" expectations in 2H 2023.**
- **Most respondents in the construction sector see "Better" (44.0%) and "Neutral" (40.0%) business conditions in 2H 2023**, respectively, due to positive expectations for property demand and the implementation of mega projects. **Tourism (48.1%), transportation and warehousing (50.0%) and professional and business services (52.7%) expect "Positive" business conditions.**



Note: E=Estimates; F=Forecast

Business Pulse Diagnosis

Factors affecting business performance in 2H 2022

% of respondents

1st

Increase in prices of raw materials

(51.1%)

2nd

The Ringgit's fluctuation

(49.7%)

3rd

High operating cost and cash flow problem

(45.1%)

4th

Shortage of workers

(43.0%)

5th

Political climate

(32.9%)

6th

Changing consumer behaviour

(28.6%)

7th

Declining business & consumer sentiment

(28.4%)

8th

Availability of skilled labour

(26.5%)

Lower domestic demand

(26.5%)

10th

Increase in bad debt & delayed payments

(24.8%)

Increase in prices of raw materials (51.1%)

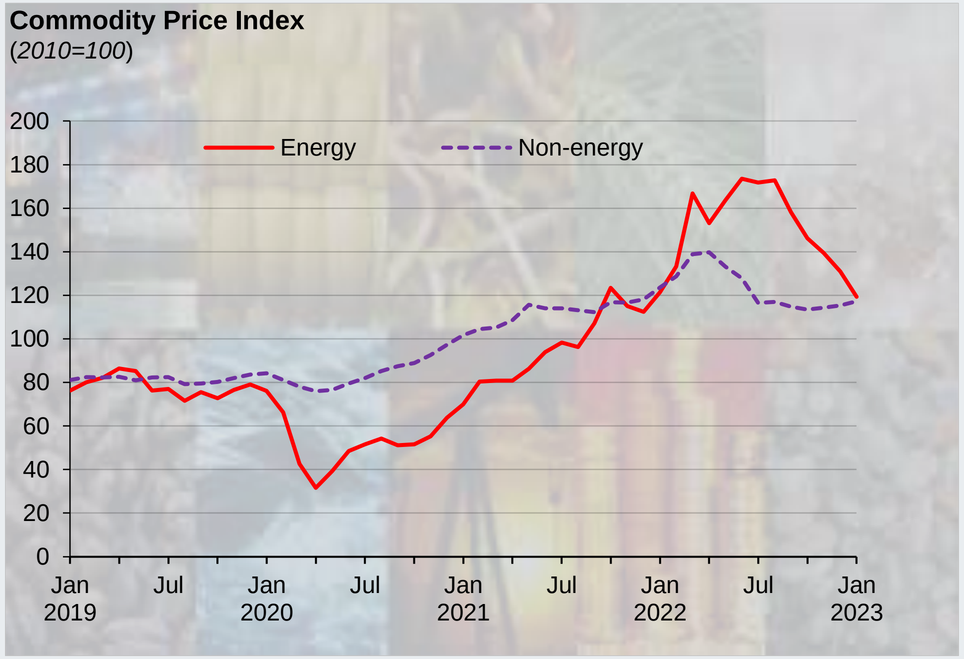
- Despite global commodities prices have eased from the peak in 2H 2022, overall price level remained elevated compared to pre-pandemic level. Along with the price stickiness effect, **“Increase in prices of raw materials” remained as the top factor (voted by 51.1% of respondents) that has constrained business performance in 2H 2022** though it is lower than 61.6% in 1H 2022.

- Sectors suffered the most were the **construction (74.7%), agriculture, forestry and fishery (70.6%) and manufacturing (60.8%).**

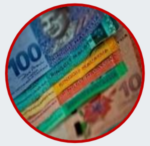
- **77.7% and 79.8% of respondents** indicated that the **cost of local and imported raw materials was higher, respectively,** in 2H 2022.

- While energy prices have moderated significantly, **non-energy prices remained stable at high level**. Hence, prices of overall raw materials are expected to remain high for a longer while.

- In fact, some prices of commodities and industrial materials (especially base metals and iron ore as well as timber and other raw materials) have seen rebound trend in recent months,.



Source: World Bank



The Ringgit's fluctuation (49.7%)

- During 2H 2022, the ringgit has reversed its depreciation trend to close at RM4.4130/USD1 at end-Dec 2022, strengthening from a cumulative depreciation of 12.0% to RM4.7465/USD1 at end-June 2022 from end-Dec 2021's RM4.1760/USD1.
- The ringgit's appreciation is riding on the US dollar's descending trend due to the near-ending of the Fed's rate tightening cycle. China's reopening, which is positive for Chinese renminbi also helped to firm up regional currencies, including the ringgit.
- **The sustainability of the ringgit's value** against the US dollar depends on **domestic economic prospects, budget deficit, inflation and interest rate outlook as well as the movement of capital flows**.

High operating cost and cash flow problem (45.1%)

- **A slightly higher (45.1% vs. 43.5% in previous survey) of total respondents ranked "high operating cost and cash flow problem" as the third business restraining factor in 2H 2022.**
- A lower percentage of respondents experienced "Better" cash flow conditions and a higher percentage of respondents experienced "Worse" cash flow conditions.
- The implementation of the Employment Act (Amendments), higher minimum wage, higher rental charges, increase in electricity tariffs are expected to result in higher operating costs.

Shortage of workers (43.0%)

- **Shortage of workers remained as one of most challenging business issue, as indicated by 43.0% of respondents**, though it is not as bad as previous survey (53.8% in 1H 2022).
- The shortage of foreign workers (FWs) are largely felt by the industries. In 2022, the Government has approved 676,070 FWs out of 1.6 million applications. As at end-Dec 2022, there were 1.45 million FWs registered in Malaysia with 316,446 new FWs on boarded.
- For 2023, there are 500,000 FWs expected to arrive in Malaysia and hence, helping to ease some pressure in the shortage of workers.

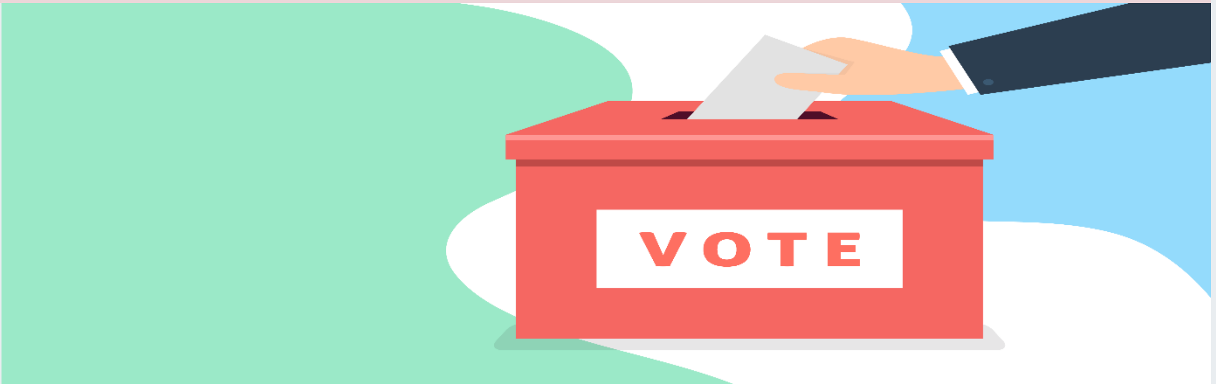
Most affected sectors by the shortage of workers
% of respondents

Construction Sector

73.3%

Political Climate (32.9%)

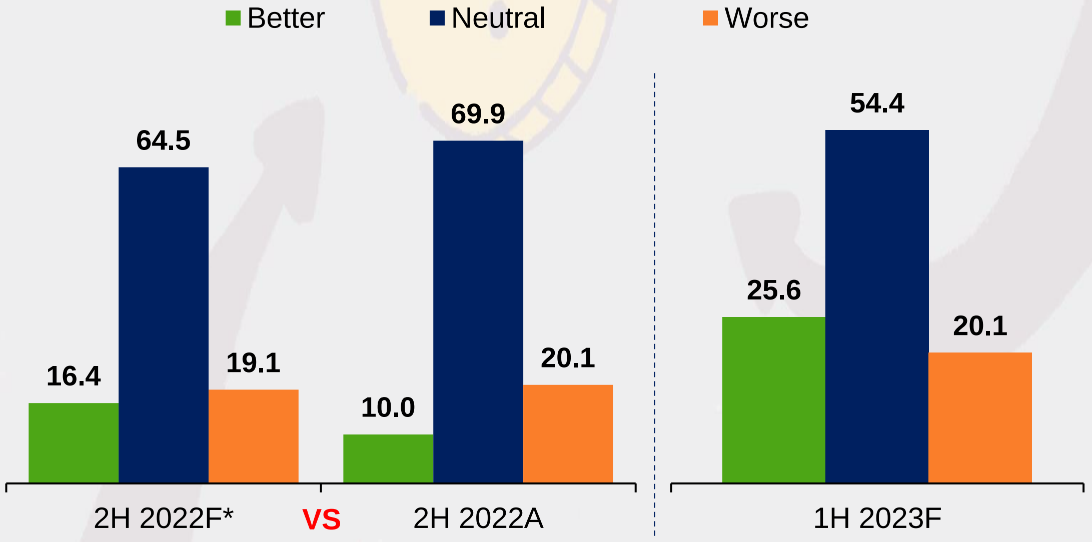
- Lingering political uncertainty associated with the outcome of the 15th General Election has dampened both businesses' and investors' sentiment.
- Close to one-third (32.9%) of the respondents indicated that the political climate uncertainty has constrained their business performance in 2H 2022.
- Political dust has settled post the 15th General Election on 19 November 2022 with the formation of a Unity Government. The signing of the Memorandum of Understanding (MoU) among the coalition leaders is seen as a prerequisite foundation in ensuring political stability ahead, focussing on institutional and economic reforms to restore investors' confidence and drive private investment, including attract more FDIs.



Business assessment in 2H 2022 and 1H 2023F

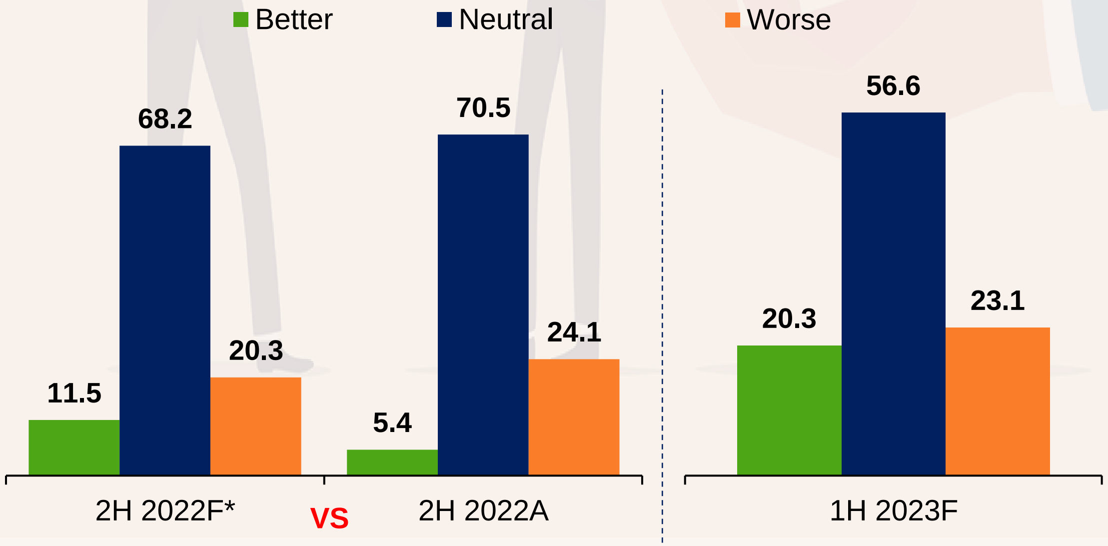
"'Neutral" cash flows conditions in 2H 2022

- **Cash flows conditions were viewed as "Neutral" in 2H 2022**, and will likely to remain unchanged in 1H 2023.
- **For 1H 2023, 25.6% of total respondents** expect **"Better"** outlook on cash flows conditions.
- **Nearly half of total respondents in the tourism-related sector** (46.0%) expect "Better" cash flows conditions in 1H 2023 given the expected revival of China's tourists to Malaysia. The Government sets a target of 5 million Chinese tourists.



"Neutral" debtors' conditions in 2H 2022

- **Most businesses (70.5%) view their debtors' conditions "Neutral" in 2H 2022** and will likely to remain unchanged in 1H 2023.
- Nevertheless, one-third of respondents (35.1%) in the trading sector recorded "Poor" debtors' conditions in 2H 2022.
- Businesses' cautiousness could be due to lingering worries about the risks of global recession and its impact on domestic economy and business environment.



F=Forecast; A=Actual ** Data obtained from the previous survey."*

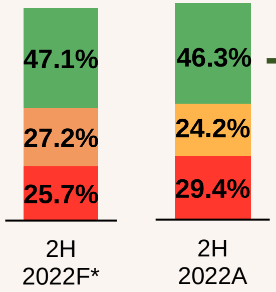
Business operations diagnosis

Positive growth in sales

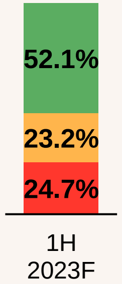
- **48.0% of respondents across most sectors have experienced an increase in overall sales in 2H 2022.**
  - **Professional and business services sector (61.3%)** have experienced an increase in overall sales, of which 41.4% of them reported 1-15% increment.
  - **Trading sectors (44.7%)** suffered a decline in sales revenue, of which most losses were between 16% and 30%.

Domestic sales revenue

■ Increase ■ Unchanged ■ Decrease

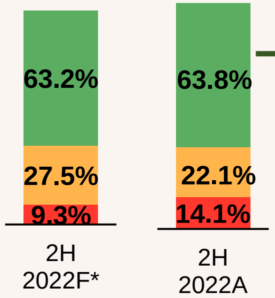


↑ >30%	:	5.9%
↑ 16-30%	:	11.5%
↑ 1-15%	:	29.0%

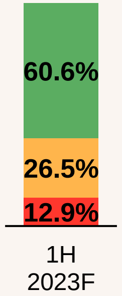


↑ >30%	:	8.5%
↑ 16-30%	:	16.4%
↑ 1-15%	:	27.3%

Domestic price level



↑ >30%	:	7.6%
↑ 16-30%	:	13.2%
↑ 1-15%	:	43.0%



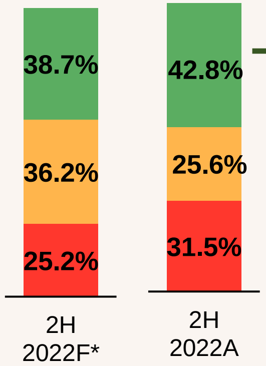
↑ >30%	:	9.2%
↑ 16-30%	:	19.4%
↑ 1-15%	:	32.0%

Production level are on the mend

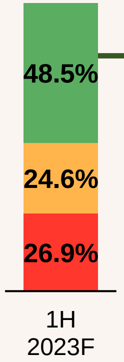
- With the support of strong demand, **42.8% of the respondents reported an increase in their production level in 2H 2022**, while **nearly half of total respondents are likely to increase their production in 1H 2023.**
- Overall, **a significant level of respondents (41.3%) are operating below 50% capacity in 2H 2022**.
- Moving into 1H 2023, nearly half of the respondents (48.1%) are likely to increase their capacity utilization level to 50%-74%.

Production

■ Increase ■ Unchanged ■ Decrease



↑ >30%	:	4.4%
↑ 16-30%	:	9.0%
↑ 1-15%	:	29.3%



↑ >30%	:	6.1%
↑ 16-30%	:	18.7%
↑ 1-15%	:	23.7%

F=Forecast; A=Actual

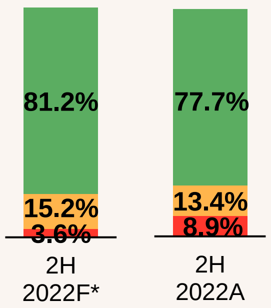
** Data obtained from the previous survey.*

Cost pressures likely to persist

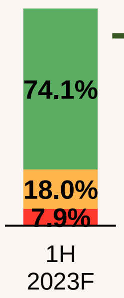
- **More than 70% of respondents in 8 (out of 12) sectors** reported an **increase in the cost of local and imported raw materials**.
- **Most of them expect cost increases to persist in 1H 2023.**
- The fluctuating ringgit performance coupled with the rebounding non-energy prices, will continue to weigh on businesses' costs and margins.

Local raw materials

■ Increase ■ Unchanged ■ Decrease

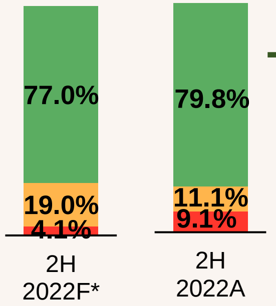


↑ >10%	:	28.9%
↑ 6-10%	:	22.0%
↑ 1-5%	:	26.8%

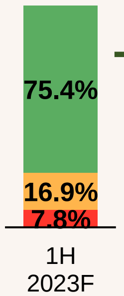


↑ >10%	:	25.5%
↑ 6-10%	:	26.9%
↑ 1-5%	:	21.7%

Imported raw materials



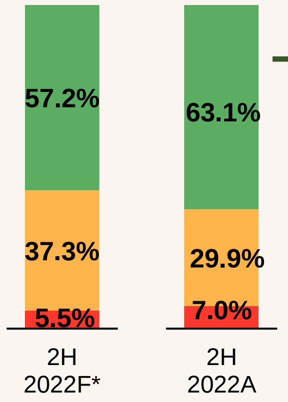
↑ >10%	:	37.5%
↑ 6-10%	:	20.9%
↑ 1-5%	:	21.3%



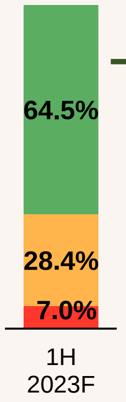
↑ >10%	:	32.8%
↑ 6-10%	:	24.4%
↑ 1-5%	:	18.2%

Capital expenditure

■ Increase ■ Unchanged ■ Decrease



↑ >30%	:	9.6%
↑ 16-30%	:	12.3%
↑ 1-15%	:	41.2%



↑ >30%	:	10.2%
↑ 16-30%	:	22.5%
↑ 1-15%	:	31.8%

F=Forecast; A=Actual

** Data obtained from the previous survey.*

Investment prospects improve broadly

- **Nearly two-thirds of total respondents (63.1%) have increased their capital expenditure in 2H 2022**, in tandem with the improvement in business activities and firmer domestic demand.
- **64.5% of respondents plan to invest further in 1H 2023**, while 28.4% of respondents will likely to maintain their capital investment.
- By sector, **more than 70% of respondents in the tourism-related, real estate, and trading sectors indicate their intention to invest further in 1H 2023**.

Robust labour demand amid higher wage growth

- **41.9% of total respondents have increased their manpower in 2H 2022 while 41.6% have maintained their staff pool.** The hiring trend will largely remain intact 1H 2023.
- **More than half of the respondents (65.6%) increased their employees' wages in 2H 2022**, of which 29.6% of respondents reported a 1-5% increment in wages.
- Nearly 70% of respondents will likely increase their employees' wages in 1H 2023, to comply with the minimum wage order.

Number of employees

Increase / Unchanged / Decrease

	2H 2022F*	2H 2022A
Increase	35.1%	41.9%
Unchanged	46.0%	41.6%
Decrease	18.9%	16.5%

	1H 2023F
Increase	48.2%
Unchanged	40.4%
Decrease	11.4%

9.9%	Increase >10
15.9%	Increase 6 - 10
22.4%	Increase 1 - 5
40.4%	Unchanged
6.9%	Decrease 1 - 5
2.6%	Decrease 6 - 10
2.0%	Decrease >10

Wage growth

Increase / Unchanged / Decrease

	2H 2022F*	2H 2022A
Increase	59.7%	65.6%
Unchanged	35.6%	29.9%
Decrease	4.7%	4.5%

	1H 2023F
Increase	68.9%
Unchanged	28.3%
Decrease	2.8%

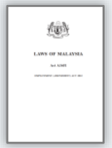
18.0%	Increase >10%
23.7%	Increase 6% - 10%
27.2%	Increase 1% - 5%
28.3%	Unchanged
2.2%	Decrease 1% - 5%
0.6%	Decrease 6% - 10%
0.1%	Decrease >10%

F=Forecast; A=Actual

** Data obtained from the previous survey.*

Current Issues #1

IMPLICATIONS OF THE EMPLOYMENT (AMENDMENT) ACT 2022



The Employment (Amendment) Act 2022

The Employment (Amendment) Act 2022 was enforced on 1 January 2023, with a few key features:

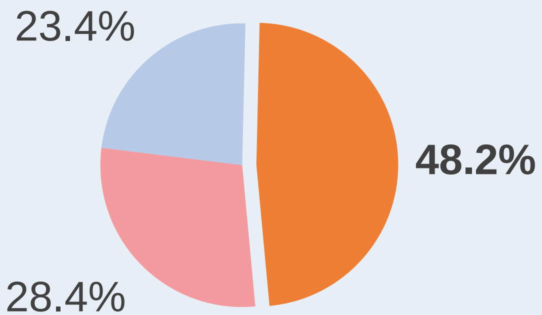
Coverage *Note: Amended under Employment (Amendment of First Schedule) Order 2022 [P.U. (A) 262/2022]*	Increase coverage of employees with monthly salaries of RM2,000 and below to **all employees with some exemptions for those earning above RM4,000 per month**.
Hours of Work	Reduce the maximum of 48 hours to **45 hours per week**.
Maternity	Increase from 60 days to **98 days of paid leave**.
Paternity Leave	**7 consecutive days** of paid leave.
Flexible Working Arrangement	**Able to apply for flexible work arrangements**, subject to employer's decision within 60 days, and a reason must be given in case of rejection.
Notice on Sexual Harassment	Exhibit conspicuously a notice to **raise awareness of sexual harassment**.
Forced Labour	**Inclusion of forced labour clauses** under Part XVII Offences and Penalties.
Presumption of Employment	**Covers gig workers.**

Note: The list is not exhaustive.

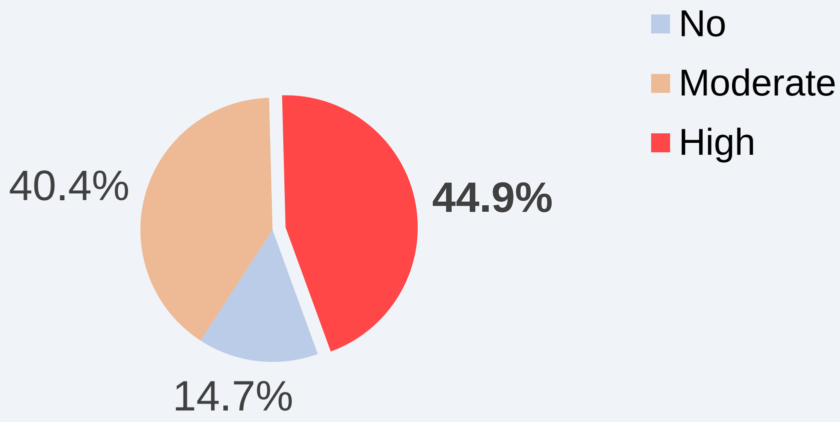
“Moderate to high” impact on businesses

Degree of impact from the Employment (Amendment) Act *% of respondents*

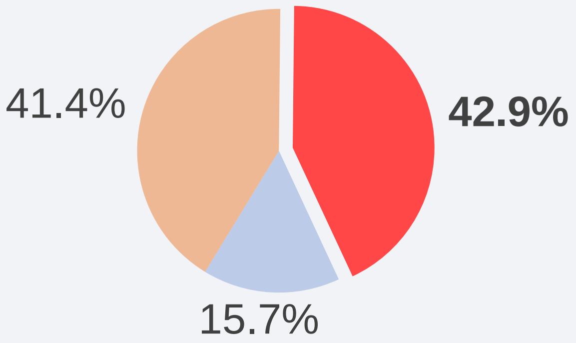
Reduction of working hours from 48 to 45 hours per week



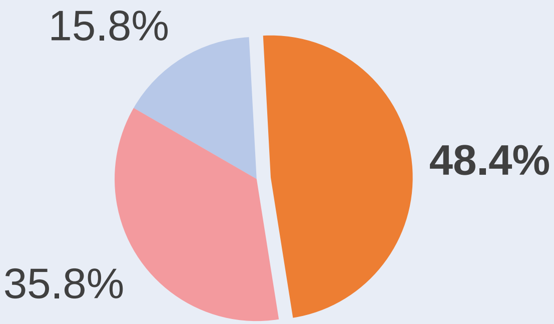
Increase in maternity leave from 60 to 98 days



Higher threshold for overtime payment (from RM2,000 to RM4,000)

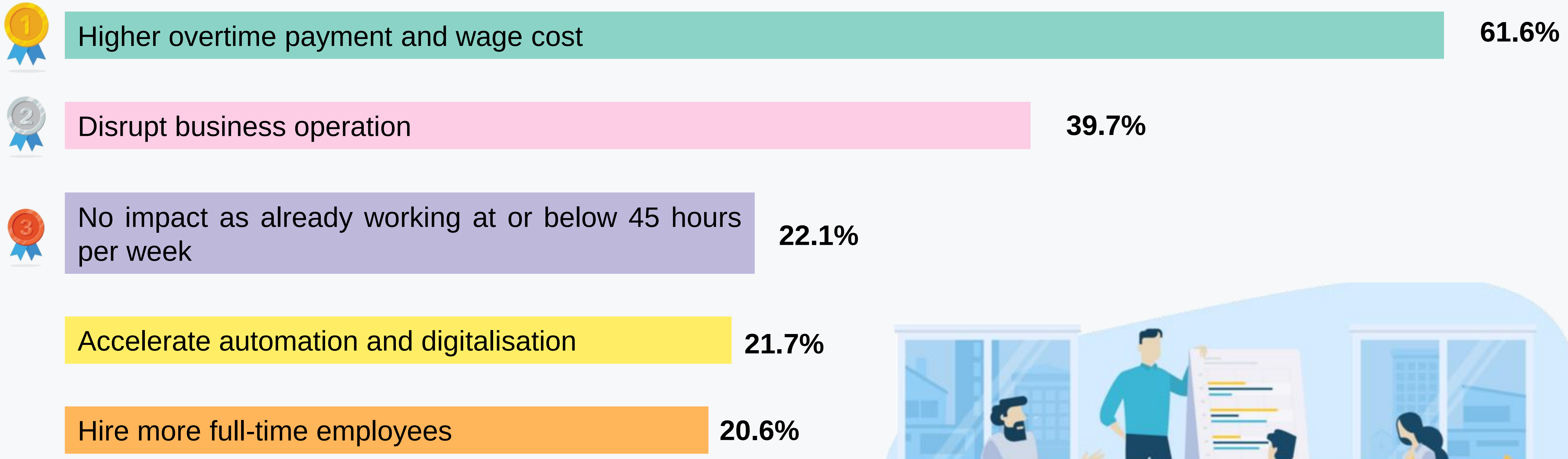


Coverage for all employees (from RM2,000 previously)



High employment costs and business disruption

How does a reduction in working hours affect businesses? % of respondents



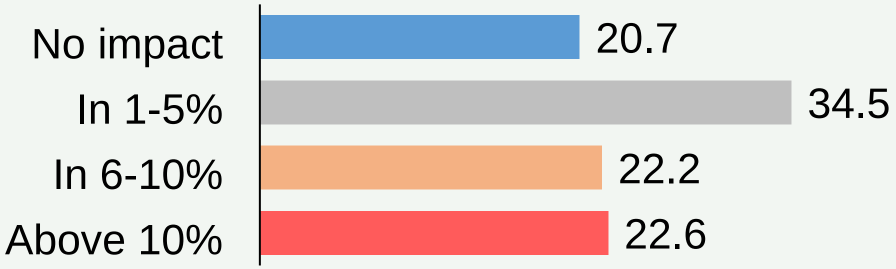
Considerable impact on social sustainability

Employment cost impact

% of respondents

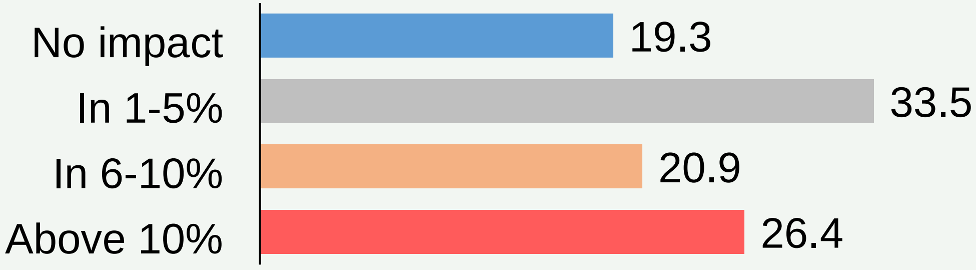
Reduction in working hours

79.3% has an impact!



Higher threshold for overtime

80.7% has an impact!



Impact of additional maternity leave on female employability

41.3% of respondents indicated **having a higher male-to-female ratio**, as an alternative for an increase in maternity leave.

% of respondents

No	**19.1%**
Higher part-time to full-time for female	**13.8%**

Expected support from the Government

% of respondents

Funding the maternity benefits via PERKESO or the Employment Insurance System (EIS)	**64.6%**
Government to co-share an additional 38 days of maternity benefits	**56.1%**
Double tax deduction for an additional 38 days of maternity benefits	**52.3%**
Phased implementation starting from large enterprises to SMEs	**37.0%**

High impact on business operations and costs

- Based on the survey, **over 40% of the respondents indicated a “moderate to high impact” on their businesses associated with the respective amendments**, including a reduction in working hours, an increase in maternity leave, a higher threshold for overtime payment, and better coverage for all employees.
- **Most respondents incurred a higher overtime payment and cost (61.6%) and disruption of business operation (39.7%). 22.1% of total respondents indicated that there was “no impact” on their operating costs** as they were already working at or below 45 hours per week. Notably, **nearly one-third (32.2%) of total respondents in the manufacturing sector** indicated that **reduced working hours would accelerate automation and digitalisation.**
- **Around 80% showed a higher overall employment cost impact on businesses.** Both reduced working hours and a higher threshold for overtime payment would incur a **1-5% increase** (34.5% and 33.5% of total respondents, respectively) in total employment costs.
- **The manufacturing sector (32.9% of respondents) has suffered additional costs between 6-10%** due to a reduction in working hours.
- We observe that **41.3% of respondents indicated a shift to a higher male-to-female ratio in employment to mitigate against the impact of higher maternity leave**. This does not bode well for increasing women’s participation in the labour force and promoting gender equality.
- Several fiscal supports can be considered to mitigate the cost impact: (i) **Funding the maternity benefits via PERKESO or the Employment Insurance System (EIS)** (as ranked by 64.6% of total respondents); (ii) **Co-share an additional 38 days of maternity benefits by the government** (56.1%); (iii) **Double tax deduction for an additional 38 days of maternity benefits** (52.3%); and (iv) **Phased implementation starting from large to small enterprises** (37.0%).

ACCCIM's recommendation: Assistance to SMEs in the short term

- While reducing working hours aimed at achieving a work-life balance, businesses have to bear additional wage costs, **estimated at an increase between 37.6% and 97.0% for different job categories based on simulation.**

- The increase in monthly salary level eligible for overtime payment from RM2,000 to RM4,000 for most employees also added more employment costs. **The overall cascading effects on total wage cost would be higher due to statutory contributions (EPF, SOSCO and EIS, HR Corporation).** This is in addition to the higher minimum wage between 25.0% and 36.4% implemented in May 2022.

- In South Korea, a reduction in standard working hours is gradually implemented, starting from initial enforcement on large enterprises, and moving on to small enterprises. **The Government also provided a tailored consulting service to assist businesses with working hours adjustments.**

- Given the still-challenging economics and business condition in 2023, **the Government should continue assisting SMEs companies by setting up tailored consulting services with working hours adjustment in specific sectors or providing financial assistance in the upcoming Budget 2023.**

ACCCIM’s recommendation: Co-sharing of additional maternity benefits

- An increase in 38-day to 98 days from 60 days paid salaries for maternity benefits would also increase the wage cost of business, **estimated at RM2,242.70 million per year, an increase of 63.3% from RM1,373.1 million based on 60 days of maternity benefits.**

- Our research indicated that the payment of maternity benefits approaches in many countries are **generally either fully or partially funded by the Social Security Insurance system**, which is contributed by both employer and employee. There is no limit on the number of births as long as it meets the requirements.

- **The Government also reimburses the maternity benefits partly**, as in the case of Singapore, whereby the Government co-shares the payment for the first and second child. In contrast, for the third and subsequent child, it is fully reimbursed by the Government.

- **It is proposed that the Government c**an **consider a workable co-sharing payment of maternity benefits to lessen the cost burden on businesses**. At the same time, continue supporting the participation of women in the labour force. Singapore’s mode of maternity benefits payment is a viable option. We can also explore the option of using SOSCO to fund the maternity benefits partially.

Current Issues #2

CARBON TAX

Carbon Tax

- According to the Organization for Economic Co-operation and Development (OECD), a **carbon tax is "an instrument of environmental cost internalization. It is an excise tax on the producers of raw fossil fuels based on the relative carbon content of those fuels**."
- **Carbon taxes have a central role and an effective way of reducing GHG emissions and pollution levels across the globe**. By placing higher taxes on carbon-based fuels, households and industries can reduce the level of pollution and look to alternatives like solar power and hydrogen engines, which have lower impacts on the environment. By implementing a carbon tax, businesses and industries will be encouraged to develop more environmentally friendly processes.

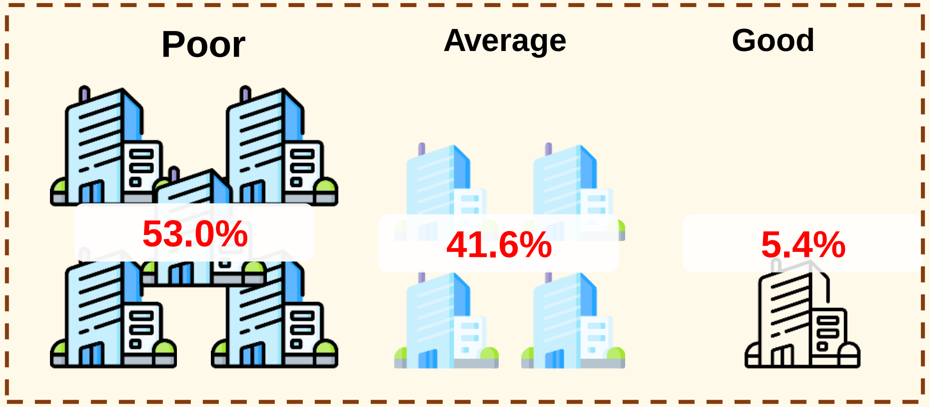
Issues to consider when implementing a carbon tax

- **Importance of access to open and timely data** (to avoid data gap in terms of availability, accessibility, transparency and differences in methodology)
- **Improve awareness and understanding on importance of climate change issues –** understanding of climate change is low, introducing a carbon price can be challenging due to lack of public awareness and understanding of carbon pricing – its goal, benefits, challenges and how regressive impacts can be addressed
- The urgency for the government to **provide policy signals and lead the way**
- **Implement common definitions and standardised climate disclosure requirements/frameworks** (effective monitoring, reporting and verifying the carbon accounting process)

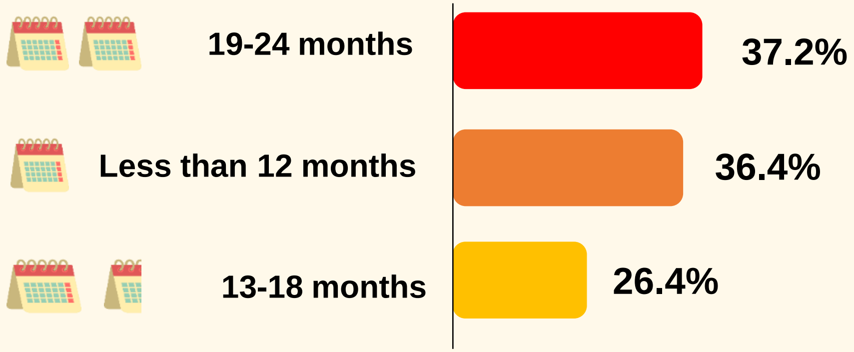
Carbon Tax

% of respondents

Degree of company understanding of carbon tax



What is the lead time required for the implementation of a carbon tax?



How would your company prepare for carbon tax implementation?

65.2%

Not ready yet / Do not know how to prepare

24.1% Participate in Greenhouse Gas (GHG) Emissions-related program/training

22.0% Engage expertise in carbon footprint management

20.1% Explore to reduce carbon footprint from supply chains to distribution networks

18.2% Adopt low carbon emission technologies

The CHALLENGES

Top 3

% of respondents

1. **Lack of expertise and information about how to implement low carbon emission (60.2%)**
2. **Lack of capital and increase in business costs (46.8%)**
3. **Lack of qualified staff to monitor carbon emissions (45.1%)**

- **40.3%** Concerns about cumbersome procedures and documentation
- **27.1%** Complex data management (e.g. data availability, quality of data, etc.)

What can the Government do to HELP businesses reduce GHG Emissions?

Top 3

1. **48.6%** **Clear guidelines and timeline for a progressive introduction of carbon tax**
2. **Government-funded GHG Emissions-related training and courses (46.8%)**
3. **Introduce a low carbon tax rate to promote awareness (46.4%)**

- **42.6%** Phased implementation – from GLCs to large private enterprises; and to SMEs
- **41.7%** A six-month grace period from penalty during the transition period
- **41.6%** Set up a carbon tax portal network to provide information and guidance to businesses
- **41.6%** Tax rebates for households and businesses for adopting GHG Emissions
- **41.1%** Grants/Incentives for low-carbon projects (e.g., renewable energy, energy-efficient technology and equipment)

Q&A

谢谢 Thank you

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