



ACCCIM Malaysia's Business and Economic Conditions Survey (M-BECS) 2H 2023 and 1H 2024F

马来西亚中华总商会 2023下半年及2024上半年预测
马来西亚商业和经济状况调查



X Xxx 2024

KEY AGENDA



ACCCIM M-BECS: Survey Coverage



Sentiment Tracker



Business Pulse Diagnosis



Current Issue



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 **6 November 2023 and 5 January 2024**, covers performance in **Jul-Dec 2023 (2H 2023)** and expectations for **Jan-Jun 2024 (1H 2024).**



M-BECS contains three sections:



1. Economic and Business Performance and Outlook;




2. Factors Affecting Business Performance; and

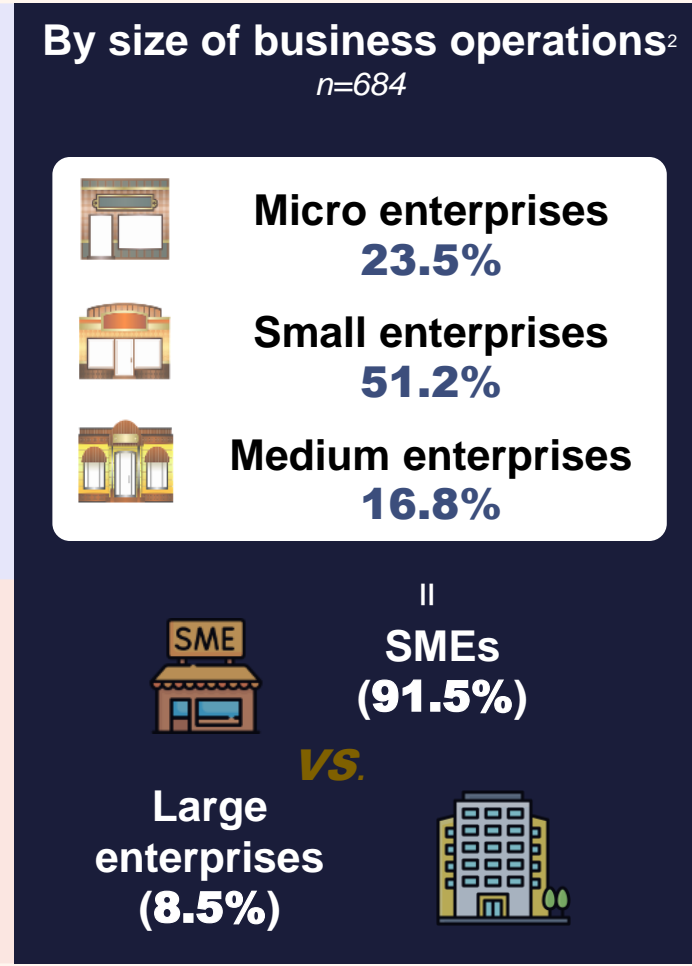
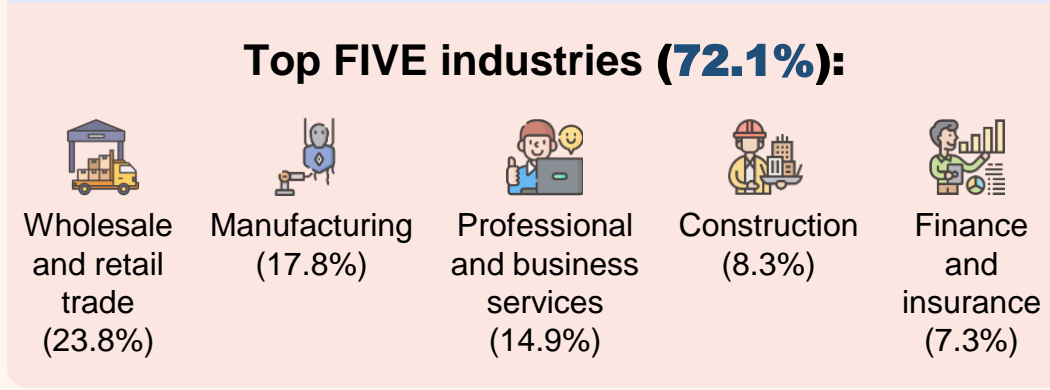
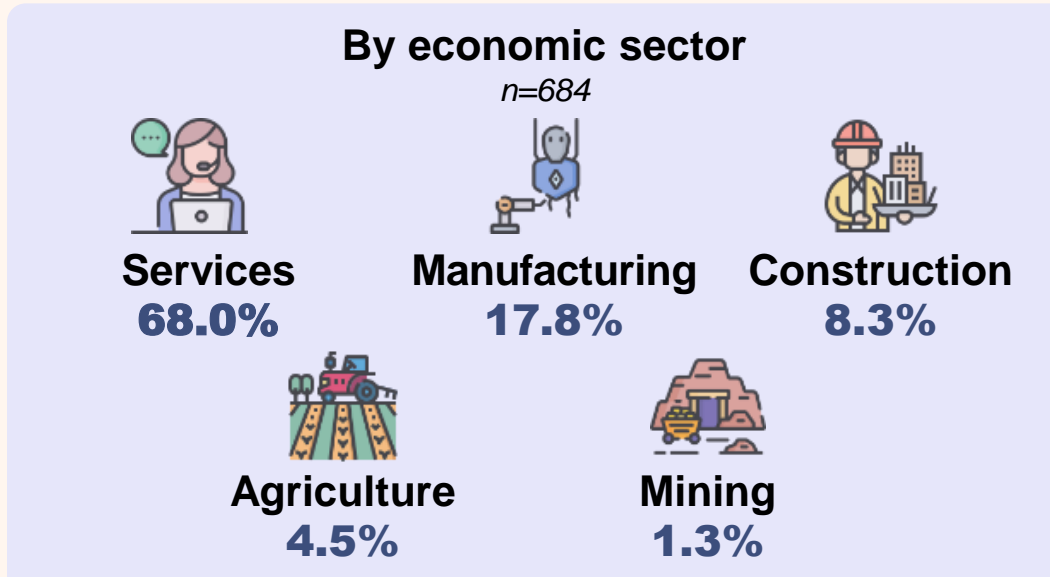


3. Current Issue Confronting Businesses.

Profile of survey respondents

 **684 companies** covering a broad representation of the economy

% of respondents



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: “Less favourable”; positive expectations in 1H 2024



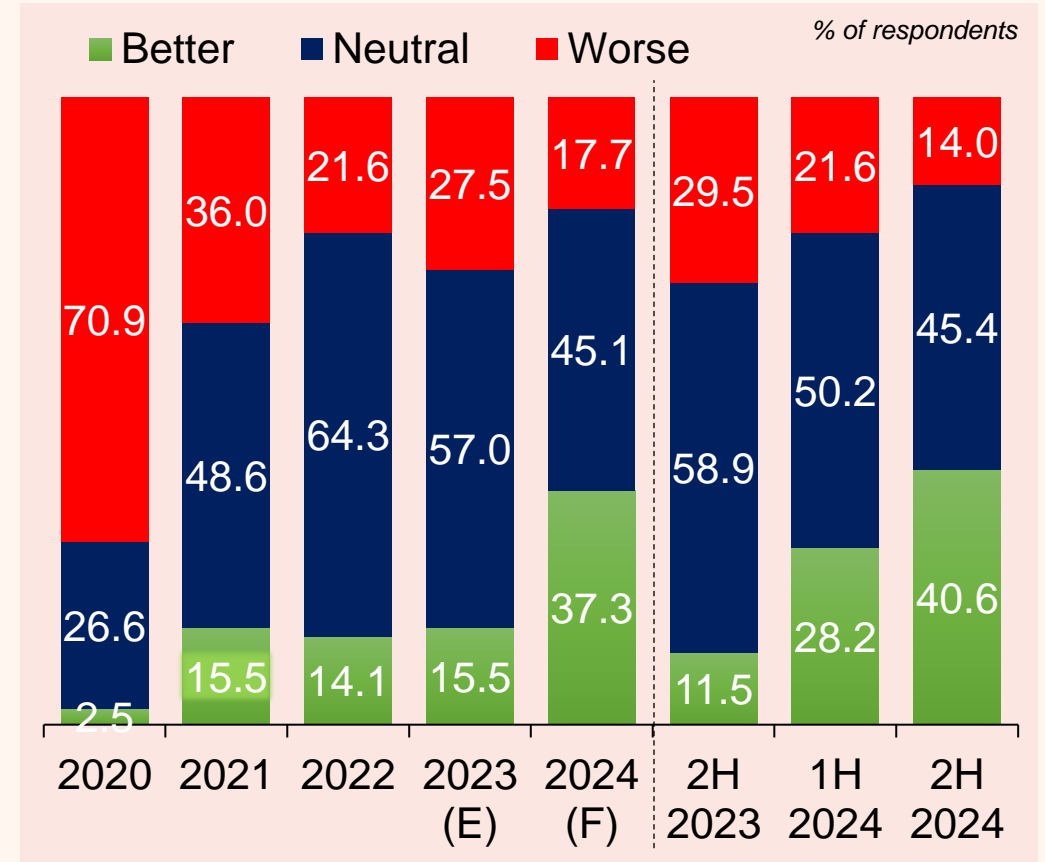
The Global and Malaysian Economy:

- **Global:** Slowed and uneven in 2023; remains weak in 2024 – the lagging effects of tighter monetary policy, ongoing geopolitical tensions, withdrawal of fiscal support, and extreme weather events.
- **Malaysia:** Slowed in 2023 (estimated 3.8% growth vs. 8.7% in 2022); grow by an estimated 4.5% in 2024 – a gradual recovery in exports and continued growth in domestic demand.



Survey results:

- **Most respondents** (58.9% “neutral” and 29.5% “worse”) indicated a “less favourable” view in 2H 2023 – manufacturing (35.2%), wholesale and retail trade (34.0%), and agriculture (32.3%) reported deteriorated economic conditions.
- **Cautiously optimistic outlook in 2024:** 28.2% “better” in 1H and 40.6% “better” in 2H 2024.



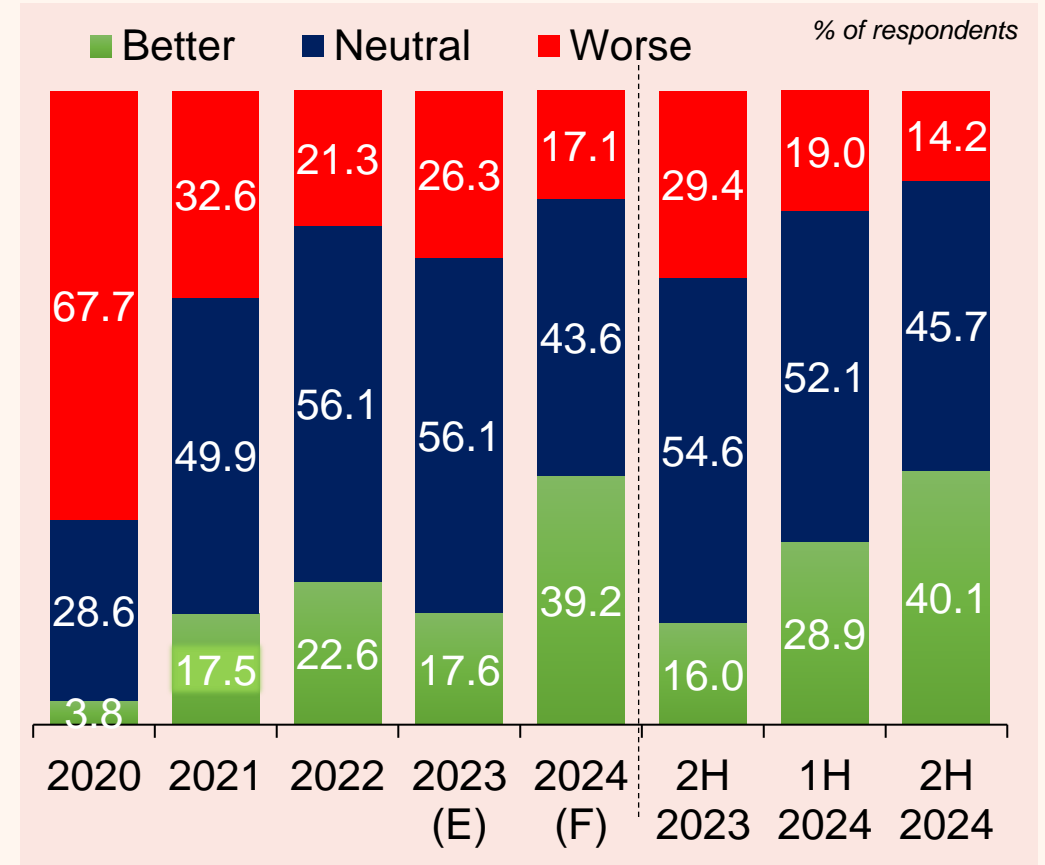
Note: E=Estimates; F=Forecast

Business conditions and prospects: Mostly “neutral” with gradually positive expectations in 1H 2024



Survey results:

- **Business conditions were generally deteriorating in 2023.**
 - Worse business conditions in the **tourism-related sector** (38.3%), **manufacturing** (36.4%), **wholesale and retail trade** (34.6%), and **agriculture** (32.3%) sector.
- **Businesses’ cautious stance about business conditions in 2023 will improve to a slightly positive outlook in 2024.**
 - **Close to 40% have a better business prospect in 2024** (vs. 17.6% in 2023).
 - **Professional services** (48.0%), **agriculture** (45.2%), **wholesale and retail trade** (40.0%), **manufacturing** (39.8%), and **tourism-related** (37.8%) sectors are anticipating improved performance.



Note: E=Estimates; F=Forecast



Business Pulse Diagnosis



Factors affecting business performance in 1H 2023

% of respondents

1st



The Ringgit's fluctuation
(51.8%)

2nd



Increase in prices of raw materials
(45.0%)

3rd



High operating cost and cash flow problem
(38.6%)

4th



Declining business and consumer sentiment
(35.8%)

5th



Lower domestic demand
(35.1%)

6th



Changing consumer behaviour
(34.9%)

7th



Political climate
(28.9%)

8th



Availability of skilled labour
(27.5%)

9th



Shortage of workers
(27.3%)

10th



Increase in bad debt and delay payments
(21.6%)



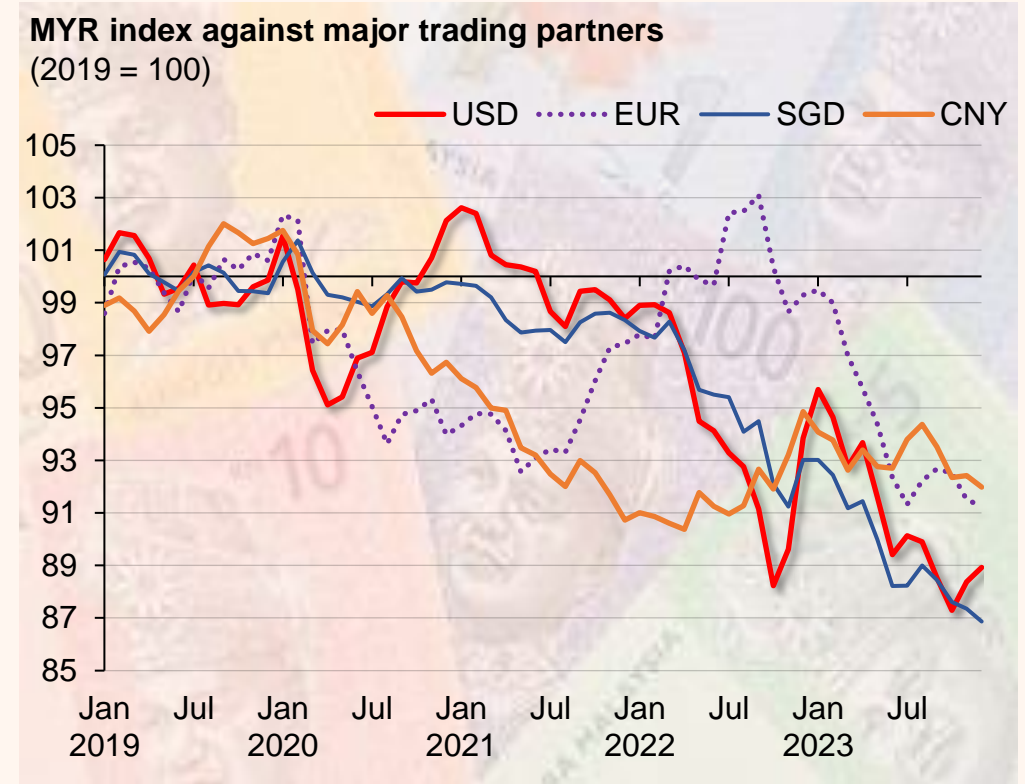
The Ringgit's fluctuation (51.8%)



- Since the US Federal Reserve began its aggressive interest rate hiking in Mar 2022, the Ringgit has joined most global and regional currencies to depreciate against the US dollar.
- Over the past two years, **52.7% of respondents were negatively impacted** by the Ringgit's depreciation, with **52.6% suffering from squeezed margins**.
- The weakening Ringgit resulted in higher costs of imported inputs and increased prices of consumption goods for consumers.
- A stable Ringgit is vital for facilitating business operations and planning.

Note:

As of end-December 2023, the Ringgit had depreciated by 10.8% against the Singapore dollar, 8.4% against the greenback, 7.6% against the euro, 6.2% against the Thai baht, and 5.7% against the pound sterling, compared to end-March 2022. Overall, the Ringgit was traded between RM4.23 and RM4.79 against the US dollar in 2023.





Increase in prices of raw materials (45.0%)



- **Key drivers:** Increases in prices globally induced by the supply chain disruptions since the COVID-19 pandemic and the weakening Ringgit.
- 77.4% of the respondents indicated **higher costs for both local and imported raw materials.**
- **It is expected to continue**, posing an upside risk to selling prices as businesses are unable to absorb these costs on a long-term basis.

Highlighted sectors with high percentage in this factor:



Construction

63.2%



Manufacturing

54.9%

High operating cost and cash flow problem (38.6%)



- **Businesses also suffered from worse-than-expected cash flow and debtors' conditions in 2H 2023** - higher percentage of respondents indicating “worse” compared to the forecast made in the previous survey.
- **It is expected to remain a drag on business costs in 2024** – an increase in the service tax rate to 8% and also cover more services; the implementation of subsidy rationalisation on fuel and water tariffs; and higher employment costs arising from wage and levy policies.

Highlighted sectors with high percentage in this factor:



Construction

41.9%



Wholesale and retail trade

48.5%

Declining business and consumer sentiment (35.8%)



- While businesses facing high operating costs and input prices, coupled with the depreciating Ringgit impacting both businesses and consumers, **overall business and consumer sentiments have weakened.**
- **The deterioration in sentiments was observed** in MIER's Business Conditions Index (BCI) and Consumer Sentiment Index (CSI) in 3Q2023, which fell to 79.7 (from 82.4 in 2Q) and 78.9 (from 90.8 in 2Q), respectively.
- Persistent weakness in business and consumer sentiments would dampen business and consumption activities, **resulting in lower production and sales, ultimately dragging the economy.**

Lower domestic demand (35.1%)

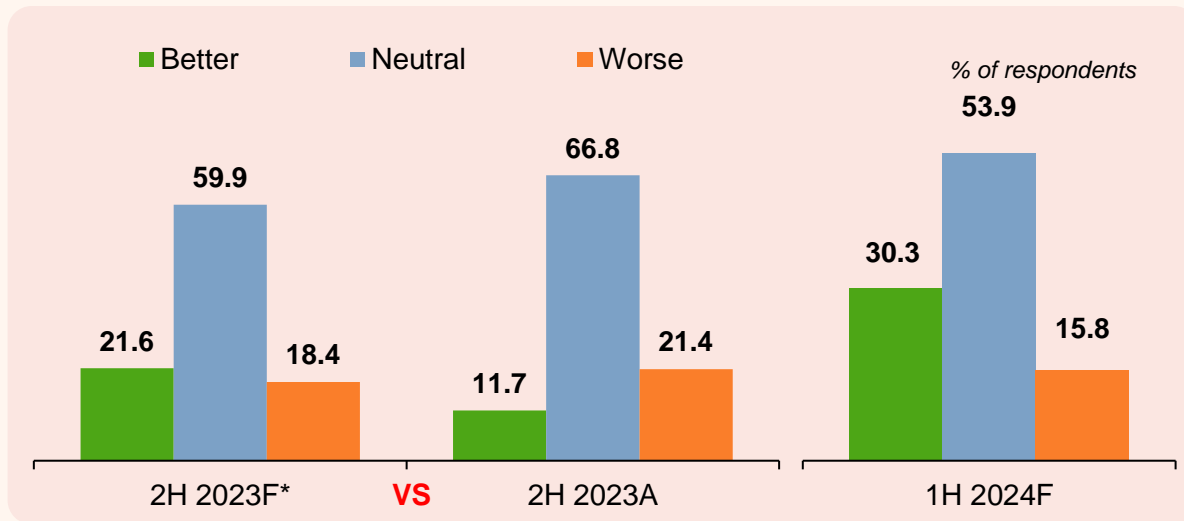


- It continues to adversely affect business performance, **with the percentage of respondents increasing to 35.1%** (vs. 30.3% or ranked eighth in the previous survey).
- **Close to half of the respondents in the wholesale and retail trade sector suffered from lower domestic demand**, with 41.9% experiencing a decrease in domestic sales revenue, even as 71.2% of them increased their selling prices.
- **Retail sales growth rate in Jul-Nov 2023 slowed substantially to 5.2% yoy** compared to 13.3% in Jan-Jun 2023. This indicates a slowdown in consumers' purchasing power, despite a softened headline inflation rate.

Business assessment in 2H 2023 and 1H 2024F

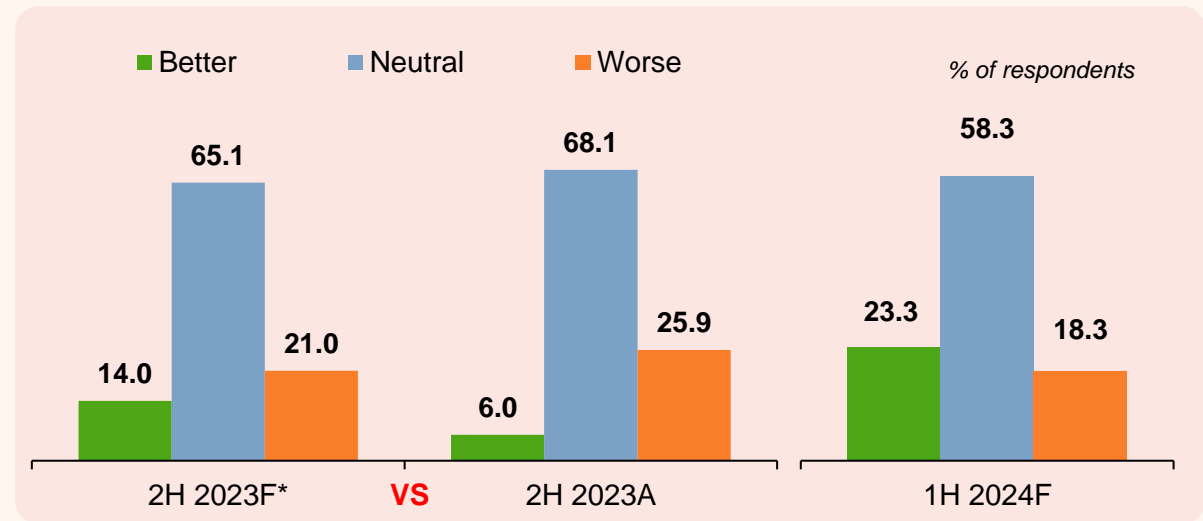
“Neutral” cash flow conditions in 2H 2023 & 1H 2024

- **66.8% have indicated “neutral” for their cash flow conditions in 2H 2023.** It will likely remain unchanged in 1H 2024 though the percentage is reduced to 53.9%.
- More than one-fifth of respondents have experienced worsened cash flow conditions in 2H 2023. **This condition is expected to improve somewhat in 1H 2024.**
- A higher percentage of respondents (30.3% vs. 11.7% in 2H 2023) anticipate “better” cash flow conditions in 1H 2024.



“Neutral” debtors’ conditions in 2H 2023 & 1H 2024

- **68.1% also have a “neutral” view about their debtors’ conditions in 2H 2023,** and will likely remain unchanged in 1H 2024.
- Overall, businesses remain conservative in their debtors’ conditions **due to the lack of confidence in a robust recovery in both external and domestic demand amid uncertainties of any escalation in geopolitical tensions, increasing the cost of doing business and cost of living.**



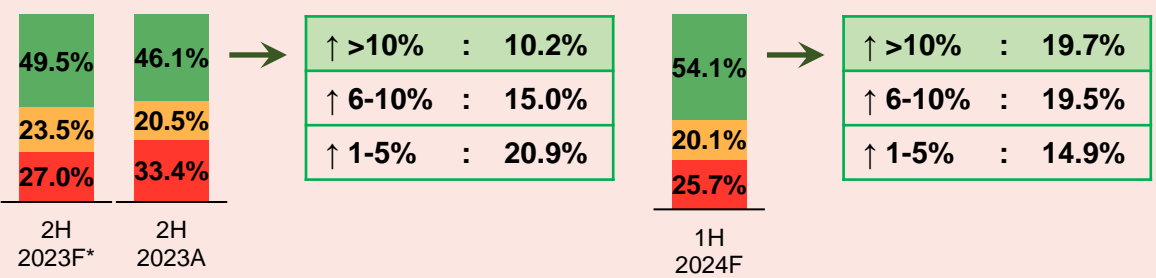
F=Forecast; A=Actual

Business operations diagnosis

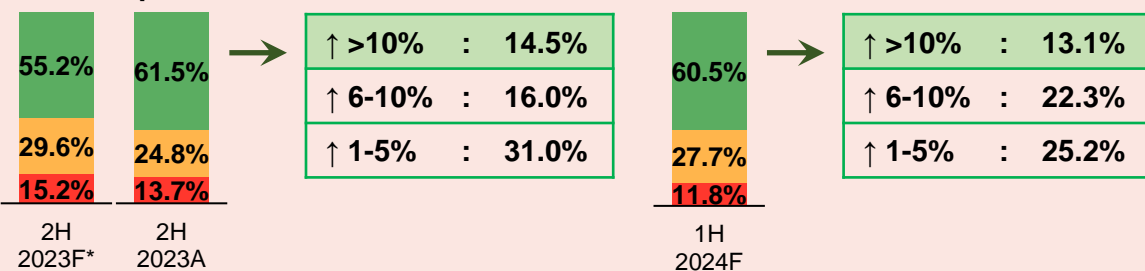
Overall sales showed uneven growth

- In 2H 2023, more than 40% indicated a decline in overall sales, particularly in the wholesale and retail trade, manufacturing, and agriculture sectors.
- Uneven growth in domestic sales:
 - Negative growth in agriculture and wholesale and retail trade, while positive growth in professional and business services and tourism-related sectors.

Overall sales revenue



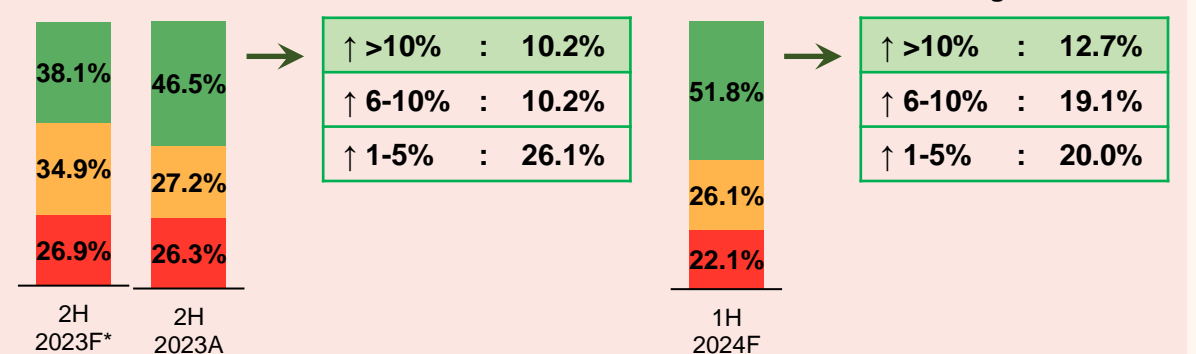
Domestic price level



A cautious move on production

- In 2H 2023, more than 45% of respondents increased their production and inventory levels, while 40.0% in the manufacturing sector reduced production (vs. 36.7% reporting an increase).
- Production is expected to improve in 1H 2024.
- According to the Department of Statistics Malaysia, the manufacturing sector was operating at 79.4% capacity utilisation in 3Q 2023 while this survey (a smaller sample) showed that only 23.6% of the respondents in the manufacturing sector recorded at least 75% utilisation.

Production

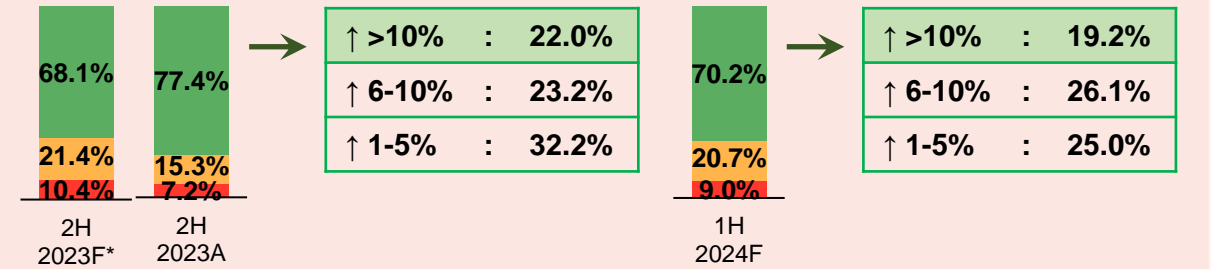


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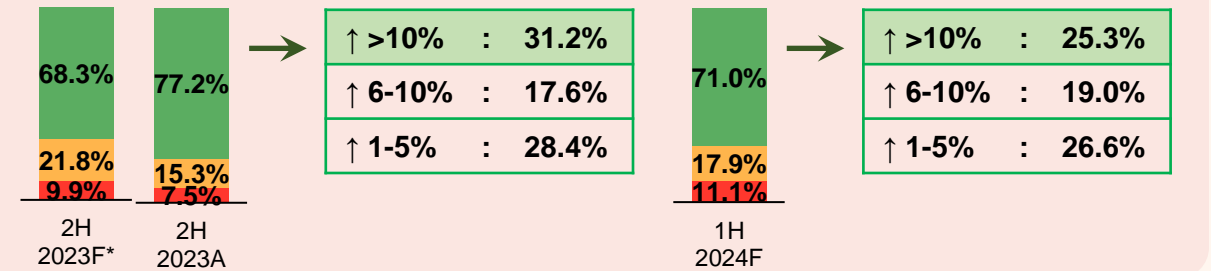
Persistent cost pressure on raw materials

- **Cost pressure on local and imported raw materials remained a concern** – over 75% reporting an increase in 2H 2023.
- **Two significant factors:** The Ringgit's fluctuations (51.8%) and an increase in the price of raw materials (45.0%).
- **These factors are expected to persist in influencing raw material costs over the next six months**, with over 70% indicating an expected increase in the prices of raw materials.
- The increase in the cost of transport **due to the diversion of shipping lines away from the Suez Canal via the Red Sea** could result in higher costs of imported raw materials.

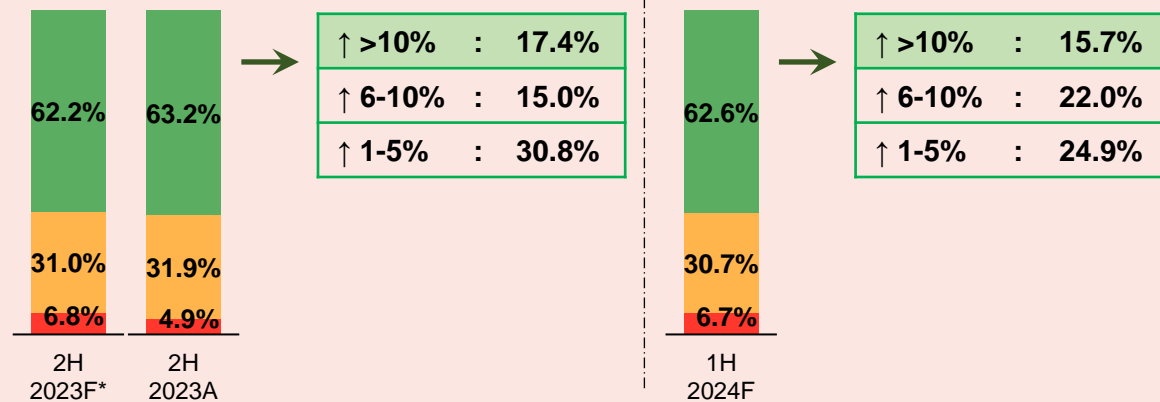
Local raw materials



Imported raw materials



Capital Expenditure



Better investment prospects

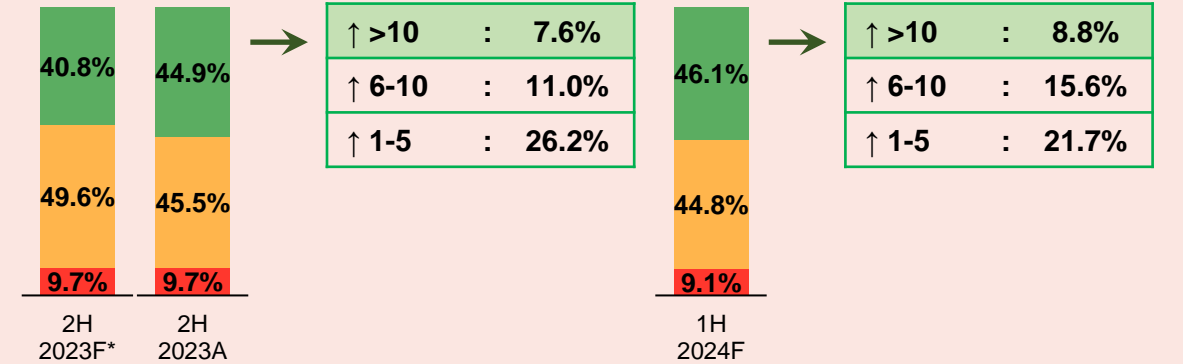
- **63.2% have increased their capital expenditure in 2H 2023**, in line with a gradual improvement in business activities and domestic demand amidst still falling external demand.
- **62.6% of respondents (vs. 63.2% in 2H 2023) plan to invest in 1H 2024**, while 30.7% of respondents will likely maintain their capital investment.

F=Forecast; A=Actual

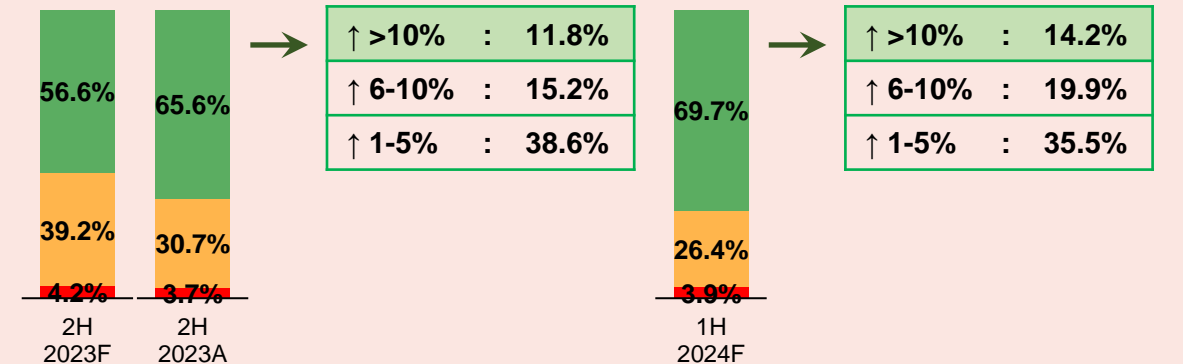
Sustained labour demand and higher wages

- About 44.9% of respondents have increased their manpower in 2H 2023, while 45.5% have maintained their staff pool.
- A similar trend is expected in 1H 2024.
- Malaysia's unemployment rate has returned to the pre-pandemic level of 3.3% in November 2023, **suggesting a natural state of full employment in Malaysia.**
- **More than half of respondents (65.6%) increased their employees' wages in 2H 2023** and it is likely to continue in 1H 2024.
- **The Progressive Wage Model on a voluntary participation basis**, under which employers would gradually increase pay for their workers based on their skills, experience, and performance, **will start in June 2024 and involve 1,000 companies in a pilot project.**

Number of employees



Wage growth



F=Forecast; A=Actual

CURRENT ISSUE

Economic and Business Policies as well as the Ringgit

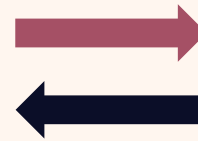




Business concerns

Top 3 Business's Concerns

- Reduced consumer purchasing power (91.9%)
- Persistent cost pressures (90.6%)
- Persistently weakening Ringgit (90.3%) ★



Top 3 Government's Priorities Should Be

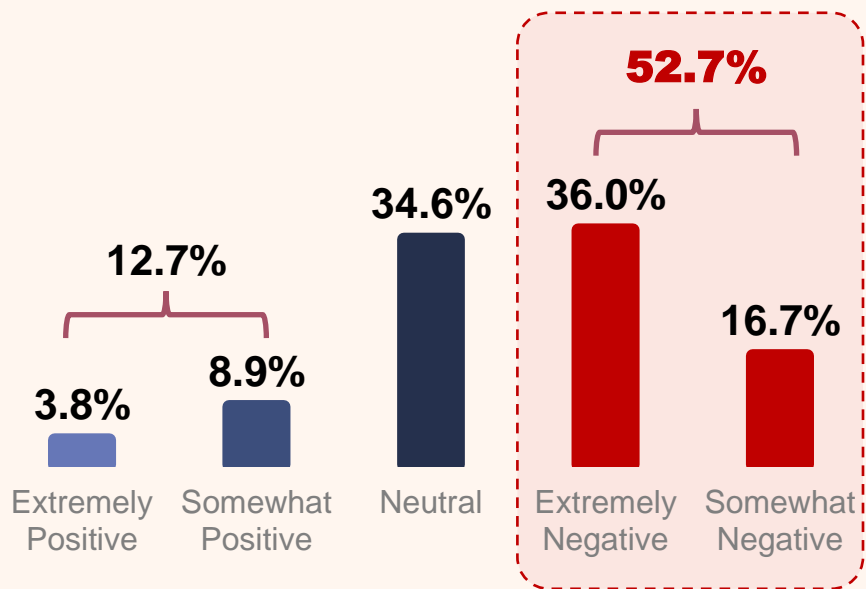
- Stable Ringgit (58.0%) ★
- Ease the cost of doing business (52.0%)
- Clarity and consistency in business-friendly policies (41.1%)

Top 3 Business's Extremely Concerns

- Persistently weakening Ringgit ★
- Reduced consumer purchasing power
- Services Tax's rate increase and scope expansion

Top 3 Business's Somewhat Concerns

- Over-regulation and high compliance cost
- Persistent cost pressures
- Services Tax's rate increase and scope expansion



- The Ringgit's depreciation was mainly driven by external factors, such as evolving market expectations concerning higher terminal interest rates in major economies, weak investors' sentiment, and does not reflect Malaysia's economic fundamentals.
- While Bank Negara Malaysia conducts FX operations to stem excessive volatility and ensure orderly market conditions, **the Government has to address the structural weaknesses through reforms to enhance economic and financial resilience.**

- 1 **Bear with higher costs and suffer margin squeeze** **52.6%**
- 2 **Increase selling price** **47.7%**
- 3 **Renegotiating with suppliers** **29.8%**
- 4 **Sourcing from cheaper inputs, including domestic materials** **21.5%**



Rebuild the strength of the fiscal balance sheet; containing debt and liabilities



Strengthen the current account surplus and reserves accumulation



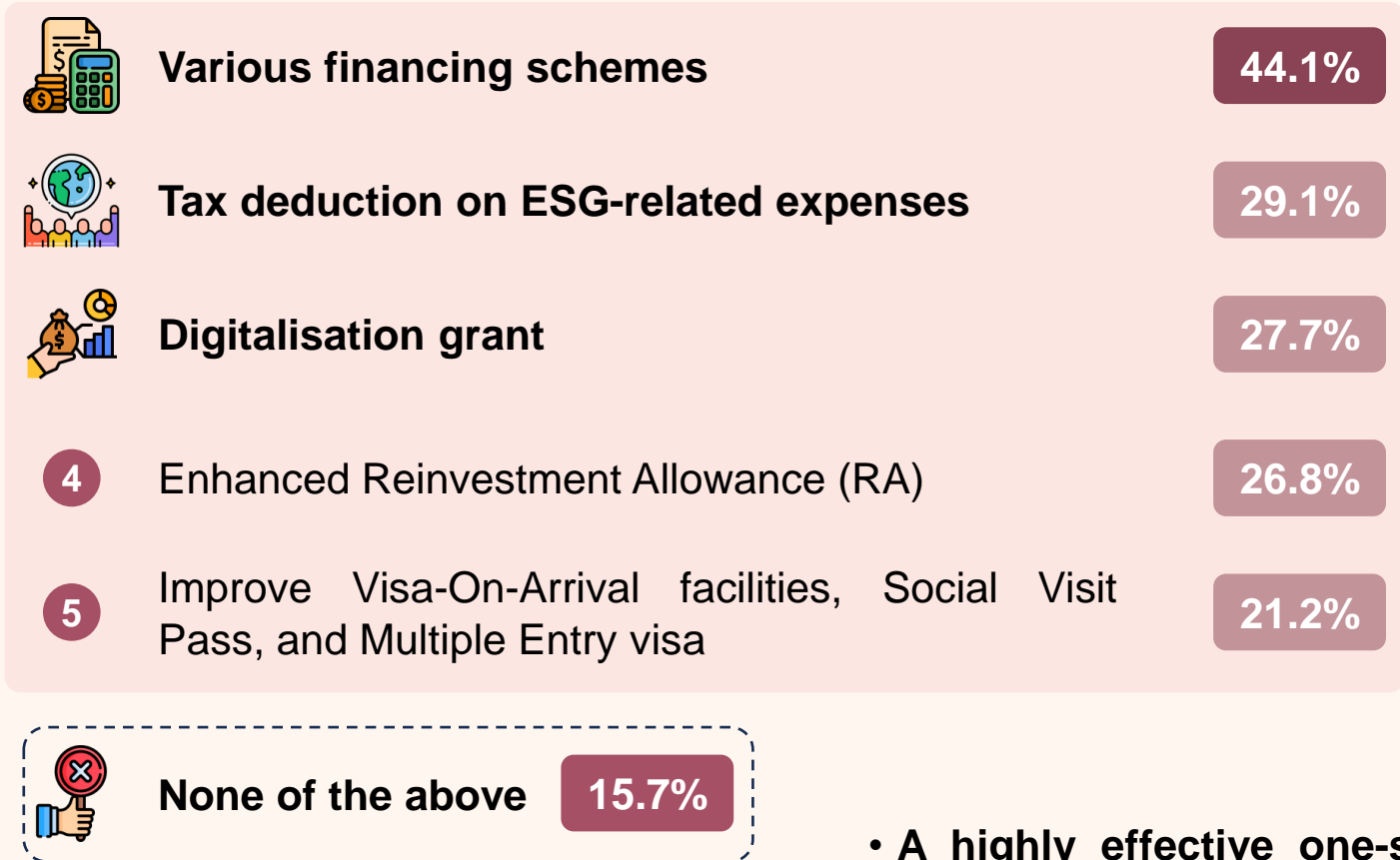
Improving the economy through higher quality investment



Ensuring stable prices and better corporate earnings to attract inflows of investible funds.



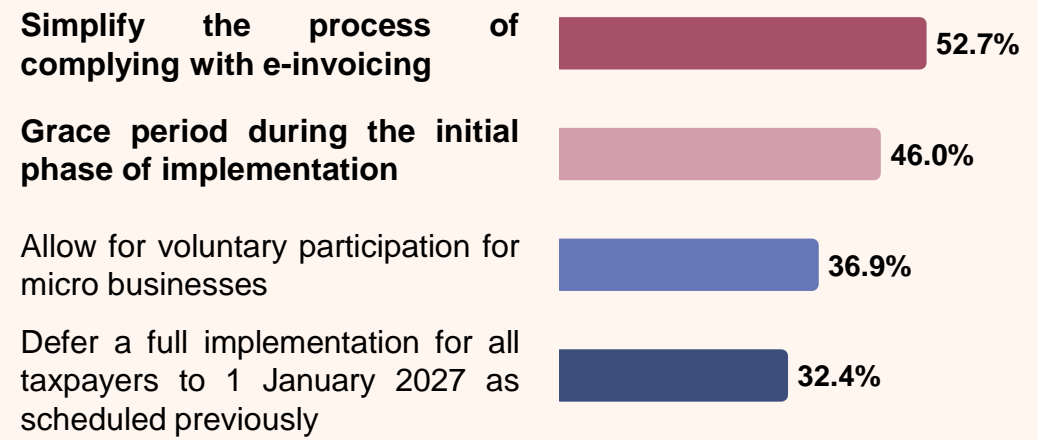
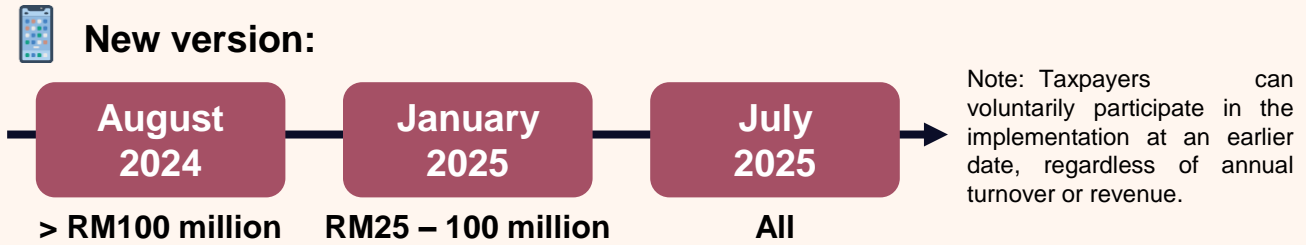
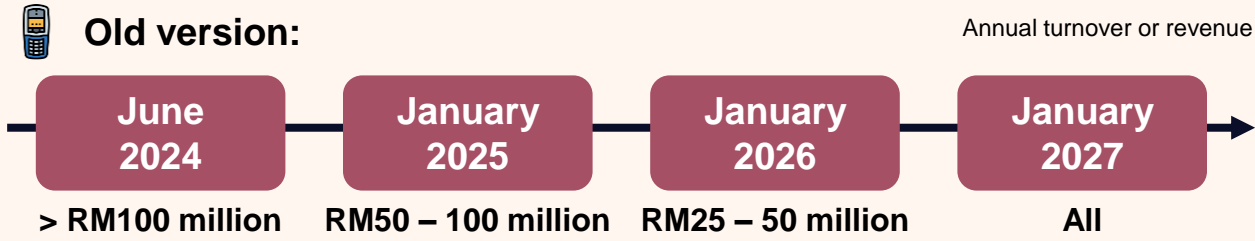
Business Sentiments on Budget 2024



- **The divergence in perceptions is observed across sectors** regarding the relative importance of these measures.
- **For instance, the agriculture sector emphasises reinvestment allowance**, while the manufacturing sector places emphasis on tax deductions related to ESG expenses and digitalisation grants.
- **However, it is evident that businesses need more facilitation support for the adoption of ESG principles and digitalisation** in the coming years given the rapid evolution of new technologies and climate change.

- **A highly effective one-stop centre, staffed by competent manpower is important to facilitate investors and businesses.** Strengthening collaboration among public sector agencies is essential to streamline investment processes. The ongoing streamlining of Investment Promotion Agencies (IPAs), led by MIDA, is a positive step in the right direction.

E-invoicing perceived as providing the least benefits to the businesses (13.3%)



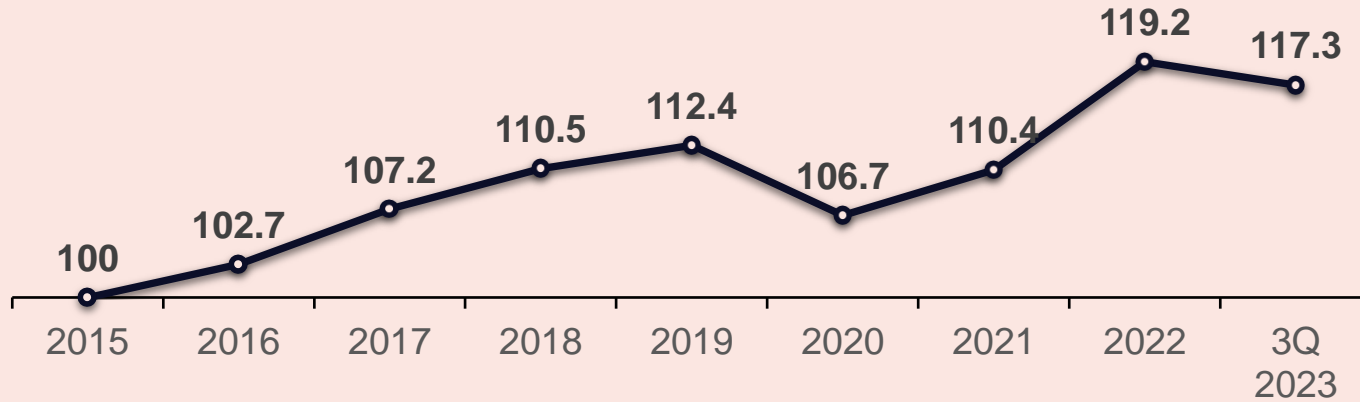
E-invoicing in selected countries

| | | |
|--|---------------|--|
| | Singapore | Voluntary basis |
| | Indonesia | Mandatory for all taxpayers registered for VAT purposes |
| | Thailand | Voluntary basis |
| | Vietnam | Mandatory for all taxpayers |
| | China | Gradual mandatory |
| | Australia | Voluntary basis (only mandatory for Federal government agencies) |
| | United States | Voluntary basis |
| | Germany | Only mandatory for B2G (suppliers to all Federal and Bremen contracting authorities) |

- The majority have expressed concerns regarding the **complexity of implementation and potential penalties associated with errors**, particularly in Business-to-Consumer (B2C) transactions that involve numerous micro-transactions daily.
- The adoption of e-invoicing necessitates access to the internet and devices, **which are generally lacking in micro and small enterprises.**
- Additionally, managing customised products introduce heightened complexity, particularly when the system requires 51 data fields to generate an e-invoice. **This could pose an additional burden, especially for small B2C businesses.**

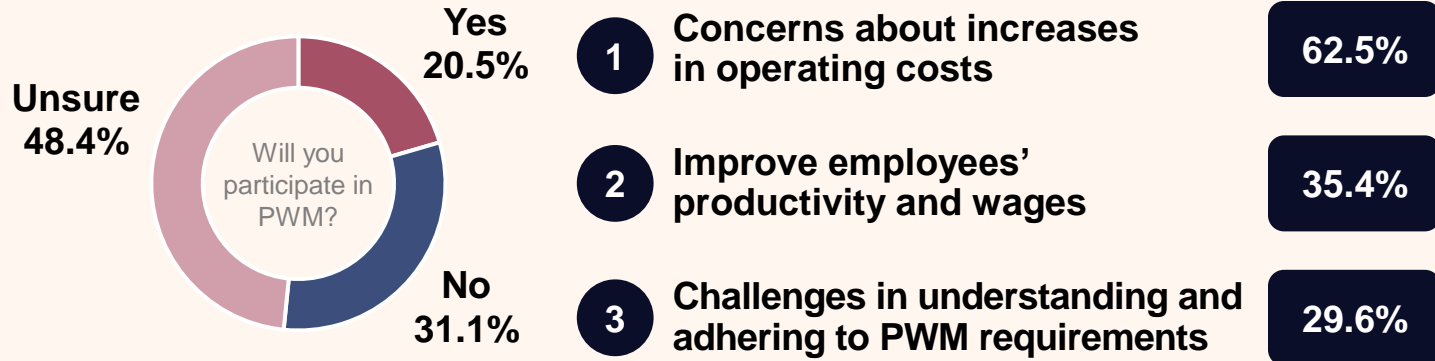
Source: Pagero; Comarch; Storecove; Edicom Group

Yearly Index of labour productivity per hour worked



Source: Department of Statistics, Malaysia (DOSM)

- The employers have been argued that an increase in employees' wages must correspond with an improvement in their productivity level. **The employees want to be incentivised for productivity improvement.**
- The PWM aims to achieve an increasing linear productivity growth through upskilling and reskilling of employees. **If it is successful, an increase in productivity will be followed by an increase in wages as an incentive.**
- Ultimately, the implementation of PWM would move towards a productivity-linked wage system (PLWS), a flexible and competitive wage system that establishes a closer link between wages and productivity / performance.







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谢谢 Thank you

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