中总 ACCCIM
马来西亚中华总商会

SERC

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 Xxxx 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

By economic sector
n=684

Services 68.0%

Manufacturing 17.8%

Construction 8.3%

Agriculture 4.5%

Mining 1.3%

Top FIVE industries (72.1%):

- Wholesale and retail trade (23.8%)
- Manufacturing (17.8%)
- Professional and business services (14.9%)
- Construction (8.3%)
- Finance and insurance (7.3%)

By size of business operations[2]
n=684

Micro enterprises 23.5%

Small enterprises 51.2%

Medium enterprises 16.8%

=

SMEs (91.5%)

VS.

Large enterprises (8.5%)

By sales orientation
n=683

Domestic-market orientation 91.4%

Export-market orientation 8.6%

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

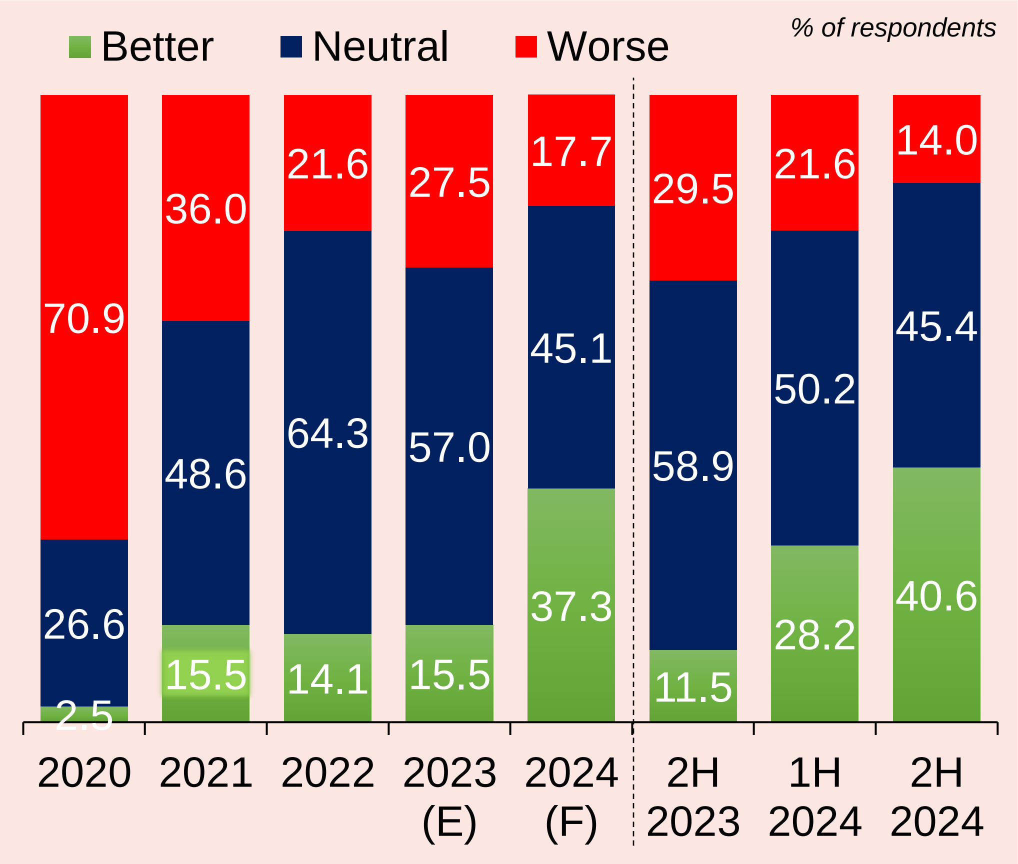
Economic conditions and prospects: "Less favourable"; positive expectations in 1H 2024

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.

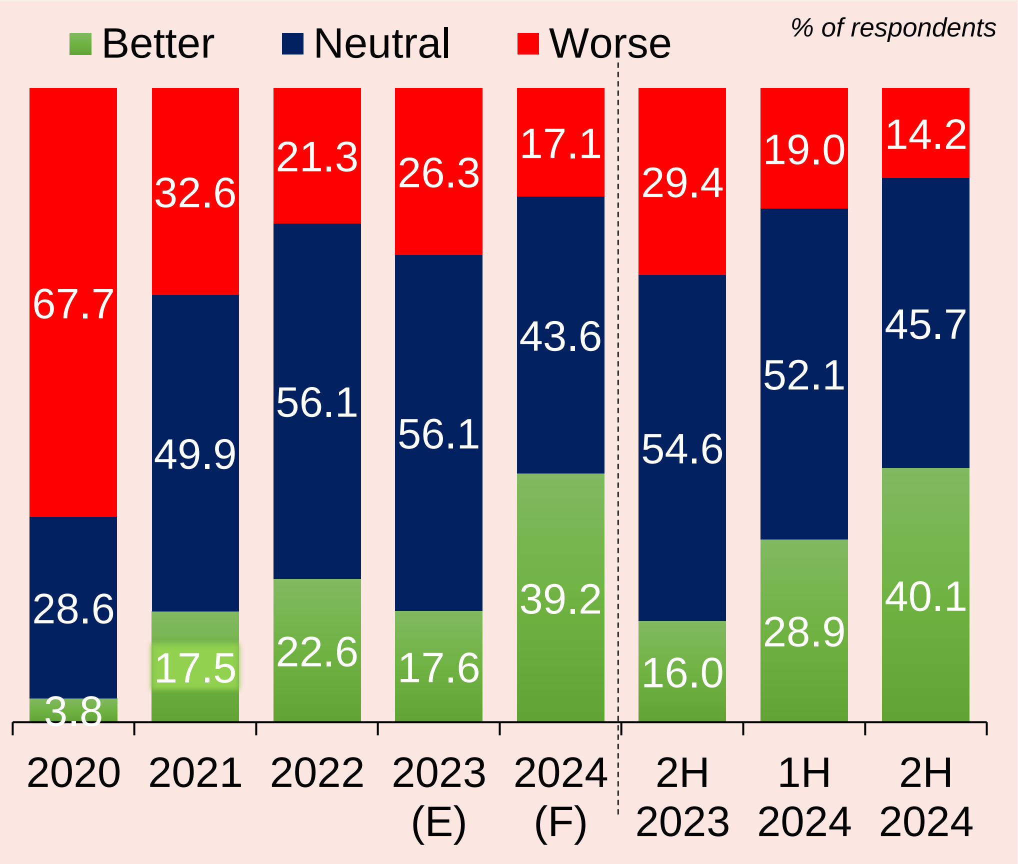


Note: E=Estimates; F=Forecast

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 2H 2023

% of respondents

1st
The Ringgit's fluctuation
(51.8%)

2nd
Increase in prices of raw materials
(45.0%)

3rd
COST
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%)

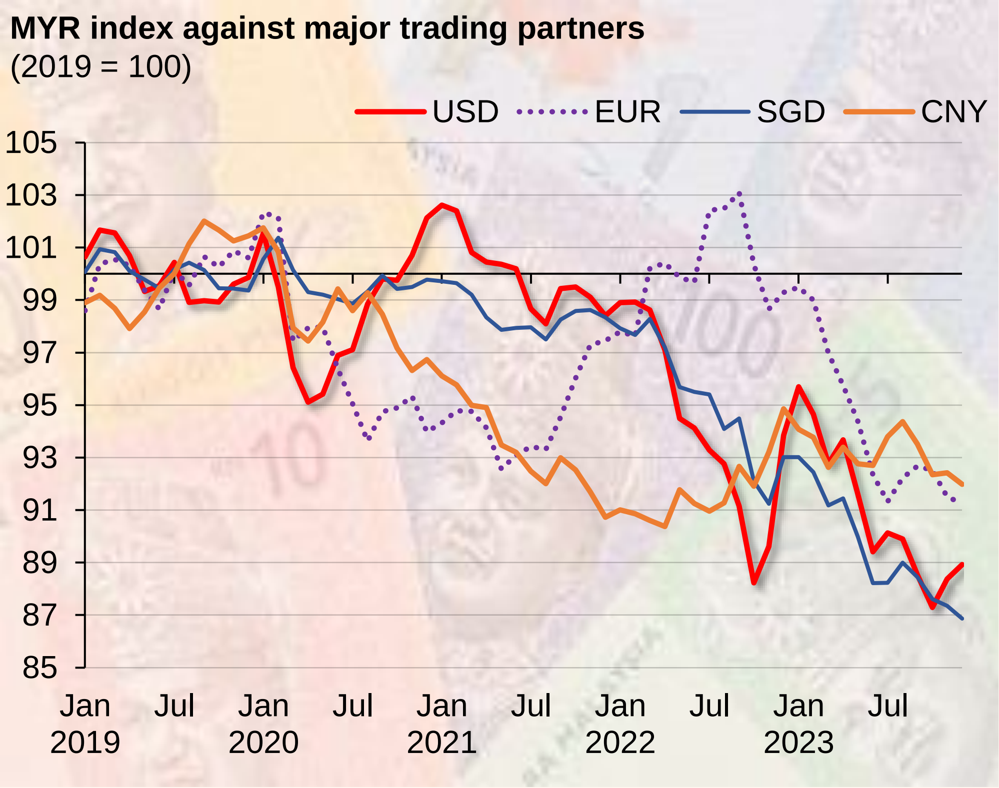
8th
Availability of skilled labour
(27.5%)

9th
NOW HIRING
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**.

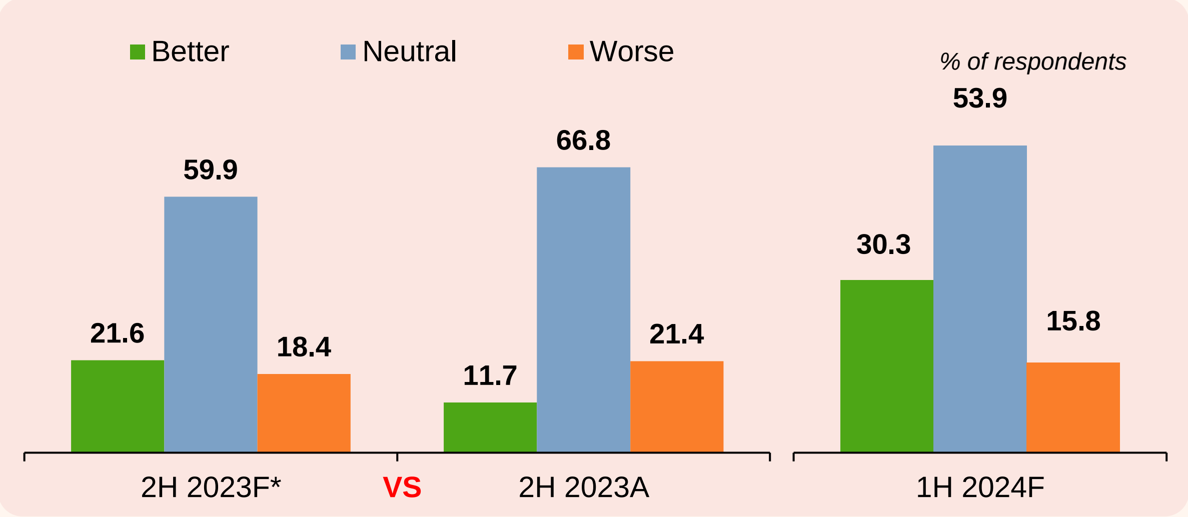
Lower domestic demand (35.1%)

- 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

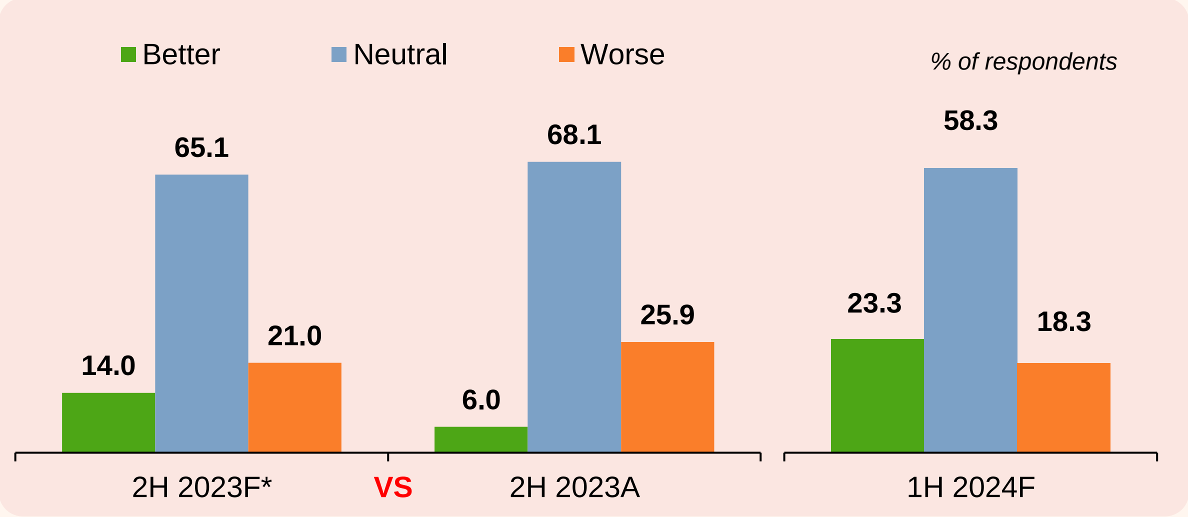
"Neutral" cash flow conditions in 2H 2023 & 1H 2024

- **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

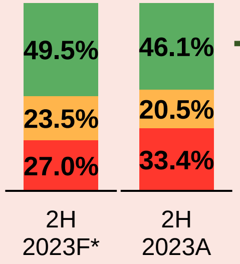
Business operations diagnosis

Overall sales showed uneven growth

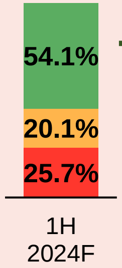
- **In 2H 2023, more than 40% indicated a decline in overall sales,** particularly in the wholesale and retail trade, manufacturing, and agriculture sectors.
- **Uneven growth in domestic sales:**
  - ➢ **Negative growth in agriculture and wholesale and retail trade**, while positive growth in professional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

Overall sales revenue

■ Increase ■ Unchanged ■ Decrease

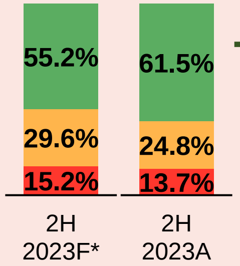


↑ >10%	:	10.2%
↑ 6-10%	:	15.0%
↑ 1-5%	:	20.9%

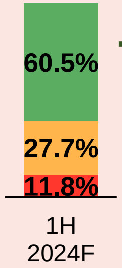


↑ >10%	:	19.7%
↑ 6-10%	:	19.5%
↑ 1-5%	:	14.9%

Domestic price level



↑ >10%	:	14.5%
↑ 6-10%	:	16.0%
↑ 1-5%	:	31.0%



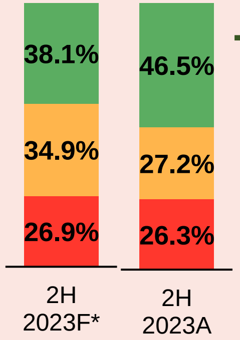
↑ >10%	:	13.1%
↑ 6-10%	:	22.3%
↑ 1-5%	:	25.2%

A cautious move on production

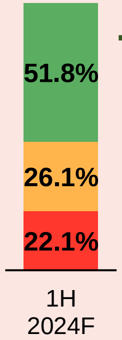
- In 2H 2023, more than 45% of respondents increased their production and inventory levels, **while 40.0% in the manufacturing sector reduced production** (vs. 36.7% reporting an increase).
- **Production is expected to improve** in 1H 2024.
- According to the Department of Statistics Malaysia, the manufacturing 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

■ Increase ■ Unchanged ■ Decrease



↑ >10%	:	10.2%
↑ 6-10%	:	10.2%
↑ 1-5%	:	26.1%



↑ >10%	:	12.7%
↑ 6-10%	:	19.1%
↑ 1-5%	:	20.0%

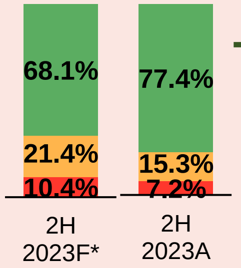
F=Forecast; A=Actual

Persistent cost pressure on raw materials

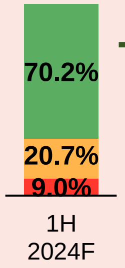
- **Cost pressure on local and imported raw materials remained a concern** – over 75% reporting an increase in 2H 2023.
- **Two significant factors:** The Ringgit's fluctuations (51.8%) and an increase in the price of raw materials (45.0%).
- **These factors are expected to persist in influencing raw 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

Increase Unchanged Decrease

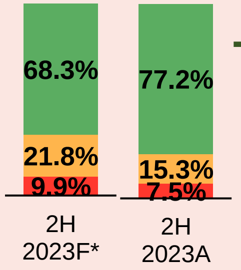


↑ >10%	:	22.0%
↑ 6-10%	:	23.2%
↑ 1-5%	:	32.2%

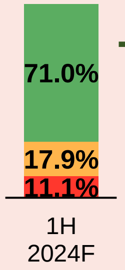


↑ >10%	:	19.2%
↑ 6-10%	:	26.1%
↑ 1-5%	:	25.0%

Imported raw materials



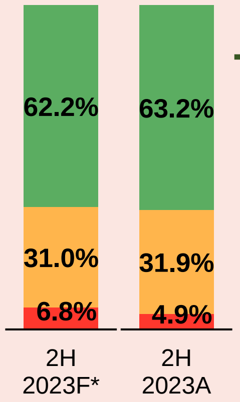
↑ >10%	:	31.2%
↑ 6-10%	:	17.6%
↑ 1-5%	:	28.4%



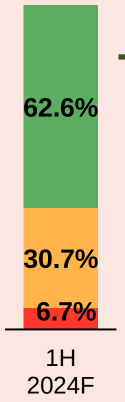
↑ >10%	:	25.3%
↑ 6-10%	:	19.0%
↑ 1-5%	:	26.6%

Capital Expenditure

Increase Unchanged Decrease



↑ >10%	:	17.4%
↑ 6-10%	:	15.0%
↑ 1-5%	:	30.8%



↑ >10%	:	15.7%
↑ 6-10%	:	22.0%
↑ 1-5%	:	24.9%

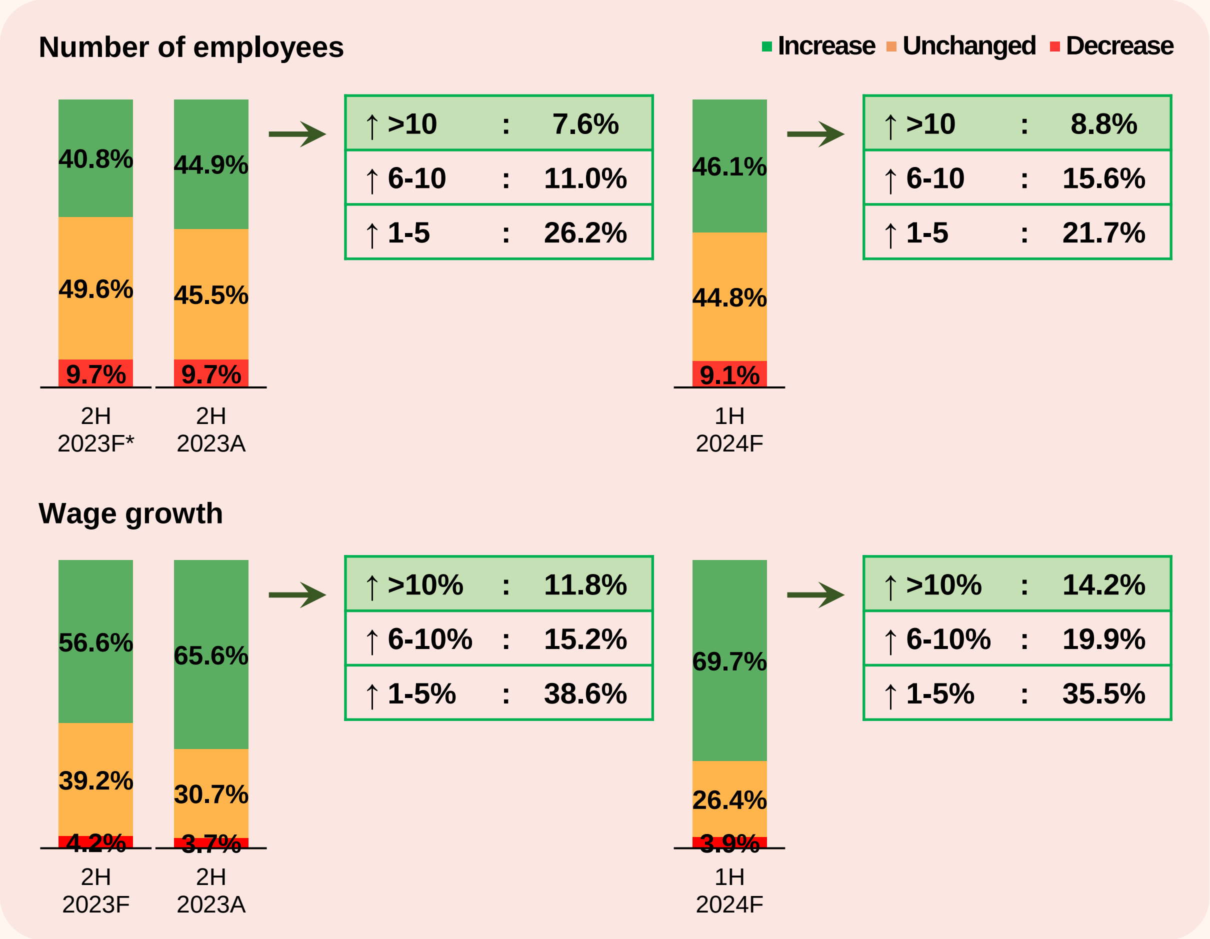
Better investment prospects

- **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**.



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%)

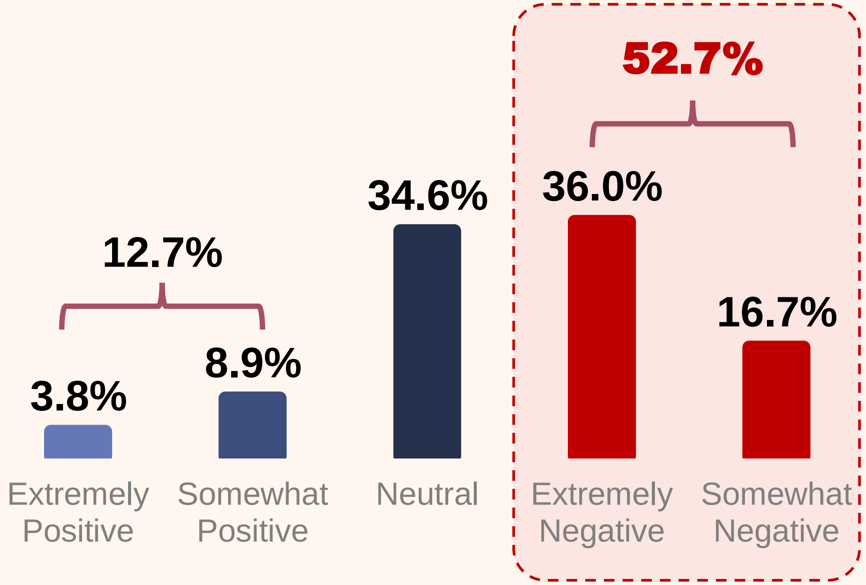
Top 3 Business's Extremely Concerns

- 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 has significant spillover effects on the Malaysian economy.



- **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

Various financing schemes	44.1%
Tax deduction on ESG-related expenses	29.1%
Digitalisation grant	27.7%
4 Enhanced Reinvestment Allowance (RA)	26.8%
5 Improve Visa-On-Arrival facilities, Social Visit Pass, and Multiple Entry visa	21.2%
None of the above	15.7%

- **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%)

Old version:

Annual turnover or revenue

June 2024	January 2025	January 2026	January 2027
> RM100 million	RM50 – 100 million	RM25 – 50 million	All

New version:

August 2024	January 2025	July 2025
> RM100 million	RM25 – 100 million	All

Note: Taxpayers can voluntarily participate in the implementation at an earlier date, regardless of annual turnover or revenue.

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)

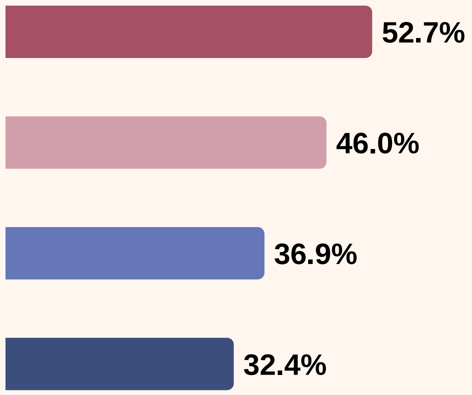
Source: Pagero; Comarch; Storecove; Edicom Group

Simplify the process of complying with e-invoicing

Grace period during the initial phase of implementation

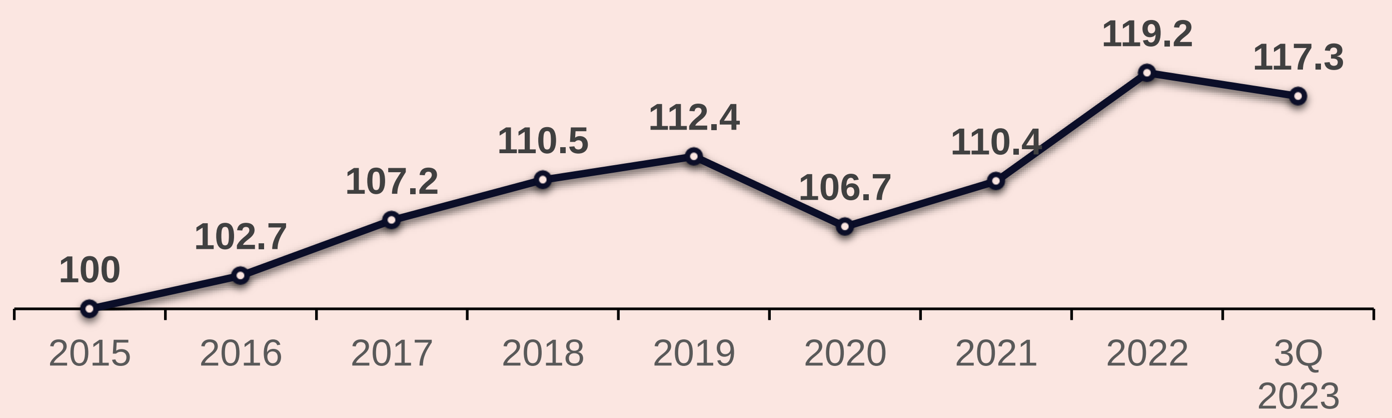
Allow for voluntary participation for micro businesses

Defer a full implementation for all taxpayers to 1 January 2027 as scheduled previously

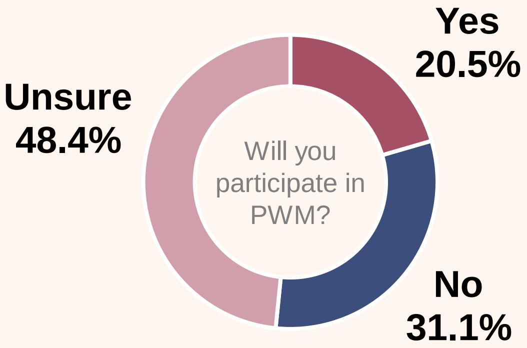


- The majority have expressed concerns regarding the **complexity of implementation and potential penalties associated with errors**, particularly in Business-to-Consumer (B2C) transactions that involve numerous micro-transactions daily.
- The adoption of e-invoicing necessitates access to the internet 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.**

Progressive Wage Model (PWM) – A win-win for employers and employees



Source: Department of Statistics, Malaysia (DOSM)



1	**Concerns about increases in operating costs**	**62.5%**
2	**Improve employees' productivity and wages**	**35.4%**
3	**Challenges in understanding and adhering to PWM requirements**	**29.6%**

- 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.


Q&A

马来西亚中华总商会

谢谢 Thank you

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