

## **1. INTRODUCTION**

### **1.1 THE PURPOSE OF THIS SURVEY**

In Malaysia, due to the wide participation of the Chinese businessmen in the economic activities throughout the country, Chinese's businessmen play an important role within the economy. A survey (part of an exercise carried out twice a year) has recently been carried out to gather feedback and opinions from Chinese businessmen. This survey can be viewed as a means to gauge the economic situation facing the Chinese business community in the 2<sup>nd</sup> half of 2014. This survey covers four major areas in relation with the Chinese business community, namely:

- i. **The Malaysian economic situation in the 2<sup>nd</sup> half of 2014;**
- ii. **Major factors affecting business performance;**
- iii. **Malaysian economic outlook; and**
- iv. **Current issues facing the Chinese businessmen in relation to trade, investment and industrial development in Malaysia.**

### **1.2 SIGNIFICANCE OF THE SURVEY**

Most of the data and statistics in relation to the economic situation available today are collected by the Government through Statistical Department of Bank Negara Malaysia and its agencies. The Malaysian Institute of Economic Research (MIER) has conducted surveys on the economic recovery in the past but has thus far, focused on the consumers and the manufacturing sector.

Given that the Chinese business community plays an important role in the Malaysian economy, ACCCIM, as a national organisation representing the Chinese business community, take the task to **assist the Government in gauging the economic situation facing the Chinese business community. It also attempts to collect feedback and opinion on various measures undertaken by the Government to enable them to evaluate the effectiveness of those measures. This would be helpful to the Government either in making adjustments to the existing policies or in the formulation of new policies.**

The results from the survey also provide a basis for ACCCIM to submit relevant memoranda to the Government and serve as a reference for the business community and foreign investors in formulating investment plan and strategy.

## **2. SURVEY METHODOLOGY**

The purpose of this survey was to collate information in relation to the economic situation facing the Chinese business community in the 2<sup>nd</sup> half of 2014. The questionnaire was constructed based on the current economic issues faced by the country and the business community, and the various measures undertaken by the Government to address the issues concerned.

The direct and indirect membership of ACCCIM Constituent Chambers are well 100,000 representing Malaysian Chinese companies, individuals and trade associations. As most of the prominent Chinese businessmen are the committee members of ACCCIM either at the national or state levels, these committee members could be taken to represent the Chinese business community. The total questionnaires sent out were 718.

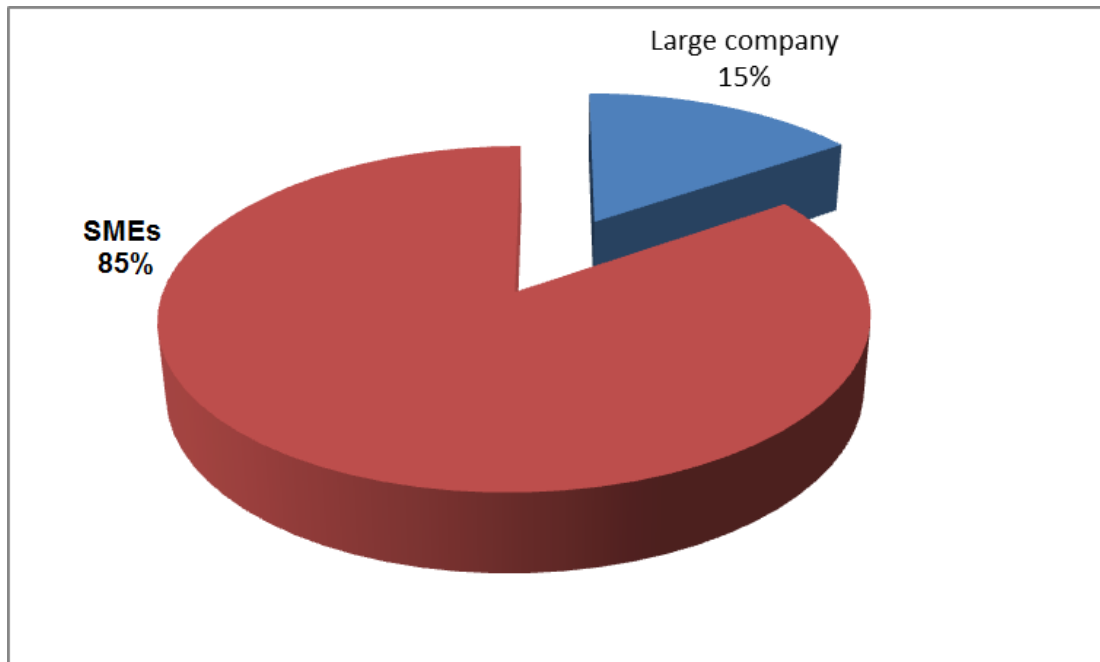
More than half of the questionnaires were returned, making it a response rate of 50.7% of the total questionnaires sent. These 364 respondents made up the sample of this survey.

The questionnaires were distributed to Chinese's businessmen across all sectors and industries. In terms of breakdown of distribution, the respondents were mainly from **wholesale and retail (24.2%)**, **manufacturing (16.8%)**, **professional and business services (16.5%)**, **construction (8.8%)**, **real estate (8.0%)**, and **finance and insurance (4.9%)**, as well as **others (20.8%)**. These sectors concerned are said to represent the major sectors of the economy. The breakdown of responses may be depicted as follows:

<b>Sector</b>	<b>Percentage (%)</b>
Wholesale & retail trade	24.2
Manufacturing	16.8
Professional & business services	16.5
Construction	8.8
Real estate	8.0
Finance and insurance	4.9
Others	20.8
<b>Total</b>	<b>100.0</b>
<b>(Sample Size)</b>	<b>(364)</b>

About 15.4% of the respondents were from “Large Company” (according to annual turnover and number of full time employees)

### Large Company vs SME



In October 2013, the National SME Development Council has provided new definitions for small and medium enterprises (SME). It has been somewhat simplified relative to previous definitions.

In the previous definition, SMEs were sub-categorised under the headings of ‘primary agriculture’, ‘manufacturing (including agro-based) and services sectors.

Under the revised definition, the sub-categorises have been reduced to two (2), that is:

- Manufacturing
- Services and other sectors

A SME would be considered to belong to the category of **manufacturing** if it satisfies the following conditions:

- Sales turnover not exceed RM50 million or
- Full-time employees not exceeding 200 workers

A SME would be considered to belong to the category of **services and other sectors** if it satisfies the following conditions:

- Sales turnover not exceed RM20 million or
- Full-time employees not exceeding 75 workers

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A business would 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.

In the case of microenterprises, it covers entities whose sales turnover is less than RM300,000 or has less than 5 full-time employees. This set of parameters is applicable for businesses in all sectors.

A summary of the abovementioned definition is shown below:

Category	Small	Medium
Manufacturing	Sales turnover from <b>RM300,000 to less than RM15 million</b> <u>OR</u> full-time employees from <b>5 to less than 75</b>	Sales turnover from <b>RM15 million to not exceeding RM50 million</b> <u>OR</u> full-time employees from <b>75 to not exceeding 200</b>
Services & Other Sectors	Sales turnover from <b>RM300,000 to less than RM3 million</b> <u>OR</u> full-time employees from <b>5 to less than 30</b>	Sales turnover from <b>RM3 million to not exceeding RM20 million</b> <u>OR</u> full-time employees from <b>30 to not exceeding 75</b>

(Source: Pg 2, *GUIDELINE FOR NEW SME DEFINITION* Issued by: SME Corp. Malaysia)

The classification of sectors defined below:

- ◆ **‘Manufacturing’** refers to physical or chemical transformation of materials or components into new products.
- ◆ **‘Services’** refer to all services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial intermediation; and manufacturing-related services such as research and development (R&D), logistics, warehouse, engineering etc.
- ◆ **‘Others’** refer to the remaining 3 key economic activities, namely:
  - (i) Primary Agriculture – Perennial crops (e.g. rubber, oil palm, cocoa, pepper etc.) and cash crops (e.g. vegetables, fruits etc.) – Livestock – Forestry & logging – Marine fishing – Aquaculture
  - (ii) Construction – Infrastructure – Residential & non-residential – Special trade
  - (iii) Mining & quarrying

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For the manufacturing based business, 59.1% of the respondents employed 74 employees or less, with another 31.8% employing 75-200 employees, whereas 9.1% of the respondents claimed that they employed more than 200 employees.

For the services based businesses, 61.4% of the respondents employed less than 29 employees and 30.0% employing 30-75 employees. On the other hand, about 8.7% of the respondents claimed that they employed more than 75 employees.

**Full-Time Employees**

<b>Manufacturing</b>		<b>Services</b>	
<b>Number of employees</b>	<b>Percentage (%)</b>	<b>Number of employees</b>	<b>Percentage (%)</b>
Less than 5	5.5	Less than 5	24.0
5 ~ 74	53.6	5 ~ 29	37.4
75 ~ 100	18.2	30 ~ 49	8.7
101 ~ 200	13.6	50 ~ 75	21.3
More than 200	9.1	More than 75	8.7
<b>Total (Sample Size)</b>	<b>100.0 (110)</b>	<b>Total (Sample Size)</b>	<b>100.0 (254)</b>

In the case of turnover achieved annually, for the manufacturing based businesses, about 26.3% of the respondents had an annual turnover of between RM15 million to RM50 million. About 10.9% of the companies surveyed reported having an annual turnover that exceeded RM50 million.

For the services based businesses, about 25.6% of the respondents had an annual turnover of between RM5 million to RM20 million. Additionally, about 12.6% of the companies had an annual turnover of more than RM20 million.

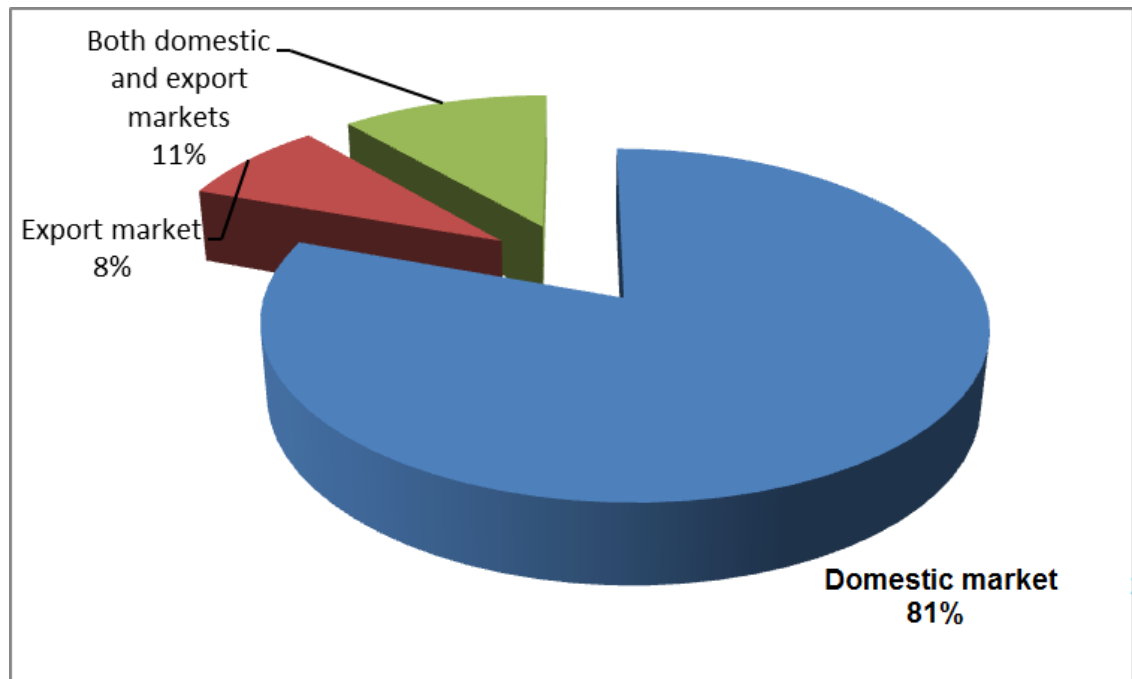
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**Annual Turnover**

<b>Manufacturing</b>		<b>Services</b>	
<b>in Ringgit Malaysia</b>	<b>Percentage (%)</b>	<b>in Ringgit Malaysia</b>	<b>Percentage (%)</b>
Less than 300,000	3.6	Less than 300,000	14.6
300,000 ~ 1.49 million	10.9	300,000 ~ 1.49 million	24.8
1.5 million ~ 4.99 million	21.8	1.5 million ~ 2.99 million	10.2
5.0 million ~ 14.99 million	26.4	3.0 million ~ 4.99 million	12.2
15.0 million ~ 29.99 million	13.6	5.0 million ~ 9.99 million	12.6
30.0 million ~ 50.0 million	12.7	10.0 million ~ 20.0 million	13.0
More than 50.0 million	10.9	More than 20.0 million	12.6
<b>Total (Sample Size)</b>	<b>100.0 (110)</b>	<b>Total (Sample Size)</b>	<b>100.0 (254)</b>

About 80.5% of the respondents were “Domestic” market oriented whereas the remaining 19.5% focused on “Both Domestic and Export” markets (11.3%) or ‘Export’ market (8.2%).



### **3. SURVEY FINDINGS**

#### **3.1 THE MALAYSIAN ECONOMIC SITUATION IN THE 2<sup>ND</sup> HALF OF 2014**

##### **3.1.1 Sales performance**

###### ***Slight Decline in Sales Performance***

Based on the survey results, the majority of the respondents (76%) replied that their firms' sales performances for the 2<sup>nd</sup> half of 2014 were either good or satisfactory. This represents a decrease of 4% points of respondents in the combined of 'good' or 'satisfactory' categories when compared with the period in 1<sup>st</sup> half of 2014 where 80% of respondents reported similar outcomes.

In the case of the manufacturing sector, there was a 6% points decrease in the percentage of respondents in the 'good' sales category. This change was spread out (3% points increase each) in the other two categories of 'satisfactory' and 'poor'. Whereas, for the wholesale and retail sector, the sales performance of the majority of the survey respondents was scaled towards satisfactory. The breakdown by categories of response did not show any material change in terms of percentages by category.

On the whole, the sales performance was slightly weaker, though the majority of the survey respondents remained satisfactory. The slight decline in sales performance mirrors the slight moderation in economic growth of the Malaysian economy in the same period. Indeed, the Malaysian economy slowed to 5.6% in 3Q 2014 before inching up to +5.8% in 4 Q 2014, but still weaker than +6.2% in 1Q 2014 and 6.4% in 2Q 2014. Despite the moderation, the sales remained resilient, mainly supported by the continued strength in domestic demand (in particular, due to the improvement in private sector activity). Private investment has been reported to have expanded in the said period, driven by capital spending in the manufacturing and services sectors.

In the case of sales outlook, the previous survey period reported that 24% of respondents predicted that their businesses would experience a decrease in sales. For this survey period, some 39% of respondents forecast that their future sales in the 6 months ending June 2015 would decline. This represents an increase of 15% points, signaling negative market sentiments for sales performance in the first half of 2015, as we approach nearer to the implementation of goods & services tax (GST) on 1 April 2015.

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*Sales Performance*

Sales Performance	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Good</b>	16	7	10	5	12	7	8
<b>Satisfactory</b>	65	68	68	67	68	69	53
<b>Poor</b>	19	25	22	28	20	24	39
<b>Total (Sample Size)</b>	<b>100 (79)</b>	<b>100 (110)</b>	<b>100 (60)</b>	<b>100 (85)</b>	<b>100 (371)</b>	<b>100 (347)</b>	<b>100 (342)</b>



### 3.1.2 Production volumes

#### ***Marginal Drop In Production Volumes***

Overall, production volumes were noted to be slightly weaker, though majority of them remained largely unchanged over the period of survey relative to previous survey period.

During the 2<sup>nd</sup> half of 2014, it was noted that 8% (a drop from 1<sup>st</sup> half 2014: 10%) of respondents reported 'increased' productions volumes while another 68% (1<sup>st</sup> half 2014: 68%) saw no change in the production volumes of their businesses.

In line with the earlier finding that there were more businesses expressing anticipated declining forecast sales performance in the next six months period, some 32% believe that their production would experience a reduction in volumes for the first half of 2015.

#### *Production volume*

Production volume	1 <sup>st</sup> Half 2014	2 <sup>nd</sup> Half 2014	Total		
	(%)	(%)	(%)		
	Mfg	Mfg	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Increased</b>	10	12	10	8	12
<b>Remain unchanged</b>	63	67	68	68	56
<b>Decreased</b>	27	21	22	24	32
<b>Total (Sample Size)</b>	<b>100 (69)</b>	<b>100 (57)</b>	<b>100 (112)</b>	<b>100 (96)</b>	<b>100 (91)</b>

### 3.1.3 Stocks

#### ***Unchanged Inventory levels***

Overall, the survey results show that inventory levels for the period of 2<sup>nd</sup> half of 2014 have remained unchanged vis-à-vis the period of 1<sup>st</sup> half 2014. The major change was the drop of 6% points of respondents reporting 'increased' inventory levels.

Somewhat similar patterns were noted in the categories of stock changes for respondents in the 'manufacturing' and 'wholesale and retailers' sectors. As noted in previous surveys, the majority of the respondents in these two sectors reported 'unchanged' inventory levels.

For the manufacturing sector, there was an increase of 5% points of respondents who reported 'unchanged' level of inventory, with the effect coming mainly from decreases in % of respondents in the 'increased' inventory category.

Similarly, there was also an increase of 5% points of respondents who reported 'unchanged' level of inventory in the wholesale and retailers sector, with the corresponding coming from the decreases in % respondents from the other two categories of inventory level changes.

Going forward for the next six months in 1<sup>st</sup> half of 2015, the majority of respondents predicted that their inventory levels would remain unchanged for the future period concerned. 27% expect to cut their levels of inventory and 16% predict an increase.

#### *Stocks*

Stocks	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Increased</b>	18	14	9	12	15	9	16
<b>Remain unchanged</b>	69	68	74	73	68	73	57
<b>Decreased</b>	13	19	17	15	16	18	27
<b>Total (Sample Size)</b>	<b>100 (74)</b>	<b>100 (102)</b>	<b>100 (58)</b>	<b>100 (81)</b>	<b>100 (219)</b>	<b>100 (187)</b>	<b>100 (186)</b>

### **3.1.4 Collections**

#### ***Satisfactory Collections from Customers***

Based on the table depicting the pattern of responses covering the state of collections from customers for the period of 2<sup>nd</sup> half of 2014, the major change was mainly in the increase of 11% points of respondents claiming that the collections concerned was satisfactory. Fewer % of respondents replied that their collections were 'good' or 'unsatisfactory'.

When analysed between the different sectors, it was noted that the overall result was mainly influenced by the collections in the manufacturing sector. In this said sector, there were more businesses being satisfied with their state of collections from their customers (increase of 21% points).

No major change in breakdown of % respondents by categories was noted from businesses in the wholesale and retail sector. Overall, the majority of the respondents continue to report satisfactory state of collections from their customers.

Forecasting into the future, however, only 58% of respondents felt that their state of collections would be satisfactory whilst some 34% believed that they would experience 'poor' state of collections (this is an increase of 9% points over the previous survey period). This reflects uncertainties ahead of the implementation of the GST. Businesses are advised to be cautious and to step up efforts to better control their collections so as not to run into cash flow problems in the future.

#### *Collection for Payment of Debt*

Collection for Payment of Debts	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Good</b>	27	6	14	5	15	9	8
<b>Satisfactory</b>	53	65	74	65	62	73	58
<b>Poor</b>	20	28	12	30	23	19	34
<b>Total (Sample Size)</b>	<b>100 (76)</b>	<b>100 (107)</b>	<b>100 (58)</b>	<b>100 (76)</b>	<b>100 (354)</b>	<b>100 (328)</b>	<b>100 (316)</b>

### 3.1.5 New orders from overseas market

#### ***Slight Decrease in New Orders from Overseas Markets***

Overall, there was no major change in the level of new orders from overseas markets. There was, however, a minor change in the breakdown, with the survey findings showing that there was a decrease of 3% points in respect of responses for the ‘unchanged’ new orders from overseas markets, matched by a corresponding opposite change in the ‘decreased’ category. It may be surmised that new orders from foreign markets continue to remain relatively strong despite challenging external environment.

In the manufacturing sector, there were more respondents who reported ‘unchanged’ level of new orders from foreign markets (increase of 8% points from the previous survey period). In turn, this was matched with corresponding drop in % of respondents in the other two categories.

In the case of wholesale and retail sector, order levels appeared to have improved. The change came mainly in the ‘decreased’ level of new order category where some 35% of respondents reported a ‘decrease’ in level of new orders (specifically, there was a drop of 9% points). There was the corresponding increases in the responses in the other two categories of ‘increase’ and ‘unchanged’ levels of new orders from foreign markets.

Overall, majority of the respondents (63% of respondents) were still hopeful that for the next six-months ending June 2015, their businesses would experience ‘increased’ and ‘unchanged’ levels of orders from foreign markets. Sentiment wise, this was an increase of 13% points in respect of respondents predicting a decrease in future new orders, perhaps a reflection of less optimism of being able to secure new orders in the 1<sup>st</sup> half of 2015.

#### *New Orders of Goods and Services from Foreign Markets*

New Orders	1 <sup>st</sup> Half 2014		2 <sup>nd</sup> Half 2014		Total		
	(%)		(%)		(%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
Increased	14	5	11	10	10	9	13
Remain unchanged	59	51	67	55	60	57	50
Decreased	27	44	22	35	30	34	37
Total (Sample Size)	100 (59)	100 (39)	100 (45)	100 (20)	100 (176)	100 (135)	100 (142)

### 3.1.6 New orders from local market

#### ***New Local Orders Largely Unchanged***

This period of survey showed that the situation relating to local orders for businesses remained relatively unchanged as against the last survey period. Local / internal demand for the products and services is said to be the main driving factor sustaining Malaysia's economic growth in the second half of 2014. Some 66% of respondents had replied that the position of the local sales orders had remained relatively unchanged in this period of survey (1H 2014: 67%).

When analysed by sector however, it was noted there was a slight dip in the percentage (%) of respondents who had reported unchanged levels of local sales in the manufacturing sector (2H 2014: 60% vs 1H 2014: 65%). In fact, there appeared to be a slight increase in the percentage of respondents advising 'decreased' local sales orders (rising by some 6% points).

No significant change in breakdown of levels of new local orders was noted for businesses in the wholesale and retail sectors between this survey and the previous survey period, although the result recorded shows a slight improvement. The % respondents in the 'decreased' new local sales orders category dipped slightly by 4% points.

In the case of future performance in the next six months ending June 2015, some 38% of the respondents forecast that their businesses are expected to experience 'decreased' new local orders. This may be worrying as it represents an increase of 12% points of respondents in this category. Perhaps, businesses are being somewhat pessimistic and cautious, given the external uncertainties and ahead of the implementation of the GST.

#### *New Local Orders of Goods and Services from Local Market*

New Local Orders	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
Increased	10	8	9	10	8	8	7
Remain unchanged	65	62	60	64	67	66	55
Decreased	25	30	32	26	25	26	38
<b>Total (Sample Size)</b>	<b>100 (69)</b>	<b>100 (107)</b>	<b>100 (57)</b>	<b>100 (84)</b>	<b>100 (346)</b>	<b>100 (326)</b>	<b>100 (313)</b>

### 3.1.7 Sales prices

#### ***Local Sales Prices Maintained***

Overall, businesses were able to sustain their local sales prices for the period of 2<sup>nd</sup> half 2014. It is noted that the pattern of results for the period under review is not materially different from that reported for 1<sup>st</sup> half of 2014. 70% of respondents reported that they were able to keep their selling prices unchanged.

Sector wise, a big majority of businesses in the manufacturing sector experienced 'unchanged' selling prices for local sales. There was an increase of 8% points of businesses that were noted to be in the 'remain unchanged' category. Fewer % of respondents reported to be in the 'increased' and 'decreased' selling prices categories (the dips were however not material).

Somewhat similar, a slightly bigger majority of businesses in the 'wholesale and retail' sector experienced 'unchanged' selling prices for local sales, with minor changes experienced in the other two categories of responses.

Perhaps, based on the latest experience and looking into the future, some 30% of the respondents forecast the need to reduce their selling prices of the goods and services to stay in business for the forecast 6 months forward for the 1<sup>st</sup> half of 2015. This represents a significant increase of 9% points of respondents that had similarly forecast such need for the corresponding 6 months future period in the last survey period. This is in line with more businesses expecting their sales orders to drop and they may have to reduce prices to maintain market share. Additionally, some 10% of businesses were confident that they could increase their selling prices for the same forecast period.

#### *Local Sales Prices of Goods and Services*

Local Sales Prices	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Increased</b>	10	15	7	9	11	9	12
<b>Remain unchanged</b>	59	65	67	70	69	70	59
<b>Decreased</b>	30	19	26	21	20	21	30
<b>Total (Sample Size)</b>	<b>100 (69)</b>	<b>100 (103)</b>	<b>100 (55)</b>	<b>100 (81)</b>	<b>100 (339)</b>	<b>100 (310)</b>	<b>100 (304)</b>

### 3.1.8 Number of employees

#### ***Employment Market Relatively Unchanged***

The employment market showed a relatively unchanged position with no major swings in the percentage of respondents for all categories of responses.

In the case of the ‘manufacturing’ sector, there were fewer businesses that reported having experienced ‘decreased’ number of employees. There was a drop of 5% points of respondents in this category, matched by a somewhat similar rise of respondents in the category of ‘increased’ number of employees.

For the ‘wholesale and retail trade’ sector, firms mainly kept their number of employees unchanged.

Overall, the majority of businesses are expected to maintain their capacity level in terms of human resource requirements for the next 6 months ending June 2015.

#### *Number of Employees*

Number of Employees	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
<b>Increased</b>	5	5	9	6	6	7	10
<b>Remain unchanged</b>	68	78	70	78	75	76	69
<b>Decreased</b>	27	17	22	16	19	17	22
<b>Total (Sample Size)</b>	<b>100 (78)</b>	<b>100 (112)</b>	<b>100 (59)</b>	<b>100 (83)</b>	<b>100 (369)</b>	<b>100 (344)</b>	<b>100 (331)</b>

### 3.1.9 Wage cost per unit of output

#### ***Wage Costs Per Unit of Output Relatively Unchanged***

Businesses advised that the wage cost per unit of output for the whole of 2<sup>nd</sup> half of 2014 largely remained constant, with slightly fewer businesses reporting to have experienced increase in wage costs per unit of output (drop of 4% points in the ‘increased’ category of wage costs). This may be taken as an indicator that businesses have strived earnestly to keep wage costs per unit of goods and services constant. Some 77% of respondents indicated that their wage costs remained unchanged in 2<sup>nd</sup> half of 2014 compared to 73% as reported previously for 1<sup>st</sup> half of 2014.

When analysed by sector, it is noted that 64% of respondents in the ‘manufacturing’ sector experienced ‘unchanged’ wage costs per unit of goods (position unchanged relative to the previous period). In the case of the ‘wholesale and retail trade’ sector, there were more businesses reporting that they experienced ‘unchanged’ wages costs per unit of goods and services (2<sup>nd</sup> half 2014: 83% versus 1<sup>st</sup> half 2014: 72%). Continuing the trend noted previously, the ‘wholesale and retail’ sector continues to record a drop in % of respondents being able to reduce wage costs per unit.

Looking into six months ahead, some 64% of the respondents believed that wage costs would remain unchanged for the period ending June 2015. This underscores the fact that businesses would continue to strive to ensure that wages costs remain constant. However, the question remains how such unchanged wage costs per unit shall be achieved, whether via not increasing the wage per staff or through the recruitment of new, inexperienced employees.

#### *Wage Costs per Unit of Goods and Services*

Wage Costs per unit	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
Increased	22	14	19	6	15	11	17
Remain unchanged	64	72	64	83	73	77	64
Decreased	14	14	17	11	12	12	19
Total (Sample Size)	100 (78)	100 (107)	100 (58)	100 (80)	100 (362)	100 (320)	100 (316)



### **3.1.10 Capacity utilisation**

#### ***Drop in Capacity Utilization levels***

There was a slight drop of 6% points of respondents in the 81 – 100% capacity utilisation level category, this drop was reflected in marginal increases in the % of respondents in the other categories. For example, there was an increase of 3% points of respondents that reported a capacity utilisation rate of 40% or less. Nonetheless, the statistics show that a somewhat satisfactory level of capacity utilisation continued from 1<sup>st</sup> half 2014 into 2<sup>nd</sup> half 2014. This is unlike the case in 2<sup>nd</sup> half 2013 where, at that time, some 39% of respondents reported utilising less than 40% of the business capacity.

Majority of businesses were in the capacity utilisation levels of 41 – 60% and 61 – 80% levels. Nonetheless, as noted in previous surveys, the capacity utilisation rate continues to be well below the desired level of more than 80%.

The Government should continue to give serious consideration into assisting the SMEs in particular to help such businesses improve on their capacity utilisation in the long run.

At the individual business level, to reduce the excess capacity, greater efforts should be placed by the businesses into areas such as marketing and promotional exercises, introduction of new products and more innovative business measures to increase sales.

#### *Capacity Utilisation Level*

Capacity Utilisation Level	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)	
	Mfg	Mfg	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14
81 ~ 100%	12	12	3	4	11	5
61 ~ 80%	55	56	64	56	53	55
41 ~ 60%	28	26	26	33	30	32
0 ~ 40%	5	5	7	6	5	8
<b>Total (Sample Size)</b>	<b>100 (75)</b>	<b>100 (96)</b>	<b>100 (61)</b>	<b>100 (78)</b>	<b>100 (336)</b>	<b>100 (330)</b>

### 3.1.11 Investment in new resources or plant

#### ***More Respondents Choosing to Reduce Investments in New Resources or Plant***

Given that the capacity utilisation by the majority of businesses continues to be less than the desired 80% level as noted earlier, it is therefore understandable to note that 94% of the respondents replied that they were keeping their investments in new resources or plant either 'unchanged' or 'decreased'. However, perhaps worryingly, the % of respondents in the 'decreased' category has increased significantly by 13% points for this period over the last survey period, reversing the previous improvement of 14% points reported then.

Reflecting the overall change pattern, there was a 9% points increase in the % of respondents in the 'manufacturing' sector that had chosen to reduce their investment levels. As noted in the earlier paragraph, there continues to be sufficient capacities to absorb new orders. Businesses in the 'wholesale and retail' sector reported even greater negative swings, with significantly more businesses reporting reduction in investment in new resources or plant (1<sup>st</sup> half 2014: 32% versus 2<sup>nd</sup> half 2014: 50%).

Sensing over-capacity and perhaps, the concern for possible adverse economic movements in the future along with less optimism about new orders, some 52% of the respondents stated that they are considering reducing their investment in new resources or plant for the period 1<sup>st</sup> half 2015. This is partly due to the significant excess capacity and rising costs of doing business. Only 12% of respondents advised that they planned to increase such investments during the period of 1<sup>st</sup> half 2015.

#### *Investment in New Resources or Plant*

Investment	1 <sup>st</sup> Half 2014 (%)		2 <sup>nd</sup> Half 2014 (%)		Total (%)		
	Mfg	Mfg	Mfg	WRT	1 <sup>st</sup> '14	2 <sup>nd</sup> '14	1 <sup>st</sup> '15 (Forecast)
Increased	11	11	9	8	10	6	12
Remain unchanged	68	56	61	42	60	52	36
Decreased	21	32	30	50	29	42	52
Total (Sample Size)	100 (75)	100 (96)	100 (56)	100 (64)	100 (319)	100 (264)	100 (260)

### 3.1.12 Economic Situation in Malaysia

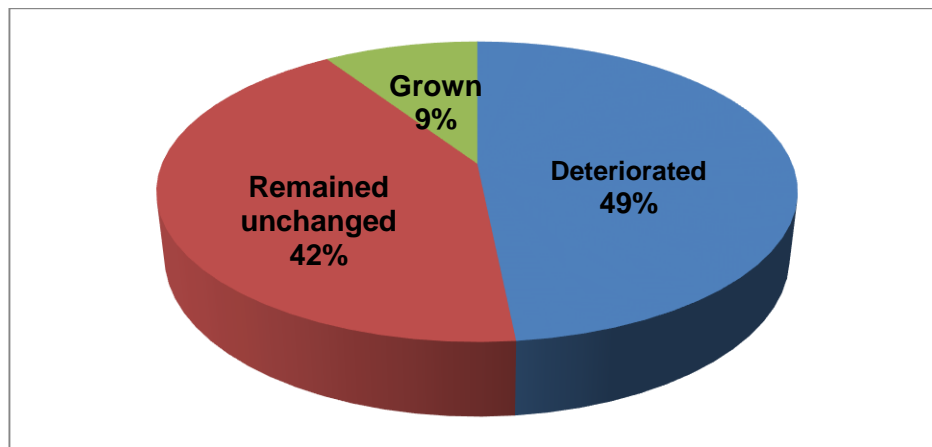
#### *The Malaysian economy was seen to have experienced weaker growth in the 2<sup>nd</sup> half of 2014*

At the macro level, some 42% of respondents had the perception that the Malaysian economy remained relatively stable in the 2<sup>nd</sup> half of 2014. The percentage of respondents under this category of response has decreased by 7% points from a level of 49% for the last survey period.

In the ‘deteriorated’ category, there was an increase in the percentage of respondents choosing this category (rise of 13% points over that reported for this category in the last survey period). This represents a near majority of total respondents among the business community that holds the perception that the Malaysian economy has weakened. Only 9% of the respondents believe that the Malaysian economy has shown signs of growth.

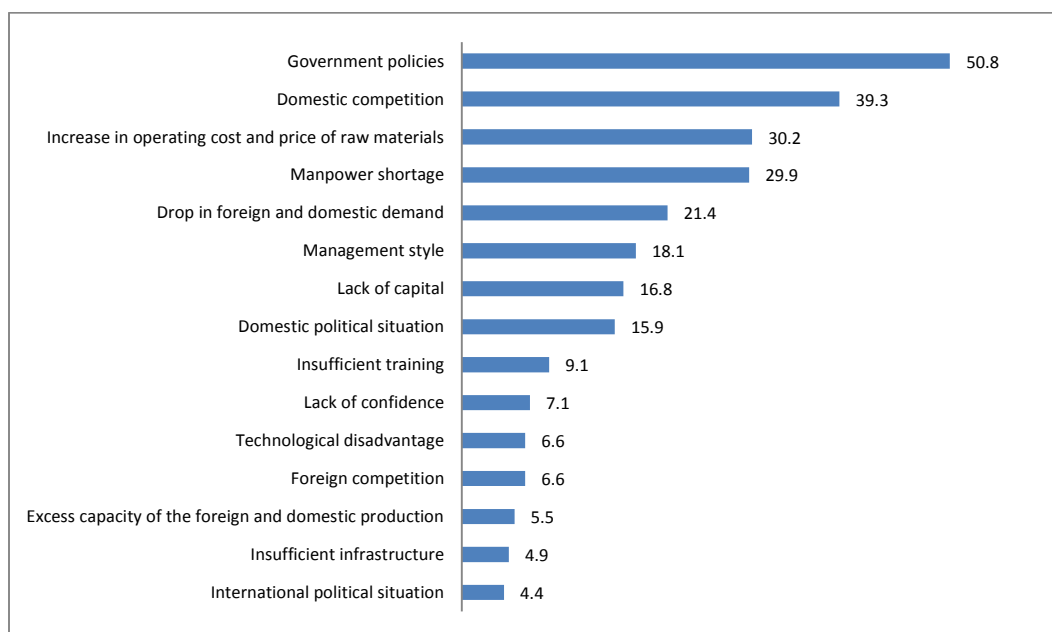
The figures released by Bank Negara Malaysia also depict more moderate economic growth and performance for Malaysia as a whole, in the 2<sup>nd</sup> half of 2014 compared to the 1<sup>st</sup> half of 2014.

**The Malaysian Economy in the 2<sup>nd</sup> Half of 2014**



### 3.2 MAJOR FACTORS ADVERSELY AFFECTING BUSINESS PERFORMANCE

#### Factors Affecting Business Performance for 2<sup>nd</sup> Half 2014 (%)



#### Government policies

Consistent with the previous survey results, the greatest concern among businesses for the period six months ended December 2014 continues to be the need for business friendly government policies that promote and support businesses activities.

The extent of the importance of this factor is underscored by the increase in % of respondents citing Government policies to be the most important factor affecting the performance of their businesses during this period of survey. For this period of survey, some 51% of respondents identified this factor as opposed to 44% in the last period of survey (up by 7% points). This has been mainly due to rising costs of doing business in Malaysia, and the ever increasing compliance requirements to be adhered to by businesses. Of late, the outsourcing of the renewable of foreign labour work permit to a private company has become the main focus, as it is expected to increase the cost of doing business. Earlier, businesses have also lamented of the need to comply with requirements such as the Competition Act 2010, minimum wages (which has not been helped with the situation that took place in January 2015 surrounding foreign workers levy) and the impending Goods and Services Tax (GST) Act 2014.

Businesses continue to express concerns about rules that have been implemented in recent years such as the minimum wage policy, the extension of retirement age, increased EPF contributions, the increase in bank charges for the use of cheques for payments, foreign workers levy to cite a few, that would lead to an increase in the cost of doing businesses. Added to this concern has been the depreciation of Ringgit Malaysia against major foreign currencies, causing prices of imports to rise.

As noted in the past, Malaysian businesses continue to expect the Government to introduce and implement economic policies that are business friendly, improve efforts to increase the speed and efficiency of Government / regulatory related processes and in turn, reduce cost of doing businesses. The Government is also looked upon to implement efficient public projects and pump in greater expenditures that can spur greater economic growth.

The business community sees the implementation of business friendly policies as imperative and necessary to boost private investment and spur the Malaysian economy. It should also be noted that despite efforts to transform the Malaysian economy, the effects and benefits continue not to appear to have filtered down meaningfully and significantly to the SMEs.

### **Domestic competition**

This concern (with regards domestic competition) is ranked as the second most important factor to affect business performance this period of survey.

The less robust economic growth in recent years has resulted in more intense competition among SMEs to maintain their market shares. This pressure has intensified with liberalisation to open up the Malaysian economy. This also explains why respondents continue to perceive that the Malaysian economy did not experience a robust economic growth in the period under review.

The irony is that despite keen competition amid reducing capacity utilisation, majority of the businesses had reported to maintain their sale prices unchanged during the period. This suggests that businesses have not resorted to cut prices to compete, as rising cost pressure is pushing them to maintain their prices but at the expense of margin.

### **Increase in operating cost and price of raw materials**

Increase in operating costs and prices of raw materials continue to be a major concern among businesses.

The rising operating costs experienced by businesses stems from requirements introduced previously in areas such as the 1% point increase in EPF contribution (for workers who earned RM5,000 and below), the implementation of the Competition Act 2010 and the implementation of the minimum wage. The periodic review of utilities prices such as power and gas tariff could also add to the cost of doing business when it is raised. Although electricity prices have been cut recently, it is seen to be merely short term in nature, while fuel prices remain volatile as it was raised in March after three months of reduction. In addition, the sharp weakening of the ringgit is expected to increase prices of imported raw materials, which in turn will likely to have some impact on businesses' operating costs.

### **Manpower shortage**

Concern was expressed by the respondents in respect of this factor with close to 30% of respondents feeling this an important factor during the 2<sup>nd</sup> half of 2014's survey.

Businesses and employers in Malaysia have long complained of shortage of suitably qualified workers and the problem of supply of foreign workers as well as lack of job-fit and job-readiness Malaysians (in particular, job readiness and employable graduates) that are likely to have impacts on their businesses.

**Overall, government policies, increase in domestic competition, increase in operating costs and price of raw materials and manpower shortage were the four (4) major factors that affected the business performances in the 2<sup>nd</sup> half of 2014.**

### 3.3 MALAYSIAN ECONOMIC OUTLOOK

The Chinese business community is generally more pessimistic about the economic outlook for 2015 and 2016, with improvements expected in 2017.

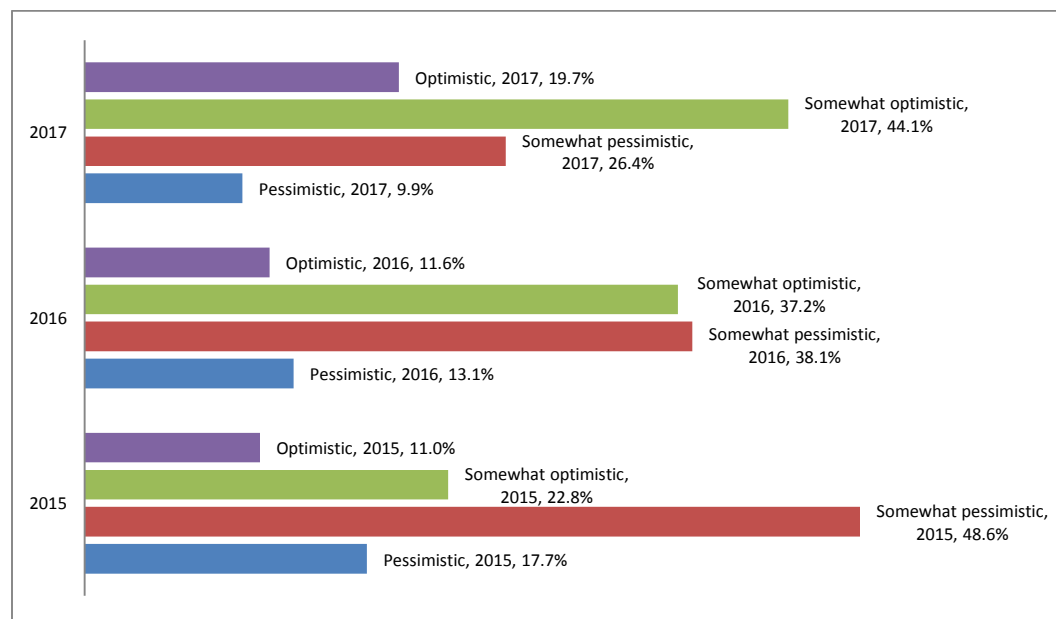
Continuing from the results identified in the last period of survey, the majority of respondents expressed that they were pessimistic about the performance of the Malaysian economy for 2015 and 2016. This time round, some 66.3% of respondents expressed their lack of confidence on Malaysia's 2015 economic outlook (up from 51.4% for 2015 year, based on the 1<sup>st</sup> half 2014 survey period finding). In the case of Malaysia's 2016 economic outlook, some 51.2% of respondents were not confident of future results for the period concerned (up from 41.7% for 2016 year, based on 1<sup>st</sup> half 2014 survey).

Overall, these indicate that the level of pessimism amongst the business community for both 2015's and 2016's economic outlook has increased significantly.

Improvements in the Malaysian economy is now foreseen to occur in 2017, where 63.8% of respondents expressed some measure of optimism for the expected 2017 results.

**Overall, the Chinese business community is generally more pessimistic about the economic outlook for Malaysia for 2015 and 2016 but are looking towards an improvement in 2017.**

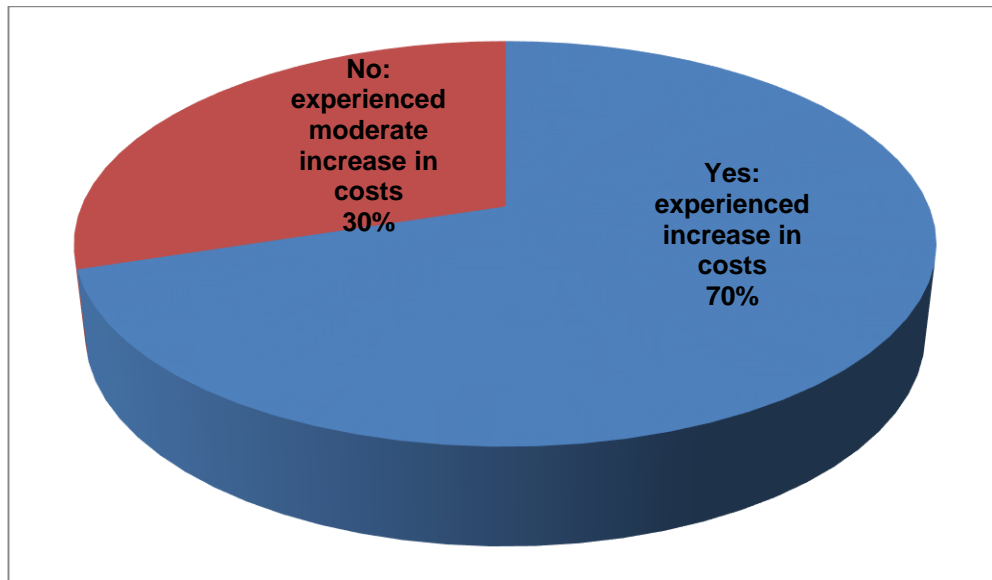
**Malaysian Economic Outlook 2015-2017 (%)**



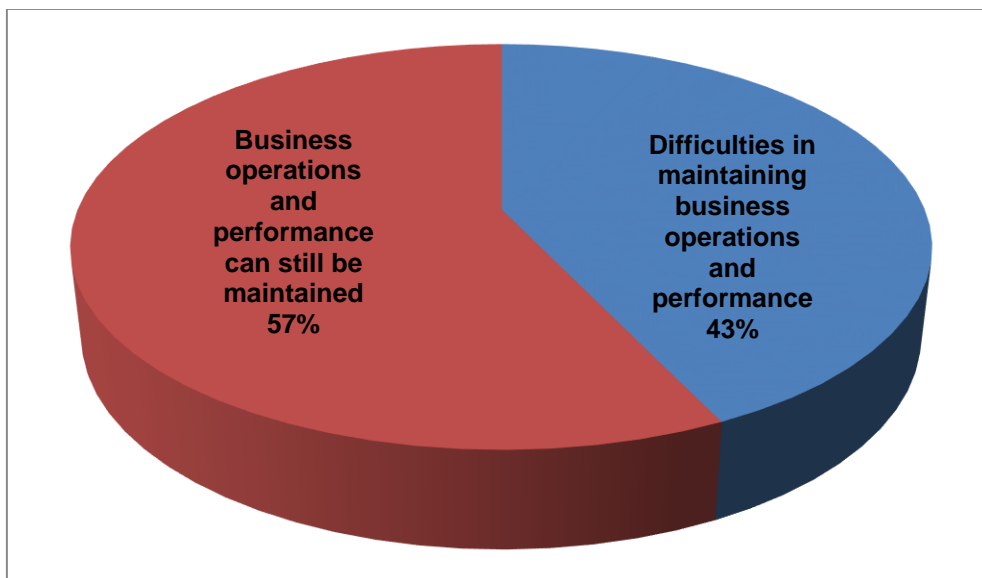
### **3.4 INCREASE IN COSTS**

Based on latest available data, in general, Malaysia's inflation rate has been reported to be the region of between a low of 2.6% (September 2014) to a high of 3.5% (February and March 2014) for the 11 months period to 30 November 2014.

- (a) During the 2nd half 2014, has your business experienced significant increase in costs of doing business?

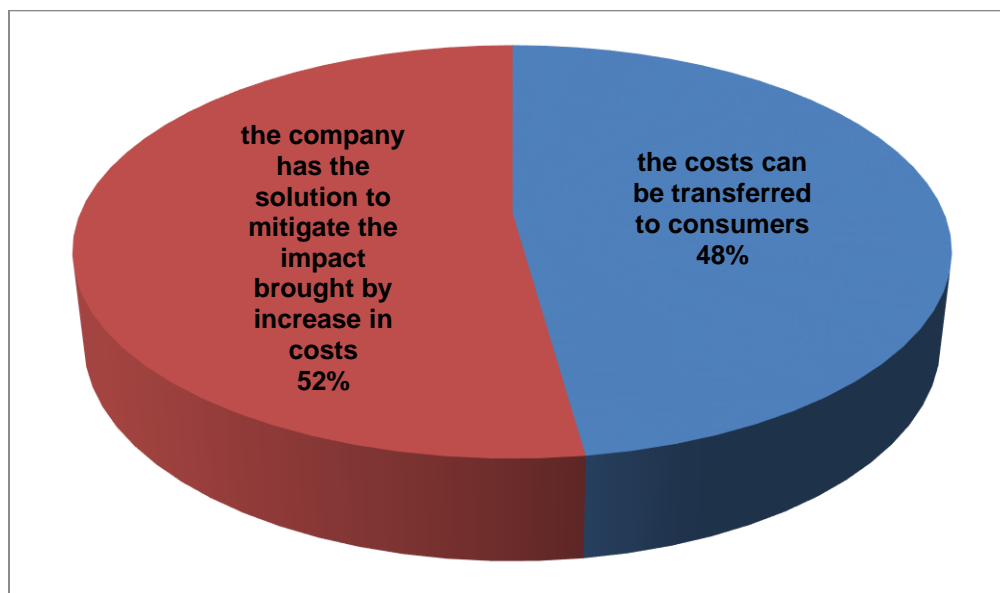


- (b) During the 2nd half of 2014, has increase in cost affected your company?





(c) Business can still be maintained because:



Issues surrounding rising costs of doing business in Malaysia continue to be raised in Malaysia. For many businesses, this factor represents a great concern and many have voiced their desire to see the Government take steps to address this issue.

Contributors to the rise in costs of doing business in recent periods include:

- a) Increase in fuel prices (but see later comments)
- b) Increase in electricity tariffs and gas prices (but see later comments)
- c) Minimum wage policy
- d) Higher prices of materials
- e) Higher compliance costs and so on.

For instance, the CPI has been steadily rising month on month:

Month	CPI
December 2012	105.5
January 2013	105.9
December 2013	108.9
January 2014	109.5
February 2014	109.8
March 2014	109.9
April 2014	109.9
May 2014	110.0

**ACCIM SURVEY REPORT ON ECONOMIC SITUATION OF MALAYSIA  
FOR THE 2<sup>ND</sup> HALF OF 2014**

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<b>Month</b>	<b>CPI</b>
June 2014	110.2
July 2014	110.3
August 2014	110.5
September 2014	110.7
October 2014	111.3
November 2014	111.9
December 2014	111.8
January 2015	110.6

*(source: <http://www.statistics.gov.my>)*

Without a doubt, the month of December 2014 saw many significant macro-economic changes, in particular the plummeting of the world prices of oil from November 2014 onwards, followed by the value of the Ringit Malaysia against other major currencies. These macro-effects, particularly a fall in oil prices, have some knock on impact on the CPI, resulting in a somewhat tapering off of the generally upward movement in CPI by January 2015. Overall, inflation pressure has been trend down for the six months ended December 2014 but stayed elevated.

The introduction of many new laws and regulations (for e.g. Competition Act, Minimum Wage, foreign workers levy etc) have resulted in businesses having to dedicate more resources towards ensuring compliances. Adding to the cost pressure is the impending implementation of the Goods and Services Tax (GST) beginning 1 April 2015. Many businesses are now scrambling to improve on their understanding and readiness in respect of GST implementation. Certainly, compliance costs will likely continue to rise in the future.

Recent years have also seen the Government attempts to roll back various subsidies that have long been in place in the country. For instance, fuel prices rose in September 2013, where the prices for RON95 and diesel rose to RM2.10 per litre and RM2.00 per litre respectively. Then, in October 2014, prices for RON95 and diesel further rose to RM2.30 per litre and RM2.20 per litre respectively.

With the global prices of oil dropping significantly from November 2014 onwards, the Government subsequently decided to scrap the RON95 subsidy in December 2014 and allowed prices to be based on a managed float system. This, the Government argued would allow for prices to better reflect market rates. Accordingly, business community and consumers alike have had to come to terms with paying the real prices of goods and services (what some call as 'the true cost of doing business').

The respondents were thus asked several questions with regard to the issue of rising costs of doing business and its impact.

The results of the survey shows that **an overwhelming 70% of respondents complained that their businesses had experienced significant increase in costs of doing businesses** (for various reasons, such as those mentioned earlier).

In turn, **57% of respondents opined that they would still be able to maintain their operations in their existing status with the remaining 43% claiming that they would face significant business difficulties in the future.** This represents a change of 3% points in both areas of response.

In the case of respondents claiming that they were able to maintain their operations, they explained that this was mainly due to:

- a) **The majority of businesses (52%) believed that they had some form of solutions to mitigate the effects of rising costs**
  
- b) **The balance 48% claimed that they would be able to pass on the effects of rising costs onto the customers or end-users**

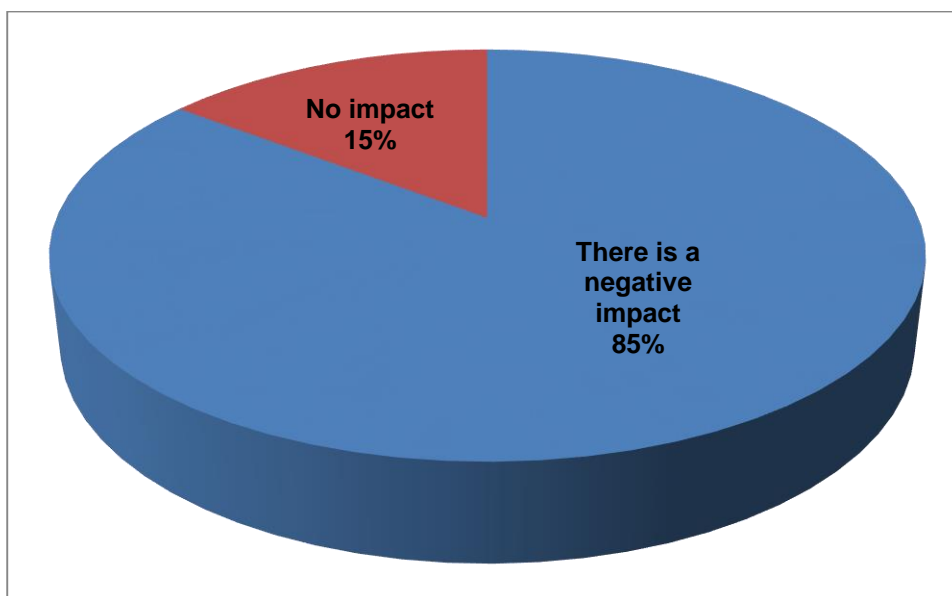
It follows that for those respondents that claimed to face business difficulties in the future, they too would be forced to pass the effects of rising costs to the customers to survive in the future.

Surely, all of the above findings would once again translate to consumers continuing to bear the brunt of the effects of costs rising further in the future.

### **3.5 WORLD PRICES OF COMMODITIES**

Recent few months has seen world prices of commodities (petroleum, palm, oil, rubber) decreasing.

- (a) Do you think the decrease in world prices of commodities will have a significant impact on the performance of the Malaysian economy?



Commodity prices have in general seen downward trends. For example:

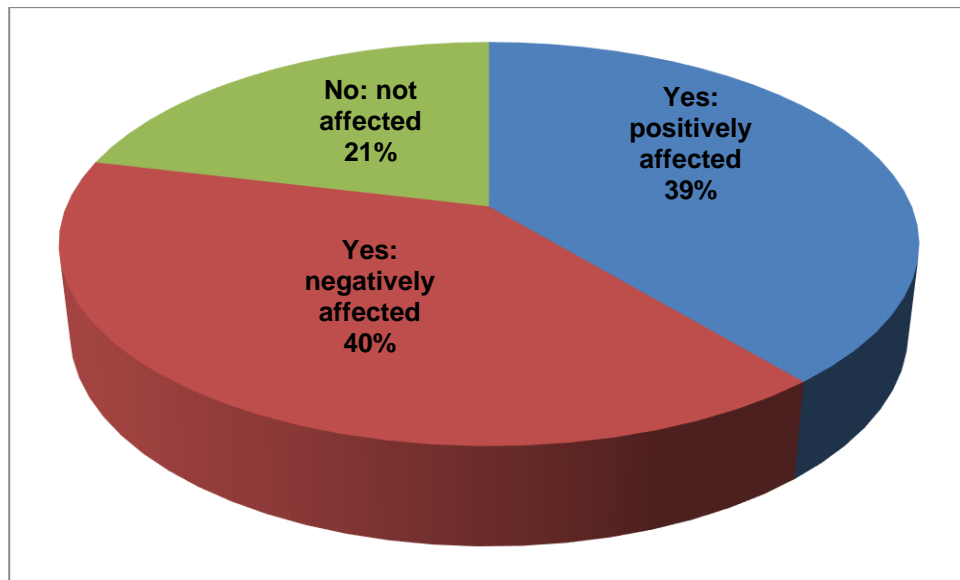
- a) Monthly average rubber prices for SMR CV rubber prices have dropped from 731.78 sen/kg in July 2014 to 645.45 sen/kg in December 2014 (source: Malaysian Rubber Board).
- b) Monthly average crude palm oil prices have generally dropped from RM2,400 / tonne in July 2014 to RM2,144 / tonne in December 2014 (source: Malaysian Palm Oil Board).
- c) Monthly average crude Brent oil prices have similarly dropped from a high of USD106.77 per barrel in July 2014 to USD62.36 per barrel in December 2014.

**An overwhelming 85% of the respondents opined that such drops in commodity prices should have a significant negative impact on the Malaysian economy, in particular impacting hard**

**on Malaysia's export earnings.** The Malaysian economy would then be expected to be affected in the following manner:

- a) Reduced income of rural households, in particular those members of the community that directly employ or participate in these sectors
- b) Lower exports and terms of trade as Malaysia is exposed to a broad range of commodities
- c) Lower revenue for the Government
- d) Consequent curtailment in Government spendings (whether immediate or in the future)

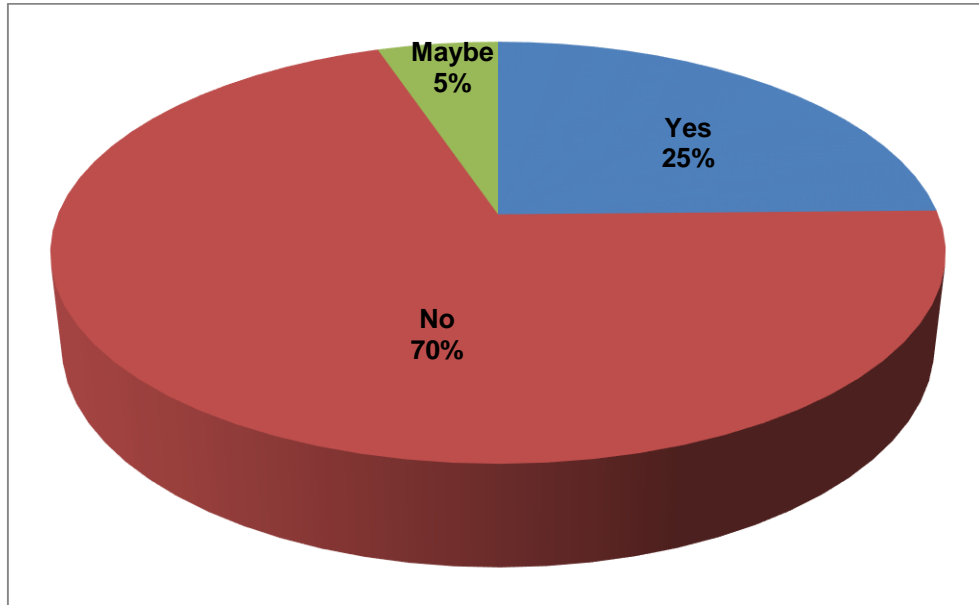
(b) **Do you think your company's / business' operations and performance are expected to be affected by the decrease in prices of commodities, especially the price of petroleum in 2015?**



Following on from the concerns at the macro level, the business community was then asked as to the extent of the consequential effect on their businesses.

**Some 40% of respondents opined that their businesses would be affected negatively, in the form of lower earnings arising from expected lower demand and consumer spendings. Some 39% of respondents, on the other hand, would be positively impacted.** An overwhelming 85% of the respondents opined that such drops in commodity prices may translate into lower production costs and hence, benefit their businesses. The balance 21% of respondents claimed that their business performance would not be affected.

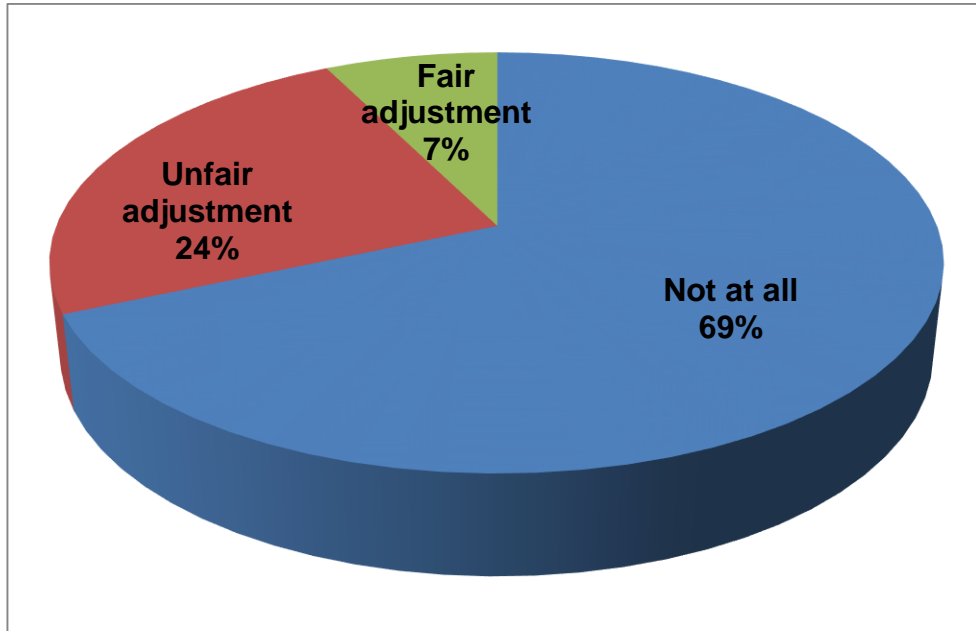
- (c) Will there be any decrease in selling prices of the company's / business' products given the expected decrease in price of petroleum?



**70% of respondents maintained that they do not expect any decrease in selling prices of their business products and services.** This is despite the belief that price of petroleum would continue to be low. This is expected as prices generally sticky downward. Also there continues to be concern that costs is not only affected by prices of fuel but other inputs as well. There are also issues such as the depreciation of Ringgit Malaysia against other major currencies (partly caused by the fall in the prices of oil), the reduction in the costs of electricity that was announced in 2015 and so on. They are also adopting a wait-and-see attitude given the impending commencement of Goods and Services Tax (GST) from 1 April 2015 onwards.

As far as the business community is concerned, there is too much uncertainty in the economy for them to be able to ascertain whether there would be any costs savings (and whether such cost savings would be material / significant) in the future for them to be able to forecast how their selling prices shall move.

- (d) In the past, whenever there was an increase in price of petroleum, the electricity tariff would be increased immediately. Now as the price of petroleum is falling, do you see any corresponding fair adjustment in the electricity tariff?



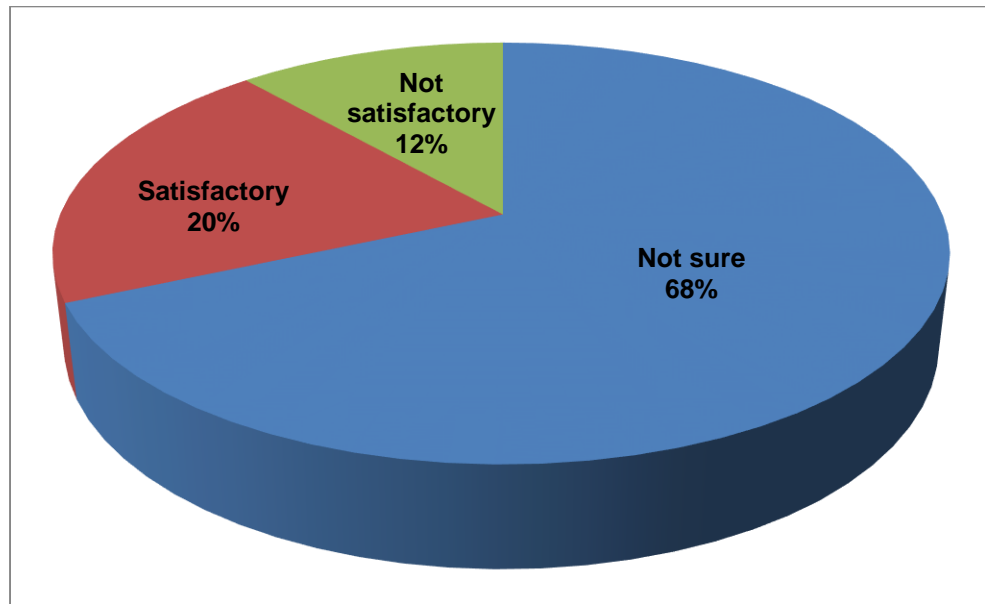
**Close to 70% of respondents did not expect the electricity tariffs to be reduced significantly in the near future, despite the drop in world oil prices.** This is mainly because the Government is committed to gradually phasing out energy subsidies, through the Subsidy Rationalisation Programme put in place earlier. In January 2014, electricity tariffs rose in Peninsular Malaysia, Sabah and Labuan by between 15% - 17%.

The Government has announced to lower electricity tariff starting March 2015 onwards. However, the business community point to the fact that the lowering of the tariffs was for consumers only (and not the business community) and that the lower tariffs were only for the months of March to June 2015. Hence, once again, consistent with previous paragraphs, the business community are uncertain about their future cost outlook. Nonetheless, the business community still looks forward to more measures of price reductions in the future, including the lowering of electricity tariffs for the commercial sector.

### 3.6 ASEAN ECONOMIC COMMUNITY (AEC) 2015

After implementing the AEC in 2015, there will be free flow of goods, skilled labours and capital among the ASEAN countries.

(a) How are your company's preparations for the impending integration under AEC?



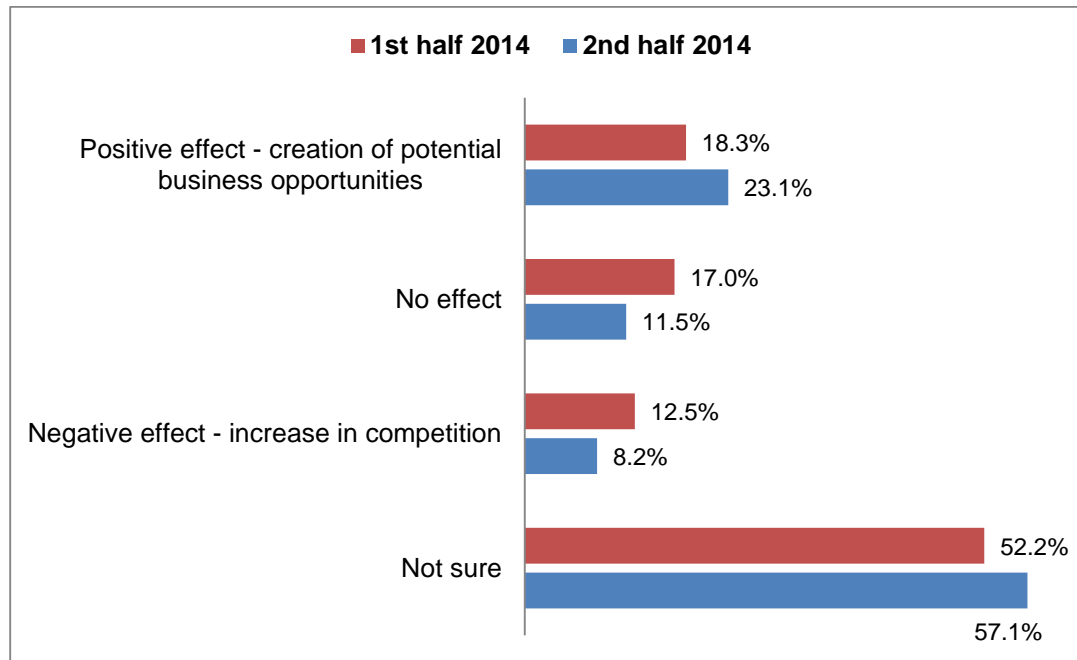
As commented in previous survey findings, many businesses have not made adequate preparations to face the coming challenges when the ASEAN ECONOMIC COMMUNITY (AEC) is implemented by the end of 2015. **Some 68% of the respondents expressed that they were not sure of what preparations they ought to make and whether their preparations in themselves would be adequate.**

The business community should take pro-active steps to understand what would be the effects when AEC is implemented and make the necessary preparations to face the effects of the integration so as to take advantage of the economic potentials that may accrue to businesses or mitigate any negative effects (should such effects occur).

Nevertheless, efforts have been put in by the Government to raise the awareness among the business communities and all other stakeholders of the purpose behind the creation of AEC, its benefits, its implications to businesses and hence, the preparations that would need to be put in place before the coming deadline. Without which, businesses in Malaysia would be at a significant disadvantage vis-à-vis their counterparts from other ASEAN countries.



(b) How will your business be affected by the impending integration under AEC?



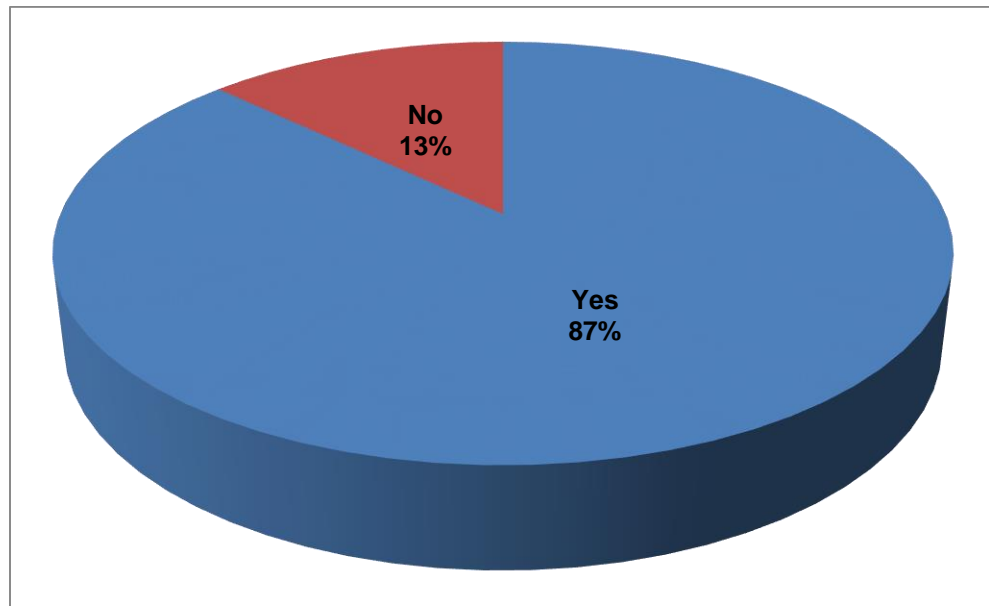
In line with the earlier comments, **more than half of the respondents were unsure of the impact that AEC would pose on their businesses. Only small groups of respondents felt that there would be positive (18% of respondents) and negative (13% of respondents) effects respectively.**

Businesses are thus advised to start to undertake the following:

- a) Understand what are the objectives of AEC
- b) Undertake preliminary analysis of their products and services that would be affected by the integration of the ASEAN economies
- c) Understand what opportunities that may accrue and the threats would be posed by competitors from neighbouring countries
- d) Perform self-analysis to identify strengths and weaknesses
- e) Take corrective / pro-active actions to prepare for AEC

### **3.7 OTHERS**

- (a) The recent months ending up till the end of December 2014 have seen Ringgit Malaysia depreciated significantly against other foreign currencies, in particular currencies.
- (i) Do you think Ringgit Malaysia will continue its decline in the coming months?

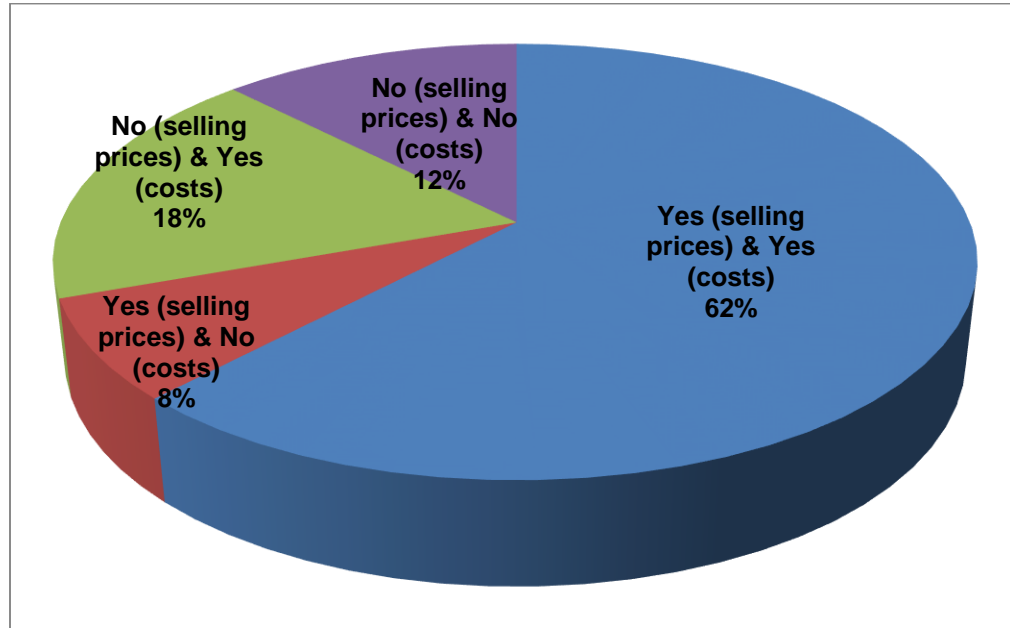


**An overwhelming percentage of respondents (87%) believed that the value of Ringgit Malaysia would continue its downward slide against other major currencies in the coming future.**

This stems from the experience in the months of October 2014 onwards, whereby the exchange rate was from a high of RM3.2375 : USD1 (October 2014) to low of RM3.7140 : USD1 (March 2015, as the date of this writeup). [source: BNM]

Bank Negara Malaysia has explained the causes of the fall in the value of Ringgit Malaysia and indicated that it is under value. It is hopeful that the government could remain vigilant in its moves to support the ringgit on the back of a stronger US dollar vis-à-vis major currencies.

- (ii) Has the depreciation of Ringgit Malaysia affected the selling prices and costs incurred by your business?

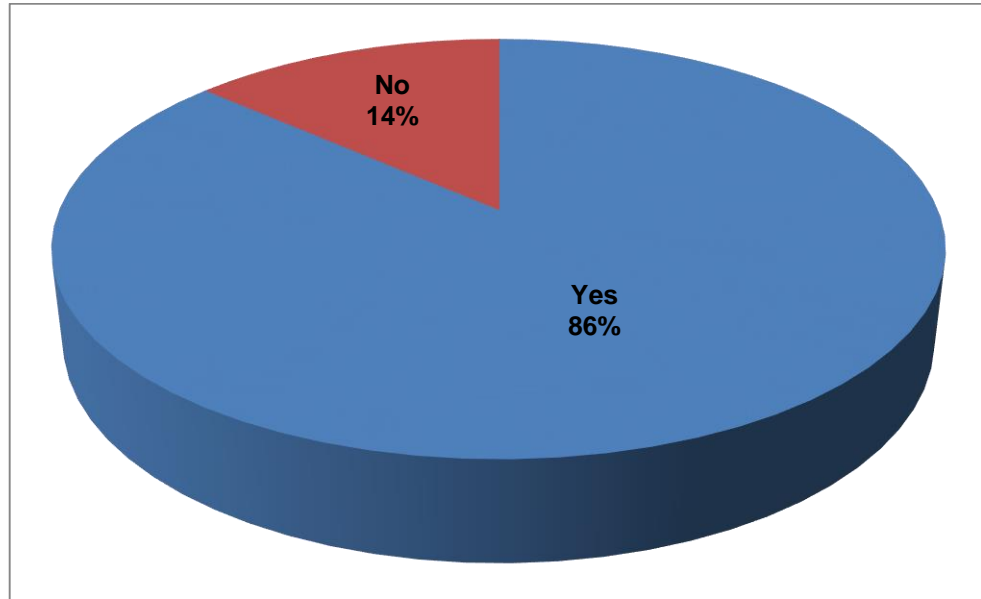


**Almost every respondent maintained that he would be affected in one way or another, whether in the form of selling prices and/or costs.**

Overall, **some 62% of respondents feared for the impact of the movement of Ringgit Malaysia on both their selling prices and costs.** Higher cost of imports is not always matched by a corresponding change in selling prices.

The business community now faces even greater foreign exchange risks and hence, are advised to undertake proper foreign exchange risk hedging and mitigation strategies.

- (b) There have been many unfortunate events taking place in Malaysia. The most recent events were the major floodings in Malaysia and the mishap surrounding AirAsia Indonesia. Do you think these events would have a negative effect on Malaysia's tourism industry?

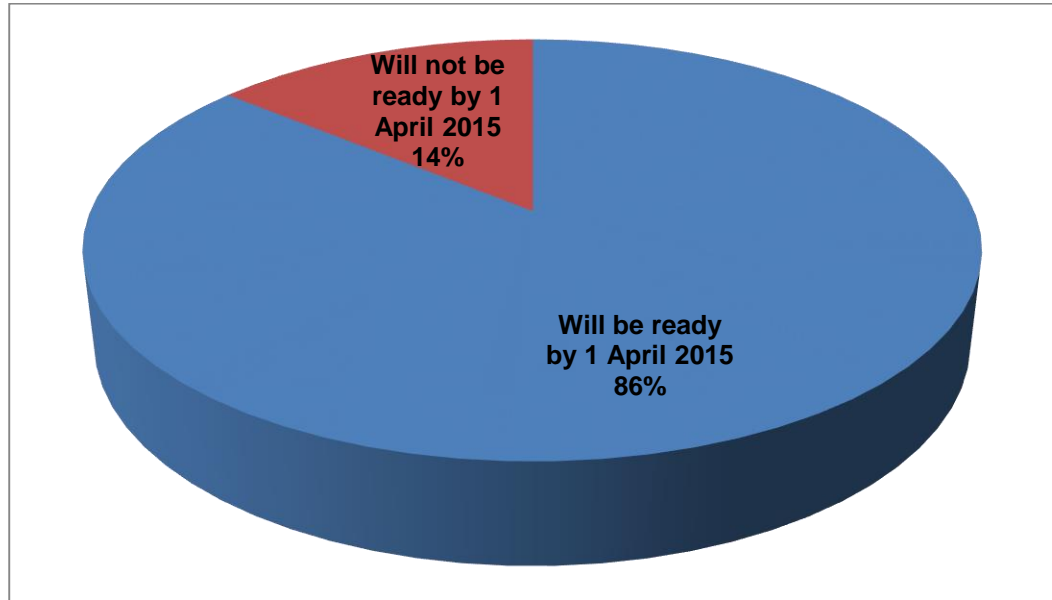


The business community strongly believes that much effort would need to be spent to assist the various stakeholders in the tourism industry. The major and unfortunate events that have taken place in 2014 has indeed created negative perceptions regarding the tourism industry in Malaysia.

Thus, the business community hopes that more concerted effort may be put in by the Government to assist the tourism industry.

**86% of the respondents opined that these events would have a negative effect on Malaysia's tourism industry**

- (c) Is your company ready for the impending implementation of Goods and Services Tax (GST) come 1 April 2015?



It is indeed laudable that the Government and the Chamber itself has been putting much effort towards raising the awareness of the members of the public and the business community of the impending implementation of Goods and Services Tax commencing 1 April 2015.

Perhaps, the Government and in particular, the Royal Malaysian Customs Department, may take comfort that **some 86% of the respondents were confident that their businesses would be ready for the implementation of GST.** Much has been put in to learn up on GST and much has also been spent on getting systems to be up and ready.