Focus on: Malaysia

International Business Report 2011 – Economy focus series

The economy

The Malaysian economy bounced back strongly from the global economic slowdown, posting growth of 7.2% in 2010, driven by strong internal and improving external demand. The 10th Malaysia Plan (2011-15), aims to create a private sector-led economy, by prioritising private finance initiatives and private sector projects under the National Key Economic Areas.

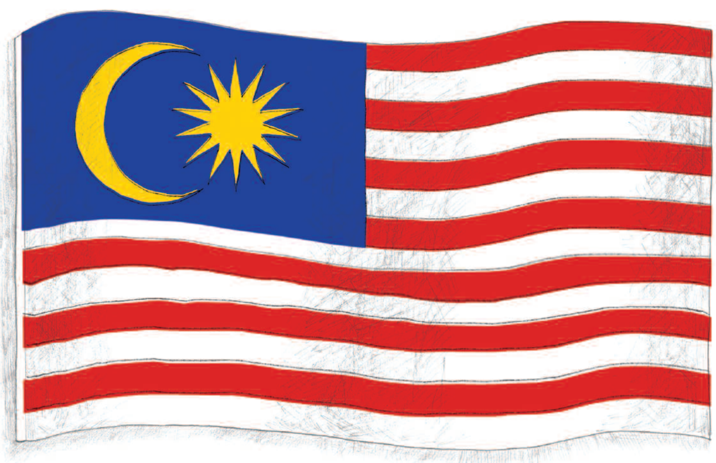
The key indicators[1] are highlighted below:

- real GDP growth of 4.0% year-on-year in Q2, down from 4.9% in Q1, was the slowest since 2009
- export growth picked up to 8.6% in June; in the first five months of the year, exports expanded by 6.2% despite low demand for electrical and electronic products in mature markets and supply chain disruptions in the aftermath of Japan's earthquake and tsunami in March
- consumer spending rose by 6.4% year-on-year in Q2, but private investment slowed to 3.2%, down from 6.5% in Q1
- having declined by 5.6% in May, industrial production rose by 1% in June, driven by 4.5% year-on-year expansion in manufacturing
- the inflation rate rose by 20 basis points to 3.5% in June.

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 medium to large enterprises (MLEs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in Malaysia and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that MLEs in Malaysia are optimistic about their economy over the next 12 months, although less so than in 2010. Business expectations for revenue are in line with those of last year and expectations for profitability have risen. The availability of a skilled workforce and bureaucracy remain a major constraint on potential expansion.



[1] source: International Monetary Fund, The Economist and Experian.

The outlook

The economy is forecast to expand by around 4.5% this year, picking up to 5.2% in 2012. Growth is expected to be driven by increasing demand from China, already Malaysia's largest export market, and expected to be its largest trading partner by 2015. Total exports are expected to increase by 16.8% this year, dropping back to 8.6% in 2012.

Private consumption should be boosted by rising household incomes and low unemployment. A surge in private investment – forecast to expand from 10.2% this year to 15.2% in 2012 – is expected to drive growth following various measures undertaken to enhance productivity and competitiveness in the private sector. The government is aiming to scale back the fiscal deficit – public expenditure is expected to grow by 2.8% this year, down from 3.8% in 2010.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for MLEs

Malaysia compared to the Asia Pacific average	2009 Mal	2010 Mal	2011 Mal	2011 APAC
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-2%	+49%	+40%	+11%
Change in employment levels				
Balance of MLEs expecting an increase over those expecting a reduction	-11%	+39%	+36%	+36%
Constraints on expansion				
Availability of skilled workforce	35%	34%	37%	38%
Regulations/red tape	24%	24%	22%	32%

Source: Grant Thornton IBR 2011

International Business Report results

The Grant Thornton IBR 2011 reveals that business optimism has risen in most economies around the world. However, businesses in Malaysia are slightly less optimistic about their economy over the next 12 months; their optimism/pessimism balance[2] has fallen by 9 percentage points from +49% in 2010 to +40% in 2011.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91per cent. They are followed by the Philippines (+85%), Sweden (+81%) and the United Arab Emirates (+80%). Japan is the least optimistic country once again with a balance of -66%, followed by Spain (-48%) and Greece (-45%).

Overall optimism amongst businesses globally has risen: this year on balance, +28% of MLEs across all countries are positive about their country's economy, compared with +24% in 2010.

Optimism/pessimism

- businesses in Malaysia are slightly less optimistic about their economy this year (+40%) compared with 2010 (+49%)
- however, this remains well above the Asia-Pacific[3] average (+11%)
- globally, business sentiment has risen from +24% in 2010 to +28% in 2011.

Figure 2: Outlook for the economy over the next 12 months: 2006-2011

Percentage balance of businesses indicating optimism against those indicating pessimism

	2006	2007	2008	2009	2010	2011
Malaysia	36	41	38	-2	49	40
Asia-Pacific	53	63	51	2	33	11
Global	39	45	40	-16	24	28

Source: Grant Thornton IBR 2011

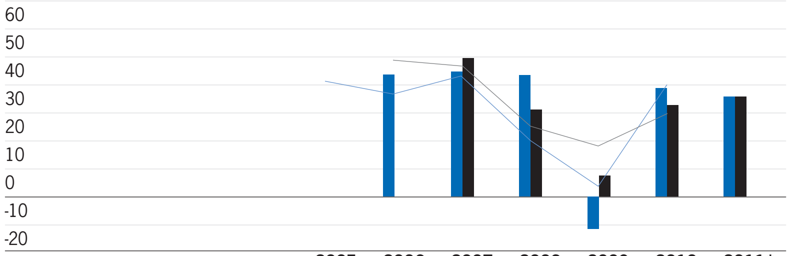
[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
[3] for the purposes of IBR, the term 'Asia-Pacific' refers to those Asia-Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +36% of businesses in Malaysia expect employment to grow in 2011, in line with businesses across Asia-Pacific (+36%)
- actual employment growth reported by businesses in Malaysia for 2010 (+40%) was similar to the level expected 12 months previously (+39%).

Figure 3: Employment history: 2005-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2005	2006	2007	2008	2009	2010	2011*
Expected Malaysia	–	44	45	44	-11	39	36
Expected Asia-Pacific	–	–	50	31	8	33	36
Actual Malaysia	41	37	43	20	4	40	–
Actual Asia-Pacific	–	49	47	25	19	30	–

*actual 2011 data will be documented in IBR 2012

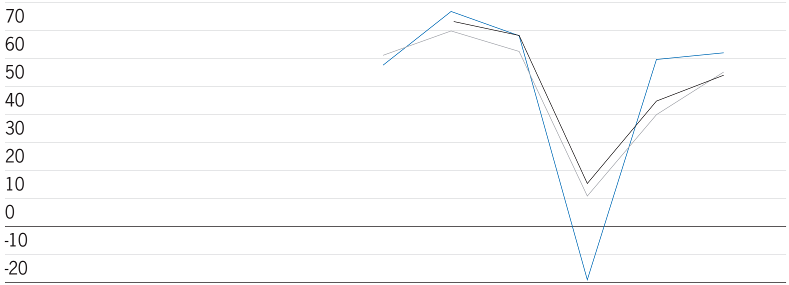
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for revenue prospects are similar to 12 months ago; +62% this year compared with +60% last year
- the Asia-Pacific business average has risen by 9%, from +45% last year to +54% this year
- globally, expectations have risen from +40% in 2010 to +55% in 2011.

Figure 4: Revenue expectations: 2006-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2006	2007	2008	2009	2010	2011
Malaysia	58	77	68	-19	60	62
Asia-Pacific	–	73	68	16	45	54
Global	61	70	63	11	40	55

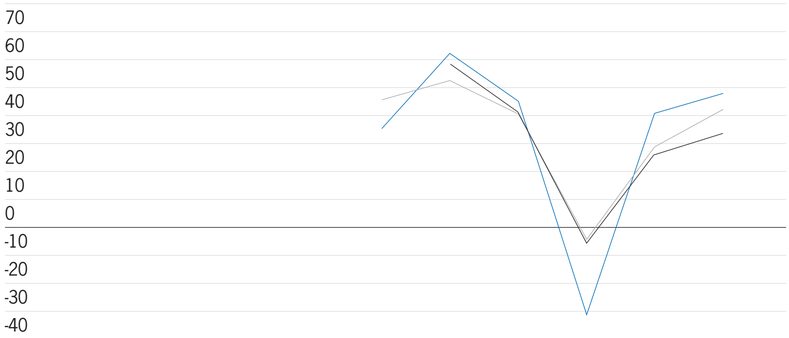
Source: Grant Thornton IBR 2011

Profitability expectations

- the balance of businesses expecting to increase profits in Malaysia remains positive following the steep fall observed in 2009
- this year a balance of +48% of businesses in Malaysia expect their profits to rise compared with +41% in 2010
- the Asia-Pacific business average has risen by 8 percentage points and the global average is up by 13 percentage points.

Figure 5: Profitability expectations: 2006-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



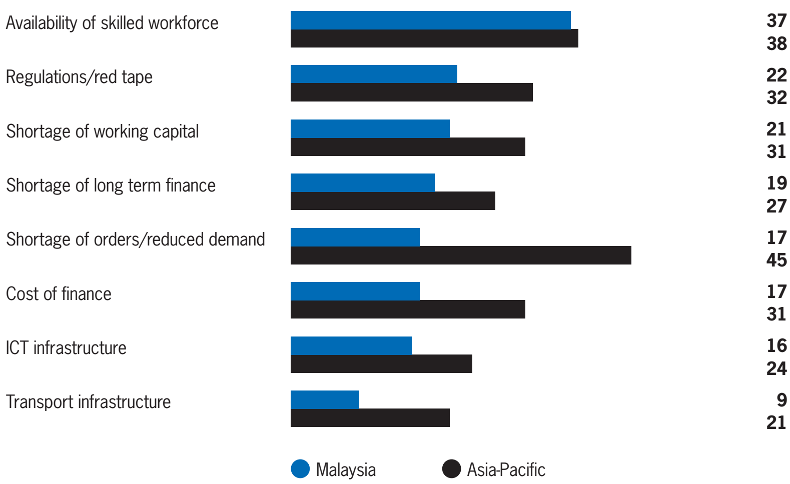
	2006	2007	2008	2009	2010	2011
Malaysia	35	62	46	-31	41	48
Asia-Pacific	–	58	42	-6	26	34
Global	46	52	41	-5	29	42

Source: Grant Thornton IBR 2011

Constraints

- the availability of skilled workers (38%) is cited as the most pressing constraint on expansion by businesses in Malaysia this year, similar to the Asia-Pacific business average (37%)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses in the Asia-Pacific region as a whole, at 45% compared with just 17% in Malaysia.

Figure 6: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

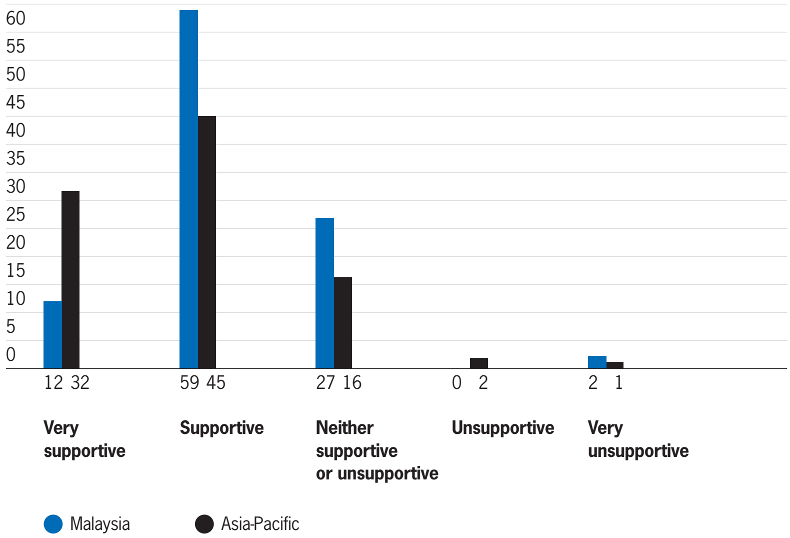


Source: Grant Thornton IBR 2011

Support of lender

- the majority of businesses in Malaysia are happy with the level of support provided by lenders; 71% class lenders as supportive or very supportive towards their business
- this compares with 77% of businesses in the Asia-Pacific region as a whole
- only 2% of businesses in Malaysia believe that lenders are unsupportive or very unsupportive of their business, in line with the average across the Asia-Pacific region as a whole.

Figure 7: Level of support provided by lenders
Percentage of businesses

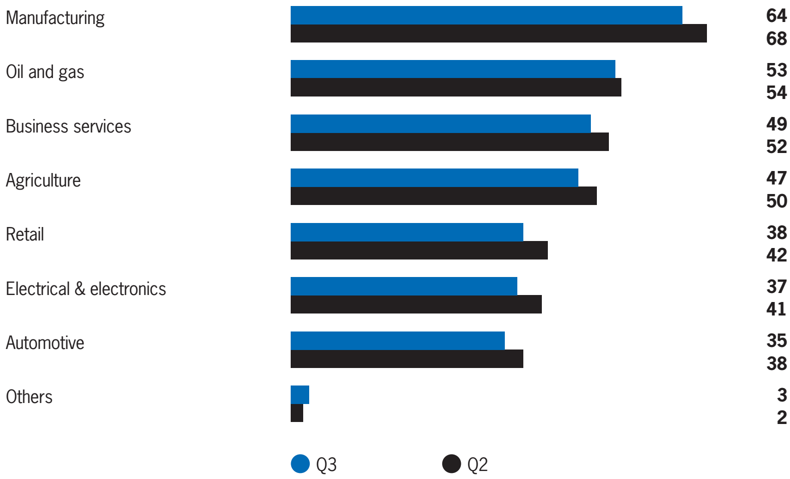


Source: Grant Thornton IBR 2011

New economic model

- the manufacturing sector is cited as the sector most deserving of a boost through the New Economic Model (68%), followed by oil and gas (54%) and business services (52%)
- half of businesses believe agriculture should receive a boost, with around 40% citing each of retail, electrical and electronics and automotive.

Figure 8: Which of the following sectors should be given a boost through the New Economic Model (NEM) in order to fulfil their potential?
Percentage of businesses

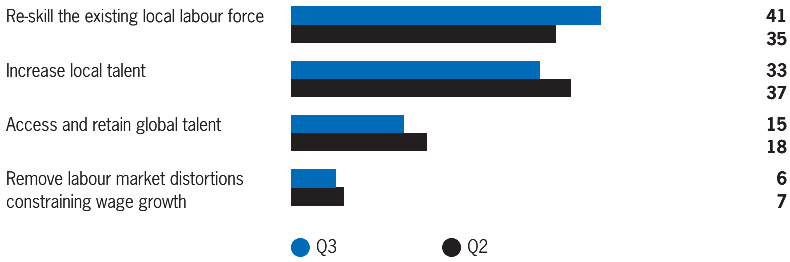


Source: Grant Thornton IBR 2011

Policy measures

- businesses in Malaysia are split as to which of the NEM policy measures they most support
- 37% cite the reskilling of the existing local labour force, but a further 35% take the longer term view, citing the increase in local talent over time
- almost one-in-five respondents cite policy related accessing and retaining global talent (18%) but just 7% cite the removal of labour market distortions constraining wage growth.

Figure 9: Which of the following policy measures in the NEM do you support most?
Percentage of businesses

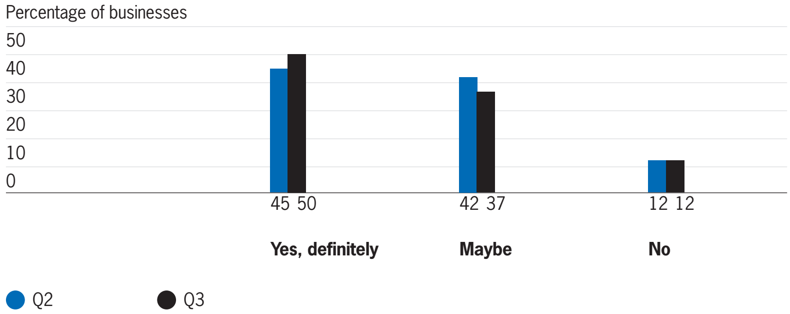


Source: Grant Thornton IBR 2011

Corporate governance

- just under half (45%) of Malaysian businesses are fully convinced that standards of corporate governance will be improved following the creation of bodies such as the Malaysian Code on corporate governance and the Audit Oversight Board
- a further 42% of businesses are undecided as to whether bodies such as these will improve corporate governance, whilst 12% believe they will be ineffectual.

Figure 10: In your opinion, do you believe standards of corporate governance in Malaysia will be improved following the creation of bodies such as the Malaysian Code on Corporate Governance and the Audit Oversight Board?
Percentage of businesses



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In Malaysia 190 businesses were surveyed across all industry sectors between November 2010 and May 2011. These businesses ranged from medium to large in size with total employment of between 100 and 499.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Georgia
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
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Russia
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