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NEW NORMAL NEW CHALLENGES

Kuala Lumpur, 28 August -The 17.1% GDP contraction in the second quarter of 2020, a double-digit drop had Bank Negara Malaysia (BNM) revising down the country's 2020 GDP forecast to -3.5% to -5.5% from -2% to 0.5% previously. GDP contraction was a global trend with many countries reporting more negative figures than Malaysia.

CBRE APAC Mid-year Outlook 2020 has forecast a '*checkmark-shaped*' recovery across Asia Pacific; a sharp downturn followed by a gradual rise. The possibility of a prolonged pandemic and further escalation in geopolitical tensions between Mainland China and the U.S and its allies may further weigh on business confidence and delay the economic recovery. Also looming ahead is the US 2020 Presidential elections, of which the outcome and the consequent ramifications are even more difficult to anticipate.

The recent announcement on the extension of the loan moratorium by the government may provide the breathing space for both individuals and organisations, especially the SMEs to revitalise consumption and investment activities and keep the economy rolling. However, this cannot be prolonged without an adverse impact on the banking system and the economy.

The relaxation of MCO in June has seen a rise in business activities. However, re-starting operations and at reduced volumes have their own set of challenges. Prices and scale of operations have to be re-calibrated.

Meanwhile, exports grew 8.8% to RM82.9bil in June due to higher exports to China (RM4.7 billion), U.S. (RM2.1 billion) and Hong Kong (RM1.4 billion). Sabah, Selangor, Penang, Johor and FTKL remained the preferred locations for investments (80.1% of the total approved investments, Jan to March 2020). In June and July, two (2) US companies listed on NASDAQ; Dexcom and Ultra Clean Holdings, Inc. recently announced plans to set-up manufacturing facilities at the Batu Kawan Industrial Park.

The pace of economic recovery for the next several quarters remains uncertain as there are lingering risks amid signs of a new wave of pandemic infections across the region.

There are some issues that need to be addressed to ensure the stability of our economy:

1. The continued political uncertainty may provide negative perceptions on the stability of the Malaysian economy especially to foreign investors. However, the Government's handling of the Covid Crisis has been acknowledged as one of the best among countries.
2. The recent initiative announced by the government, 'MalaysiaMudah' is anticipated to assist local companies and businesses which were previously burdened by red tape and bureaucracy. Quicker processing also lowers costs and creates jobs while stimulating the economy. The implementation should not be just for local businesses but also foreign companies intending to invest in the country. This latest announcement and other government policies made previously in attracting businesses into the country should be implemented consistently and predictably over a long period of time. Policies / incentives which are hastily introduced and then withdrawn after 2 – 3 years will create doubts as to sincerity and reliability of these policies, especially for foreign investors.
3. In restructuring the economy, the government should promote Malaysia as having a large ready pool of semi and high-skilled labour at reasonable costs. More business activities for this segment should be encouraged in Malaysia, leveraging on mass-production and technology.

On the real estate outlook, the crisis can be the catalyst for some property sectors to shift and optimise the usage of new technology and adopting e-commerce platforms.

There were some delayed completions of office buildings and retail malls; nevertheless the supply of office is still increasing, marking to 115 million square feet of office and 59 million square feet of retail spaces by the end of 2020. Most commercial properties need to search new usages to fill-in the available space caused by the pandemic.

Alternative usage for commercial spaces will support to maintain the stability of these property segments; office space may be repurposed for social and community use by office workers as part of the new "workplace". Meanwhile, e-commerce may create demand for space in neighbourhood retail malls for last-mile delivery; near to consumers, convenient for collection.

In the industrial sector, apart from surge of demand by the logistics segment there may also be rising demand from industries related to PPE such as the rubber / latex industries, health and pharmaceuticals.

New market / economic structures are forming; companies are looking to re-locate / diversify from existing locations / countries. Inefficient / unprofitable operations are will be replaced. Opportunities will be created for new products and new sources of demand and supply.

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