4 Sectoral Performance

Gross Domestic Product

Real Gross Domestic Product (GDP) contracts by an estimated 4.8% in 1998 (1997: 7.7%). This is in response to the double digit rate of contraction of real domestic demand as well as a sharp deceleration in the growth of real external demand triggered by the financial crisis affecting the region since mid-1997. Leading sectors of the economy such as agriculture, mining and construction sectors record lower value-added while the value -added of the services sector record a sharp deceleration in growth. The manufacturing sector is estimated to record a lower output of 5.8% in 1998 (1997:+12.5%) on account of a sharp contraction in domestic sales orders and weak external demand particularly from East Asia as well as increased competition in the world market for manufactured goods, against a background of excess global production capacity. In the case of the agriculture sector, the output dips by an estimated 5.9% (1997:1.3%) largely as a result of lower output from palm oil, saw-logs, rubber and cocoa. Factors adversely affecting agriculture output include prolonged dry weather condition, cyclical tree stress in the case of oil palm, and unfavourable export prices. Value added of the mining sector similarly declines but marginally, by an estimated 0.8% (1997: 1%) largely due to lower gas production following lower offtake from Japan and South Korea. The construction sector contracts by an estimated 19.2% in terms of value-added (1997:9.5%), due to a significant drop in construction starts of high rise commercial buildings and higher end condominiums as a result of excess supply in the face of weaker demand. Completion of major infrastructure projects has also affected construction activities during the year. In response to reduced economic activities in leading sectors of the economy, lower volume of domestic and external trade as well as lower disposable real income, value added of the services sector decelerates significantly to an estimated 2.1% growth in 1998 (1997:8%). Value-added growth in all services sub-sectors slows down in 1998 except for wholesale and retail trade services sub-sector which declines by an estimated 1.4% (1997: 7%).

Manufacturing Sector

An Overview

The **manufacturing sector,** which achieved an impressive growth in production since 1987, records an estimated 5.8% decline in value added in 1998 (1997: +12.5%). Generally, both the domestic and export market oriented industries have lowered output during the year in view of the depressed domestic demand, sluggish sales orders from the East Asian region which has been affected by the financial crisis, and increased competition in the global market. Higher production costs due to higher price of imported components, tight liquidity, higher interest rates and volatility of ringgit movements that occurred during the first eight months of 1998, also led manufacturers to take a more cautious stance, particularly not to build up stocks in view of higher holding costs. Discouraged by weak demand, most industries have put on hold their plans to expand and upgrade their production facilities.

The cutback in the manufacturing production is also reflected in the number of workers employed by the sector during 1998. The employment in the manufacturing sector, which increased by an average of 6.4% for the past four years, took a reverse trend and registered a decline of 3.9% during the first seven months of 1998 (January-July 1997: +2.2%). However, there are signs that

Table 4.1

Gross Domestic Product (GDP) by Sector
(%)

	1997			1998[e]		
	Growth	*Share of GDP*	*Contribution to Growth*	*Growth*	*Share of GDP*	*Contribution to Growth*
Agriculture, forestry and fishing[1]	1.3	11.9	2.2	–5.9	11.8	–14.7
Mining	1.0	6.7	0.9	–0.8	7.0	–1.1
Manufacturing	12.5	35.7	55.5	–5.8	35.4	–43.2
Construction	9.5	4.8	5.8	–19.2	4.1	–19.2
Services	8.0	44.9	46.5	2.1	48.1	19.7
Less Imputed bank service charges	14.6	8.2	14.6	6.8	9.2	11.6
Plus Import duties	6.7	4.1	3.6	–35.0	2.8	–29.9
GDP	7.7	100.0	100.0	–4.8	100.0	100.0

[1] Includes livestock and horticulture
[e] estimate

manufacturers have stepped up their efforts to market their products overseas to take advantage of the lower ringgit especially among those industries that were faced with excess capacities following dwindling domestic demand. Industries such as cement, iron and steel and transport equipment have registered higher sales in export. Nevertheless, the manufacturing sector's share to real GDP drops marginally to an estimated 35.4% in 1998 (1997: 35.7%) as a result of lower output.

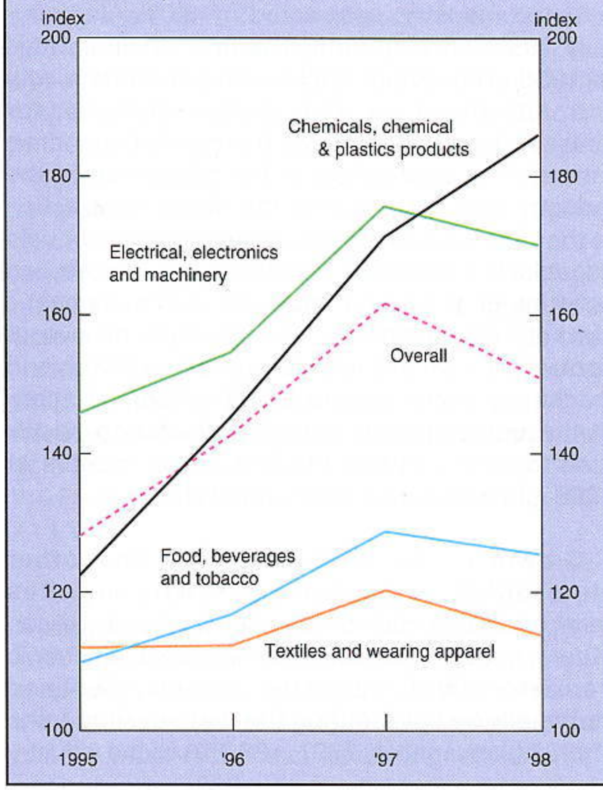
During the first seven months of 1998, the **Manufacturing Production Index**, which reflects output of the manufacturing sector, declined by 6.7% from a growth of 13.3% during the corresponding period of 1997. Almost all the export and domestic-oriented industries cut back their production, except industries producing plastic products, rubber products, television sets as well as the textile industry sub-sector involved in dyeing, bleaching and finishing. Output of the export-oriented industries as a whole contracted by 2.7% (1997: +10.1%) while that of domestic- oriented industries declined by 10.8% (1997: +16.9%). (See Table 4.3). The decline in the output of the **domestic-oriented industries** was attributed to a significant cutback in the production by construction related industries such as non-metallic mineral and iron and steel industries as well as transport equipment sub-sector. While the sharp decline in construction starts during the year has affected the construction related industry in the manufacturing sector, the erosion of financial wealth of the population due to the fall in share prices, the uncertainties about employment prospects as well as credit tightening measures on hire purchase during the first half of 1998 has, on the other hand, discouraged demand for passenger cars and, therefore, the output of the transport equipment industry.

In the case of the **export-oriented industries**, the lower output was partly due to weakening worldwide demand for electronic goods, in particular semiconductors, the country's main manufactured export. The electronics industry registered a contraction in output for the first time since 1989 due to a global oversupply of memory chips amid shrinking demand. Declining external demand especially from East Asia, rising costs of imported raw materials, and keen competition from low-cost producers also affected the performance of textiles and apparels industry except for the dyeing, bleaching and finishing sub-sector of the industry. The wood products industry was impeded by oversupply and falling demand especially demand of plywood from East Asian countries. However, industry producing rubber products has benefited from the depreciated ringgit. Production of rubber products recorded 6.9% increase in output during the first seven month of 1998 in response to stronger external demand.

Labour productivity or output per worker in the manufacturing sector declined marginally by 2.9% during the first seven months of 1998 (January-July 1997: +10.9%). The decline in labour productivity is due to the sharper decline in the industry's output as a result of poor sales orders, which accompanied a milder decline in the sector's employment. On the other hand, real average wage per worker also declined by 9.9% (January-July 1997: +18.9%) after discounting the changes in selling price. Nevertheless, with real average wage declining faster than the decline in productivity, real unit labour cost declined by 7.1% during the first seven months of 1998, in sharp contrast with the 7.2% increase in the corresponding period of 1997. This is mainly due to the decline in unit labour cost in the electrical, electronics and machinery industry as well as textiles and chemical industry. However, the transport equipment sector recorded higher unit labour cost during the first seven months of 1998 when compared with the corresponding period of 1997 (Table 4.2).

Despite a drop in output, the **sales value** of output of manufacturing sector increased by 10.1% (January-July 1997: +5.9%) during the first seven months of 1998. This was due to higher sales price in ringgit for exports which are largely traded

Chart 4.1
Manufacturing Production Index 1995-1998
(January-July)
(1993 = 100)



in US dollar. Consequently, export market-oriented industries such as those producing electronic and electrical products and machinery products and textiles recorded higher ringgit sales revenue. Domestic market-oriented industries, especially those producing large durable goods such as passenger cars was affected by the contraction in domestic demand. Sales value of the transport equipment industry, for instance, declined by 53.6% during the first seven months of 1998 (January-July 1997: +19.2%) on account of poorer sales turnover and lower selling prices. On the other hand, the easier labour market condition has helped to contain the rise in wage bill. Total wage bill increased by 2.3% during the first seven months of 1998 (January-July: +13.6%) which is relatively slower than the rate of increase in sales revenue. Subsequently, the cost of labour per RM100 of sales of output in the manufacturing sector has declined by 7.2% from RM6.85 per RM100 of sales during the first seven months of 1997 to RM6.36 per RM100 of sales during the same period of 1998.

Electrical, Electronics and Machinery

Output of the **electrical, electronics and machinery** industry, traditionally the largest export-oriented industry, contracted by 3.0% (January-July 1997: 13.7%) during the first seven months of 1998. The output decline was in tandem with the slowdown in the global demand for semiconductors, worsened by regional economic turmoil. The contraction in the production of the industry was also due to the sharp contraction in the output of electrical and electronic products especially household electrical appliances, on account of a weaker demand in the domestic market. Nevertheless, as the rate of output contraction in the electrical, electronics and machinery sector was relatively milder, its share to the output of the total manufacturing sector rose to 37.2% during the first seven months of 1998 (January-July 1997: 35.8%).

Growth in the **semiconductor and other electronics** sub-sector, which includes semiconductors, disk-drive, magnetic heads, silicon wafers, telecommunication components, electronic transistors and integrated circuits, declined marginally by 0.4% during the first seven months of 1998 (January-July 1997: +23.7%) as the industry was faced with the cyclical problem of oversupply of electronic components and lower demand from financial crisis affected East Asia. The slowdown in production was related to global excess capacity, especially for dynamic random access memory (DRAM) chips, which was plagued by declining prices and lack of new product applications developed after the boom in personal computers, Internet and mobile phones.

On the other hand, the output of **radio and television sets, audio-visual recording and reproducing equipment** as a group staged a turnaround by registering a growth of 10.6% during the first seven months of 1998 (January-July 1997: -9.4%). This was due to higher production of television sets by 11.9% (January-July 1997: -21.1%) to 4.7 million sets on account of increased production of higher end products such as home theater units and increased external demand. However, output of radio sets, affected by poor domestic demand, declined by 3.7% during the first seven months of 1998 (January-July 1997: +10.9%).

The output of **non-electrical machinery industry,** which includes office accounting and computing machinery, refrigerating, exhaust,

Table 4.2

Manufacturing Sector:
Labour Productivity, Real Average Wage and Real Unit Labour Cost By Industry (Annualised % Rate of Change During January-July 1998)

Industry	*Labour Productivity*	*Real Average Wage*	*Real Unit Labour Cost*
Manufacturing sector	–2.9	–9.9	–7.1
Electrical, electronics & machinery	0.6	–13.6	–14.1
Textiles, apparel & footwear	–0.4	–15.8	–15.4
Chemicals, chemical & plastic products	–1.0	–13.9	–13.0
Transport equipment	–30.5	14.3	64.5

Source: Based on Monthly Manufacturing Survey Department of Statistics

Table 4.3

Manufacturing Production Index of Malaysia 1993 = 100

	Weights 1993	1997 January-July % change	1998 January-July % change	1998 % Share
Food, beverages and tobacco	11.12	10.2	–2.5	9.3
Textiles and wearing apparel	5.58	7.2	–5.5	4.2
Footwear	0.10	–16.5	–40.9	0.0
Petroleum refineries	1.36	10.2	–11.1	1.3
Chemicals, chemical and plastic products	15.47	26.3	1.3	19.1
Paper and paper products	1.69	10.5	–3.2	1.4
Rubber-based products	5.28	–0.1	6.9	5.3
Wood and wood-based products (except furniture)	7.70	2.2	–7.3	5.7
Non-metallic mineral	4.22	16.3	–21.1	3.9
Glass products	0.65	11.7	–28.3	0.5
Iron and steel	3.17	10.0	–35.5	2.2
Non-ferrous metal products	0.82	35.5	–3.7	1.0
Fabricated metal products	4.53	10.0	–4.5	5.1
Electrical, electronics and machinery	32.91	13.7	–3.0	37.2
Professional and scientific and measuring and controlling equipment	1.35	3.8	3.6	1.1
Transport equipment	3.65	12.9	–51.0	2.5
Miscellaneous products of coal and petrol	0.41	12.5	–14.7	0.3
TOTAL	100.00	13.3	-6.7	100.0

Source: Based on Index of Industrial Production, Department of Statistics

ventilating and air conditioning machinery, declined sharply by 30.4% during the first seven months of 1998 (January-July 1997: +0.9%). Domestic demand for home appliances such as household refrigerators and air-conditioners had shrunk by between 10.4% and 41.7% respectively, due to economic downturn and reduced consumer confidence. However, there was some recovery in the output of office, accounting and computing machinery, which included personal computers, computer magnetic diskette, electronic calculators, typewriters, radio antenna, mobile and non-mobile telephones, by 3.6% (January-July 1997: -11.1%) due to increase in export sales to the United States (US) and European markets. On the other hand, output of the **cable and wires** sub-sector, which includes telephone and telegraphic cables, affected by the slowdown in the domestic economic activities, declined significantly by 22.4% during the first seven months of 1998 (January-July 1997: +14.3%).

The near-term outlook is that the electrical and electronics and machinery sector will improve. With external demand picking up gradually, production capacity utilization should increase in the fourth quarter of 1998. This should also help to turn around the manufacturing sector output positively in 1999.

Textiles, Apparel and Footwear

Production in the **textiles and wearing apparel** industry, another important export-oriented industry, contracted by 5.5% during the first seven months of 1998 (January-July 1997: +7.2%). Production was affected by rising costs of imported raw materials, higher interest rates and lower sales orders. Difficulty in getting sufficient workers and competition from lower cost producers also affected the performance of the industry. Despite the unfavourable performance, the industry managed to maintain its contribution of 4.2% to the overall value added of the manufacturing sector during the period under review

Output of the **natural fibre spinning and weaving mills** recorded the sharpest decline of 30.4% during the first seven months of 1998 (January-July 1997: 6.4%). This was partly due to the closure of two mills, one located in Penang, which was destroyed in a fire in 1997 and another in Taiping, which ceased operation in March 1998

Table 4.4

Production of Selected Electrical and Electronic Products (January-July)

	1997	*1998*	*Annual Change (%)*
Electronic transistors (million units)	7,558	7,635	1.0
Integrated circuits (million units)	6,944	6,803	-2.0
Television sets ('000 units)	4,186	4,683	11.9
Radios ('000 units)	19,093	18,393	-3.7
Room air-conditioners ('000 units)	1,594	930	-41.7
Household refrigerators ('000 units)	135	121	-10.4
Insulated wires and cables (tonnes)	69,800	50,676	-27.4

Source: Based on Monthly Manufacturing Survey, Department of Statistics

as it had become uncompetitive. Output from knitting mills and synthetic textile mills declined less rapidly by 14.5% and 0.4% respectively during the same period. However, output from activities such as dyeing, bleaching, finishing of yarns and fabrics increased by 6.1% after declining 2.0% during the first seven months of 1997. This was attributed to the slight pick-up in demand from the apparel sector, as imported finished textiles have become increasingly more expensive.

Production of **wearing apparel** turned around with an increase of 0.8% during the first seven months of 1998, after declining by 1.2% during the same period in 1997. The increase was largely due to increasing overseas orders, reflecting in part the increased efforts in promoting Malaysian made products, not only in the traditional markets of Asia-Pacific and Europe but also in relatively new markets in West Asia and Africa. Production of **footwear**, on the other hand, continued to decline by 40.9% after falling by 16.5% during the same period of 1997.This was due to lower output of leather shoes in response to cutbacks on domestic consumption spending.

The textiles and apparel industry continues to face labour shortage problems, particularly of skilled workers. As a result, the industry could not take on extra orders for fear of not fulfilling them. Maintenance of machinery is also affected by higher costs of imported spare parts, which in turn may jeopardize future production capacities. The textile and wearing apparel industry which is envisaged to recover during the last three months of 1998, could register a marginal growth of 0.3% for the year. However, the prospects for the footwear industry are not encouraging with output declining by an estimated 45.0% in 1998 (1997: -25.4), due to saturation of the market in the face of weak demand.

Wood and Wood-based Products

During the first seven months of 1998, output of **wood-based products** (excluding furniture) declined by 7.3% (January-July 1997: +2.2%) due largely to sharp drop in production of plywood and veneer, hard board and particle board. Subsequently, its share to total output of the manufacturing sector shrank marginally to 5.7% (January-July 1997: 5.8%).

The production of **plywood and veneer, hard board and particle board** as a group declined by 14.9% during the first seven months of 1998 (January-July: +8.4%), due to softer domestic demand as well as weaker export market. In the face of the regional economic turmoil, producers in this region have to turn to the US market as demand from Asian markets especially Japan have contracted. This has given rise to further pressure on plywood prices in the light of increased competition for a reduced market. As a result, production of plywood has dropped by 14.3% to 2.2 million cubic meters during the first seven months of 1998 (January-July 1997: +6.4%). Production of block board and veneer too declined due to stock overhang as demand was weakened by lower construction starts. During the first seven months of 1998, output of veneer shrank by 10.9% to 677,514 cubic meters (January-July

1997: +5.7%), while production of block board declined by 12.1% to 93,191 cubic meters (January-July 1997: +28.4%).

Despite shortage of supply of local sawlogs, the output of **sawmill industry** increased by 13.2% during the first seven months of 1998 (January-July 1997: -11.6%). The positive turnaround in output growth was underpinned by increased utilization of local sawlogs for downstream manufacturing, particularly by the furniture industry as external demand for sawlogs declined. As a result, production of dressed timber rose by 35.2% to 37,217 cubic meters during the first seven months of 1998(January-July 1997: -0.9%). The encouraging performance of the sawmill industry was also reflected by the sales of **furniture and fixtures.** Sales of the industry increased by 22.3% to RM1.17 billion during the first seven months of 1998 (January-July 1997: 5.3%). Despite facing unfavorable domestic demand, the strong output was encouraged by sustained demand from the US and European markets. Malaysia is now ranked among the top furniture exporting countries in the US and Japan. Rubber wood furniture is beginning to become the mainstay of Malaysia's wooden furniture exports, with easy-to-assemble and knock-down furniture gaining increasing popularity. The industry contributes more than RM2 billion in export earnings, with growth of between 10-15% from 1998 to the year 2000 being envisaged.

Rubber-based Products

Despite the economic uncertainties, output of **rubber products** staged an upward trend in 1998. For the first seven months of 1998, production of rubber products increased by 6.9% (January-July 1997: -0.1%). The increased production was due to encouraging demand from the US and European countries although demand from East Asia was weak due to the economic difficulties. Production of rubber gloves continued to be the main contributor to the output of the industry.

The output of **rubber remilling and latex processing** sub-sector declined marginally by 0.9% during the first seven months of 1998 (January-July 1997: -3.4%) as higher cost of production and shortage of supply of natural rubber continued to plague the industry. However, the production of **other rubber products,** which include rubber gloves, rubber compounds, catheters and rubber sheets, increased strongly by 15.5% in the first seven months of 1998 (January-July 1997: -0.2%). The increase was attributable to the continued strong external demand of rubber glove which resulted in output increasing by 19.3% (January-July 1997: -1.5%). In contrast, labour shortage and keen competition from neighbouring countries continued to plague the **rubber footwear** industry. Its production continued to slide by 38.3% in the first seven months of 1998 (January-July: -28.4%).

Production of **tyres and tubes** shrank moderately by 7.9% during the first seven months of 1998 (January-July 1997: +7.6%), while production of pneumatic tyres increased by 3.9% to 7.9 million units. Relentless efforts by tyre producers to venture into export markets have helped to support the output of tyre even though domestic sale has dwindled. Production of inner tube, however, declined by 18.5% during the first seven months of 1998 (January-July 1997: -21.5%) on account of lower domestic demand in the automobile sector.

Food, Beverages and Tobacco

During the first seven months of 1998, output of **food, beverages and tobacco** declined by 2.5% (January-July 1997: +10.2%). The declining trend reflected the slower domestic demand by the sector due to the economic downturn. The economic uncertainties and volatility of ringgit have resulted in manufacturers taking a more cautious stance in expanding their production capacity. However, as the contraction in output of the industry is milder, the industry's share to the overall output of the manufacturing sector increased slightly to 9.3% (January-July 1997: 8.9%).

Output of **manufactured food** declined by 2.6% during the first seven months of 1998 (January-July 1997: +10.0%), due to the decrease in production of dairy products (-5.3%), coconut oil (-7.9%), and margarine (-34.4%) as manufacturers took a more cautious stance in the face of rising cost of imported raw materials amid less encouraging sales orders. Similarly, flour, biscuits, sugar and confectioneries also registered lower production between 1.6% to 14.5% during the same period. The output of blended cooking oil, on the other hand, increased sharply by 44.3% (January-July 1997: 13.1%) as external demand increased due to weaker ringgit. Likewise, the

Table 4.5

Output Growth Rates of Selected Food Manufacturing Sub-Sectors (%)

	1997	1998
	January-July	
Rice mills	-4.4	1.2
Dairy products	-5.1	-5.3
Biscuits factories	3.7	-14.5
Fish, crustacean and similar foods	29.3	10.2
Flour mills	3.1	-1.3
Sugar factories and refineries	-0.6	-6.6
Cocoa, chocolate and sugar confectionery	-2.9	-1.6
Prepared animal feeds	3.4	6.5
Other food products	0.1	24.2

Source: Department of Statistics

production of processed fish, crustacean and similar food sub-sector increased by 10.2% during the first seven months of 1998 (January-July 1997: +29.3%) on account of increase in overseas demand spurred by the depreciated ringgit.

The production of **beverages** declined by 3.1% during the first seven months of 1998 (January-July 1997: +0.5%), due to a decline in the consumption of soft drinks and carbonated water by an estimated of 4.6% (January-July 1997: -3.3%). Recent disruption of water supply in the Klang Valley has also contributed to the lower production. Similarly, production of alcoholic beverages dropped by 1.6% (January-July 1997: 5.4%) due to weaker domestic demand. The production of **tobacco**, on the other hand, declined marginally by 0.8% during the first seven months of 1998 (January-July 1997: +20.6%), depressed by sluggish domestic demand but underpinned by higher export.

Petroleum and Gas Products

Output of the **petroleum refineries** fell by 11.1% during the first seven months of 1998 against a growth of 10.2% over the same period of 1997. The decline in production was partly attributable to the general contraction in domestic demand for fuel from the transportation, construction, industrial and commercial as well as household sectors following the slowdown in economic activities. In part, it was also due to slackening external demand from the crisis affected East Asian region. Consequently, its contribution to the overall manufacturing output declined slightly to 1.3% during the period under review (January-July 1997: 1.4%).

Production of major petroleum products such as kerosene, fuel oil, diesel and gasoline decreased markedly, between 6.2% and 19.6% during the first seven months of 1998, due to the lower level of crude petroleum available for domestic refining. Output of liquefied petroleum gas, however, increased marginally by 4.3% during the same period. The increase in output was partly to replace depleting stocks.

As for the gas industry, the net production of **natural gas** declines by an estimated 1.0% to 3,860 million standard cubic feet per day (mmscfd) in 1998 over the 3,900 mmscfd produced in 1997. The decrease is on account of lower demand from South Korea, inspite of the anticipated increase in demand from the Peninsular Gas Utilization Programme. In Peninsular Malaysia, gas from the Duyong fields is processed in the four gas processing plants in Kertih, with total processing capacity at about 1,000 mmscfd. With the completion of two more gas-processing plants in 1999 the capacity is envisaged to increase to 2,750 mmscfd. Tenaga Nasional Berhad and the Independent Power Produces use a major portion (72%) of the processed gas for power generation while another 16% is used as feedstock in the petrochemical industries and the balance exported to Singapore. The gas mined offshore Sabah and Sarawak is liquefied at the two plants in Bintulu and mostly exported to Japan and South Korea. Output of **liquefied natural gas** is anticipated to decrease marginally by 0.6% to 15,210 tonnes in 1998 due mainly to lower demand from South Korea.

Chemicals, Chemical and Plastic Products

The performance of the **chemical and plastic industry** was affected by the downturn in the domestic economy as well as weak regional economies. Output growth of the industry during the first seven months of 1998 was only 1.3% compared with an increase of 26.3% during the corresponding period of 1997. The slowdown in the chemical industry was reflected through contraction in the production of industrial chemicals and other chemical products while the output of plastic products continued to expand, though at a more moderate rate. Despite the slowdown in production of the chemical industry, its share to the overall production in the manufacturing sector increased to 19.1% during the first seven months of 1998 (January-July 1997: 17.6%).

Production of **industrial chemical products**, comprising industrial gases, basic industrial chemicals, petrochemicals as well as fertilizers and pesticides declined by 2.8% during the first seven months of 1998 (January-July 1997: +20.5%), attributable largely to the 2.7% decline in output of industrial gases (January-July 1997: +21.1%). On the other hand, output of **basic organic and inorganic industrial** chemicals including oleochemicals increased marginally by 0.9%, against a sharp increase of 29.6 % recorded in the similar period of 1997. Output of **petrochemicals** such as synthetic resins, plastic materials and non-vulcanizable elastomers and fibres also increased marginally by 1.8% against a sharp increase of 19.2% achieved during the same period of 1997. In contrast, production of **fertilizers and pesticides** recovered and showed a marked improvement with a growth of 6.3% during the first seven months of 1998 (January-July 1997: -8.1%). The increase was due to the greater usage of locally produced fertilizers in agricultural production as the depreciation of the ringgit has increased the cost of imported fertilizers.

As for the **other chemical products** sub-sector, output contracted by 6.1% during the first seven months of 1998 (January-July 1997: + 2.7%). Within this sub-sector, output of paints, varnishes and lacquers decreased sharply by 27.7%, in line with the consolidation of construction and maintenance activities, which has dampened demand for these products. Output of drugs and medicines declined marginally by 0.8%. However, output of soap and clearing preparations turned around and registered an increase of 7.3% (January – July 1997: -11.3%) due to an increase in external demand and, to some extent, import substitution on account of higher import prices.

On the other hand, production of **plastic products** continued to increase significantly although at moderate rate of 12.6% during the first seven months of 1998 (January-July 1997: 55.9%). The output of the plastic products industry mostly comprises household items, packaging materials, production of parts and components for various industries such as electric and electronic, automotive, office automation, computers and telecommunication items. The fairly better performance was partly due to the 30.4% increase in output of plastic bottles. Demand from the mineral water industry as well as substitution of aluminum cans spurred the expansion in production.

Non-Metallic Mineral Products

During the first seven months of 1998, output of industry producing **non-metallic mineral products** shrank by 21.1% (January-July 1997: +16.3%). The contraction of domestic demand due to significantly lower construction starts has affected the production of the industry. As a result, its output contribution to the overall manufacturing sector output dropped to 3.9% (January-July 1997: 4.6%).

Production of **cement and concrete products** declined sharply by 34.1% (January-July 1997: +31.1%) due to poor demand of building materials such as portland cement, roofing sheets, concrete pipes and ready mixed concrete as well as products of asbestos cements. The industry had undergone capacity expansion last year as it had anticipated an increase in demand. However, the increase in demand of cement did not materialise as construction activities contracted. With an annual capacity of 24.5 million tonnes, the cement industry is currently facing a glut in supply of cement. If the economic situation deteriorates, the industry envisages the overcapacity problem to deteriorate further to an estimated excess production capacity of 40%. However, efforts undertaken by the industry to export the extra capacity has yielded good result. With government initiatives to revive infrastructure projects and enhanced usage of cement, the oversupply situation has been contained. In the case of **hydraulic cements,** the output dropped by 10.9% to 6.4 million tonnes during the first seven months of 1998 (January-July 1997: +5.2%).

The production of **structural clay products** was 14.4% lower during the first seven months of 1998 (January-July 1997: +12.7%), as demand for ceramic tiles and earthen bricks contracted. The drop in production was cushioned by the positive impact of recent efforts to venture aggressively in the oversea market. Within the industry, the production of ceramic tiles fell by 25.6% to 23.7 million sq. meter, while that of earthen bricks dropped by 11.4% to 487 million pieces. Likewise, output of **glass and glass products,** affected by downturn in the construction sector, dropped by 28.3% in the first seven months of 1998 (January-July 1997: +11.7%).

Iron, Steel and Metal Products

As in other construction related industries, the performance of **iron, steel and metal** industry is similarly affected by the sharp contraction in the construction starts during 1998. During the first seven months of 1998, output of **iron and steel** sub-sector declined by 35.5% (January-July 1997: +10.0%). The output contraction was due partly to the 42.8% decrease in output of primary iron and steel industries (January-July 1997: +12.1%). Likewise, output of other iron and steel products which included galvanized iron sheets, welded iron, steel pipes and tubes and fittings, deteriorated by 21.1% (January-July 1997: +6.0%). Contraction of domestic demand and higher production cost due to the impact of the depreciation of ringgit on the price of imported materials have adversely affected the industry. For its longer term survival, the industry has to step-up its efforts to venture into export market rather than over depending on the domestic market.

The economic downturn also took a toll on the **fabricated metal products** industry. Its output shrank by 4.5% during the first seven months of 1998 (January-July 1997: +10.0%). The contraction was due to the slower demand from user industries such as building and construction, automotive, mould and die, and other manufacturing such as canning industry. Almost all types of industries in the fabricated metal products sub-sector such as other structural metal products, tin cans and metal boxes as well as wire and wire products recorded a decline in production ranging from 5.3% to 22.1%. In view of the sluggish economic growth projected in 1999, the industry must step up its effort to market abroad in order to recover from the contraction the industry is currently facing.

Transport Equipment

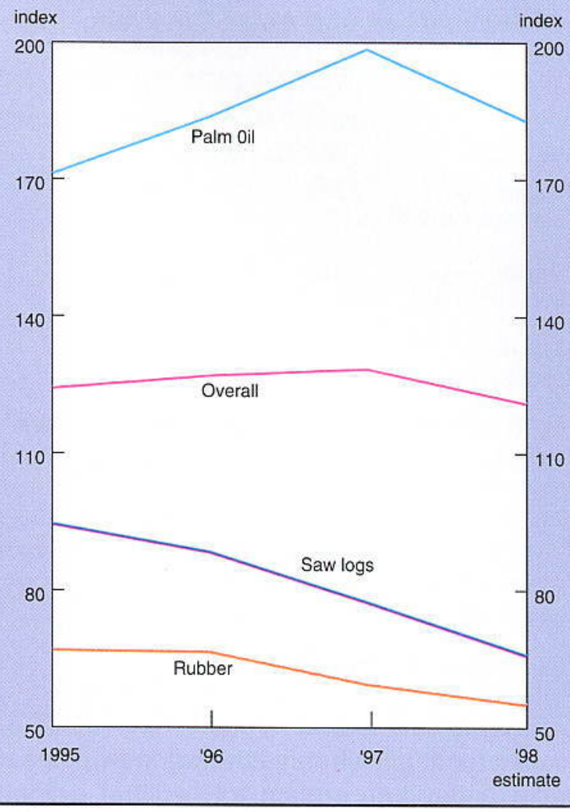
The **transport equipment** industry, consisting of the manufacture and assembly of motor vehicles and component parts, was severely affected by the contraction in domestic demand since the last quarter of 1997. Output of the industry declined sharply by 51.0% during the first seven months of 1998 (January-July 1997: +12.9%). The most affected sector was the manufacture and assembly of motor vehicles which declined by 60.1%, followed by the manufacture of motorcycles and scooters, (-41.1%) and manufacture of motor vehicle parts and accessories, (-36.8%) against increases of 12.2%, 22.6%, and 8.8% recorded respectively during the corresponding period of 1997.

In terms of the number of units produced, output of **commercial vehicles** recorded the sharpest decline of 86.0% to 7,605 units during the first seven months of 1998 (January-July 1997: +47.2%). Output of **passenger cars** fell by 60.0% to 76,767 units (January-July 1997: +10.1%). The national car producers were also severely affected by the downturn in the industry. During the first seven months of 1998, output of PROTON cars contracted by 59.9% (January-July 1997: +34.1%) while production of PERODUA vehicles declined by 17.1% (January-July 1997: +53.8%). The **motorcycle sector** was also affected, with output decreasing by 38.3% to 156,353 units during the same period (January-July 1997: +36.5%). In consonance with the lower production of motor vehicles, output of **automotive components and accessories** has also decreased. For the first seven months of 1998, the value of automotive components produced was RM1.1 billion, significantly lower when compared with RM1.9 billion for the same period in 1997.

The erosion of financial wealth of consumers due to falling asset prices, stringent hire-purchase guidelines for passenger cars during the first seven months of 1998 and higher import duties on certain categories of vehicles were some of major factors that adversely affected demand and, therefore, production of the transport equipment industry. Sales of passenger cars as measured by new vehicle registration slumped by 62.5% to 63,772 units during the first seven months of 1998 (January-July 1997: 21.5%), while sales of motor cycles fell by 41.2% to 139,496 units (January-July 1997: + 25.2%). Sales of commercial vehicles declined by 81.3 % to 8,384 units (January-July 1997: +40.3%).

The contraction of domestic demand poses several problems to the industry. Boosted by strong demand of the last few years, the transport equipment industry expanded its production capacity rapidly to 600,000 units of passenger and commercial vehicles and 700,000 units of motorcycles per year. With the sales orders down, the industry is now burdened with substantial excess capacity. On account of large stock overhang and unfavorable market prospects, many of the companies involved have reduced number of shifts or work days while some have opted for staggered production or temporary shut down. The average capacity utilization was reduced to the level of about 30% as compared with about 75% in 1997. As a result, the industry encountered problems of high inventory, tight cash flow, under utilization of capacity, redundant facilities and excess work force. However, with the recent easing of the credit guidelines on hire purchase of cars and the reduction in interest rates, the industry has seen some recovery in sales lately. For instance, in August 1998, sales of passenger cars rose to 13,658 units, as compared with 12,167 units in July and 5,641 units in February 1998.

Chart 4.2
Agricultural Production Index
(1987 = 100)



Agriculture Sector

The output of agriculture sector in 1998 contracts by an estimated 5.9% (1997: 1.3%). This significant decline in output is attributed to lower production of practically all the major crops, with the exception of pepper. Palm oil production declines by an estimated 8% under the effect of tree stress and the long drought brought about by *El Nino*. Likewise, rubber and sawlogs production also decline, by an estimated 7.3% and 15% respectively, largely on account of weak prices. An excess in world rubber production over supply has softened the price of the commodity despite the general depreciation in the currencies of the main producing countries of Thailand, Indonesia and Malaysia. As for sawlogs, the deterioration of the economic conditions in Indonesia, one of the main producers of hardwood timber, has forced their exporters in need of funds to dispose off supplies at significantly lower price, hence, depressing the market. Cocoa output drops by an estimated 15.5% due to the serious impact of *El Nino* on the crop yield. Consequently, the share of agriculture sector to GDP declines further to 11.8 % in 1998 (1997: 11.9%).

Palm Oil and Palm Kernel Oil

Palm oil output during the first eight months of 1998 was affected by tree stress as well as drought caused by *El Nino* during the first half of the year. In the first eight months of 1998, palm oil output declined by 8.4% to 5.29 million tonnes (January – August 1997: 5.77 million tonnes). For 1998 as a whole, an output decline of 8% to 8.33 million tonnes is estimated, despite an increase in matured hectarage from Sabah. The effect of tree stress as well as weather

Table 4.6

Oil Palm Area and Palm Oil Production

	1997	% change	1998^{e}	% change
Planted areas ('000 hectares)	2,819	4.7	2,893	2.6
Matured areas ('000 hectares)	2,455	4.3	2,513	2.4
Production ('000 tonnes)				
Crude palm oil	9,062	8.1	8,337	–8.0
Palm kernel oil	1,165	5.2	1,050	–9.8
Yield (Tonne/hectare)	19.10	0.8	19.05	–0.3

[e] estimates

Source: Ministry of Primary Industries

conditions have brought down the yield per hectare for fresh fruit bunch by 0.3% to 19.05 tonne per hectare (1997: 19.10 tonne per hectare).

Total planted oil palm hectarage increases by an estimated 2.6% or 74,000 hectares to 2.893 million hectares in 1998 (1997: 2.819 million hectares). The increase in hectarage planted is mainly from Sabah and Sarawak which together account for 68,657 hectares or 75.8% of the additional hectarage planted. Peninsular Malaysia will, nevertheless, continue to contribute towards the bulk of the production with an output of 5.98 million tonnes (72%), followed by Sabah, 2.03 million tonnes (24.5%) and Sarawak, 290,000 tonnes (3.5%).

In tandem with declining palm oil production, output of **palm kernel oil** in the first eight months of 1998 dropped to 0.697 million tonnes, that is 5.1% lower when compared with the same period in 1997 (January-August 1997: 0.735 million tonnes). For the year as a whole, palm kernel oil production declines by an estimated 9.8% to 1.05 million tonnes in 1998 (1997: 1.16 million tonnes).

The Palm Oil Research Institute of Malaysia (PORIM), the world's foremost research centre for palm oil, continues to make findings and develop new palm oil products. One of its latest research findings was chromosome painting in oil palm hybrids. Most of the oil palm trees planted in the country now is a hybrid variety, OXG, developed from crossing *Eleais guineensis* with *Eleais deifera*. OXG's strengths are its higher nonsaturated oil content and slower rate at which the trees gain height. However, this hybrid could not produce much oil. To overcome this shortcoming, PORIM made use of a process known as "Genomic In Situ Hybridization" to backcross the existing hybrid with *E. guineensis*. Since the middle of 1998, PORIM has also developed a new kind of palm oil product that has good promise in extending the usage of palm oil. This is the Palm Oil Pourable Margarine which consists of 80% fat and 20% other ingredients. Presently, margarine or butter are packed in cartons, tins, tab or packets and may not be suitable for some applications. The new formulation, which is in liquid form, makes it more suitable for applications such as for bread or cake making.

Timber

The production of **sawlogs** in the first six months of 1998 declined by 20.6% or 13.38 million cubic metres as compared to 16.86 million cubic metres produced during the same period in 1997. For 1998 as a whole, output from sawlogs is forecast to decline by 15% to 23.72 million cubic metres, partly due to lower demand. In part, it reflects the Government's policy of sustainable forest management so as to ensure availability of sawlogs supply in the future. Almost all the decline in sawlogs production is from Sarawak, where output declines by an estimated 4.8 million cubic metres, with marginal decline in Peninsular Malaysia and Sabah. The bigger drop in sawlog production from Sarawak was due to the softening demand for sawlogs and timber products from traditional markets of South Korea, Thailand, Hong Kong and Japan which have been affected by the regional financial crisis. In Peninsular Malaysia, the gradual decline in sawlogs was to accommodate the sustainable forest management policy. In Sabah, the decline was due to non-renewal of logging license that has expired to slow down the depletion of natural forest area in adherence to sustainable forest management. In terms of output by region, Sarawak contributes an estimated 12.2 million cubic metres or 51.5% of the total output while Peninsular Malaysia contributes an estimated 7.1 million cubic metres or 30% and Sabah, the remaining 4.4 million cubic metres or 18.5% for 1998.

Rubber

In the first seven months of 1998, output of **rubber** declined by 14.2% to 480,234 tonnes (January – July 1997: 559,741 tonnes) due to lower output from both the estate and smallholdings sectors. For 1998 as a whole, the output is estimated to decline by 7.3% to 900,000 tonnes (1997: 971,082 tonnes). The decline in production is due to declining rubber hectarages, shortage of labour and unattractive rubber price even though yield per hectare for both estates and smallholdings improved with the increase in high quality clones being planted.

Table 4.7

Rubber Area, Yield and Production

	1997	*% change*	*1998[e]*	*% change*
Total area ('000 hectares)				
Smallholding	1,417.4	–0.5	1,404.5	–0.9
Estate	217.6	–12.2	215.5	–1.0
Yield[1] (kg. per hectare)				
Smallholding	965	–1.0	989	2.5
Estate	1,118	–2.4	1,140	2.0
Total Production ('000 tonnes)	971	–10.3	900	–7.3
Smallholding	755	–10.5	702	–7.0
Estate	216	–9.2	198	–8.3
% of world production	15.2		13.7	

[1] Refers to Peninsular Malaysia only.

[e] Estimate

Source: Ministry of Primary Industries and Department of Statistics

Total hectarage planted with rubber in 1998 declines by an estimated 0.9% to 1.620 million hectares (1997: 1.635 million hectares). Out of 15,000 hectares lost in rubber land to other crops like oil palm and other alternative uses such as for housing, the bulk of it (12,000 hectares) is from Peninsular Malaysia. The switch to other more attractive crops this year is mainly from smallholdings.

Aprart from being affected by weak prices, the rubber industry in Malaysia has also to contend with rising costs. For instance, as a result of the depreciation of the ringgit, the cost of fertilizers has increased by 30%. This has adverse implications on the competitiveness of the rubber industry. It has been estimated that fertilizers account for 20% of the cost for a young holding and 34% for a matured holding. In order to mitigate the effect of the increase in prices of fertilizers, the Malaysian Rubber Board has intensified research work towards introducing the most cost effective fertilizer for mature and young rubber holdings.

Other Agriculture, Livestock and Fisheries

The production of **cocoa** declines by an estimated 15.5% to 89,600 tonnes in 1998, mainly due to the *El Nino* phenomena which brought about drought and dry weather to the main cocoa producing areas of Sabah. This has also affected the total planted cocoa area which declines by an estimated 4.3% to 150,000 hectares in 1998 (1997: 156,738 hectares). To enhance the prospects of the cocoa industry, measures taken by the Malaysian Cocoa Board include expanding the rehabilitation programmes especially among smallholders, intensifying R&D, encouraging downstream activities and developing facilities towards making Malaysia a regional centre for the processing and trading of cocoa products.

Pepper production increases by an estimated 11.1% to 20,000 tonnes due to more efficient maintenance of the holdings and also the increase

Table 4.8

Production of Other Agriculture Livestock and Fishery
('000 tonnes)

	1997	*% change*	*1998[e]*	*% change*
Paddy	1,849	–4.8	1,764	–4.6
Cocoa	106.0	–11.7	89.6	–15.5
Pepper	18.0	46.3	20.0	11.1
Pineapple	119.8	–1.7	123.1	2.8
Tobacco[1]	99.7	1.9	110.0	10.3
Fruits[2]	1,174	9.9	1,195	1.8
Fishery[3]	1,131	–1.4	1,166	3.1
Livestock[4]	894.6	3.5	932.4	4.2

[1] Green tobacco leaves

[2] Consists of seven major fruits namely durian, carambola, guava, rambutan, mangosteen, banana and papaya

[3] Marine fish landing only

[4] Including beef, poultry, pork and mutton

[e] Estimate

Source: Ministry of Agriculture and Ministry of Primary Industries.

in planted hectarages, taking advantage of the very attractive pepper price. The average production per hectare is seen to increase by 8% to 1.88 tonnes per hectare (1997: 1.74 tonnes per hectare). Presently, there are about 58,000 families involved in pepper planting earning a net income averaging RM24,125 per hectare. To further enhance the pepper industry, several measures have been taken including devoting greater R&D to increase the usage and value added of pepper products, introducing a forward physical pepper market and a storage certification scheme for farmers as well as encouraging direct selling to end users.

Mining Sector

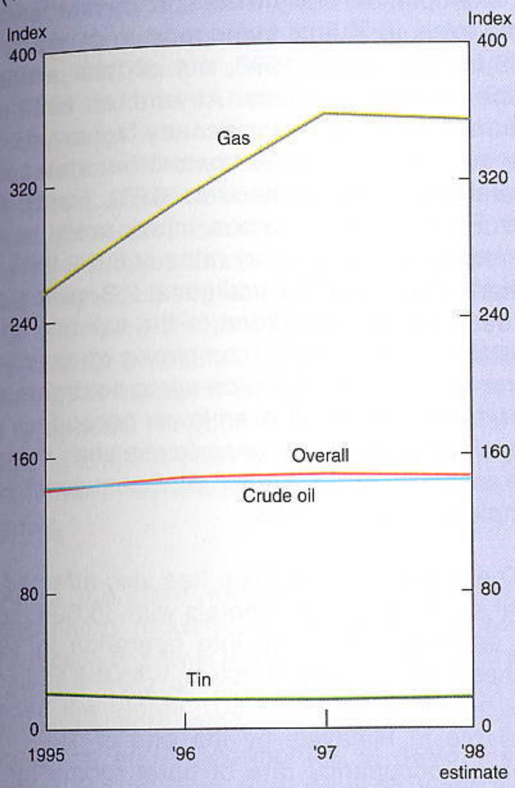
Output of the mining sector declines marginally by an estimated 0.8% in 1998. This is largely due to lower output of copper, gas and quarrying, although the production of crude oil and tin is higher. Copper production from the Mamut Copper Mine in Sabah, which has a few more years of reserves, declines further by an estimated 30.6% to 56,000 tonnes (1997: 80,675 tonnes). The production of natural gas is anticipated to decline marginally in 1998 in response to softening of demand of liquefied natural gas (LNG) from South Korea, Taiwan and Japan.

Crude Petroleum and Gas

In the first six months of 1998, **crude oil** production increased by 1.5% to 729,783 barrels per day (bpd) as compared to 719,000 bpd during the same period in 1997. For the whole of 1998, production of crude oil is estimated to increase by 0.6% to 718,300 bpd from 714,300 bpd recorded in 1997. The increase is in accordance with PETRONAS planned production schedule. Of the total output in 1998, Peninsular Malaysia contributes an estimated 58.5% or 420,400 bpd from 16 oil fields, while Sarawak contributes 205,500 bpd or 28.6% from 13 oil fields and Sabah contributes an output of 92,400 bpd or 12.9% of the national output from 8 oil fields. With regard to the number of exploration oil fields, 12 have been drilled in 1997 and seven in 1998 as at June 1998. For the development and production fields, 21 oil fields have been drilled in 1997 and 25 oil fields drilled in 1998 as at June 1998. A total of 32,851 kilometres of seismic data has been acquired for exploration and development by PETRONAS CARIGALI to further expand the production of oil and gas in Malaysia. As at June 1998, two Product Sharing Contracts (PSCs) have been signed while nine PSCs were signed in 1997.

In the first six months of 1998, the output of **natural gas** declined by 0.3% to 706,901 million standard cubic feet (mmscf) from 708,679 mmscf during the corresponding period of 1997. For the year as a whole, an output decline of 1% to 1,408,240 mmscf (1997: 1,422,466 mmscf) is estimated, mainly due to the sluggish external demand of liquefied natural gas (LNG) from South Korea. On the other hand, domestic consumption of natural gas increases by an estimated 2.8% following the completion of Peninsular Gas

Chart 4.3
Mining Production Index
(1987 = 100)



Utilisation project III (PGU III) in December 1997, which covers 450 kilometres from Meru in Selangor to Pauh in Perlis. The sectors that consume natural gas extensively are the power sector which consumes 846 mmscfd or 72.4% of total domestic consumption, followed by the industrial sector at 185.8 mmscfd or 15.9%, while the rest is for export. Based on the present rate of extraction, natural gas reserves can last for another 40 years.

Tin

For the first time since 1972, tin ore production is higher in 1998. During the first half of 1998, tin ore output increased by 5.2% to 2,855 tonnes (January – June 1997: 2,713 tonnes). For the whole of 1998, tin production is estimated to increase by 6.7% to 5,400 tonnes (1997: 5,065 tonnes). The higher output was induced by 52.3% increase in the tin price from RM14.20 per kg in the first seven months of 1997 to RM21.62 per kg during the same period in 1998. The higher production was achieved through increasing the number of overtime hours and the scale of production. This is despite lower number of tin mines in operation as at end of June 1998 (84 mines) as compared with 86 mines in operation during the same period in 1997.

Table 4.9

Production of Crude Oil and Gas

	1997		*1998[e]*	
	Volume	*% Change*	*Volume*	*% Change*
Crude oil (bpd)[1]	714,300	–0.2	718,300	0.6
Natural gas (mmscf/d)[2]	3,897	15.7	3,858	–1.0

[1] Including condensates.

[2] Excludes flaring and reinjection.

[e] Estimate.

Source: PETRONAS

Table 4.10

Production, Number of Mines and Employment in the Tin Mining Industry

	1997	*% change*	*1998[e]*	*% change*
Production ('000 tonnes)	5.1	–2.2	5.4	6.7
Number of mines*	86	7.5	84	–2.3
Dredges*	3	–40.0	1	–66.7
Gravel pumps*	19	0.0	19	0.0
Open cast and underground*	64	6.3	64	0.0
Workers employed*	4,743	128.8	4,340	–8.5

* As at end of June 1997 and June 1998.

[e] Estimate

Source: Ministry of Primary Industries and the Department of Statistics

Construction Sector

Value added in the **construction sector** declines sharply by an estimated 19.2% in 1998 (1997:+9.5%), reflecting significantly lower construction starts in certain segments of the property market which have excess supply as well as the completion of major infrastructure projects. Difficulty in getting bridging and end-financing for the construction and purchase of properties, high interest rates prior to September 1998 and erosion of the population's financial wealth due to a sharp drop in share prices are major factors contributing to the slowdown in construction starts in 1998. A more cautious stance of prospective property buyers in anticipation of further fall in property prices has also adversely affected demand for property. In the light of weaker demand, developers have to defer their construction starts.

In the **non-residential sector**, construction activities related to high rise commercial buildings particularly office space and retail outlets as well as hotels are sluggish, as there is excess supply in these property segments due to overbuilding in recent years. Based on present supply and new projects completed, office space is estimated to increase by a million square metres (s.m.) or 13.3% to 8.5 million s.m. in 1998. In view of this increase in supply against a backdrop of weak demand, occupancy rate is likely to drop to 82.2% in 1998 compared to 94.6% at the end of 1997. In Kuala Lumpur, among the prominent buildings that are under construction in 1998 are Capital Square Tower II, Duta Plaza, Vision City (Bandar Wawasan) and Pacific Bank while in Selangor they are Damansara Fairway and the Subang Twin Business Centre. With the already excess supply, developers are discouraged by the situation to embark on new construction starts of office space in view of high holding costs. Reflecting the impact of excess supply and weak demand for office space, rental rates have declined by 10%-30% compared with 1997. In the prime areas of Kuala Lumpur such as in the Golden Triangle, the rental rates were between RM40-70 per square metre while for offices in the peripheral locations, rental rates were between RM26-RM43 p.s.m in September 1998.

Similarly affected by the oversupply situation are retail-cum-commercial complexes which have a total space of about 3.9 million s.m. throughout the country. As a result, the occupancy rates of retail-cum-commercial complexes have generally declined in major towns throughout the country. For example, the current occupancy rate for retail complexes in Kuala Lumpur was estimated at 75% in September 1998, out of total available space of 969,100 s.m. At end of 1997, the occupancy rate was significantly higher, at 91%. The occupancy rates for some other states such as Selangor has declined to 39%, Perak 88% and Penang 67% when compared to the corresponding occupancy rates of 89%, 94% and 88% in 1997. With an additional 2.3 million s.m. net floor area to be added to the existing space of retail-cum-commercial complexes when projects currently under construction come onstream next year, the prospects of even lower occupancy rate in the face of economic uncertainties has deterred new construction starts in the retail-cum-commercial complexes during 1998.

The oversupply situation has also affected the hotel industry. 142 new hotels with 36,328 rooms are envisaged to come into operation in 1998. Of these, 53 are five star hotels. With the additional new hotels, a total of 1,507 hotels will become available in Malaysia by the end of 1998. The average occupancy rate of hotel rooms for the first half of 1998 declined to 49.8% in 1998 (January-June 1997 : 57.6%). This has discouraged new construction starts in the hotel industry. Much of the construction activities in the hotel sector are related to projects yet to be completed such as Dorsett Regency (Jalan Imbi), Cendana Hotel (Jalan Conlay) and Duta Hyatt Kuala Lumpur (Golden Triangle) in the Klang Valley, Harbour Place Hotel and Marriot Hotel (Klang) in Selangor and Sutera Harbour Business Hotel and Kinabalu Ramada Renaissance in Sabah. A recent development in hotel construction is the trend towards construction of smaller hotels with less than 300 rooms. In 1998, 21 such hotels will be completed in Kuala Lumpur, and 14 each in Penang and Johor.

Construction activities related to **industrial sites** and factories are sluggish in 1998, as investors defer the expansion of their plants and the building of new factories in the light of the less encouraging business environment. In part, the slower construction starts in this property segment reflects the 24.6% decline in the number of industrial projects approved by MIDA during 1997 and by 7.8% during the first seven months of 1998. For the first half of 1998, only 4,948 units of industrial properties were launched with another 17,519 units still in the pipeline. Selangor had the most units launched in 1998, that is 4,051 units, and the highest number, that is 7,606 units, in the pipeline. Among the notable industrial estates that have so far been developed during 1998 are the Sunway Damansara Technology Park, Mah Sing Integrated Industrial Park and the North Port Tech Zone. Other new development areas are in Pulau Indah and Banting in the Kuala Langat District, Selangor which will also house the RM2 billion Mega Steel Projects. In Seremban, industrial sites that were under construction in 1998 are Nilai Utama Industrial Park and Nilai Industrial Estate 3. In Malacca, construction of phase 1 of the proposed Vendor City at Taboh Naning/ Simpang Empat covering over 800 hectares which commenced earthworks in early 1997 is still ongoing.

As is the case with other segments of the construction industry, the **residential sector** construction activity is also affected by the economic slowdown. This is reflected in the drop in both the volume and value of transactions in 1998. During the first eight months of 1998, 84,660 transactions totalling RM9.5 billion were made, compared with 117,645 transactions valued at RM 14.5 billion for the same period of 1997. This indicates a 28% drop in volume of transactions and 34.8% drop in transacted value. The slower construction activity in the residential sector is also reflected in the 26.3% decline in number of new licenses and 26.0% decline in advertising permits issued for construction of new houses by the Ministry of Housing and Local Government. In view of the softer demand for residential properties, some developers have either deferred or scaled down the size of their projects. The decline in construction starts in residential sector is largely in the case of higher-end condominiums and higher price landed properties. Due to poor demand some developers have been saddled with excess stock of these properties. To reduce stock, they have introduced a number of schemes to attract buyers such as giving them a grace period before they have to pay their instalment payments. The overall softening of the residential property market is reflected in the 9.3% decline in the Malaysian House Price Index during the first half of 1998 when compared to the second half of 1997. The price index for terrace houses declined by 5.1%, detached houses 10.2%, semi-detached 6.7% while high-rise units declined by 5.6%.

Nevertheless, construction starts for low and medium cost houses are sustained in 1998 as demand for these more affordable houses remains strong. Consequently, most of the new launches during 1998 are of medium cost and low-cost houses. Of the 90,184 houses built during the first half of 1998, 26.1% were low cost houses while 43% were medium cost houses. In part, the strong demand for these houses is attributed to the easier access to end-financing for houses priced RM150,000 and below. In addition, lower mortgage of 9% for residential units costing RM100,000 and below has also induced demand for low and medium cost houses. Consequently, 76.2% of all houses sold in the first half of 1998 were below RM150,000 compared to 73.8% for the same period in 1997. Indicating firm demand for these houses, the average price of houses transacted during the first six months of 1998 rose by 14.2% to RM78,000 per unit from RM68,300 per unit during the corresponding period of 1997. On the other hand, residential properties costing more than RM150,000 dropped in unit price to average RM248,687 per unit during the first half of 1998 from RM272,189 per unit in the corresponding period of 1997. The softening demand has also led to 10.9% decline in the number of houses built by the private sector during the first six months of 1998 to 90,184 units of houses (January-June 1997: 101,225 units).

Construction starts of low and medium cost houses during 1998 were also underpinned by various Federal Government initiatives to provide housing to the lower income group. These include the **RM600 million Housing Fund for Hardcore Poor.** Under this Fund, a total of 19 projects comprising 9,232 units was completed at the end of August 1998. Another Fund initiated by the Government was the **RM500 million Fund to Accelerate the Construction of Low-Cost Housing**, under which a total of 39 projects were completed, while 22 projects are under construction. Up to August 1998, a total of RM302.9 million has been disbursed from the Fund to developers. Under the **Revolving Fund for Low-Cost Housing**, which is another Fund initiated by the Government, 83,701 units of houses including medium and high-cost units will be built in 1998, of which 4,674 units are already on the ground and will be completed in 1998. Another 39,900 units are under various stages of construction. In May 1998, the Government set up a RM2 billion Special Scheme for Low and Medium Cost Houses. Developers can avail themselves to this Fund for which 131 applications have been received as at 25 September 1998. Construction starts of low cost houses are also undertaken by various State Governments under the Public Low-Cost Housing Programme. Up to August 1998, the construction of 10,576 units has been completed and another 22,343 units are at various stages of construction. Under the 'Program Pemulihan Rumah' implemented by the Ministry of Rural Development, people in rural areas are entitled to receive a maximum RM 6,000 grant to construct a new house or to renovate his existing residence.

Value-added of the construction sector during 1998 has been supported by the development of Putrajaya and Cyberjaya currently underway. These two 'Smart Cities' are within the Multimedia Super Corridor (MSC), a 15km. wide and 50 km. long corridor stretching from the Kuala Lumpur City Centre in the north to the Kuala Lumpur International Airport in the South.

Putrajaya is the future Federal Government Administrative Centre. Phase 1 of the project, which comprises the development of the Prime Minister's Department and the Prime Minister's Office is scheduled for completion by the end of 1998 or January 1999. Being developed and completed at the same time are support amenities such as Putra Mosque, two smart schools, a health clinic, police station, fire station, library, market, community halls and shop houses. Altogether 1,758 staff quarters are also planned for completion by the end of 1999. Living up to its concept as a Garden City, two public parks, Putrajaya Botanical Garden and Taman Putra Perdana, are being developed for partial completion by the end of 1999. In the case of Cyberjaya, which is located next to Putrajaya and occupying 7,000 hectares, it is being developed as an intelligent city with multimedia enterprises, R & D centres and a Multimedia University and operational headquarters for multinationals wishing to direct their worldwide manufacturing and trading activities using multimedia technology. Among the projects that have already been completed in Cyberjaya are the Project Office, Cyberview Lodge and Office Complex for the developer, Cyberview Sdn. Bhd. and the Head Office of the Multimedia Development Corporation. Currently under construction are several projects including 60 units of apartments, the Mulitmedia University, the NTT Research and Development Centre, the Telekom IT Complex, the District Cooling Plant and Incubator Office Complex which are scheduled for completion in 1998 or early part of 1999.

Due to completion of major infrastructure projects such as the Kuala Lumpur International Airport and the Commonwealth Sports Complex, construction activities in the **civil engineering sector** have slowed down significantly. Nevertheless, civil works related to the development of Light Rail Transit System, Kuala Lumpur Sentral Station, Express Rail Link and the Kuala Lumpur Monorial System, development of ports such as extension of Kuantan Port and Tanjung Pelepas Port and expressways such as the KL-KLIA Highway, Cheras-Kajang Highway and the Pantai Baru Highway have helped to cushion the drop in construction activities in the infrastructure sector in 1998. The additional allocation of RM7 billion for development expenditure recently should also lead to new construction starts with regard to small infrastructure projects such as construction of roads, bridges as well as educational, health and agriculture facilities in 1998.

Services Sector

Reduced economic activities, lower real income and lacklustre external trade are factors that have affected the demand and, therefore, the output of the services sector. As a result, the value-added of the services sector expands at a significantly slower rate of an estimated 2.1% in 1998 (1997: 8%). All services sub-sectors record more moderate growth in value added, except for the wholesale and retail trade, hotels and restaurant sub-sector, the value-added of which declined in 1998. Sub-sectors within the services sector that record significantly above average growth rate are the electricity, gas and water sub-sector which provides largely essential services as well as finance related services sub-sector. Given that the services sector is the only major sector that records an increase in value-added in 1998, its share to real GDP increases to an estimated 48.1% druing the year (1997: 44.9%).

Services provided by the **transport, storage and communication sub-sector** is estimated to increase at a more moderate rate of 2.9% in 1998

Table 4.11

Services Sector Performance in Constant 1978 Prices

	Share of GDP (%)		*Annual Growth Rate (%)*	
	1997	*1998[e]*	*1997*	*1998[e]*
Electricity, gas and water	2.5	2.8	13.0	7.0
Transport, storage and communications	7.5	8.1	8.4	2.9
Wholesale and retail trade, hotel and restaurants	12.3	12.7	7.0	–1.4
Finance, insurance, real estate and business services	11.5	12.6	9.5	4.1
Government services	9.0	9.7	6.1	2.4
Other services	2.0	2.2	7.2	1.5
TOTAL	44.9	48.1	8.0	2.1

[e] estimate

(1997: 8.4%) due to the effect of a slowdown in external trade and economic activities. The moderate growth in the transport sector is reflected in the value-added of the air, ground and sea transportation services industries. In the case of **air transportation** services industry, the value-added is partly reflected by the 7.6% increase in the revenue of the Malaysian Airline System (MAS) during the first seven months of 1998. Revenue collected by MAS from handling of passengers increased by 6.3% to RM3,018.7 million while from transportation of cargoes increased by 14.3% to RM586.0 million during the first seven months of 1998. This was due to value added services from increase in the number of long haul flights especially between Malaysia and Europe and partly due to the impact of ringgit depreciation on ringgit earnings denominated in major currencies. Nevertheless, MAS earnings during the first seven months of 1998 was affected by the drop in the number of tourists coming to Malaysia during this period largely due to the reduced number of tourists coming to Malaysia from East Asia which has been hit by the financial crisis. This is reflected in the number of passengers handled by Malaysian Airline System, which declined by 12.7% to 8 million passengers during the first seven months of 1998 (January - July 1997: +8.7%). Due to lower volume of external trade especially import, the volume of cargoes handled by the local airline declined by 9.7% (January-July 1997: +10.6%). Tourist arrivals, however, should improve during the remaining five months of the year, underpinned by the recent hosting of the Commonwealth Games in September. For 1998 as a whole, the number of tourist arrivals in 1998 is estimated to increase by 11.3% to reach 6.9 million. This should positively contribute to the value-added of the air transportation industry for the year.

In terms of **ground transportation,** rail transportation services industry has been significantly affected by the economic slowdown. For instance, the cargo handled by KTM dropped by 6.5% during the first seven months of 1998 while freight revenue declined by 4.9%. Nevertheless, with improved facilities particularly the commuter train, the number of passengers carried by KTM increased by 21.1% during the first seven months of 1998 (January-July 1997: 33.8%) while revenue collected increased by 4.9% (January-July 1997:25.3%). The data on KTM's commuter passengers for September when it becomes available should show a higher figure in view of higher ridership during the Commonwealth Games.

The value added of **sea transportation** services industry has been affected by the lower volume of international trade in 1998. There has been a reduction in the volume of cargo handled by the eight major ports in the country by 12.1% to 76.7 million freight weight tonnes (fwt) during the first seven months of 1998 (January-July 1997: +12.0%; 87.3 fwt) while container cargo handled dropped marginally by 0.1% to 1.67 million twenty-foot equivalent units (TEUs) (January-July 1997: +19.9%). The growth in the volume of cargo handled by Johor Port decelerated to 2.9% to 11.3 million

Table 4.12

Growth Performance Indicators for Transport, Storage, Telecommunications, Electricity and Water Supply

(% annual change)

	Jan-July 1997	Jan-July 1998
Malaysia Airlines		
Revenue from cargo	13.2	14.3
Revenue from passengers	8.2	6.3
KTM Berhad		
Revenue from cargo	–10.6	–4.9
Revenue from passengers	25.3	4.9
Eight major ports		
Cargo throughput	12.0	–12.1
Containerised cargo	19.9	–0.1
Telekom Malaysia Berhad[1]		
Total subscribers	10.7	10.1
Cellular phones subscribers[2]	24.7	8.8
Tenaga Nasional Berhad		
Electricity consumption	14.9	7.2
Installed capacity[3]	14.0	4.0
Public Works Department		
Water consumption	9.6	2.3
Total production[3]	7.8	3.4

[1] end of period

[2] include Telecom, Celcom, Mobikom, Binariang and Mutiara Telecom.

[3] for whole year, TNB & IPP

Source: MAS, KTM, various ports, TNB and PWD.

fwt (January–July 1997: 5.7%) while Kuantan Port to 7.2% or 3.4 million fwt (January–July 1997:7.6%). The positive growth recorded by these two ports was largely due to increase in investment and extension of port facilities. The volume of cargo and container handled declined for all the other major ports. In the case of Port Kelang, the premier port of the country, the volume of cargo handled declined by 18.2% to 26 million fwt compared with 16% growth or 31.8 fwt during the corresponding period of 1997.

In respect of **communications** services industry, demand for telecommunications services remains favourable. During the first eight months of the year, telecommunications services provided by MIMOS through the internet services increased by 67.4% (143,439 subscribers) at the end of August 1998 compared with the increase of 124.8 % (85,674 subscribers) for the corresponding period of last year. This trend is also seen in the case of the other internet service provider, TM Net, where the number of subscribers increased to 220,000 during the first seven months of 1998 from 106,000 subscribers at the end of 1997. As for fixed lines operated by Telekom Malaysia Berhad (TMB), the number of subscribers increased by 10.1% to 4.3 million subscribers at the end of July 1998. With respect to the other services, TMB subscribers on public payphones increased by 12.4%, leased circuit by 15.3% while Atur 450 declined by 7.5%.

Value-added of the **finance, insurance, real estate sector and business services** sub-sector moderates to a growth of an estimated 4.1% in 1998 (1997:9.5%). In the financial services industry, the value added was affected by the sharp slowdown in annual credit growth of the banking system to 8.9% as at the end of July 1998, as against 25.9% as at the end of 1997. In absolute terms, outstanding loans of the banking system at the end of July 1998 (RM 400.0 billion) was 0.4% or RM1.7 billion lower than as at the end of 1997 (RM401.7 billion). Nevertheless, with the banking system required to provide at least 8% credit growth by the end of 1998, some positive growth in the value-added of the financial sector is likely, although this may be moderated by lower profit margin as the maximum margin permissible above quoted base lending rate has been reduced to 2.5 percentage points instead of the earlier 4 percentage points. The value added of the financial services industry was also dampened by the decline in prices and lower volume of shares traded on the Kuala Lumpur Stock Exchange (KLSE). Since end of 1997 through 15 September 1998, market capitalisation loss was 32.2% while the total turnover during the period dropped by 47.6% to 38.08 billion shares (January-September 1997: 58.29 billion shares). In the case of the insurance services industry, the total income received by the industry grew at a slower rate of 13.5% to RM3.9 billion during the first half of 1998 (January-June 1997:15.6%). This slowdown could continue throughout 1998, mainly on account of a sluggish growth in general insurance business. With demand for houses, commercial space and other properties remaining weak, services related to real estate decline further in 1998. The number of properties transacted recorded by the Valuation and Properties Department during the first eight months of 1998 dropped by 30.9% to total 128,936 transactions (January - August 1997: 3.4%). The corresponding value of transactions declined by 45.4% to RM19,584.5 million (January - August 1997:11.0%).

Value added generated by **electricity, gas and water** suppliers increases at a slower pace of an estimated 7.0%, compared with 13% in 1997. Although consumption of electricity by the industrial sector declined by 0.3% during the first seven months of 1998, due to sluggish activities in the manufacturing and mining sectors, the decline was more than offset by the increase in the consumption of electricity by the residential (+21.1%) as well as commercial sector (+14.6%). For 1998 as a whole, according to Tenaga Nasional Berhad, consumption of electricity should increase by an estimated 7.9% to 47,183 Giga Watt Hour (GWH) (1997: 14.4%). Meanwhile, the total generating capacity of Tenaga Nasional Berhad increases by an estimated 6.1% to 8,696 mega watts in 1998, while an additional 4,144 mega watts would be supplied by Independent Power Producers. In response to sustained demand, the volume of water supplied to customers increases by an estimated 3.4% to 10,221 million litre per day (mld) in 1998, from 9,886 mld in 1997. To meet expanding demand and to overcome the water shortage, the government is committed to build additional water treatment plants and increase the supply of potable water to rural areas.

Among the non-services sub-sectors, the **wholesale and retail trade, hotel and restaurant** sub-sector is most severely affected by the economic slowdown. With the slowdown in private consumption, the value-added of the sub-sector contracted by 1.5% during the first half of 1998. However, with the holding of the Commonwealth Games as well as the introduction of measures to reduce interest rate and easing on credit terms for hire purchase of passenger cars, the contribution in the value-added in the second half of 1998 is seen to be less severe, that is by -1.3%. Consequently, for 1998 as a whole, the value-added of the sub-sector is likely to contract by 1.4% (1997:7%), depressed by 10.0% contraction in real private sector consumption. Continuing from the trend since mid-1997, demand for hotel and restaurant services remained lacklustre as hotel occupancy rate continued to remain low at 49.8% during the first half of 1998 (January-June 1997: 57.6%). The wholesale and retail trades are also anticipated to remain sluggish, constrained by an anticipated 18% decline in real aggregate domestic expenditure. Reflecting the performance of the wholesale and retail trades, collection of sales tax by Royal Customs and Excise Department dropped by 31.3% during the first seven months of 1998 (January-July 1997: -5.7%).

In the case of **services provided by the Government sector,** it increases by an estimated 2.4% in 1998. This is reflected in the 8.3% increase in the payments for emoluments as well as expenditure for purchase of supplies and services. Contributing significantly to the increase in the value added of Government services in 1998 is the increase in development expenditure on social services by 1.6% to RM4,996 million with education being the largest beneficiary.