7 Prices, Employment and Wages

The rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) showed a significant rising trend since early 1998, following the ringgit depreciation since mid-1997. Before the onset of the financial crisis, the CPI has been on a downward trend since 1996. However, since the crisis, the CPI witnessed some upward movements. Thus, since January 1998, the increase in CPI was higher at 3.4% compared with a moderate increase of 2.7% in 1997, the lowest rate of inflation since 1990. During the first quarter of 1998, the impact of the ringgit depreciation became more apparent, with the CPI rising at an average rate of 4% compared with 3% during the corresponding period in 1997.

The currency depreciation has also affected the Producer Price Index (PPI, 1989=100). The PPI for the fourth quarter of 1997 increased by 7.2% compared with 1% for the third and -0.5% for the second quarter of 1997. For the first eight months in 1998, the PPI increased sharply at 13.5% compared with only 0.9% during the same period in 1997. While the increase in PPI for local production was higher at 14.1%, the PPI for import was lower at 11.0% for the same period of 1998. Overall, it is estimated that PPI will increase at around 13% for 1998, almost five times higher compared with 2.7% recorded in 1997.

The increase in the CPI is reflected in all income groups and across all regions. By income group, the average CPI for January to August 1998 increased at a rate of 6.0% for the income group of RM1,000 and below and 5.7% for the income group of RM1,500 and below. On the regional front, the CPI for Kuala Lumpur increased by 5.9% for the period of January to August 1998, for Kota Kinabalu 4.2% and Kuching 6.2%.

Reflecting the slowdown in economic activity, employment situation deteriorated in 1998. With the repatriation of foreign labour, total labour force is expected to decline by 0.4% to 9.01 million at the end of 1998 (1997: 2.8%). However, the unemployment rate is expected to increase from 2.6% in 1997 to 4.9% at the end of 1998. Total employment is expected to decline by 2.7% during the year, compared with an increase of 4.6% in 1997. The construction industry, accounting for 8.8% of total employment and which was significantly affected by the economic crisis, is expected to experience the largest decline (13.4%) in employment in 1998 (1997: +9%). As at 5 September 1998, a total of 59,970 workers were retrenched, of which 54.5% was in the manufacturing sector. Given the tight labour market situation in the plantation sector as well as in some sub-sectors of the manufacturing sector, these sectors were able to absorb most of the retrenched workers. In addition, measures undertaken particularly by the Ministry of Human Resources such as training, contributed to the greater mobility of workers especially through skill enhancement. Pressures on wages lessened to some extent, with wage increases in negotiated agreements averaging 10% during the first seven months of 1998 compared with 13.1% in 1997. In the manufacturing sector, where 53% of the wage agreements were concluded, the average wage grew at a slower rate of 8.4% as against 15% in 1997.

Prices

For the first nine months of 1998, the CPI increased by 5.2%, two fold over the 2.6% increase during the same period in 1997. Given the severe impact of ringgit depreciation, the increase in the CPI could have been higher, if not for the favourable effects of lower inflation from abroad and the

tight monetary and fiscal measures undertaken. Tight monetary policy, particularly the credit squeeze, helped to dampen excessive growth in domestic demand. At the same time, fiscal prudence in the Government's budgetary operations also contributed towards easing demand pressures. Administrative measures, on the other hand, focused primarily on efforts to increase food supply.

Strategies such as increasing food production and using more local products, producing items locally and cheaper alternative sourcing were being implemented through 15 short, medium and long-term programmes. These include upgrading and increasing the number of farmer's market, cold rooms and improving marketing and distribution system. The Government also continues to liberalise import of food, especially beef, chicken and vegetable. As an additional measure, import duties and sales tax were abolished or reduced on items such as canned anchovies, paper products and all types of printed paper for the purpose of reducing publishing costs, particularly on items used in schools.

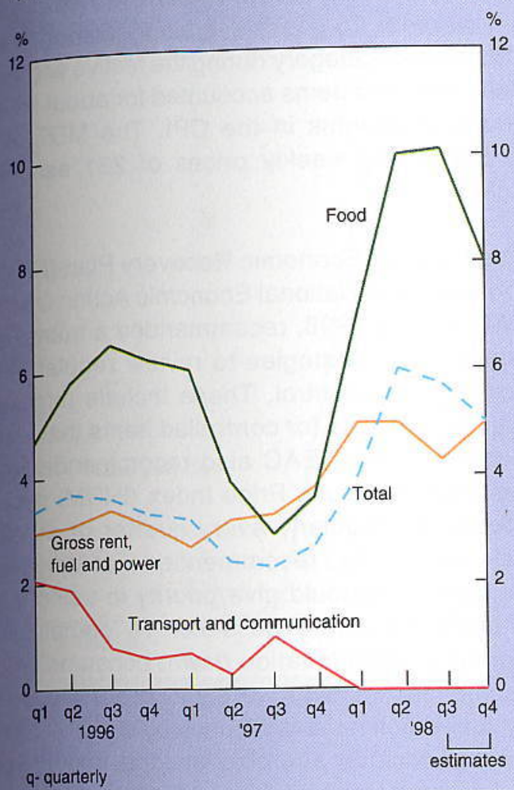
On October 7 1997, the Retail Recommended Price (RRP) was launched. RRP is a retail price proposed by manufacturers. The manufacturers can change the price accordingly if the cost of production increased but they have to inform the Ministry of Domestic Trade and Consumer Affairs (MDTCA). This is to ensure the effective monitoring of price movements. Apart from ensuring that consumers are more informed of price changes, RRP also aims at curbing profiteering and unethical business practises. Existing price monitoring on 75 essential items for the low-income groups was continued.

With respect to the food sector, private investment in the sector has been declining from 6.9% in 1990 to 3.2% in 1997. Weather conditions, pests, diseases and perishable nature of crops are some of the risks that are inherent in food production. Limited availability of land and labour constraint further inhibit the growth of the food sector. The Government, therefore, continues to emphasise on addressing supply constraints of food. Recognising that financing is one of the major issues constraining the sector, the allocation of Fund for Food (3F) has been increased twice in 1997, to total RM1 billion from the original RM600 million. Of this, RM300 million is allocated for small farmers under the Pertubuhan Peladang Kawasan. As at 31 August 1998, a total of RM382 million was disbursed to 1,318 applicants, where more than half was channelled to finance animal husbandry projects. To attract more participants, in March 1998 the Government widened the scope of activities under the Fund to include the production of rice, ostrich, rabbit, quail and deer farming.

Local importers have been urged to import food from cheaper sources and at the same time Malaysians are encouraged to grow their own vegetables. With these measures, food imports have been reduced by 33% from US$2.46 billion during the first half of 1997 to US$1.65 billion during the same period this year. There was a significant drop in the volume of imported tropical fruits which declined by 96%, followed by fresh fish (33.7%), meat (18.2%), soya bean (18.4%), sugar (12.4%) and livestock (10%). The nationwide campaign to encourage Malaysians to plant their own vegetables, saw an oversupply of vegetables in July and August this year, which has resulted in the reduction of prices of vegetables by 50% to 60% during the period.

The overall increase in food prices remained the major contributor to the increase in the CPI during the first nine months of 1998. The food index (which accounted for about one-third of the total CPI basket) increased sharply by 8.9%, compared with 4.3% during the corresponding period last year. This was due largely to the higher increase recorded in both the sub-indices for food consumed at home and food away from home. The former increased significantly by 9.2% (3.6% in January-September 1997), while the latter by 8.1% (5.9% in January – September 1997). In terms of the prices of individual food items, the sub-indices for fruits and vegetables as well as sugar increased by 15.1% and 18.7%, respectively, a significantly higher increase compared with 1.5% and 0.3% during the same period in 1997. Of the non-food items, the components for miscellaneous goods and services, medical care and health expenses as well as gross rent, fuel and power, recorded higher growth of 7.3%, 6.0% and 4.5% respectively, compared with 4% 3.6 and 3.1% respectively in 1997.

Chart 7.1
Consumer Price Index (1994 = 100)
(annual change)



In early 1998, prices of a few controlled items such as flour, sugar, condensed milk and chicken increased. The price of sugar increased by 21% to RM1.45 per kg from RM1.20 per kg commencing February 1998. To meet increasing demand of estimated 95,000 tonnes per month during festivals, sugar production was increased to a maximum of 102,000 tonnes, well above the average monthly requirement of 80,000 tonnes. Prices of chicken also increased by 10% from RM4.90 per kg. on February 12, 1998 to RM5.40 per kg. in March 1998. While prices have since eased, prices of chicken remain high compared with RM4.00 per kg. level recorded in July 1997. The increase was mainly due to higher cost of production resulting from the ringgit depreciation, as more than 80% of chicken feed is imported. Efforts are being made to produce chicken feed locally. A formula for chicken feed using local sources such as rice bran, fishmeal, cassava, palm kernel cake, molasses, palm oil, broken rice, grass meal, limestone, copra cake and sago are being studied.

Table 7.1

Malaysia: Consumer Price Index (1994 = 100)

			Annual change (%) (January-September)	
	Weights	*1997*	*1997*	*1998*
Total	**100.0**	**2.7**	**2.6**	**5.2**
Food	34.9	4.1	4.3	8.9
Beverages and tobacco	3.6	1.3	1.1	2.8
Clothing and foot wear	3.6	-0.5	-0.6	0.7
Gross rent, fuel and power	21.1	3.2	3.1	4.5
Furniture, furnishings and household equipment and operation	5.6	0.1	0.0	3.7
Medical care and health expenses	1.9	3.6	3.6	6.0
Transport and communications	17.9	0.6	0.6	0.0
Recreation, entertainment, education and cultural services	5.8	0.4	0.3	2.9
Miscellaneous goods and services	5.6	4.6	4.0	7.3
Peninsular Malaysia	**100**	**2.8**	**2.8**	**5.4**
Sabah	**100**	**2.0**	**2.1**	**4.1**
Sarawak	**100**	**1.7**	**1.4**	**4.3**

Source: Department of Statistics

Table 7.2

Malaysia: Consumer Price Index For Food (1994 = 100)

		Annual change (%) (January-September)		
	Weights	*1997*	*1997*	*1998*
Total Food	**34.9**	**4.1**	**4.3**	**8.9**
Food at home	25.1	3.7	3.6	9.2
Rice, bread and other cereals	5.5	3.6	4.5	5.9
Meat	3.8	3.4	3.7	8.7
Fish	4.9	7.2	7.0	9.3
Milk and eggs	2.3	1.6	2.4	4.4
Oils and fats	0.7	-0.7	-1.9	5.6
Fruits and vegetables	5.4	2.6	1.5	15.1
Sugar	0.6	0.3	0.3	18.7
Coffee and tea	0.8	0.8	0.7	9.3
Other food	1.1	0.7	1.1	3.7
Food away from home	9.8	5.3	5.9	8.1

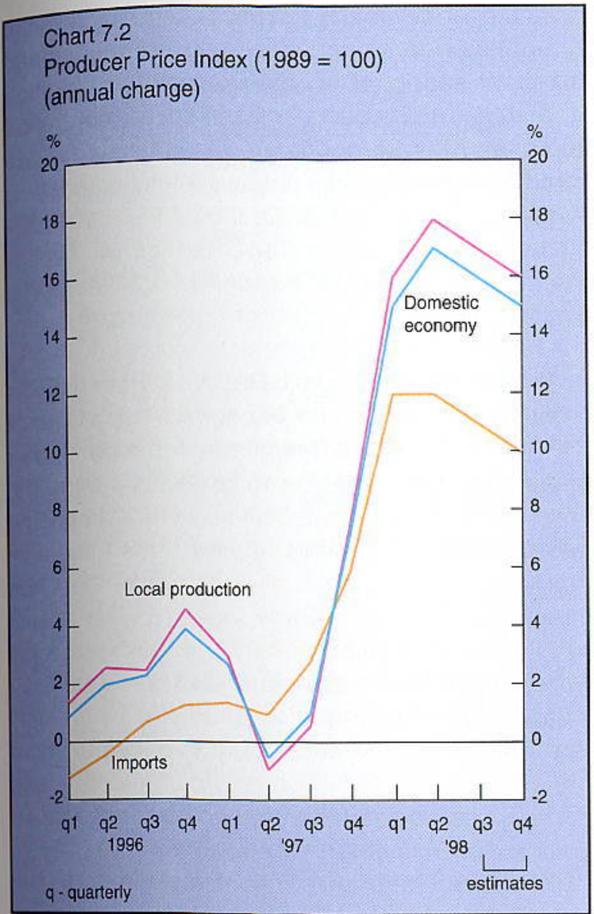
Source: Department of Statistics

Other essential items showing a price increase are flour and full cream condensed milk. In July 1998, the price of flour increased by 33% to RM1.60 per kg. from RM1.20 per kg. while the price for full cream condensed milk increased to RM1.75 per tin of 397 gram from RM1.65 per tin. Similarly, in May 1998, prices of domestic and imported rice increased by 21% and 52% respectively, due to declining production caused by the El-Nino weather phenomenon. Imports of rice increased by 13.5% to 209,000 tonnes between January and June this year to overcome the supply shortage.

Stricter enforcement and price checks by relevant authorities were undertaken to ensure regular and sufficient supply of goods. Currently, in addition to a total of 21 goods classified as controlled items, another 25 goods are also included in the controlled item category during the festive seasons. These controlled items accounted for about 10.5% of the total weights in the CPI. The MDTCA is also monitoring weekly prices of 231 essential goods.

The National Economic Recovery Plan (NERP) proposed by the National Economic Action Council (NEAC) in July 1998, recommended a number of measures and strategies to review regularly the policy on price control. These include imposing taxes at exit points for controlled items that leave the country. The NEAC also recommended that the Malaysian House Price Index (IHRM) should be published regularly every quarter or at least twice a year. It also recommended that Malaysian manufacturers should give priority in using local raw materials where possible. To complement the effort to keep inflation down, consumers and consumer associations were encouraged to report unethical practices and abuses by traders. Other measures include sourcing of food import from a cheaper countries such as ASEAN, establishing a one-stop information center for the public on agriculture, including information on extension services and technical support, increasing market outlets for perishable goods, including permanent sites for 'pasar tani' and persuading hyper markets and supermarkets to allow small and medium scale food producers to display and market their products at preferential rates. Countries such as Myanmar, Vietnam, Thailand and Indonesia were identified as alternative sources for supply of rice, fish, goat, cow, corn and red union.

The CPI for Sabah increased by 4.1% for the period of January to September 1998, contributed largely by increases in food prices, increasing by 8.7%. The components which registered higher price increases were medical care and health expenses (5.7%) and miscellaneous goods and services (4.1%). On the other hand, prices of transport and communication declined by 0.3%. The increase in CPI for Sarawak during the period was also higher at 4.3% (January-September 1997: 1.4%) due to the increase in prices for food (7.7%), miscellaneous goods and services (7.7%), medical



care and health expenses (4.3%) and furniture, furnishings, and household equipment and operation (4.0%).

At the producers level, PPI increased sharply by 13.5% during the first eight months of 1998 (January to August 1997: 0.9%). The large increase was mainly due to an unprecedented increase of 77.4% in prices of animal and vegetable oils and fats, compared with 4.5% for January to August 1997. Other large increases were food and live animals chiefly for food, 9.8% (1997: 1.6%) and machinery and transport equipment, 7.8% (1997: 2.0%).

On disaggregated basis, the increase in PPI for local production was larger at 14.1% for the same period in 1998 (January-August 1997: 0.8%) mainly due to the 78.3% increase in index for animal and vegetable oils and fats, 23.2% for machinery, and transport equipment and 17.9% for miscellaneous manufactured articles. The PPI for imports also showed a significant increase of 11% (January-August 1997: 1.5%), attributed mainly to the 16.4% increase in the cost of food and live animals chiefly for food and 16.8% increase in the prices of machinery and transport equipment (Refer Table 7.3).

Table 7.3

Malaysia: Producer Price Index (1989 = 100)

			Annual change (%) (January-August)	
	Weights	*1997*	*1997*	*1998*
Domestic economy	**100.0**	**2.7**	**0.9**	**13.5**
Food and live animals chiefly for food	14.9	2.3	1.6	9.8
Beverages and tobacco	2.1	0.1	0.0	0.1
Crude materials, inedible except fuels	18.0	–4.9	–6.1	3.5
Mineral fuels, lubricants	18.8	7.0	6.8	2.7
Animals and vegetable oils and fats	8.5	12.9	4.5	77.4
Chemicals and chemical products	4.4	1.2	0.2	5.8
Manufactured goods classified chiefly by material	10.8	0.1	–0.8	6.0
Machinery and transport equipment	18.3	3.4	2.0	7.8
Miscellaneous manufactured articles	3.6	–1.2	–1.7	5.1
Commodities and transactions not classified elsewhere	0.6	–0.5	–0.6	2.2
Local production	**79.3**	**2.5**	**0.8**	**14.1**
Import	**20.7**	**2.8**	**1.5**	**11.0**

Source: Department of Statistics

With regard to price administration, four applications were received by the Price Review Committee of the MDTCA in 1997 to increase the price of flour, sugar, condensed milk and cooking oil. The number was lower in 1998 where until August, only two applications were received, particularly proposals to increase the price of bread and condensed milk. With the ringgit depreciation, the Enforcement Unit of the MDTCA is monitoring the situation closely to prevent traders and producers from taking advantage of the situation. Until June 1998, MDTCA has conducted a total of 255,202 inspections and took action on 2,770 traders.

The Government has launched a year-long special 'Buy Malaysian Products' campaign. Consequently, a number of traders has reduced the prices of imported goods in a bid to stay competitive with locally-made products. The campaign has also succeeded in creating awareness among Malaysians to buy local products as part of the efforts to help the nation recover from the economic problems. A joint technical committee between MDTCA, Ministry of International Trade and Industry and the Agriculture Ministry was set up to study strategies to promote local products. A list has been prepared to identify items which are imported and commonly used by consumers. Based on the list, the Committee will then source for a similar range of local products as alternatives for consumers.

Employment

Reflecting the slowdown in domestic economic activities, employment situation deteriorated in 1998. Latest estimates indicated that total employment would decline by 2.7% to about 8.56 million persons at the end of 1998, from 8.81 million persons in 1997. Due to repatriation of foreign labour since early 1998, the labour force is expected to decline by 0.4% to 9.01 million at the end of the year. Unemployment rate, on the other hand, is expected to increase significantly from 2.6% in 1997 to 4.9% of labour force or 443,200 workers in 1998. The number of registered job-seekers rose to 34,514 persons at the end of July 1998 from 23,760 persons at the beginning of the year, reflecting easier labour market conditions compared with the previous year.

The decline in the total employment during the year is due to slower activities in almost all sectors except in selected manufacturing sub-sectors and plantation sector. The economic turmoil has also led to companies rationalising costs through downsizing. Sluggish construction activity in 1998 contributes to a decline of 13% in employment

Table 7.4

Malaysia: Employment by Sector (1997-1998)

	1997		*1998*[1]	
	('000)	*(%)*	*('000)*	*(%)*
Agriculture, forestry and fishing	1,494.5	17.0	1,414.2	16.5
Mining	38.8	0.4	38.6	0.5
Manufacturing	2,390.5	27.1	2,321.1	27.1
Construction	874.2	9.9	756.6	8.8
Electricity, gas and water	75.8	0.9	78.5	0.9
Wholesale and retail trade, hotels and restaurants	1,447.3	16.4	1,441.2	16.8
Finance, insurance, real estates, business services	405.8	4.6	415.9	4.9
Transport, storage and communications	436.2	5.0	441.9	5.2
Government services	873.2	9.9	875.0	10.2
Other services	768.8	8.7	780.3	9.1
Primary sector	**1,533.3**	**17.4**	**1,452.8**	**17.0**
Secondary sector	**3,264.7**	**37.1**	**3,077.7**	**35.9**
Tertiary sector	**4,007**	**45.5**	**4,032.8**	**47.1**
TOTAL	**8,805.1**	**100**	**8,563.3**	**100**

[1] Estimate

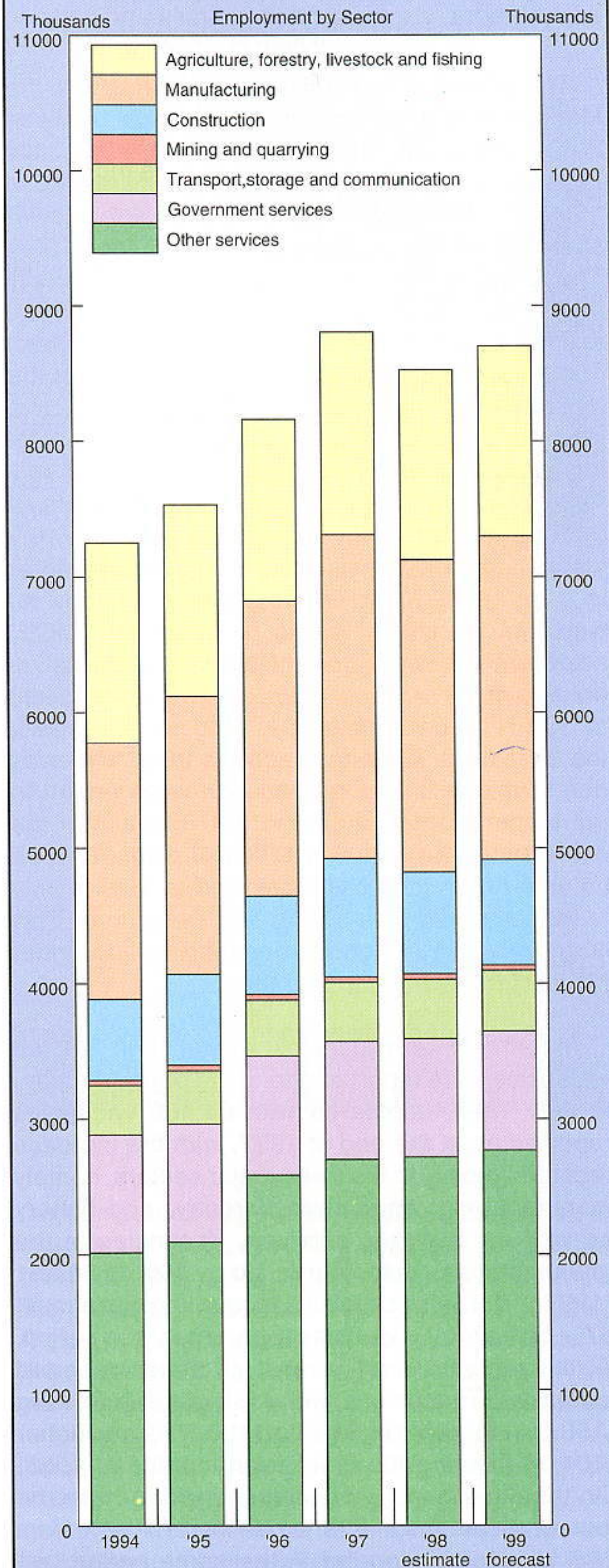
Source: Economic Planning Unit

in that sector, lowering its share to total employment to 8.8% (1997: 9.9%). Similarly, employment in the agriculture, forestry and fishing sector, which accounted for 16.5% of total employment in 1998 is expected to decline by 5.3%, following termination of employment of immigrant labour by some estates. Retrenchment also contributes to a 3% decline (1997: +8.0%) in the manufacturing sector employment. BNM Annual Survey of Companies in the manufacturing sector showed that the recruitment of foreign workers in the sector declined by 7.5% in 1997. This was due to the Government's efforts to discourage the recruitment of unskilled foreign labour by withholding approval of new entry permits for foreign workers in the construction, services and plantation sector since 10 July, 1996. In August 1997, the freeze in approval was extended to all sectors.

On sectoral basis, employment in the manufacturing sector is expected to account for the largest share or 27% of total employment, while the mining sector remains the smallest sector accounting for 0.5% of the total. On a broader classification, the tertiary sector is expected to account for 47.2% of total employment, while the primary sector accounted for the smallest share of 17%. This is attributed to the fact that new job creation in the primary sector has declined especially in the agriculture, forestry, and fishery sector. Total employment in the primary sector is expected to decline by 5% from 1.53 million jobs recorded in 1997 to 1.45 million jobs in 1998. The continuing budgetary restraint by the Government has capped employment growth in the public sector. As end of 1998, the Government is estimated to employ 875,000 workers or about 10% of total employment.

Looking at the job market, for period January-July 1998, a total of 34,514 persons, an increase of 48%, (January-July 1997: 23,321) were actively seeking employment through the Manpower Department. The increase was recorded in most states with Federal Territory, Sarawak and Selangor recorded the highest rate of 192.6%, 98.3% and 91.1% respectively. Although the number of jobseekers for production and related works has increased by 57%, its share to the total has declined to 28.2% (1997: 31.5%), reflecting higher unemployment in this sector. On the other hand, jobs in the primary sector such as forestry workers, fishermen and hunters and animal husbandary,

Chart 7.3
Employment Indicators



Source : EPU

7 Prices, Employment and Wages

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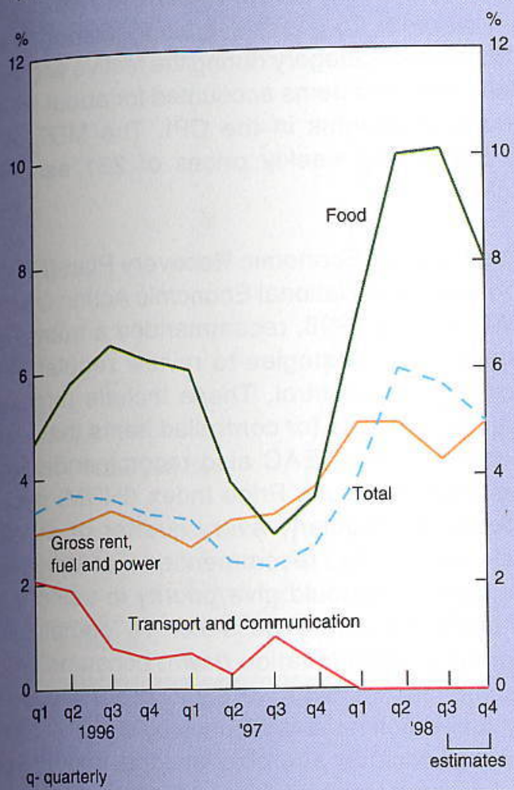

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Gross rent, fuel and power	21.1	3.2	3.1	4.5
Furniture, furnishings and household equipment and operation	5.6	0.1	0.0	3.7
Medical care and health expenses	1.9	3.6	3.6	6.0
Transport and communications	17.9	0.6	0.6	0.0
Recreation, entertainment, education and cultural services	5.8	0.4	0.3	2.9
Miscellaneous goods and services	5.6	4.6	4.0	7.3
Peninsular Malaysia	**100**	**2.8**	**2.8**	**5.4**
Sabah	**100**	**2.0**	**2.1**	**4.1**
Sarawak	**100**	**1.7**	**1.4**	**4.3**

Source: Department of Statistics

Table 7.2

Malaysia: Consumer Price Index For Food (1994 = 100)

		Annual change (%) (January-September)		
	Weights	*1997*	*1997*	*1998*
Total Food	**34.9**	**4.1**	**4.3**	**8.9**
Food at home	25.1	3.7	3.6	9.2
Rice, bread and other cereals	5.5	3.6	4.5	5.9
Meat	3.8	3.4	3.7	8.7
Fish	4.9	7.2	7.0	9.3
Milk and eggs	2.3	1.6	2.4	4.4
Oils and fats	0.7	-0.7	-1.9	5.6
Fruits and vegetables	5.4	2.6	1.5	15.1
Sugar	0.6	0.3	0.3	18.7
Coffee and tea	0.8	0.8	0.7	9.3
Other food	1.1	0.7	1.1	3.7
Food away from home	9.8	5.3	5.9	8.1

Source: Department of Statistics

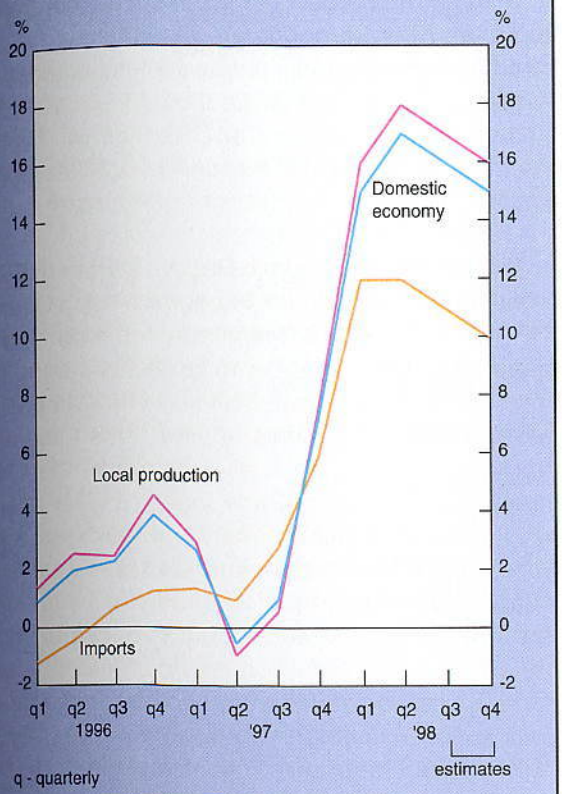
Other essential items showing a price increase are flour and full cream condensed milk. In July 1998, the price of flour increased by 33% to RM1.60 per kg. from RM1.20 per kg. while the price for full cream condensed milk increased to RM1.75 per tin of 397 gram from RM1.65 per tin. Similarly, in May 1998, prices of domestic and imported rice increased by 21% and 52% respectively, due to declining production caused by the El-Nino weather phenomenon. Imports of rice increased by 13.5% to 209,000 tonnes between January and June this year to overcome the supply shortage.

Stricter enforcement and price checks by relevant authorities were undertaken to ensure regular and sufficient supply of goods. Currently, in addition to a total of 21 goods classified as controlled items, another 25 goods are also included in the controlled item category during the festive seasons. These controlled items accounted for about 10.5% of the total weights in the CPI. The MDTCA is also monitoring weekly prices of 231 essential goods.

The National Economic Recovery Plan (NERP) proposed by the National Economic Action Council (NEAC) in July 1998, recommended a number of measures and strategies to review regularly the policy on price control. These include imposing taxes at exit points for controlled items that leave the country. The NEAC also recommended that the Malaysian House Price Index (IHRM) should be published regularly every quarter or at least twice a year. It also recommended that Malaysian manufacturers should give priority in using local raw materials where possible. To complement the effort to keep inflation down, consumers and consumer associations were encouraged to report unethical practices and abuses by traders. Other measures include sourcing of food import from a cheaper countries such as ASEAN, establishing a one-stop information center for the public on agriculture, including information on extension services and technical support, increasing market outlets for perishable goods, including permanent sites for 'pasar tani' and persuading hyper markets and supermarkets to allow small and medium scale food producers to display and market their products at preferential rates. Countries such as Myanmar, Vietnam, Thailand and Indonesia were identified as alternative sources for supply of rice, fish, goat, cow, corn and red union.

The CPI for Sabah increased by 4.1% for the period of January to September 1998, contributed largely by increases in food prices, increasing by 8.7%. The components which registered higher price increases were medical care and health expenses (5.7%) and miscellaneous goods and services (4.1%). On the other hand, prices of transport and communication declined by 0.3%. The increase in CPI for Sarawak during the period was also higher at 4.3% (January-September 1997: 1.4%) due to the increase in prices for food (7.7%), miscellaneous goods and services (7.7%), medical

Chart 7.2
Producer Price Index (1989 = 100)
(annual change)



care and health expenses (4.3%) and furniture, furnishings, and household equipment and operation (4.0%).

At the producers level, PPI increased sharply by 13.5% during the first eight months of 1998 (January to August 1997: 0.9%). The large increase was mainly due to an unprecedented increase of 77.4% in prices of animal and vegetable oils and fats, compared with 4.5% for January to August 1997. Other large increases were food and live animals chiefly for food, 9.8% (1997: 1.6%) and machinery and transport equipment, 7.8% (1997: 2.0%).

On disaggregated basis, the increase in PPI for local production was larger at 14.1% for the same period in 1998 (January-August 1997: 0.8%) mainly due to the 78.3% increase in index for animal and vegetable oils and fats, 23.2% for machinery, and transport equipment and 17.9% for miscellaneous manufactured articles. The PPI for imports also showed a significant increase of 11% (January-August 1997: 1.5%), attributed mainly to the 16.4% increase in the cost of food and live animals chiefly for food and 16.8% increase in the prices of machinery and transport equipment (Refer Table 7.3).

Table 7.3

Malaysia: Producer Price Index (1989 = 100)

			Annual change (%) (January-August)	
	Weights	*1997*	*1997*	*1998*
Domestic economy	**100.0**	**2.7**	**0.9**	**13.5**
Food and live animals chiefly for food	14.9	2.3	1.6	9.8
Beverages and tobacco	2.1	0.1	0.0	0.1
Crude materials, inedible except fuels	18.0	–4.9	–6.1	3.5
Mineral fuels, lubricants	18.8	7.0	6.8	2.7
Animals and vegetable oils and fats	8.5	12.9	4.5	77.4
Chemicals and chemical products	4.4	1.2	0.2	5.8
Manufactured goods classified chiefly by material	10.8	0.1	–0.8	6.0
Machinery and transport equipment	18.3	3.4	2.0	7.8
Miscellaneous manufactured articles	3.6	–1.2	–1.7	5.1
Commodities and transactions not classified else-where	0.6	–0.5	–0.6	2.2
Local production	**79.3**	**2.5**	**0.8**	**14.1**
Import	**20.7**	**2.8**	**1.5**	**11.0**

Source: Department of Statistics

With regard to price administration, four applications were received by the Price Review Committee of the MDTCA in 1997 to increase the price of flour, sugar, condensed milk and cooking oil. The number was lower in 1998 where until August, only two applications were received, particularly proposals to increase the price of bread and condensed milk. With the ringgit depreciation, the Enforcement Unit of the MDTCA is monitoring the situation closely to prevent traders and producers from taking advantage of the situation. Until June 1998, MDTCA has conducted a total of 255,202 inspections and took action on 2,770 traders.

The Government has launched a year-long special 'Buy Malaysian Products' campaign. Consequently, a number of traders has reduced the prices of imported goods in a bid to stay competitive with locally-made products. The campaign has also succeeded in creating awareness among Malaysians to buy local products as part of the efforts to help the nation recover from the economic problems. A joint technical committee between MDTCA, Ministry of International Trade and Industry and the Agriculture Ministry was set up to study strategies to promote local products. A list has been prepared to identify items which are imported and commonly used by consumers. Based on the list, the Committee will then source for a similar range of local products as alternatives for consumers.

Employment

Reflecting the slowdown in domestic economic activities, employment situation deteriorated in 1998. Latest estimates indicated that total employment would decline by 2.7% to about 8.56 million persons at the end of 1998, from 8.81 million persons in 1997. Due to repatriation of foreign labour since early 1998, the labour force is expected to decline by 0.4% to 9.01 million at the end of the year. Unemployment rate, on the other hand, is expected to increase significantly from 2.6% in 1997 to 4.9% of labour force or 443,200 workers in 1998. The number of registered job-seekers rose to 34,514 persons at the end of July 1998 from 23,760 persons at the beginning of the year, reflecting easier labour market conditions compared with the previous year.

The decline in the total employment during the year is due to slower activities in almost all sectors except in selected manufacturing sub-sectors and plantation sector. The economic turmoil has also led to companies rationalising costs through downsizing. Sluggish construction activity in 1998 contributes to a decline of 13% in employment

Table 7.4

Malaysia: Employment by Sector (1997-1998)

	1997		*1998*[1]	
	('000)	*(%)*	*('000)*	*(%)*
Agriculture, forestry and fishing	1,494.5	17.0	1,414.2	16.5
Mining	38.8	0.4	38.6	0.5
Manufacturing	2,390.5	27.1	2,321.1	27.1
Construction	874.2	9.9	756.6	8.8
Electricity, gas and water	75.8	0.9	78.5	0.9
Wholesale and retail trade, hotels and restaurants	1,447.3	16.4	1,441.2	16.8
Finance, insurance, real estates, business services	405.8	4.6	415.9	4.9
Transport, storage and communications	436.2	5.0	441.9	5.2
Government services	873.2	9.9	875.0	10.2
Other services	768.8	8.7	780.3	9.1
Primary sector	**1,533.3**	**17.4**	**1,452.8**	**17.0**
Secondary sector	**3,264.7**	**37.1**	**3,077.7**	**35.9**
Tertiary sector	**4,007**	**45.5**	**4,032.8**	**47.1**
TOTAL	**8,805.1**	**100**	**8,563.3**	**100**

[1] Estimate

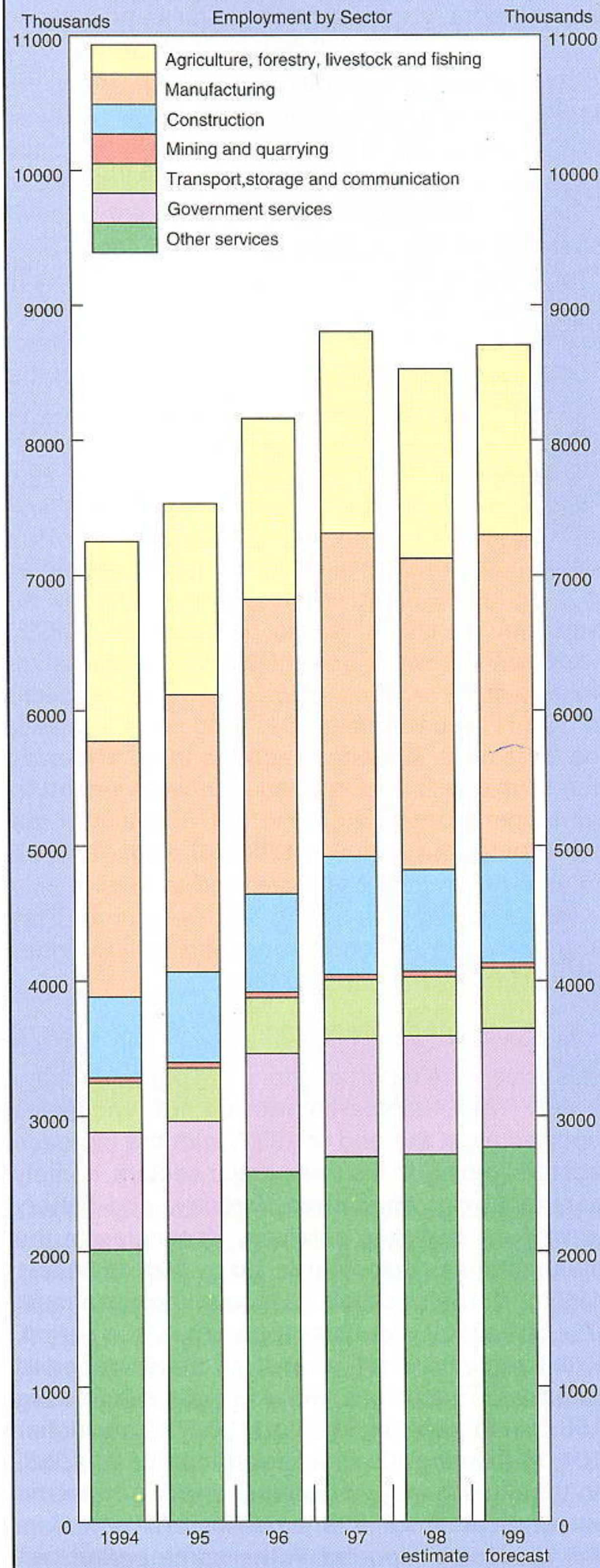
Source: Economic Planning Unit

in that sector, lowering its share to total employment to 8.8% (1997: 9.9%). Similarly, employment in the agriculture, forestry and fishing sector, which accounted for 16.5% of total employment in 1998 is expected to decline by 5.3%, following termination of employment of immigrant labour by some estates. Retrenchment also contributes to a 3% decline (1997: +8.0%) in the manufacturing sector employment. BNM Annual Survey of Companies in the manufacturing sector showed that the recruitment of foreign workers in the sector declined by 7.5% in 1997. This was due to the Government's efforts to discourage the recruitment of unskilled foreign labour by withholding approval of new entry permits for foreign workers in the construction, services and plantation sector since 10 July, 1996. In August 1997, the freeze in approval was extended to all sectors.

On sectoral basis, employment in the manufacturing sector is expected to account for the largest share or 27% of total employment, while the mining sector remains the smallest sector accounting for 0.5% of the total. On a broader classification, the tertiary sector is expected to account for 47.2% of total employment, while the primary sector accounted for the smallest share of 17%. This is attributed to the fact that new job creation in the primary sector has declined especially in the agriculture, forestry, and fishery sector. Total employment in the primary sector is expected to decline by 5% from 1.53 million jobs recorded in 1997 to 1.45 million jobs in 1998. The continuing budgetary restraint by the Government has capped employment growth in the public sector. As end of 1998, the Government is estimated to employ 875,000 workers or about 10% of total employment.

Looking at the job market, for period January-July 1998, a total of 34,514 persons, an increase of 48%, (January-July 1997: 23,321) were actively seeking employment through the Manpower Department. The increase was recorded in most states with Federal Territory, Sarawak and Selangor recorded the highest rate of 192.6%, 98.3% and 91.1% respectively. Although the number of jobseekers for production and related works has increased by 57%, its share to the total has declined to 28.2% (1997: 31.5%), reflecting higher unemployment in this sector. On the other hand, jobs in the primary sector such as forestry workers, fishermen and hunters and animal husbandary,

Chart 7.3
Employment Indicators



Source : EPU

remained less popular among the jobseekers, as only 97 workers or 0.3% registered for the job, despite 38,000 vacancies in 1998 as reported by Malaysian Agricultural Producers Association.

The largest group of active registrants with the Manpower Department are youth, age between 20-24 years. At the end of July 1998, active registrants under this category have increased to 16,456 or 48% of the total compared with a lower share of 44.8% at the end of December 1997. The large increase at end of June was actually due to graduates from tertiary institution starting to enter labour market. School leavers age between 15-19 years old accounted for almost 22% of the jobseekers in July 1998. The share of active registrant age between 25-29 years to the total increased moderately to 2.6% at the end of July 1998 compared with 1.5% in 1997. In terms of distribution by sex, jobseekers were evenly distributed between male (52%) and female (48%) in July 1998. Most of the jobseekers (53.7%) were Malaysian Certificate of Education (MCE) holders. The share of Lower Certificate of Education holders declined from 35.9% in December 1996 to 30.4% in December 1997 and by July 1998, the share was further reduced to 26%. This was due to the minimum qualification requirement in the labour market of at least MCE level. On the other hand, the share of STPM/Diploma/Degree holders to the total has increased to 19% in July 1998 compared with 17.3% last December. This is an indicator of tight competition for job under the current economic situation.

In terms of job vacancies, a total of 46,202 job vacancies were reported during the period January to July 1998, compared with 64,463 vacancies reported as at the end of 1997, with the increase recorded mostly in the three major sectors, namely manufacturing, agriculture, forestry, and fishery as well as business services. Vacancies in the manufacturing sector increased by 60% to 30,931 (1997: 19,374 vacancies) accounting for almost 67% of the total vacancies reported for the period. At the regional level, almost all states reported increases in vacancies, with the highest in Penang (158.5%) followed by Melaka (128.8%), and Johor (104.3%) during the first seven months of 1998. On the other hand, Perlis is reported to have the lowest vacancies of 229, a decline of 40.7% from 386 vacancies reported in the same period last year. In terms of sectoral distribution, wholesale, restaurant and hotel sector recorded the second largest vacancies with the Federal Territory recorded a significant increase of 28% for the first seven months in 1998 compared with 8.2% in 1997. However, vacancies for both the financial and construction sector during January to July 1998 have declined to 3.9% and 2.6% from 5.9% respectively for the same period in 1997.

To address problems relating productivity and competitiveness, the Government continues to emphasize the upgrading of skills in the workforce. In line with this, there is an increase in total enrolment in both public as well as private training institutions. The enrolment in training institutions in 1998 is expected to increase by 8% to 3,206 trainees (1997: 2,962). These institutions are expected to produce 1,992 trained workers, 33% higher than the number produced in 1997. Intake into public institutions of higher learning is expected to increase by 14% to 164,292 students of which, 21% would be enrolled in science and technical courses. More private institutions of higher learning are established in 1998 enabling 3% more students to be enrolled in 1999 over the 152,622 students enrolled in 1998. By the year 2000, a total of 74,808 students will graduate from private colleges and universities, 4% higher than 71,662 graduated in 1998. This is in addition to 37,493 students expected to graduate from public institutions of higher learning in the same year.

In line with the Government's objective to strengthen the current account position, ten private colleges have been allowed to conduct selected foreign degree courses entirely in the country, a move which will enable a student to save up to RM50,000 a year in fees and living expenses. The programme, called "3 + 0" refers to full duration of study of 3 years in Malaysia as against previous "2+1" or "1+2" twinning programmes, where students must either complete the final or last two years at a foreign partner university. This programme also enables students currently pursuing degrees under twinning programmes at selected colleges to complete their final year locally instead of going abroad. Approved courses for this programme include business study, engineering, languages, sciences and information technology. Some of the courses under this programme have received accreditation from reputable authorities such as the Quality Assurance Agency, a British agency which rates and accredits universities in the United Kingdom.

Table 7.5

Malaysia: Comparison of Active Registrants and New Vacancies By States

	Active Registrants			New Vacancies		
	July 1997	July[1] 1998	Change (%)	Jan-July 1997	Jan-July[1] 1998	Change (%)
Perlis	848	608	–28.3	386	229	–40.7
Kedah	2,055	2,944	43.3	2,469	2,255	–8.7
Pulau Pinang	764	1,313	71.9	5,380	13,907	158.5
Perak	2,010	2,222	10.5	3,542	2,626	–25.9
Selangor	1,317	2,517	91.1	4,430	4,886	10.3
Negeri Sembilan	1,333	1,657	24.3	1,544	1,142	–26.0
Melaka	465	675	45.2	208	476	128.8
Johor	1,583	2,338	47.7	3,480	7,108	104.3
Pahang	2,141	2,030	–5.2	2,686	2,214	–17.6
Terengganu	1,981	3,547	79.1	1,670	2,218	32.8
Kelantan	1,691	1,665	–1.5	1,591	1,362	–14.4
Wilayah Persekutuan	2,086	6,104	192.6	1,926	1,582	–17.9
Sabah	3,616	4,056	12.2	2,947	2,569	–12.8
Sarawak	1,431	2,838	98.3	5,671	3,628	–36.0
Total	23,321	34,514	48.0	37,930	46,202	21.8

Source: Manpower Department, Ministry of Human Resources

Note: [1] Cumulative figures as at end of July 1998

The Human Resourse Development Fund (HRDF) which was established on January 1, 1993 to encourage private sector participation in training for their employees, has registered a total of 5,883 participating employers, and collected a total levy of RM494 million as at the end of 1997. Contribution to the Fund, however, was frozen earlier this year as many companies were affected by the economic downturn. Before the freeze, the Human Resources Development Council (HRDC), which administers the HRDF, was collecting about RM10 million a month, being the contribution of 1% of the monthly wage bills of the companies registered with the council. As an incentive, the Government provides a matching grant of RM2 for each RM1 contributed. Under the Human Resources Development Act 1992, registered employers who do not contribute to the Fund could face a fine of RM10,000 or two years imprisonment or both. However, companies in industries which do not contribute to improved Industrial Production Index will continue to be exempted from contributing to the Fund. To enhance the effectiveness of the Fund and encourage employers to intensify training of their workers especially in the current economic situation, the HRDF on July 16, 1998 has agreed to allow 100% reimbursement for registered employers who train their workers locally. Previously, the employers can only apply for reimbursement of between 75% and 80% of training expenses from the Fund. In addition, the Government has set aside RM40 million to help companies finance their staff training. Companies which have used up all their contribution to the HRDF are eligible to tap this interest free facility. A total of 482 companies are eligible to do so.

In the face of a slowdown in domestic economic activity in 1998, the domestic labour market has weakened. Statistics released by Ministry of Human Resources (MHR) shows that a total of 59,970 workers were retrenched from January to 5 September 1998. Almost 88.1% or 52,834 of retrenched workers were locals with Penang recorded the largest number (22.2% or 13,314 workers) followed by Selangor (21% or 12,594 workers) and the Federal Territory (12.9% or 7,736 workers). In terms of sectoral distribution, more than 50% or 32,312 of retrenched workers were from the manufacturing sector, 6,896 or 11.5% from the wholesale trading, restaurant and hotel, 6,777 workers or 11.3% from construction sector, 8.1% or 4,857 workers from the financial services, insurance, property and businesses sector and 5.5% or 3,298 workers from the agricultural, forestry, husbandry and fishery sector. A total of 2,859 employers were involved in the retrenchment exercise.

To address the problem of retrenchment, the Government implemented a number of measures such as mandatory requirement for employers to inform the Director General of Manpower Department one month ahead of any retrenchment exercise. In addition, the MHR provides employment services to retrenched workers by setting up task forces at federal, state and district levels. The functions of these task forces, among others, include the setting up of electronic labour exchanges at the state and district levels, improving the mobility of labour through publication of vacancies and having regular dialogues/working groups with employers and employee organizations as well as industry associations to monitor retrenchment and vacancies. For laid-off cases, mechanism to ensure the payment of benefits is also being set up. The minimum are as per provisions under the Employment Act 1955, i.e. for less than 2 years services, the benefit is equivalent to wages for 10 working days per year, for 2 to 5 years services, 15 days per year and for more than 5 years services, 20 days per year.

Acknowledging that cost-cutting is a necessary measure in response to economic slowdown, Government, however, has urged employers to be considerate towards their workers. The employers are also urged to use other alternatives such as training or retraining, pay-cuts or reduce working hours and only resort to retrenchment as a last option. Employers who planned to implement the pay-cuts and temporary lay-offs are required to notify the Manpower Department at least one month in advance. Those who failed to comply can be fined up to RM10,000 for each offence under the newly amended Employment Act 1955[1] which comes into effect in 1 August 1998. The same penalty is also applicable to employers who failed to give one-month notice on their retrenchment exercise. Meanwhile, on May 1, 1998, the HRDF launched RM5 million Retraining of Retrenched Workers Scheme. Training fees for qualified workers under the scheme would be fully sponsored by the HRDC. The Council has also designed special skilled apprenticeship programmes particularly for school-leavers. School-leavers and those retrenched can apply for the 18 months apprenticeship programme. With an allocation of RM15 million, HRDC will sponsor the training fees while firms concerned will pay for other expenses such as lodging. So far, two apprenticeship schemes have been set up namely, the Hotel Industry Apprenticeship Scheme which prepares employees for the service industry and the Mechatronics Apprenticeship Scheme which provides training in electronic, electrical, mechanical and other similar fields. The schemes involve attachment with sponsor companies for on-the-job training. As of June 1998, a total of 74 workers are under going training at the Penang Skills Development Centre for the Mechatronics Apprenticeship Programme. Meanwhile, the Entrepreneur Development Ministry has allocated RM10 million for the setting up of a Graduate Entrepreneur Scheme. The objective of the scheme is to train graduates to become entrepreneurs and hence reduce unemployment among them.

[1] This Act covers manual workers regardless of salary level and non-manual workers with monthly salaries not more than RM1,500.

7 Prices, Employment and Wages

The rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) showed a significant rising trend since early 1998, following the ringgit depreciation since mid-1997. Before the onset of the financial crisis, the CPI has been on a downward trend since 1996. However, since the crisis, the CPI witnessed some upward movements. Thus, since January 1998, the increase in CPI was higher at 3.4% compared with a moderate increase of 2.7% in 1997, the lowest rate of inflation since 1990. During the first quarter of 1998, the impact of the ringgit depreciation became more apparent, with the CPI rising at an average rate of 4% compared with 3% during the corresponding period in 1997.

The currency depreciation has also affected the Producer Price Index (PPI, 1989=100). The PPI for the fourth quarter of 1997 increased by 7.2% compared with 1% for the third and -0.5% for the second quarter of 1997. For the first eight months in 1998, the PPI increased sharply at 13.5% compared with only 0.9% during the same period in 1997. While the increase in PPI for local production was higher at 14.1%, the PPI for import was lower at 11.0% for the same period of 1998. Overall, it is estimated that PPI will increase at around 13% for 1998, almost five times higher compared with 2.7% recorded in 1997.

The increase in the CPI is reflected in all income groups and across all regions. By income group, the average CPI for January to August 1998 increased at a rate of 6.0% for the income group of RM1,000 and below and 5.7% for the income group of RM1,500 and below. On the regional front, the CPI for Kuala Lumpur increased by 5.9% for the period of January to August 1998, for Kota Kinabalu 4.2% and Kuching 6.2%.

Reflecting the slowdown in economic activity, employment situation deteriorated in 1998. With the repatriation of foreign labour, total labour force is expected to decline by 0.4% to 9.01 million at the end of 1998 (1997: 2.8%). However, the unemployment rate is expected to increase from 2.6% in 1997 to 4.9% at the end of 1998. Total employment is expected to decline by 2.7% during the year, compared with an increase of 4.6% in 1997. The construction industry, accounting for 8.8% of total employment and which was significantly affected by the economic crisis, is expected to experience the largest decline (13.4%) in employment in 1998 (1997: +9%). As at 5 September 1998, a total of 59,970 workers were retrenched, of which 54.5% was in the manufacturing sector. Given the tight labour market situation in the plantation sector as well as in some sub-sectors of the manufacturing sector, these sectors were able to absorb most of the retrenched workers. In addition, measures undertaken particularly by the Ministry of Human Resources such as training, contributed to the greater mobility of workers especially through skill enhancement. Pressures on wages lessened to some extent, with wage increases in negotiated agreements averaging 10% during the first seven months of 1998 compared with 13.1% in 1997. In the manufacturing sector, where 53% of the wage agreements were concluded, the average wage grew at a slower rate of 8.4% as against 15% in 1997.

Prices

For the first nine months of 1998, the CPI increased by 5.2%, two fold over the 2.6% increase during the same period in 1997. Given the severe impact of ringgit depreciation, the increase in the CPI could have been higher, if not for the favourable effects of lower inflation from abroad and the

tight monetary and fiscal measures undertaken. Tight monetary policy, particularly the credit squeeze, helped to dampen excessive growth in domestic demand. At the same time, fiscal prudence in the Government's budgetary operations also contributed towards easing demand pressures. Administrative measures, on the other hand, focused primarily on efforts to increase food supply.

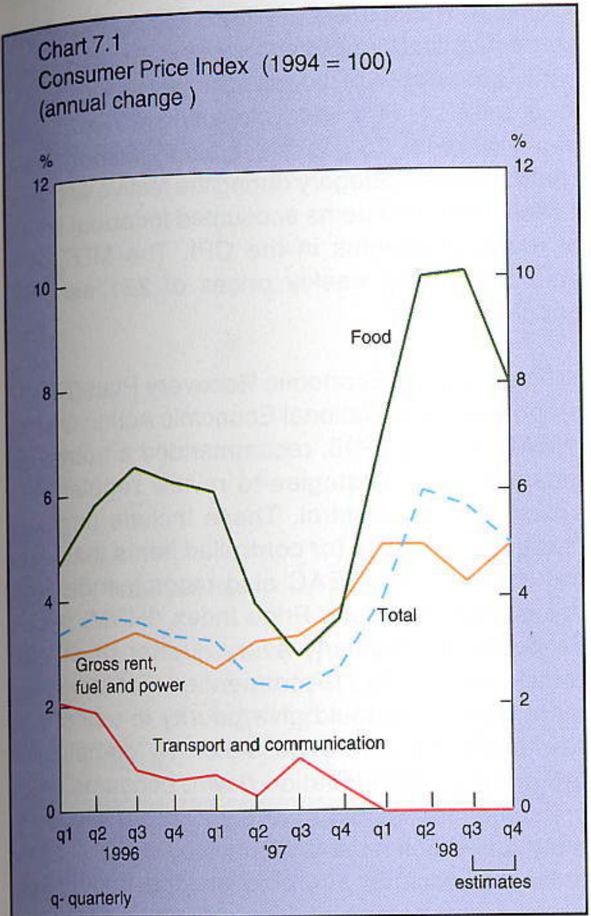
Strategies such as increasing food production and using more local products, producing items locally and cheaper alternative sourcing were being implemented through 15 short, medium and long-term programmes. These include upgrading and increasing the number of farmer's market, cold rooms and improving marketing and distribution system. The Government also continues to liberalise import of food, especially beef, chicken and vegetable. As an additional measure, import duties and sales tax were abolished or reduced on items such as canned anchovies, paper products and all types of printed paper for the purpose of reducing publishing costs, particularly on items used in schools.

On October 7 1997, the Retail Recommended Price (RRP) was launched. RRP is a retail price proposed by manufacturers. The manufacturers can change the price accordingly if the cost of production increased but they have to inform the Ministry of Domestic Trade and Consumer Affairs (MDTCA). This is to ensure the effective monitoring of price movements. Apart from ensuring that consumers are more informed of price changes, RRP also aims at curbing profiteering and unethical business practises. Existing price monitoring on 75 essential items for the low-income groups was continued.

With respect to the food sector, private investment in the sector has been declining from 6.9% in 1990 to 3.2% in 1997. Weather conditions, pests, diseases and perishable nature of crops are some of the risks that are inherent in food production. Limited availability of land and labour constraint further inhibit the growth of the food sector. The Government, therefore, continues to emphasise on addressing supply constraints of food. Recognising that financing is one of the major issues constraining the sector, the allocation of Fund for Food (3F) has been increased twice in 1997, to total RM1 billion from the original RM600 million. Of this, RM300 million is allocated for small farmers under the Pertubuhan Peladang Kawasan. As at 31 August 1998, a total of RM382 million was disbursed to 1,318 applicants, where more than half was channelled to finance animal husbandry projects. To attract more participants, in March 1998 the Government widened the scope of activities under the Fund to include the production of rice, ostrich, rabbit, quail and deer farming.

Local importers have been urged to import food from cheaper sources and at the same time Malaysians are encouraged to grow their own vegetables. With these measures, food imports have been reduced by 33% from US$2.46 billion during the first half of 1997 to US$1.65 billion during the same period this year. There was a significant drop in the volume of imported tropical fruits which declined by 96%, followed by fresh fish (33.7%), meat (18.2%), soya bean (18.4%), sugar (12.4%) and livestock (10%). The nationwide campaign to encourage Malaysians to plant their own vegetables, saw an oversupply of vegetables in July and August this year, which has resulted in the reduction of prices of vegetables by 50% to 60% during the period.

The overall increase in food prices remained the major contributor to the increase in the CPI during the first nine months of 1998. The food index (which accounted for about one-third of the total CPI basket) increased sharply by 8.9%, compared with 4.3% during the corresponding period last year. This was due largely to the higher increase recorded in both the sub-indices for food consumed at home and food away from home. The former increased significantly by 9.2% (3.6% in January-September 1997), while the latter by 8.1% (5.9% in January – September 1997). In terms of the prices of individual food items, the sub-indices for fruits and vegetables as well as sugar increased by 15.1% and 18.7%, respectively, a significantly higher increase compared with 1.5% and 0.3% during the same period in 1997. Of the non-food items, the components for miscellaneous goods and services, medical care and health expenses as well as gross rent, fuel and power, recorded higher growth of 7.3%, 6.0% and 4.5% respectively, compared with 4% 3.6 and 3.1% respectively in 1997.



In early 1998, prices of a few controlled items such as flour, sugar, condensed milk and chicken increased. The price of sugar increased by 21% to RM1.45 per kg from RM1.20 per kg commencing February 1998. To meet increasing demand of estimated 95,000 tonnes per month during festivals, sugar production was increased to a maximum of 102,000 tonnes, well above the average monthly requirement of 80,000 tonnes. Prices of chicken also increased by 10% from RM4.90 per kg. on February 12, 1998 to RM5.40 per kg. in March 1998. While prices have since eased, prices of chicken remain high compared with RM4.00 per kg. level recorded in July 1997. The increase was mainly due to higher cost of production resulting from the ringgit depreciation, as more than 80% of chicken feed is imported. Efforts are being made to produce chicken feed locally. A formula for chicken feed using local sources such as rice bran, fishmeal, cassava, palm kernel cake, molasses, palm oil, broken rice, grass meal, limestone, copra cake and sago are being studied.

Table 7.1

Malaysia: Consumer Price Index (1994 = 100)

			Annual change (%) (January-September)	
	Weights	*1997*	*1997*	*1998*
Total	**100.0**	**2.7**	**2.6**	**5.2**
Food	34.9	4.1	4.3	8.9
Beverages and tobacco	3.6	1.3	1.1	2.8
Clothing and foot wear	3.6	–0.5	–0.6	0.7
Gross rent, fuel and power	21.1	3.2	3.1	4.5
Furniture, furnishings and household equipment and operation	5.6	0.1	0.0	3.7
Medical care and health expenses	1.9	3.6	3.6	6.0
Transport and communications	17.9	0.6	0.6	0.0
Recreation, entertainment, education and cultural services	5.8	0.4	0.3	2.9
Miscellaneous goods and services	5.6	4.6	4.0	7.3
Peninsular Malaysia	**100**	**2.8**	**2.8**	**5.4**
Sabah	**100**	**2.0**	**2.1**	**4.1**
Sarawak	**100**	**1.7**	**1.4**	**4.3**

Source: Department of Statistics

Table 7.2

Malaysia: Consumer Price Index For Food (1994 = 100)

		Annual change (%) (January-September)		
	Weights	*1997*	*1997*	*1998*
Total Food	**34.9**	**4.1**	**4.3**	**8.9**
Food at home	25.1	3.7	3.6	9.2
Rice, bread and other cereals	5.5	3.6	4.5	5.9
Meat	3.8	3.4	3.7	8.7
Fish	4.9	7.2	7.0	9.3
Milk and eggs	2.3	1.6	2.4	4.4
Oils and fats	0.7	–0.7	–1.9	5.6
Fruits and vegetables	5.4	2.6	1.5	15.1
Sugar	0.6	0.3	0.3	18.7
Coffee and tea	0.8	0.8	0.7	9.3
Other food	1.1	0.7	1.1	3.7
Food away from home	9.8	5.3	5.9	8.1

Source: Department of Statistics

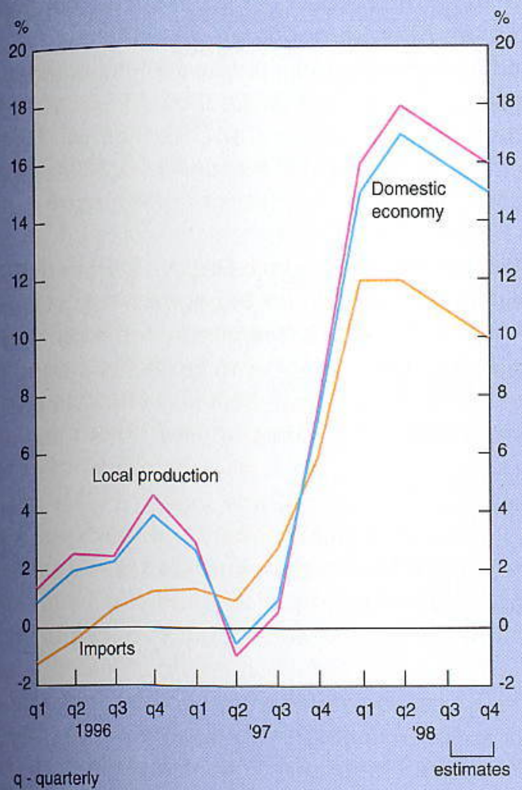
Other essential items showing a price increase are flour and full cream condensed milk. In July 1998, the price of flour increased by 33% to RM1.60 per kg. from RM1.20 per kg. while the price for full cream condensed milk increased to RM1.75 per tin of 397 gram from RM1.65 per tin. Similarly, in May 1998, prices of domestic and imported rice increased by 21% and 52% respectively, due to declining production caused by the El-Nino weather phenomenon. Imports of rice increased by 13.5% to 209,000 tonnes between January and June this year to overcome the supply shortage.

Stricter enforcement and price checks by relevant authorities were undertaken to ensure regular and sufficient supply of goods. Currently, in addition to a total of 21 goods classified as controlled items, another 25 goods are also included in the controlled item category during the festive seasons. These controlled items accounted for about 10.5% of the total weights in the CPI. The MDTCA is also monitoring weekly prices of 231 essential goods.

The National Economic Recovery Plan (NERP) proposed by the National Economic Action Council (NEAC) in July 1998, recommended a number of measures and strategies to review regularly the policy on price control. These include imposing taxes at exit points for controlled items that leave the country. The NEAC also recommended that the Malaysian House Price Index (IHRM) should be published regularly every quarter or at least twice a year. It also recommended that Malaysian manufacturers should give priority in using local raw materials where possible. To complement the effort to keep inflation down, consumers and consumer associations were encouraged to report unethical practices and abuses by traders. Other measures include sourcing of food import from a cheaper countries such as ASEAN, establishing a one-stop information center for the public on agriculture, including information on extension services and technical support, increasing market outlets for perishable goods, including permanent sites for 'pasar tani' and persuading hyper markets and supermarkets to allow small and medium scale food producers to display and market their products at preferential rates. Countries such as Myanmar, Vietnam, Thailand and Indonesia were identified as alternative sources for supply of rice, fish, goat, cow, corn and red union.

The CPI for Sabah increased by 4.1% for the period of January to September 1998, contributed largely by increases in food prices, increasing by 8.7%. The components which registered higher price increases were medical care and health expenses (5.7%) and miscellaneous goods and services (4.1%). On the other hand, prices of transport and communication declined by 0.3%. The increase in CPI for Sarawak during the period was also higher at 4.3% (January-September 1997: 1.4%) due to the increase in prices for food (7.7%), miscellaneous goods and services (7.7%), medical

Chart 7.2
Producer Price Index (1989 = 100)
(annual change)



care and health expenses (4.3%) and furniture, furnishings, and household equipment and operation (4.0%).

At the producers level, PPI increased sharply by 13.5% during the first eight months of 1998 (January to August 1997: 0.9%). The large increase was mainly due to an unprecedented increase of 77.4% in prices of animal and vegetable oils and fats, compared with 4.5% for January to August 1997. Other large increases were food and live animals chiefly for food, 9.8% (1997: 1.6%) and machinery and transport equipment, 7.8% (1997: 2.0%).

On disaggregated basis, the increase in PPI for local production was larger at 14.1% for the same period in 1998 (January-August 1997: 0.8%) mainly due to the 78.3% increase in index for animal and vegetable oils and fats, 23.2% for machinery, and transport equipment and 17.9% for miscellaneous manufactured articles. The PPI for imports also showed a significant increase of 11% (January-August 1997: 1.5%), attributed mainly to the 16.4% increase in the cost of food and live animals chiefly for food and 16.8% increase in the prices of machinery and transport equipment (Refer Table 7.3).

Table 7.3

Malaysia: Producer Price Index (1989 = 100)

			Annual change (%) (January-August)	
	Weights	*1997*	*1997*	*1998*
Domestic economy	**100.0**	**2.7**	**0.9**	**13.5**
Food and live animals chiefly for food	14.9	2.3	1.6	9.8
Beverages and tobacco	2.1	0.1	0.0	0.1
Crude materials, inedible except fuels	18.0	–4.9	–6.1	3.5
Mineral fuels, lubricants	18.8	7.0	6.8	2.7
Animals and vegetable oils and fats	8.5	12.9	4.5	77.4
Chemicals and chemical products	4.4	1.2	0.2	5.8
Manufactured goods classified chiefly by material	10.8	0.1	–0.8	6.0
Machinery and transport equipment	18.3	3.4	2.0	7.8
Miscellaneous manufactured articles	3.6	–1.2	–1.7	5.1
Commodities and transactions not classified else-where	0.6	–0.5	–0.6	2.2
Local production	**79.3**	**2.5**	**0.8**	**14.1**
Import	**20.7**	**2.8**	**1.5**	**11.0**

Source: Department of Statistics

With regard to price administration, four applications were received by the Price Review Committee of the MDTCA in 1997 to increase the price of flour, sugar, condensed milk and cooking oil. The number was lower in 1998 where until August, only two applications were received, particularly proposals to increase the price of bread and condensed milk. With the ringgit depreciation, the Enforcement Unit of the MDTCA is monitoring the situation closely to prevent traders and producers from taking advantage of the situation. Until June 1998, MDTCA has conducted a total of 255,202 inspections and took action on 2,770 traders.

The Government has launched a year-long special 'Buy Malaysian Products' campaign. Consequently, a number of traders has reduced the prices of imported goods in a bid to stay competitive with locally-made products. The campaign has also succeeded in creating awareness among Malaysians to buy local products as part of the efforts to help the nation recover from the economic problems. A joint technical committee between MDTCA, Ministry of International Trade and Industry and the Agriculture Ministry was set up to study strategies to promote local products. A list has been prepared to identify items which are imported and commonly used by consumers. Based on the list, the Committee will then source for a similar range of local products as alternatives for consumers.

Employment

Reflecting the slowdown in domestic economic activities, employment situation deteriorated in 1998. Latest estimates indicated that total employment would decline by 2.7% to about 8.56 million persons at the end of 1998, from 8.81 million persons in 1997. Due to repatriation of foreign labour since early 1998, the labour force is expected to decline by 0.4% to 9.01 million at the end of the year. Unemployment rate, on the other hand, is expected to increase significantly from 2.6% in 1997 to 4.9% of labour force or 443,200 workers in 1998. The number of registered job-seekers rose to 34,514 persons at the end of July 1998 from 23,760 persons at the beginning of the year, reflecting easier labour market conditions compared with the previous year.

The decline in the total employment during the year is due to slower activities in almost all sectors except in selected manufacturing sub-sectors and plantation sector. The economic turmoil has also led to companies rationalising costs through downsizing. Sluggish construction activity in 1998 contributes to a decline of 13% in employment

Table 7.4

Malaysia: Employment by Sector (1997-1998)

	1997		*1998*[1]	
	('000)	*(%)*	*('000)*	*(%)*
Agriculture, forestry and fishing	1,494.5	17.0	1,414.2	16.5
Mining	38.8	0.4	38.6	0.5
Manufacturing	2,390.5	27.1	2,321.1	27.1
Construction	874.2	9.9	756.6	8.8
Electricity, gas and water	75.8	0.9	78.5	0.9
Wholesale and retail trade, hotels and restaurants	1,447.3	16.4	1,441.2	16.8
Finance, insurance, real estates, business services	405.8	4.6	415.9	4.9
Transport, storage and communications	436.2	5.0	441.9	5.2
Government services	873.2	9.9	875.0	10.2
Other services	768.8	8.7	780.3	9.1
Primary sector	**1,533.3**	**17.4**	**1,452.8**	**17.0**
Secondary sector	**3,264.7**	**37.1**	**3,077.7**	**35.9**
Tertiary sector	**4,007**	**45.5**	**4,032.8**	**47.1**
TOTAL	**8,805.1**	**100**	**8,563.3**	**100**

[1] Estimate

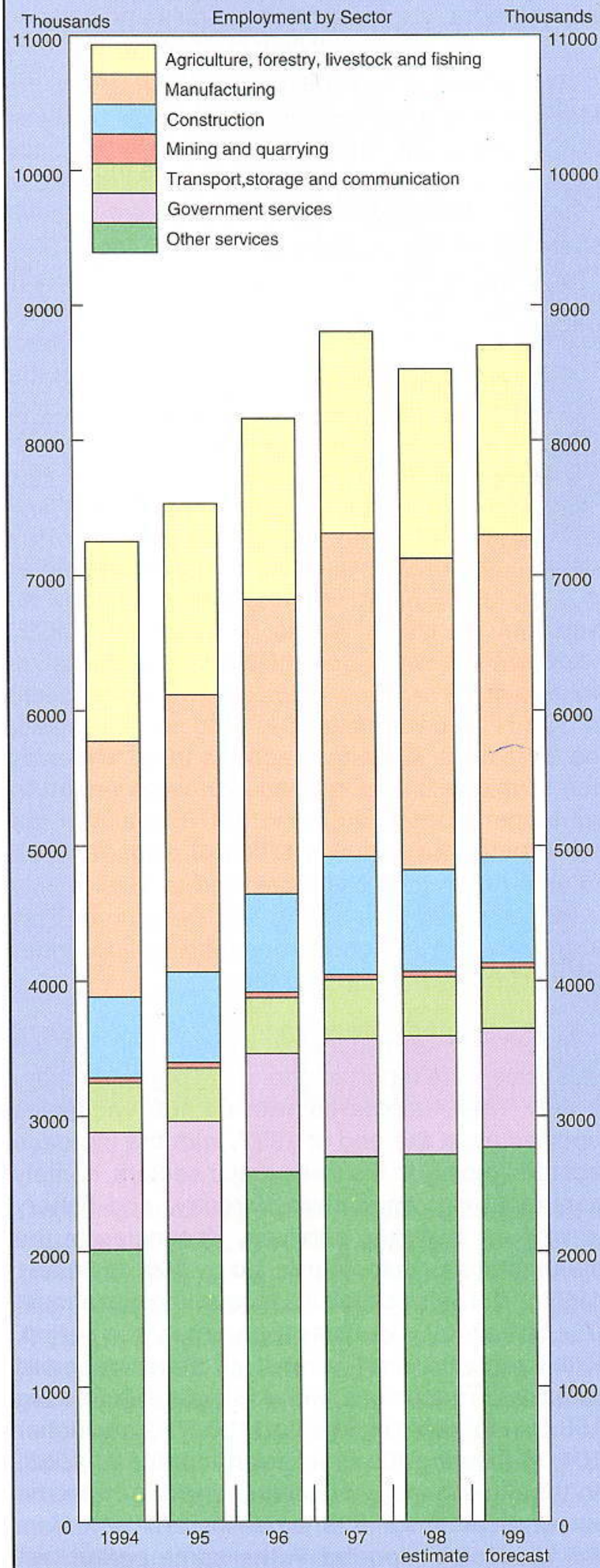
Source: Economic Planning Unit

in that sector, lowering its share to total employment to 8.8% (1997: 9.9%). Similarly, employment in the agriculture, forestry and fishing sector, which accounted for 16.5% of total employment in 1998 is expected to decline by 5.3%, following termination of employment of immigrant labour by some estates. Retrenchment also contributes to a 3% decline (1997: +8.0%) in the manufacturing sector employment. BNM Annual Survey of Companies in the manufacturing sector showed that the recruitment of foreign workers in the sector declined by 7.5% in 1997. This was due to the Government's efforts to discourage the recruitment of unskilled foreign labour by withholding approval of new entry permits for foreign workers in the construction, services and plantation sector since 10 July, 1996. In August 1997, the freeze in approval was extended to all sectors.

On sectoral basis, employment in the manufacturing sector is expected to account for the largest share or 27% of total employment, while the mining sector remains the smallest sector accounting for 0.5% of the total. On a broader classification, the tertiary sector is expected to account for 47.2% of total employment, while the primary sector accounted for the smallest share of 17%. This is attributed to the fact that new job creation in the primary sector has declined especially in the agriculture, forestry, and fishery sector. Total employment in the primary sector is expected to decline by 5% from 1.53 million jobs recorded in 1997 to 1.45 million jobs in 1998. The continuing budgetary restraint by the Government has capped employment growth in the public sector. As end of 1998, the Government is estimated to employ 875,000 workers or about 10% of total employment.

Looking at the job market, for period January-July 1998, a total of 34,514 persons, an increase of 48%, (January-July 1997: 23,321) were actively seeking employment through the Manpower Department. The increase was recorded in most states with Federal Territory, Sarawak and Selangor recorded the highest rate of 192.6%, 98.3% and 91.1% respectively. Although the number of jobseekers for production and related works has increased by 57%, its share to the total has declined to 28.2% (1997: 31.5%), reflecting higher unemployment in this sector. On the other hand, jobs in the primary sector such as forestry workers, fishermen and hunters and animal husbandary,

Chart 7.3
Employment Indicators



Source : EPU

7 Prices, Employment and Wages

The rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) showed a significant rising trend since early 1998, following the ringgit depreciation since mid-1997. Before the onset of the financial crisis, the CPI has been on a downward trend since 1996. However, since the crisis, the CPI witnessed some upward movements. Thus, since January 1998, the increase in CPI was higher at 3.4% compared with a moderate increase of 2.7% in 1997, the lowest rate of inflation since 1990. During the first quarter of 1998, the impact of the ringgit depreciation became more apparent, with the CPI rising at an average rate of 4% compared with 3% during the corresponding period in 1997.

The currency depreciation has also affected the Producer Price Index (PPI, 1989=100). The PPI for the fourth quarter of 1997 increased by 7.2% compared with 1% for the third and -0.5% for the second quarter of 1997. For the first eight months in 1998, the PPI increased sharply at 13.5% compared with only 0.9% during the same period in 1997. While the increase in PPI for local production was higher at 14.1%, the PPI for import was lower at 11.0% for the same period of 1998. Overall, it is estimated that PPI will increase at around 13% for 1998, almost five times higher compared with 2.7% recorded in 1997.

The increase in the CPI is reflected in all income groups and across all regions. By income group, the average CPI for January to August 1998 increased at a rate of 6.0% for the income group of RM1,000 and below and 5.7% for the income group of RM1,500 and below. On the regional front, the CPI for Kuala Lumpur increased by 5.9% for the period of January to August 1998, for Kota Kinabalu 4.2% and Kuching 6.2%.

Reflecting the slowdown in economic activity, employment situation deteriorated in 1998. With the repatriation of foreign labour, total labour force is expected to decline by 0.4% to 9.01 million at the end of 1998 (1997: 2.8%). However, the unemployment rate is expected to increase from 2.6% in 1997 to 4.9% at the end of 1998. Total employment is expected to decline by 2.7% during the year, compared with an increase of 4.6% in 1997. The construction industry, accounting for 8.8% of total employment and which was significantly affected by the economic crisis, is expected to experience the largest decline (13.4%) in employment in 1998 (1997: +9%). As at 5 September 1998, a total of 59,970 workers were retrenched, of which 54.5% was in the manufacturing sector. Given the tight labour market situation in the plantation sector as well as in some sub-sectors of the manufacturing sector, these sectors were able to absorb most of the retrenched workers. In addition, measures undertaken particularly by the Ministry of Human Resources such as training, contributed to the greater mobility of workers especially through skill enhancement. Pressures on wages lessened to some extent, with wage increases in negotiated agreements averaging 10% during the first seven months of 1998 compared with 13.1% in 1997. In the manufacturing sector, where 53% of the wage agreements were concluded, the average wage grew at a slower rate of 8.4% as against 15% in 1997.

Prices

For the first nine months of 1998, the CPI increased by 5.2%, two fold over the 2.6% increase during the same period in 1997. Given the severe impact of ringgit depreciation, the increase in the CPI could have been higher, if not for the favourable effects of lower inflation from abroad and the

tight monetary and fiscal measures undertaken. Tight monetary policy, particularly the credit squeeze, helped to dampen excessive growth in domestic demand. At the same time, fiscal prudence in the Government's budgetary operations also contributed towards easing demand pressures. Administrative measures, on the other hand, focused primarily on efforts to increase food supply.

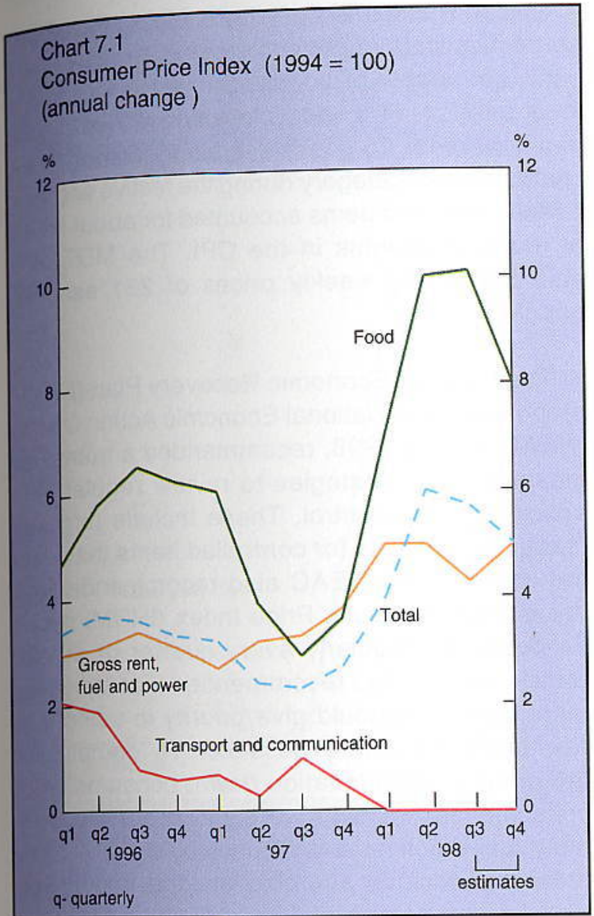
Strategies such as increasing food production and using more local products, producing items locally and cheaper alternative sourcing were being implemented through 15 short, medium and long-term programmes. These include upgrading and increasing the number of farmer's market, cold rooms and improving marketing and distribution system. The Government also continues to liberalise import of food, especially beef, chicken and vegetable. As an additional measure, import duties and sales tax were abolished or reduced on items such as canned anchovies, paper products and all types of printed paper for the purpose of reducing publishing costs, particularly on items used in schools.

On October 7 1997, the Retail Recommended Price (RRP) was launched. RRP is a retail price proposed by manufacturers. The manufacturers can change the price accordingly if the cost of production increased but they have to inform the Ministry of Domestic Trade and Consumer Affairs (MDTCA). This is to ensure the effective monitoring of price movements. Apart from ensuring that consumers are more informed of price changes, RRP also aims at curbing profiteering and unethical business practises. Existing price monitoring on 75 essential items for the low-income groups was continued.

With respect to the food sector, private investment in the sector has been declining from 6.9% in 1990 to 3.2% in 1997. Weather conditions, pests, diseases and perishable nature of crops are some of the risks that are inherent in food production. Limited availability of land and labour constraint further inhibit the growth of the food sector. The Government, therefore, continues to emphasise on addressing supply constraints of food. Recognising that financing is one of the major issues constraining the sector, the allocation of Fund for Food (3F) has been increased twice in 1997, to total RM1 billion from the original RM600 million. Of this, RM300 million is allocated for small farmers under the Pertubuhan Peladang Kawasan. As at 31 August 1998, a total of RM382 million was disbursed to 1,318 applicants, where more than half was channelled to finance animal husbandry projects. To attract more participants, in March 1998 the Government widened the scope of activities under the Fund to include the production of rice, ostrich, rabbit, quail and deer farming.

Local importers have been urged to import food from cheaper sources and at the same time Malaysians are encouraged to grow their own vegetables. With these measures, food imports have been reduced by 33% from US$2.46 billion during the first half of 1997 to US$1.65 billion during the same period this year. There was a significant drop in the volume of imported tropical fruits which declined by 96%, followed by fresh fish (33.7%), meat (18.2%), soya bean (18.4%), sugar (12.4%) and livestock (10%). The nationwide campaign to encourage Malaysians to plant their own vegetables, saw an oversupply of vegetables in July and August this year, which has resulted in the reduction of prices of vegetables by 50% to 60% during the period.

The overall increase in food prices remained the major contributor to the increase in the CPI during the first nine months of 1998. The food index (which accounted for about one-third of the total CPI basket) increased sharply by 8.9%, compared with 4.3% during the corresponding period last year. This was due largely to the higher increase recorded in both the sub-indices for food consumed at home and food away from home. The former increased significantly by 9.2% (3.6% in January-September 1997), while the latter by 8.1% (5.9% in January – September 1997). In terms of the prices of individual food items, the sub-indices for fruits and vegetables as well as sugar increased by 15.1% and 18.7%, respectively, a significantly higher increase compared with 1.5% and 0.3% during the same period in 1997. Of the non-food items, the components for miscellaneous goods and services, medical care and health expenses as well as gross rent, fuel and power, recorded higher growth of 7.3%, 6.0% and 4.5% respectively, compared with 4% 3.6 and 3.1% respectively in 1997.



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Total	**100.0**	**2.7**	**2.6**	**5.2**
Food	34.9	4.1	4.3	8.9
Beverages and tobacco	3.6	1.3	1.1	2.8
Clothing and foot wear	3.6	–0.5	–0.6	0.7
Gross rent, fuel and power	21.1	3.2	3.1	4.5
Furniture, furnishings and household equipment and operation	5.6	0.1	0.0	3.7
Medical care and health expenses	1.9	3.6	3.6	6.0
Transport and communications	17.9	0.6	0.6	0.0
Recreation, entertainment, education and cultural services	5.8	0.4	0.3	2.9
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Peninsular Malaysia	**100**	**2.8**	**2.8**	**5.4**
Sabah	**100**	**2.0**	**2.1**	**4.1**
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Source: Department of Statistics

Table 7.2

Malaysia: Consumer Price Index For Food (1994 = 100)

		Annual change (%) (January-September)		
	Weights	*1997*	*1997*	*1998*
Total Food	**34.9**	**4.1**	**4.3**	**8.9**
Food at home	25.1	3.7	3.6	9.2
Rice, bread and other cereals	5.5	3.6	4.5	5.9
Meat	3.8	3.4	3.7	8.7
Fish	4.9	7.2	7.0	9.3
Milk and eggs	2.3	1.6	2.4	4.4
Oils and fats	0.7	−0.7	−1.9	5.6
Fruits and vegetables	5.4	2.6	1.5	15.1
Sugar	0.6	0.3	0.3	18.7
Coffee and tea	0.8	0.8	0.7	9.3
Other food	1.1	0.7	1.1	3.7
Food away from home	9.8	5.3	5.9	8.1

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Other essential items showing a price increase are flour and full cream condensed milk. In July 1998, the price of flour increased by 33% to RM1.60 per kg. from RM1.20 per kg. while the price for full cream condensed milk increased to RM1.75 per tin of 397 gram from RM1.65 per tin. Similarly, in May 1998, prices of domestic and imported rice increased by 21% and 52% respectively, due to declining production caused by the El-Nino weather phenomenon. Imports of rice increased by 13.5% to 209,000 tonnes between January and June this year to overcome the supply shortage.

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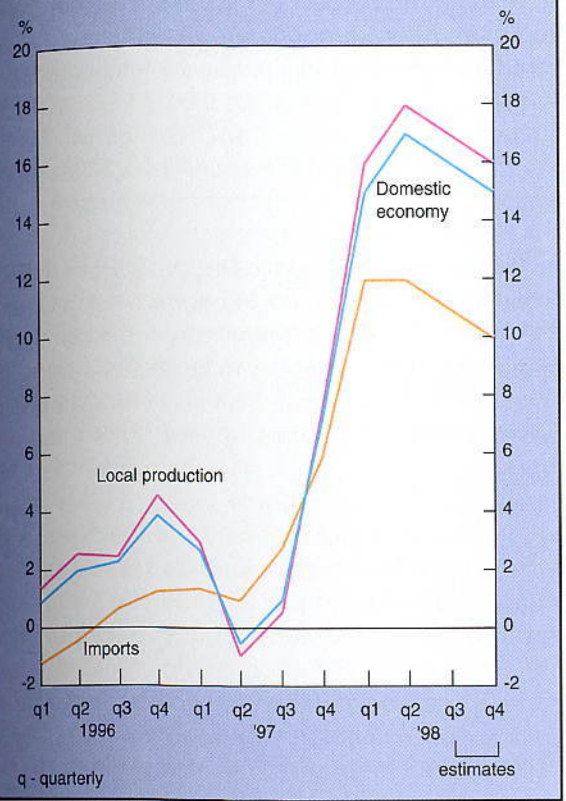
Chart 7.2
Producer Price Index (1989 = 100)
(annual change)



care and health expenses (4.3%) and furniture, furnishings, and household equipment and operation (4.0%).

At the producers level, PPI increased sharply by 13.5% during the first eight months of 1998 (January to August 1997: 0.9%). The large increase was mainly due to an unprecedented increase of 77.4% in prices of animal and vegetable oils and fats, compared with 4.5% for January to August 1997. Other large increases were food and live animals chiefly for food, 9.8% (1997: 1.6%) and machinery and transport equipment, 7.8% (1997: 2.0%).

On disaggregated basis, the increase in PPI for local production was larger at 14.1% for the same period in 1998 (January-August 1997: 0.8%) mainly due to the 78.3% increase in index for animal and vegetable oils and fats, 23.2% for machinery, and transport equipment and 17.9% for miscellaneous manufactured articles. The PPI for imports also showed a significant increase of 11% (January-August 1997: 1.5%), attributed mainly to the 16.4% increase in the cost of food and live animals chiefly for food and 16.8% increase in the prices of machinery and transport equipment (Refer Table 7.3).

Table 7.3

Malaysia: Producer Price Index (1989 = 100)

			Annual change (%) (January-August)	
	Weights	*1997*	*1997*	*1998*
Domestic economy	**100.0**	**2.7**	**0.9**	**13.5**
Food and live animals chiefly for food	14.9	2.3	1.6	9.8
Beverages and tobacco	2.1	0.1	0.0	0.1
Crude materials, inedible except fuels	18.0	–4.9	–6.1	3.5
Mineral fuels, lubricants	18.8	7.0	6.8	2.7
Animals and vegetable oils and fats	8.5	12.9	4.5	77.4
Chemicals and chemical products	4.4	1.2	0.2	5.8
Manufactured goods classified chiefly by material	10.8	0.1	–0.8	6.0
Machinery and transport equipment	18.3	3.4	2.0	7.8
Miscellaneous manufactured articles	3.6	–1.2	–1.7	5.1
Commodities and transactions not classified elsewhere	0.6	–0.5	–0.6	2.2
Local production	**79.3**	**2.5**	**0.8**	**14.1**
Import	**20.7**	**2.8**	**1.5**	**11.0**

Source: Department of Statistics

With regard to price administration, four applications were received by the Price Review Committee of the MDTCA in 1997 to increase the price of flour, sugar, condensed milk and cooking oil. The number was lower in 1998 where until August, only two applications were received, particularly proposals to increase the price of bread and condensed milk. With the ringgit depreciation, the Enforcement Unit of the MDTCA is monitoring the situation closely to prevent traders and producers from taking advantage of the situation. Until June 1998, MDTCA has conducted a total of 255,202 inspections and took action on 2,770 traders.

The Government has launched a year-long special 'Buy Malaysian Products' campaign. Consequently, a number of traders has reduced the prices of imported goods in a bid to stay competitive with locally-made products. The campaign has also succeeded in creating awareness among Malaysians to buy local products as part of the efforts to help the nation recover from the economic problems. A joint technical committee between MDTCA, Ministry of International Trade and Industry and the Agriculture Ministry was set up to study strategies to promote local products. A list has been prepared to identify items which are imported and commonly used by consumers. Based on the list, the Committee will then source for a similar range of local products as alternatives for consumers.

Employment

Reflecting the slowdown in domestic economic activities, employment situation deteriorated in 1998. Latest estimates indicated that total employment would decline by 2.7% to about 8.56 million persons at the end of 1998, from 8.81 million persons in 1997. Due to repatriation of foreign labour since early 1998, the labour force is expected to decline by 0.4% to 9.01 million at the end of the year. Unemployment rate, on the other hand, is expected to increase significantly from 2.6% in 1997 to 4.9% of labour force or 443,200 workers in 1998. The number of registered job-seekers rose to 34,514 persons at the end of July 1998 from 23,760 persons at the beginning of the year, reflecting easier labour market conditions compared with the previous year.

The decline in the total employment during the year is due to slower activities in almost all sectors except in selected manufacturing sub-sectors and plantation sector. The economic turmoil has also led to companies rationalising costs through downsizing. Sluggish construction activity in 1998 contributes to a decline of 13% in employment

Table 7.4

Malaysia: Employment by Sector (1997-1998)

	1997		*1998*[1]	
	('000)	*(%)*	*('000)*	*(%)*
Agriculture, forestry and fishing	1,494.5	17.0	1,414.2	16.5
Mining	38.8	0.4	38.6	0.5
Manufacturing	2,390.5	27.1	2,321.1	27.1
Construction	874.2	9.9	756.6	8.8
Electricity, gas and water	75.8	0.9	78.5	0.9
Wholesale and retail trade, hotels and restaurants	1,447.3	16.4	1,441.2	16.8
Finance, insurance, real estates, business services	405.8	4.6	415.9	4.9
Transport, storage and communications	436.2	5.0	441.9	5.2
Government services	873.2	9.9	875.0	10.2
Other services	768.8	8.7	780.3	9.1
Primary sector	**1,533.3**	**17.4**	**1,452.8**	**17.0**
Secondary sector	**3,264.7**	**37.1**	**3,077.7**	**35.9**
Tertiary sector	**4,007**	**45.5**	**4,032.8**	**47.1**
TOTAL	**8,805.1**	**100**	**8,563.3**	**100**

[1] Estimate

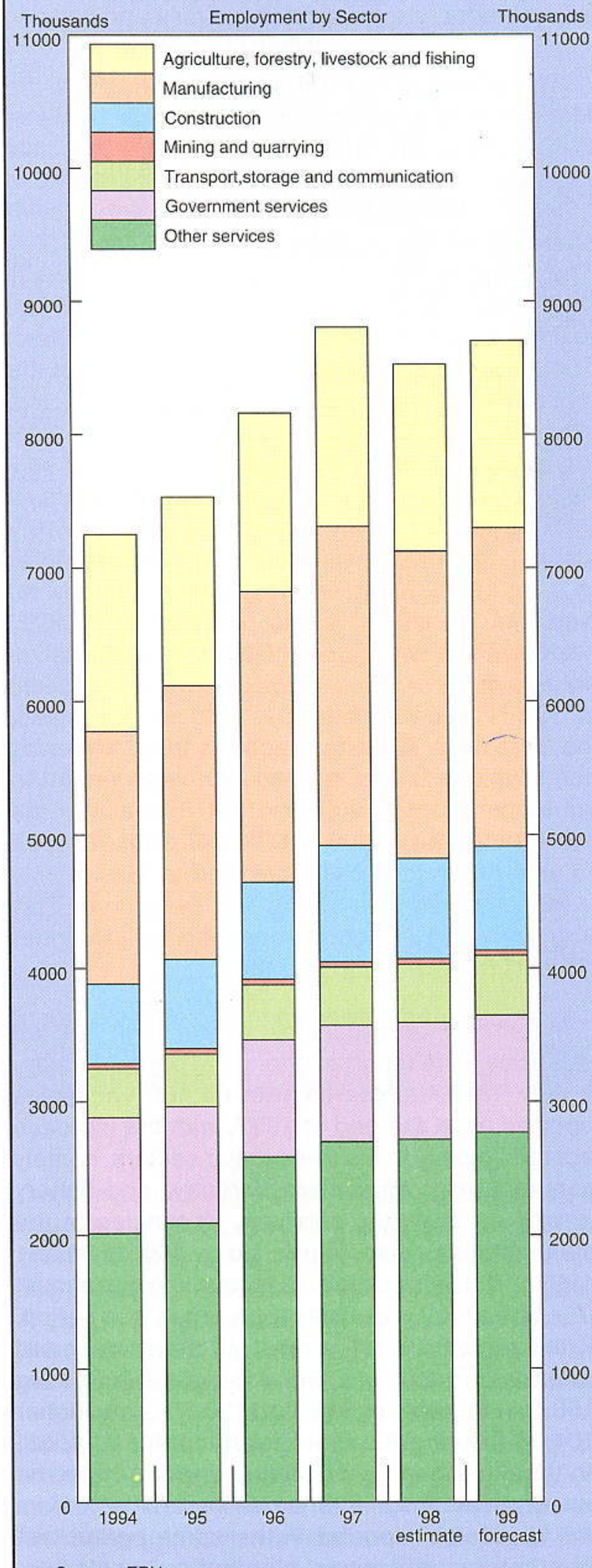
Source: Economic Planning Unit

in that sector, lowering its share to total employment to 8.8% (1997: 9.9%). Similarly, employment in the agriculture, forestry and fishing sector, which accounted for 16.5% of total employment in 1998 is expected to decline by 5.3%, following termination of employment of immigrant labour by some estates. Retrenchment also contributes to a 3% decline (1997: +8.0%) in the manufacturing sector employment. BNM Annual Survey of Companies in the manufacturing sector showed that the recruitment of foreign workers in the sector declined by 7.5% in 1997. This was due to the Government's efforts to discourage the recruitment of unskilled foreign labour by withholding approval of new entry permits for foreign workers in the construction, services and plantation sector since 10 July, 1996. In August 1997, the freeze in approval was extended to all sectors.

On sectoral basis, employment in the manufacturing sector is expected to account for the largest share or 27% of total employment, while the mining sector remains the smallest sector accounting for 0.5% of the total. On a broader classification, the tertiary sector is expected to account for 47.2% of total employment, while the primary sector accounted for the smallest share of 17%. This is attributed to the fact that new job creation in the primary sector has declined especially in the agriculture, forestry, and fishery sector. Total employment in the primary sector is expected to decline by 5% from 1.53 million jobs recorded in 1997 to 1.45 million jobs in 1998. The continuing budgetary restraint by the Government has capped employment growth in the public sector. As end of 1998, the Government is estimated to employ 875,000 workers or about 10% of total employment.

Looking at the job market, for period January-July 1998, a total of 34,514 persons, an increase of 48%, (January-July 1997: 23,321) were actively seeking employment through the Manpower Department. The increase was recorded in most states with Federal Territory, Sarawak and Selangor recorded the highest rate of 192.6%, 98.3% and 91.1% respectively. Although the number of jobseekers for production and related works has increased by 57%, its share to the total has declined to 28.2% (1997: 31.5%), reflecting higher unemployment in this sector. On the other hand, jobs in the primary sector such as forestry workers, fishermen and hunters and animal husbandary,

Chart 7.3
Employment Indicators



Source : EPU

remained less popular among the jobseekers, as only 97 workers or 0.3% registered for the job, despite 38,000 vacancies in 1998 as reported by Malaysian Agricultural Producers Association.

The largest group of active registrants with the Manpower Department are youth, age between 20-24 years. At the end of July 1998, active registrants under this category have increased to 16,456 or 48% of the total compared with a lower share of 44.8% at the end of December 1997. The large increase at end of June was actually due to graduates from tertiary institution starting to enter labour market. School leavers age between 15-19 years old accounted for almost 22% of the jobseekers in July 1998. The share of active registrant age between 25-29 years to the total increased moderately to 2.6% at the end of July 1998 compared with 1.5% in 1997. In terms of distribution by sex, jobseekers were evenly distributed between male (52%) and female (48%) in July 1998. Most of the jobseekers (53.7%) were Malaysian Certificate of Education (MCE) holders. The share of Lower Certificate of Education holders declined from 35.9% in December 1996 to 30.4% in December 1997 and by July 1998, the share was further reduced to 26%. This was due to the minimum qualification requirement in the labour market of at least MCE level. On the other hand, the share of STPM/Diploma/Degree holders to the total has increased to 19% in July 1998 compared with 17.3% last December. This is an indicator of tight competition for job under the current economic situation.

In terms of job vacancies, a total of 46,202 job vacancies were reported during the period January to July 1998, compared with 64,463 vacancies reported as at the end of 1997, with the increase recorded mostly in the three major sectors, namely manufacturing, agriculture, forestry, and fishery as well as business services. Vacancies in the manufacturing sector increased by 60% to 30,931 (1997: 19,374 vacancies) accounting for almost 67% of the total vacancies reported for the period. At the regional level, almost all states reported increases in vacancies, with the highest in Penang (158.5%) followed by Melaka (128.8%), and Johor (104.3%) during the first seven months of 1998. On the other hand, Perlis is reported to have the lowest vacancies of 229, a decline of 40.7% from 386 vacancies reported in the same period last year. In terms of sectoral distribution, wholesale, restaurant and hotel sector recorded the second largest vacancies with the Federal Territory recorded a significant increase of 28% for the first seven months in 1998 compared with 8.2% in 1997. However, vacancies for both the financial and construction sector during January to July 1998 have declined to 3.9% and 2.6% from 5.9% respectively for the same period in 1997.

To address problems relating productivity and competitiveness, the Government continues to emphasize the upgrading of skills in the workforce. In line with this, there is an increase in total enrolment in both public as well as private training institutions. The enrolment in training institutions in 1998 is expected to increase by 8% to 3,206 trainees (1997: 2,962). These institutions are expected to produce 1,992 trained workers, 33% higher than the number produced in 1997. Intake into public institutions of higher learning is expected to increase by 14% to 164,292 students of which, 21% would be enrolled in science and technical courses. More private institutions of higher learning are established in 1998 enabling 3% more students to be enrolled in 1999 over the 152,622 students enrolled in 1998. By the year 2000, a total of 74,808 students will graduate from private colleges and universities, 4% higher than 71,662 graduated in 1998. This is in addition to 37,493 students expected to graduate from public institutions of higher learning in the same year.

In line with the Government's objective to strengthen the current account position, ten private colleges have been allowed to conduct selected foreign degree courses entirely in the country, a move which will enable a student to save up to RM50,000 a year in fees and living expenses. The programme, called "3 + 0" refers to full duration of study of 3 years in Malaysia as against previous "2+1" or "1+2" twinning programmes, where students must either complete the final or last two years at a foreign partner university. This programme also enables students currently pursuing degrees under twinning programmes at selected colleges to complete their final year locally instead of going abroad. Approved courses for this programme include business study, engineering, languages, sciences and information technology. Some of the courses under this programme have received accreditation from reputable authorities such as the Quality Assurance Agency, a British agency which rates and accredits universities in the United Kingdom.

Table 7.5

Malaysia: Comparison of Active Registrants and New Vacancies By States

	Active Registrants			*New Vacancies*		
	July 1997	*July[1] 1998*	*Change (%)*	*Jan-July 1997*	*Jan-July[1] 1998*	*Change (%)*
Perlis	848	608	–28.3	386	229	–40.7
Kedah	2,055	2,944	43.3	2,469	2,255	–8.7
Pulau Pinang	764	1,313	71.9	5,380	13,907	158.5
Perak	2,010	2,222	10.5	3,542	2,626	–25.9
Selangor	1,317	2,517	91.1	4,430	4,886	10.3
Negeri Sembilan	1,333	1,657	24.3	1,544	1,142	–26.0
Melaka	465	675	45.2	208	476	128.8
Johor	1,583	2,338	47.7	3,480	7,108	104.3
Pahang	2,141	2,030	–5.2	2,686	2,214	–17.6
Terengganu	1,981	3,547	79.1	1,670	2,218	32.8
Kelantan	1,691	1,665	–1.5	1,591	1,362	–14.4
Wilayah Persekutuan	2,086	6,104	192.6	1,926	1,582	–17.9
Sabah	3,616	4,056	12.2	2,947	2,569	–12.8
Sarawak	1,431	2,838	98.3	5,671	3,628	–36.0
Total	23,321	34,514	48.0	37,930	46,202	21.8

Source: Manpower Department, Ministry of Human Resources

Note: [1] Cumulative figures as at end of July 1998

The Human Resource Development Fund (HRDF) which was established on January 1, 1993 to encourage private sector participation in training for their employees, has registered a total of 5,883 participating employers, and collected a total levy of RM494 million as at the end of 1997. Contribution to the Fund, however, was frozen earlier this year as many companies were affected by the economic downturn. Before the freeze, the Human Resources Development Council (HRDC), which administers the HRDF, was collecting about RM10 million a month, being the contribution of 1% of the monthly wage bills of the companies registered with the council. As an incentive, the Government provides a matching grant of RM2 for each RM1 contributed. Under the Human Resources Development Act 1992, registered employers who do not contribute to the Fund could face a fine of RM10,000 or two years imprisonment or both. However, companies in industries which do not contribute to improved Industrial Production Index will continue to be exempted from contributing to the Fund. To enhance the effectiveness of the Fund and encourage employers to intensify training of their workers especially in the current economic situation, the HRDF on July 16, 1998 has agreed to allow 100% reimbursement for registered employers who train their workers locally. Previously, the employers can only apply for reimbursement of between 75% and 80% of training expenses from the Fund. In addition, the Government has set aside RM40 million to help companies finance their staff training. Companies which have used up all their contribution to the HRDF are eligible to tap this interest free facility. A total of 482 companies are eligible to do so.

In the face of a slowdown in domestic economic activity in 1998, the domestic labour market has weakened. Statistics released by Ministry of Human Resources (MHR) shows that a total of 59,970 workers were retrenched from January to 5 September 1998. Almost 88.1% or 52,834 of retrenched workers were locals with Penang recorded the largest number (22.2% or 13,314 workers) followed by Selangor (21% or 12,594 workers) and the Federal Territory (12.9% or 7,736 workers). In terms of sectoral distribution, more than 50% or 32,312 of retrenched workers were from the manufacturing sector, 6,896 or 11.5% from the wholesale trading, restaurant and hotel, 6,777 workers or 11.3% from construction sector, 8.1% or 4,857 workers from the financial services, insurance, property and businesses sector and 5.5% or 3,298 workers from the agricultural, forestry, husbandry and fishery sector. A total of 2,859 employers were involved in the retrenchment exercise.

To address the problem of retrenchment, the Government implemented a number of measures such as mandatory requirement for employers to inform the Director General of Manpower Department one month ahead of any retrenchment exercise. In addition, the MHR provides employment services to retrenched workers by setting up task forces at federal, state and district levels. The functions of these task forces, among others, include the setting up of electronic labour exchanges at the state and district levels, improving the mobility of labour through publication of vacancies and having regular dialogues/working groups with employers and employee organizations as well as industry associations to monitor retrenchment and vacancies. For laid-off cases, mechanism to ensure the payment of benefits is also being set up. The minimum are as per provisions under the Employment Act 1955, i.e. for less than 2 years services, the benefit is equivalent to wages for 10 working days per year, for 2 to 5 years services, 15 days per year and for more than 5 years services, 20 days per year.

Acknowledging that cost-cutting is a necessary measure in response to economic slowdown, Government, however, has urged employers to be considerate towards their workers. The employers are also urged to use other alternatives such as training or retraining, pay-cuts or reduce working hours and only resort to retrenchment as a last option. Employers who planned to implement the pay-cuts and temporary lay-offs are required to notify the Manpower Department at least one month in advance. Those who failed to comply can be fined up to RM10,000 for each offence under the newly amended Employment Act 1955[1] which comes into effect in 1 August 1998. The same penalty is also applicable to employers who failed to give one-month notice on their retrenchment exercise. Meanwhile, on May 1, 1998, the HRDF launched RM5 million Retraining of Retrenched Workers Scheme. Training fees for qualified workers under the scheme would be fully sponsored by the HRDC. The Council has also designed special skilled apprenticeship programmes particularly for school-leavers. School-leavers and those retrenched can apply for the 18 months apprenticeship programme. With an allocation of RM15 million, HRDC will sponsor the training fees while firms concerned will pay for other expenses such as lodging. So far, two apprenticeship schemes have been set up namely, the Hotel Industry Apprenticeship Scheme which prepares employees for the service industry and the Mechatronics Apprenticeship Scheme which provides training in electronic, electrical, mechanical and other similar fields. The schemes involve attachment with sponsor companies for on-the-job training. As of June 1998, a total of 74 workers are under going training at the Penang Skills Development Centre for the Mechatronics Apprenticeship Programme. Meanwhile, the Entrepreneur Development Ministry has allocated RM10 million for the setting up of a Graduate Entrepreneur Scheme. The objective of the scheme is to train graduates to become entrepreneurs and hence reduce unemployment among them.

[1] This Act covers manual workers regardless of salary level and non-manual workers with monthly salaries not more than RM1,500.

In addition to the above, some state governments and companies have taken additional steps to address issues relating to retrenchment. For example, Penang has set up a RM2 million training fund to provide training loan to retrenched factory workers to enable them to acquire appropriate skills to suit their future employment in other factories. At the same time, one company has retained their workers despite the temporary shutdown at its assembly plant. Those workers required to work during the shutdown will be paid full salaries but will work for only 75% of the time, while workers who do not work during the shutdown will be given 75% of their salaries with additional RM50 allowance. Workers who are required to work during the shutdown are free to seek non-permanent job after their working hours while workers who are not working during the shutdown are free to seek non-permanent job and will be given 2 weeks notice if they are required to return to work. Those who are required to stay away from the plant are also entitled to salaries on public holidays and medical leave. On top of that, they are also guaranteed two months contractual bonus.

Wages

The marked slowdown in economic activity and fairly widespread retrenchment of workers, have to some extent lessen pressures on wages. The nominal wage rate is forecast to grow at a declining rate for most sectors of the economy. At the

Table 7.6

Malaysia: Private Sector Wage Agreements

	No. of Wage Agreements		*No. of Workers Involved*		*Average wage Increases (%)*	
	1997	*1998*[1]	*1997*	*1998*[1]	*1997*	*1998*[1]
Manufacturing	241	88	64,485	23,070	15.0	8.4
Commerce	62	15	6,836	3,879	n.a	9.3
Transport	31	23	7,708	37,676	11.0	8.7
Services	44	49	11,973	49,924	13.0	12.2
Agriculture	18	6	35,982	5,844	18.0	12.1
Mining	7	–	364	–	8.0	–
Electricity	2	1	2,307	152	18.0	10
Construction	–	–	–	–	–	–
Other	7	–	1,484	–	9.0	–
TOTAL	412	182	131,139	120,545	13.1	–

[1] January-July

Source: Ministry of Human Resources

same time, wages in 'other services' is projected to have negative growth. Based on a monthly survey done by the Department of Statistics for the manufacturing industries covering 900,000 workers, the average nominal wage per worker increased by 6.4% to RM1,280 for the first seven months in 1998, compared with 11.1% or RM1,203 for the corresponding period in 1997.

The slower increase in wages was also reflected in the three-year collective wage agreements concluded in the private sector during 1998. Wage increases under collective agreements, however, constituted only to 2% of the total workforce in the country. The wage agreements concluded in the manufacturing and services sector during the first seven months of the year indicated that the average wage rate rose at a slower rate of 8.4% and 12.2% respectively, compared with 15% and 13.0% in 1997. The electricity sector also showed a slower increase of average wage rate at 10% compared with 18.0% in 1997.

Cases of industrial disputes has increased during the first seven months of 1998. There were seven strikes involving 933 workers compared with four cases involving 746 workers during the same period in 1997. A total of 1,479 man-days were lost as a result of these strikes. However, this was significantly lower than the 2,198 man-days lost during the same period last year. Of the total, two cases were in the agriculture sector, two in transport, one in mining and two in the manufacturing sector. Disputes were mainly over terms and conditions of employment, such as retrenchment cases, non-implementation of contractual terms in collective agreements and other services contracts.

Foreign Labour

Policy on foreign workers remained tight with additional controlling measures adopted. The Government has, among others, imposed a new levy structure on foreign workers. The levy charges were increased to RM360 from RM300 for maids and plantation workers. For those in the construction, manufacturing and services sectors, the levy charges were standardised at RM1,500. As a matter of policy, there will be no refund of levy for employees whose services have been terminated prematurely. It is expected that there will be no new intake of foreign workers into the country. At the same time, foreign workers in sectors experiencing labour surplus are either repatriated or redeployed to sectors experiencing labour shortage. Untill August 1998, about 95,700 foreign workers were sent back to their countries of origin.

Throughout 1997, there were about 493,200 registered foreign workers in the country. Of the total, Indonesian workers accounted about 50% or 247,480 followed by the Bangladeshi (197,894). They are mostly employed in the manufacturing sector accounting for 41% or 206,437 workers, followed by the construction (104,296 workers). As at 15 July 1998, a total of 93,572 foreign workers were registered with maid recorded the highest (33,074) category, followed by manufacturing workers (23,230) and plantation workers (17,020). Indonesia and Bangladeshi workers remain the biggest group amounting for 64,842 and 24,099 persons respectively. For 1998, it is estimated that foreign workers in the country would be less. As at 5 October 1998, the number declined by 24.2% compared with 493,200 workers in 1997 due to the tight Government policy on the recruitment of foreign workers.

Repatriation by foreign workers in the country increased from RM4.1 billion in 1994 to RM6.0 billion in 1997 contributing to worsening balance of payments position. As a measure to reduce this outflow, it is now mandatory for registered foreign workers to contribute to the Employees Provident Fund (EPF). As EPF contributors, they will receive benefits similar to those given to Malaysian citizens. Foreign workers who leave Malaysia permanently, are allowed to completely withdraw their contributions. However, foreign maids are not required to contribute but they can choose to do so with the consent of their employers. As of September 1998, the freeze on the recruitment of new foreign workers from source countries is still in effect. The Government, however, will allow the recruitment of foreign workers on selective basis particularly for the plantation and the manufacturing sectors.