4 Sectoral Performance

Gross Domestic Product

Real Gross Domestic Product (GDP) is envisaged to recover by 4.3 % in 1999 (1998: -7.5%) attributed mainly to growth in the manufacturing, agriculture and services sectors. The manufacturing sector, in particular, will experience a significant turnaround with value-added increasing by an expected 8.9% (1998: -13.7%), underpinned by recovery in the export market-oriented industries as a result of stronger demand from the U.S. and East Asia economies. Output of domestic market-oriented manufacturing industries is also expected to recover, driven by sharp increase in the output of transport equipment and plastic products industries. In the agriculture sector, the growth emanates from higher output of crude palm oil. Rubber production, however, is expected to fall by 3%. Value added in the mining sector is expected to drop marginally by 1.2% in 1999 with crude oil production declining by 0.9% to 712,700 barrels per day in line with the Government's National Depletion Policy. The value added in the construction sector could contract by a smaller margin of 3.6% in 1999 (1998: -23%), due to the government fiscal stimulus projects. The services sector is envisaged to register a growth of 2.4% (1998: -0.8%), with the contribution mainly from transport, storage and communication sub-sector which is expected to grow by 3%, wholesale and retail trade, hotel and restaurant sub-sector by 1.5% and a turnaround in value-added of the finance, insurance, real estate and business services sub-sector by 1% (1998: -4.3%)

Manufacturing Sector

After registering a contraction of 13.7% in 1998, value added of the **manufacturing sector** is expected to stage a turnaround and record a growth of 8.9% in 1999. The recovery is generally broad-based, both in the domestic and export-oriented industries. While the performance of export-oriented industries is boosted by substantially stronger external demand, especially for semiconductor and electronic components, the Government's fiscal stimulus package and low interest rate regime has also contributed significantly to the recovery of domestic-oriented industries, particularly transport equipment and some construction-related materials.

The favourable turnaround in manufacturing activities is clearly reflected by the upward trend in the Manufacturing Production Index since February 1999, which is expected to strengthen further during the second half of 1999. In the first eight months of 1999, output of the manufacturing sector recorded a growth 6.4% against a decline of 7.8% during the corresponding period of 1998. Of particular significance is that production in June and July and August increased at double digit rates of 14%, 13.2% and 17.4% respectively, largely due to stronger external demand following the economic recovery in East Asia including the ASEAN region. The Government's decision to peg the ringgit at a competitive rate also facilitated increased sales in overseas market. As such, export-oriented industries recorded an output growth of 4.8% during the first eight months of 1999 (January-August 1998: -4.2%), mainly due to increased production of electronic products especially semiconductor. Domestic-oriented industries also showed significant recovery during the first eight months of 1999. Output increased by 8.2% (January-August 1998: -11.8%), notably from the better performance of the transport equipment, food, iron and steel and plastic products industries. Nevertheless, due to the sharp downturn in the construction sector, production of construction

Table 4.1

Gross Domestic Product (GDP) by Sector
(%)

	1998			1999[e]		
	Growth	*Share of GDP*	*Contribution to Growth*	*Growth*	*Share of GDP*	*Contribution to Growth*
Agriculture, forestry and fishing[1]	-4.5	9.4	-5.4	4.6	9.4	10.1
Mining	1.8	8.1	1.8	-1.2	7.6	-2.3
Manufacturing	-13.7	27.9	-54.5	8.9	29.2	58.0
Construction	-23.0	4.0	-14.8	-3.6	3.7	-3.4
Services	-0.8	55.6	-5.8	2.4	54.6	31.3
Less Imputed bank service charges	-0.6	7.5	-0.5	3.7	7.4	6.4
Plus Import duties	-41.5	2.5	-21.8	21.6	2.9	12.7
GDP	-7.5	100.0	100.0	4.3	100.0	100.0

[1] Includes livestock and horticulture

[e] estimate

related industry such as non-metallic mineral industry is still affected by excess capacity.

With manufacturing output gathering momentum, **sales** continued to rise during the first seven months of 1999 by 9.1% (January-July 1998: 10.2%). The higher sales value was due to stronger external demand in electronic products and an increase in domestic sales of passenger cars. In line with the recovery, total **wage** bill increased albeit marginally by 3.3% (January-July 1998: 2.3%). This increase in wage bill is relatively slower than the increase in sales revenue. As such, real average wage per worker continued to decline by 5% (January-July 1998: -10.1%). On the other hand, **labour productivity** or output per worker in the manufacturing sector improved marginally by 0.4% (January-July 1998: -3.1) due to higher output (4.9%) despite a smaller increase in employment (4.3%). Subsequently, **unit labour cost** declined by 5.4% (January-July 1998: -7.2%), attributable to decline in unit labour cost of electrical, electronic and machinery and transport equipment industries. However, the textiles and chemical industries recorded a higher unit labour cost during the corresponding period of 1999.

Production in the **electrical, electronics, and machinery** industry recorded a strong growth of 8.1% (January-August 1998: -4.8%) during the first eight months of 1999, in line with the upsurge of global demand for semiconductors. Output of the semiconductor and other electronics sub-sector increased significantly by 14.6% (January-August 1998: -2.5%), boosted by the increase in global demand for computer and other automated appliances as business strive to attain the Y2K compliance. On the other hand, production of radio and television sets, audio-visual recording

Chart 4.1
Monthly Manufacturing Production Index
(annual percentage change)

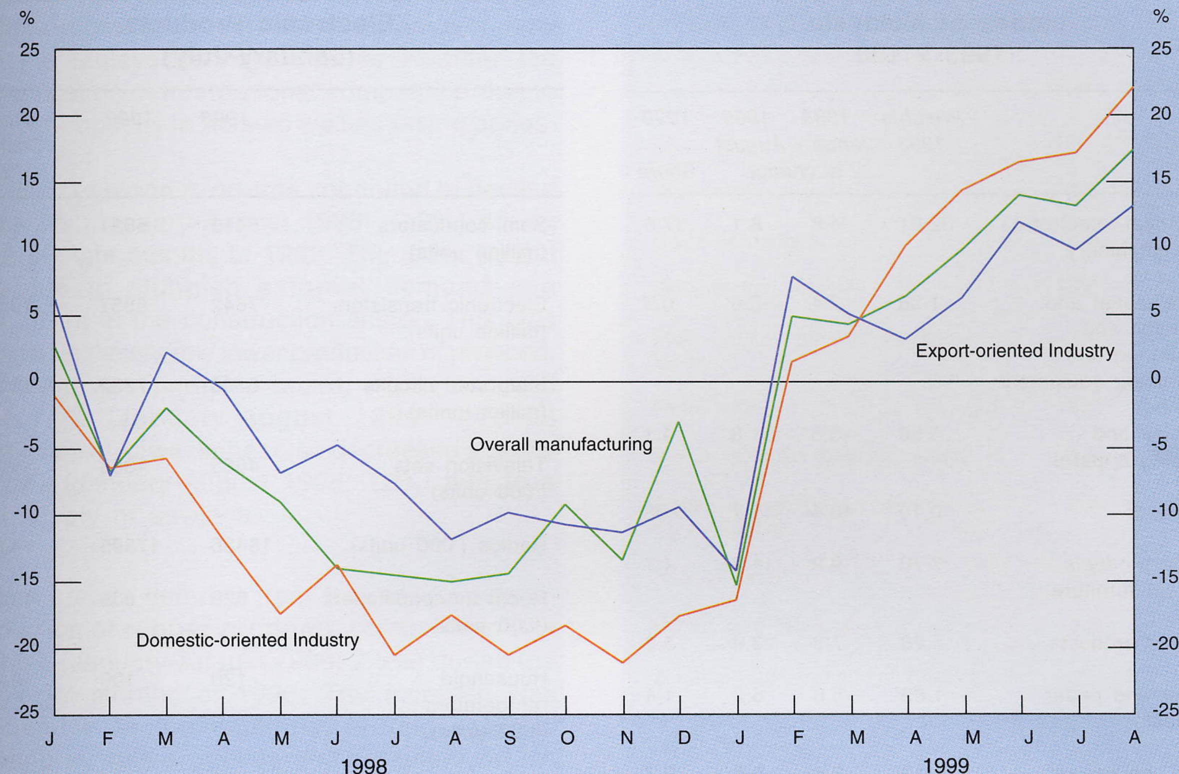


Table 4.2

Manufacturing Sector: Labour Productivity, Real Average Wage and Real Unit Labour Cost By Industry (Annualised % Rate of Change During January-July 1999)

Industry	*Labour Productivity*	*Real Average Wage*	*Real Unit Labour Cost*
All Manufacturing	0.4	-5.0	-5.4
Electrical, Electronic & Machinery	2.8	-8.8	-11.3
Textiles, Apparel & Footwear	-5.0	9.1	14.9
Chemical & chemical products	-9.7	6.1	17.4
Transport equipment	38.9	-21.5	-43.5

Source: Based on Monthly Manufacturing Survey, Department of Statistics

Table 4.3

Manufacturing Production Index of Malaysia 1993 = 100

	Weights 1993	1998 January-August % change	1999 January-August % change	1999 % Share
Electrical, electronics and machinery	32.91	-4.8	8.1	37.6
Professional and scientific and measuring and controlling equipment	1.35	2.4	-5.6	0.9
Textiles and wearing apparel	5.58	-5.3	1.8	4.1
Footwear	0.10	-40.4	-17.7	0.03
Wood products (except furniture)	7.70	-9.2	-11.2	4.7
Rubber products	5.28	7.5	3.8	5.2
Paper and paper products	1.69	-5.6	6.2	1.4
Food, beverages and tobacco	11.12	-2.4	9.6	9.7
Chemicals, chemical and plastic products	15.47	0.8	10.7	19.9
Petroleum refineries	1.36	-10.8	-6.4	1.2
Miscellaneous products of coal and petrol	0.41	-12.5	11.1	0.3
Non-metallic mineral	4.22	-22.9	-8.8	3.3
Glass and glass products	0.65	-28.4	9.9	0.5
Iron and steel	3.17	-35.7	29.7	2.7
Non-ferrous metal products	0.82	-5.4	6.6	1.0
Fabricated metal products	4.53	-9.6	-17.1	3.8
Transport equipment	3.65	-51.8	48.6	3.6
TOTAL	100.00	-7.8	6.4	100.0

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

Table 4.4

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

	1998	1999	Annual Change (%)
Semi-conductors (million units)	5416	5521	1.9
Electronic transistors (million units)	7642	6837	-10.5
Integrated circuits (million units)	6796	7732	13.8
Television sets ('000 units)	4685	4388	-6.3
Radios ('000 units)	18436	17595	-4.6
Room air-conditioners ('000 units)	929	805	-13.3
Household refrigerators ('000 units)	120	109	-9.2
Insulated wires and cables (tonnes)	50702	42534	-16.1

Source: Based on Monthly Manufacturing Survey, Department of Statistics

and reproducing equipment recorded a decline in output of 5% (January-August 1998: 10.7%) due to sluggish external and domestic demand. The output of non-electrical machinery industry, which includes office accounting and computing machinery, refrigerating, exhaust, ventilating and air conditioning machinery, continued to decline by 14.6% (January-August 1998: -32.4%), reflecting mainly the sharply lower production of room air conditioners and household refrigerators.

Output of the **textiles and wearing apparel** industry expanded by 1.8% during the first eight months of 1999 (January-August 1998: -5.3%). This was brought about by an increase of 7.5% (January-August 1998: -28.7%) in the natural fiber spinning and weaving activities due to improved domestic and external demand as well as slightly cheaper prices of imported cotton. Output of the wearing apparel subsector registered a steady growth of 3.1% (January-August 1998: 0.8%) in response to higher sales orders from the United States and Europe. Despite the signs of recovery, further progress in the industry depends on how well the Malaysian manufactures weather the intensification of international competition due to the over-capacity in Asia as well as falling prices.

Output of **wood products** continued to decline by 11.2% (January-August 1998: -9.2%) during the first eight months of 1999. The lower output was due to sluggish external demand and contraction in the construction sector. This was reflected in the sharply lower production of plywood, hardboard and particles board, which declined by 3.7 % (January-August 1998: -17.2%) Production of sawn timber also decreased sharply by 26% (January-August 1998: 12%) due to a tight supply of sawlogs.

With steady demand from overseas markets, production of **rubber products** continued to rise by 3.8% (January-August 1998: 7.5%) during the first eight months of 1999. The increase was attributable to the continued strong external demand for rubber gloves and catheters, which led to production increases of 5.4% and 13.1% respectively during the first seven months of 1999. Partly reflecting a pick-up in demand of passenger cars, the performance of tyre and tube sub sector showed signs of recovery even though output was down marginally by 0.8% (January-August 1998: -9.3%).

In line with rising private disposable income, the **output of food, beverages and tobacco** sub-sector increased by 9.6% (January-August 1998: -2.4%) during the first eight months of 1999. This was due to expansion in the production of manufactured food, which rose by 15.9% (January-August 1998: -2.3%) during the same period. However, output of beverages fell by 14.5% (January-August 1998: -6.3%), due to a sharp decline of 25.3% in the production of carbonated drink in the same period. Production of tobacco also declined by 18% (January-August 1998: 0.7%) due to lower domestic consumption.

Output of the **chemicals, chemical and plastic products** industry recorded a growth of 10.7% during the first eight months of 1999 (January-August 1998: 0.8%). The growth was supported mainly by increased production in industrial gases following stronger demand from Japan and Korea. The overall growth of the sector was also due to increased output of fertilisers and pesticides on account of greater usage in oil palm cultivation as well as higher output of paints, varnishes and lacquers. Output of plastic products continued to increase by 23.9% (January-August 1998: 11.4%) in line with the growth of the motor car industry and food industry.

Table 4.5

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

	1998	*1999*
	January-August	
Rice mills	1.5	1.2
Dairy products	-6.8	1.1
Biscuits factories	-15.0	8.9
Fish, crustacean and similar foods	5.6	-8.3
Flour mills	-1.2	10.8
Sugar factories and refineries	-7.8	12.1
Cocoa, chocolate an sugar confectionery	-1.0	4.1
Animal feeds	4.1	9.4
Other food products	18.3	0.1

Source: Department of Statistics

Output of **petroleum products** continued to decline by 6.4% during the first eight months of 1999 (January-August 1998: -10.8%), attributable to lower production of crude oil in response to poor prices. The products most severely affected were fuel oil and diesel with output declining by 32.9% and 7.4% respectively during the first seven months of 1999 after contracting 19.6% and 11.4% during the corresponding period of 1998. Output of kerosene, however, declined at a slower pace of -1.2% (January-July 1998: -7.8%). The upturn in the automobile industry in recent months and the associated demand for gasoline resulted in output increase of 17% (January-July 1998: -6.2%). Output of liquefied petroleum gas continued to grow at 6.5% (January-July 1998: 4.3%).

During the first eight months of 1999, production **of non-metallic mineral products** declined by 8.8% (January-August 1998: -22.9%), due to significantly lower construction activities which affected the output of non-metallic mineral industry. Given that some manufacturers embarked on expansion programmes before the onset of the economic downturn, the capacity utilization rate of the cement industry is expected to be below 50% for 1999. Output of cement and concrete products shrank by 7% (January-August 1998: -36.7%), while production of structural clay products such as ceramic tiles and earthen bricks was 0.8% lower (January-August 1998: -15%). However, output of **glass and glass products**, in line with the recovery in the automobile sector, began to show positive growth after the first quarter of 1999. Its output increased by 9.9% (January-August 1998: -28.4%) during the first eight months of this year.

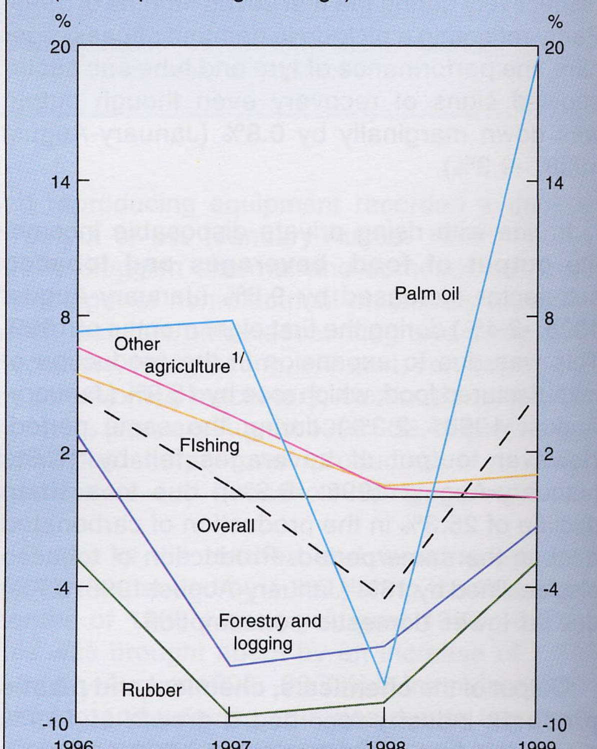
Following measures to stimulate infrastructure projects as part of the fiscal stimulus programmes, manufacturers of **iron and steel products** began to step up production in response to increase in demand. This was mainly reflected in the increase in the production of iron and steel since February 1999. During the first eight months, output of the industry rebounded sharply by 29.7% (January-August 1998: -35.7%). However, the **fabricated metal products** industry continued to suffer from the full impact of the financial crisis as output has contracted by 17.1% (January-August 1998: -9.6%). The decline was partly due to a sudden contraction of external demand of structural metal products although sluggish domestic demand for other products such as tin cans and metal boxes, as well as brass, copper, pewter and aluminium products also affected the sub-sector.

Output of the **transport equipment** industry recorded a sharp increase of 48.6% during the first eight months of 1999 as against a steep decline of 51.8% during the corresponding period of 1998. The upturn was in response to rising domestic demand of motor vehicles. Sales of passenger cars rose by 105.9% (January-August 1998: -61.8%) while sales of commercial vehicles increased by 61.9% (January-August 1998: -81.1%). Demand for motor vehicles grew steadily since April 1998 after the relaxation of hire-purchase regulations and also on account of lower interest rates and more intensive promotion by car dealers. Of the three major components of the industry, the manufacture and assembly of motor vehicles recorded the largest increase of 75.8% and followed by manufacture of motor vehicles parts and accessories which rose by 35%. The manufacture and assembly of motor cycles and scooters, however, continued to decline though at a much slower rate of 3.2% compared with a drop of 42.7% during the same period of 1988.

Agriculture Sector

Value added for the agriculture sector including forestry, logging and fishery is estimated to increase by 4.6% in 1999 (1998 : -4.5%). The significant turnaround in this sector is due to a substantial increase in crude palm oil production, as the crop recovers from biological tree stress, improved weather, increase in matured hectarages, and higher oil extraction rate. Higher output from fishery, cocoa and pepper also contributed towards the better performance of the sector. Accordingly, the share of agriculture to GDP growth increased by 10.1% from a decline of 5.4% recorded in 1998.

Chart 4.2
Value-Added For Agriculture, Forestry and Fishing Sector at 1987 Constant Price
(annual percentage change)



1/ Including livestock

Table 4.6

Value-Added in the Agriculture, Forestry and Fishing Sector at 1987 Constant Prices
(RM million)

	1997	*1998*	*1999*
Agriculture, Forestry and Fishing	RM17,961 (0.4%)	RM17,157 (-4.5%)	RM17,946 (4.6%)
Rubber planting	RM1,868 (-9.7%)	RM1,697 (-9.1%)	RM1,647 (-2.9)
Oil palm estate	RM4,900 (7.8%)	RM4,494 (-8.3%)	RM5,369 (19.5%)
Other agriculture including livestock.	RM5,132 (3.6%)	RM5,151 (0.4%)	RM5,142 (-0.2%)
Forestry and Logging	RM3,932 (-7.5%)	RM3,674 (-6.6%)	RM3,626 (-1.3%)
Fishing	RM2,129 (2.9%)	RM2,141 (0.5%)	RM2,162 (1.0%)

Palm Oil and Palm Kernel Oil

Value added for **palm oil** is expected to increase by 19.5% to RM5,369 million (1998: RM 4,494 million) in tandem with the increase in crude palm oil production. With matured planted hectarage in Sabah and Sarawak increasing by 150,000 and 130,000 hectares respectively and higher yield of fresh fruit bunches, crude palm oil production is expected to increase by 19.4% or 9.93 million tonnes in 1999, after registering a decline of 8.3% or 8.32 million tonnes in 1998. With more higher-yielding hectarages coming into maturity, average yield of fresh fruit bunches could increase by 25.2% or 20 tonnes per hectare from 15.98 tonnes per hectare in 1998. For the first nine months of 1999, crude palm oil production increased to 7.610 million tonnes or 23.4% higher than the production in 1998 (Jan - September 1998 : 6.166 million tonnes).

Total hectarage planted increased by 8.4% to 3.34 million hectares in 1999 compared to an estimated 3.08 million hectares planted in 1998. The bulk of oil palm (60.1%) still comes from Peninsular Malaysia, with Sabah (29.7%) and Sarawak (10.2%) accounting for the rest. Sabah, with 992,496 hectares (29.7%), Johore, 610,000 hectares (18.3%) and Pahang, 545,000 (16.3%) are the three most important oil-palm growing states. Of the additional 250,000 hectares in 1999, 92.7% or 231,745 hectares is from the estate sector.

In line with the increase in palm oil production, **palm kernel** oil output in 1999 is expected to increase by 18.9% or 1.32 million tonnes in 1999 (1998 : 1.11 million tonnes). For the first nine months of this year, 0.956 million tonnes was produced, an increase of 18.2% compared to the same period in 1998 (Jan -September 1998 : 0.809 million tonnes).

R&D, spearheaded by the Palm Oil Research Institute of Malaysia (PORIM), continues to be taken to make Malaysia the foremost producer and exporter of palm oil and palm oil products. Some recent findings by PORIM are in applications for nutrition and cosmetics. In the area of nutrition, non-fat products from palm oil is used to substitute the milk fat and non-fat milk solids formulation for use in non-diary ice cream.

In cosmetics, products which combine the use of encapsulation technology to create clear gel with vitamin E and A have been formulated. Making use of the superior quality of goat's milk, PORIM

Table 4.7

Oil Palm Area and Palm Oil Production

	1998	*% change*	*1999 [e]*	*% change*
Planted areas ('000 hectares)	3,078	9.2	3,338	8.4
Matured areas ('000 hectares)	2,597	5.8	2,607	0.4
Production ('000 tonnes)				
Crude palm oil	8,320	-8.3	9,930	19.4
Palm kernel oil	1,110	-4.6	1,320	18.9
Yield (tonne/hectare)	15.98	-16.3	20.00	25.2

[e] Estimate.

in collaboration with the palm oil industry has developed cosmetics combining palm-based soap with goat's milk. Products developed include goat's milk lotion with palm Vitamin E for use in dry skin and goat's milk cream with palm vitamin E for normal skin.

Another finding by PORIM is a new derivative called dihydroxy fatty acid (DHFA) from palm oil. It has great commercial potential in both food and non-food products. For example, it is used in applications for lubricants, starting materials to make emulsifiers and surfactants for detergents. It can also be used as substitutes for castor oil such as lipstick formulation to extend shelf life and even as solidifier for use in cooking oil.

Timber

Sawlogs production in 1999 is expected to show a smaller decline of 1.3% as compared to the sharp drop of 30.5% in 1998. Timber output from Sabah and Peninsular Malaysia would be lower by 43% and 5% respectively. On the other hand, production in Sarawak could increase by 19.6% to 13.5 million cubic metres. Timber output from Sabah and Peninsular Malaysia has gradually declined in recent years consistent with sustainable forest management. In order to sustain its forest area, the Sarawak State Government has undertaken replanting with species of fast-growing timber varieties in collaboration with the private sector. For the first six months of 1999, production of sawlogs in the three regions declined by 13% or 11.02 million cubic metres as compared to a decline of 28.5% in 1998. As such, value added of the forestry sector at 1987 constant price is expected to decline to RM3,626 million or -1.3% in 1999 (1998 : RM 3,674 million).

Table 4.8

Rubber Area, Yield and Production

	1998	*% change*	*1999 e*	*% change*
Total area ('000 hectares)	1,564.9	-4.1	1,524.3	-2.6
Smallholding	1,372.7	-3.2	1,336.1	-2.7
Estate	195.2	-10.3	188.2	-3.6
Yield (kg per hectare)				
Smallholding	960	-0.5	970	1.0
Estate	1,224	9.5	1,211	-1.1
Total production ('000 tonnes)	886	-8.8	859	-3.0
Smallholding	687	-9.1	674	-1.8
Estate	199	-7.9	185	-7.0
% of world production	13.5		12.9	

e Estimate

Source: Ministry of Primary Industries and Department of Statistics.

Rubber

In the first eight months of 1998, rubber output declined by 5.4% to 530,035 tonnes compared with 560,550 tonnes produced in the corresponding period. However, due to unfavorable prices, labour shortage and declining rubber hectarages, production is expected to contract by 3% to 859,126 tonnes in 1999 (1998: 885,697 tonnes). In view of this, value added of rubber could contract by 3% to RM1,647 million in real terms.

Total land under rubber in 1999 is 1.52 million hectares (1998 : 1.56 million hectares), the bulk of which (87.7% or 1.34 million hectares) constitute smallholdings while the rest are estates. Conversion of rubber holdings continues unabated. In 1999, 24,400 hectares of land under rubber is expected to be converted for other uses such as for planting of oil palm as well as for housing.

The Rubber Research Institute of Malaysia (RRIM) has since 1998 introduced another 15 new rubber clones with high yield potential, eight of which have both high latex and timber yield.

Other Agriculture, Livestock and Fisheries

Value added of **other agriculture including livestock** is expected to decline marginally to RM5,142 million or –0.2% (1998: RM 5,151 million). **Livestock** production is expected to decline by 3.5% due to a drop in swine production from 202,237 tonnes in 1998 to 189,294 tonnes.

In early 1999, part of the swine population had to be culled and the farms destroyed due to the Japanese Encephalitis (JE) and the Nipah virus. Lower production of broilers by 3.2% to 589,190 tonnes (1998: 608,670 tonnes) in an attempt to shore up falling prices also contributed to declining production of livestock. However, production of beef and mutton increased by 8.5% and 5.2% respectively.

Production of **cocoa** is expected to increase by 2% from 90,183 tonnes in 1998 to 92,000 tonnes in 1999 due to the lagged effect of El Nino experienced in 1998. However, a higher yield is expected in year 2000 as the trees would have recovered by then. The Malaysian Cocoa Board is continuing its efforts at R&D by improving productivity and reducing costs by controlling wastage from diseases.

Table 4.9

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

	1998	*% change*	*1999 [e]*	*% change*
Paddy	1,934.5	-9.2	2,103.0	8.7
Cocoa	90.2	-14.9	92.0	2.0
Pepper	19.0	18.5	21.1	10.6
Pineapple	133.0	11.0	138.0	3.8
Tobacco[1]	95.9	-3.7	80.0	-16.6
Fruits[2]	1,135.0	-3.3	1,180.0	4.0
Fishery[3]	1,346.9	5.5	1,360.7	1.0
Livestock[4]	829.4	-7.3	800.5	-3.5

[1] Green tobacco leaves

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

[3] Marine fish landings only.

[4] Including beef, poultry, swine and mutton.

[e] Estimate

Source: Ministry of Agriculture and Ministry of Primary Industries.

Pepper production in 1999 is expected to increase by 10.6% to 21,050 tonnes (1998: 19,040 tonnes), on account of the increase by an additional one thousand hectares to 12,069 hectares and improvements in farm maintainance following favourable pepper prices. Likewise **paddy** production is expected to increase by 8.7% to 2.103 million tonnes (1998: 1.934 million tonnes) as a result of increasing yield from 3.2 tonnes per hectare in 1998 to 3.6 tonnes per hectare in 1999.

Fish landings is expected to increase by 0.8% to 1.22 million tonnes (1998: 1.21 million tonnes) while aquaculture harvest by 3.9% to 138,236 tonnes (1998: 133,062 tonnes). The combined fish haul is anticipated at 1.36 million tonnes or 1% increase (1998 : 1.346 million tonnes). Several measures have been taken by the Fisheries Department to increase the capacity of the fishing industry. These include constructing more artificial breeding places, issuing more fishing licenses, improving technology and organising small-scale fishermen into groups to be led by big companies. As for aquaculture, suitable areas have been indentified for aquaculture ponds, more breeding ponds constructed and management guidelines issued to breeders to further expand this industry.

Mining Sector

The value-added in the **mining sector** is expected to contract in real terms by 1.2% (1998: 1.8%) due to the lower output of crude petroleum

Table 4.10

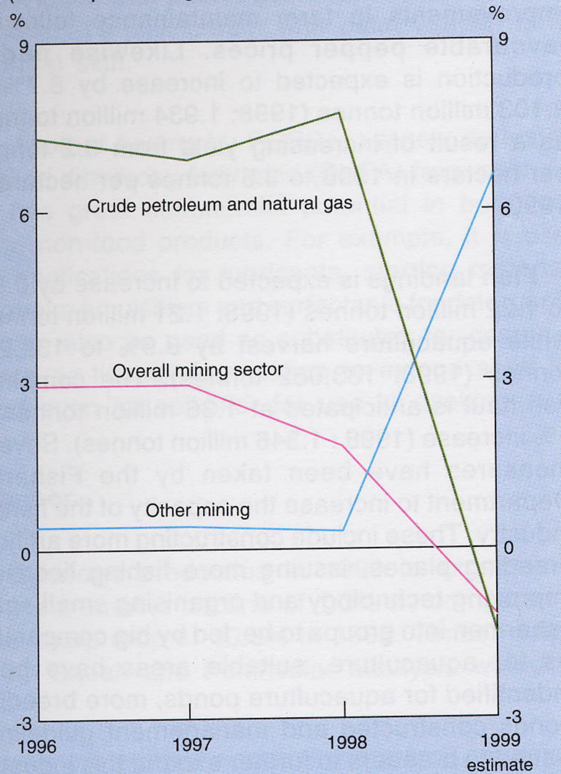
Value-Added in the Mining Sector at 1987 Constant Prices
(RM million)

	1997	*1998*	*1999 [e]*
Mining Sector	RM14,454 (2.9%)	RM14,719 (1.8%)	RM14,542 (-1.2%)
Crude petroleum & natural gas	RM13,683 (2.5%)	RM14,094 (3.0%)	RM13,876 (-1.5%)
Other mining	RM771 (11.9%)	RM625 (-19.0%)	RM666 (6.6%)

e Estimate

( ) refers to annual percentage chamge.

Chart 4.3
Value-Added For Mining Sector
at 1987 Constant Price
(annual percentage change)



in line with the PETRONAS Petroleum Production schedule. Even though domestic demand for natural gas is rising, its production is expected to decline given the slower demand of liquefied natural gas (LNG) abroad in the first half of 1999. Production from tin, however, is expected to increase as prices are expected to be favourable. Consequently, the mining sector's contribution to real GDP is expected to be at 7.6% (1998 : 8.1%).

Crude Petroleum and Gas

In the first nine months of 1999, production of **crude petroleum** declined by 3.2% to 697,750 barrels per day (January-September 1998: 720,801 bpd). The lower production was due to the temporary closure of two oil fields in Sabah and Sarawak for maintenance. Consequently, for the whole of 1999, crude petroleum production is expected at 712,700 bpd or a decline of 0.9% as compared to the same period of 1998 (719,400 bpd). Peninsular Malaysia is expected to contribute

Table 4.11

Production of Crude Petroleum and Gas

	1998	*% change*	*1999 [e]*	*% change*
Crude petroleum (bpd)[1]	719,400	0.8	712,700	-0.9
Natural gas (mmscf/d)[2]	4,140	7.2	3,975	-4.0

[1] Including condensates.
[2] Excluding flaring and reinjection.
[e] Estimate.

Source : PETRONAS

60.4% or 430,800 bpd, Sarawak 197,100 bpd and Sabah 84,800 bpd. In respect of exploration activities, two oil fields have been found in Peninsular Malaysia and Sabah during January to June 1999. Thus far, 76,180 kilometres of seismic data has been acquired with 15 fields being planned for exploration and development. Efforts to increase the nation's oil reserves include acquiring high technological data from exploration areas, expediting exploration in deep sea areas more than 200 metres deep, research towards greater oil recovery from existing fields and studying the hydrocarbon potential on land in Sabah and Sarawak.

In the first nine months of this year, production of natural **gas** declined by 4.6% (996,389 mmcf) compared to the same period in 1998 (January - September 1998: 1,044,171 mmscf). This was due to slowdown in demand for LNG from importing countries like Japan and South Korea which were hit by the economic crisis. However, some pickup of LNG demand from them are expected in the second half, given the economic recovery in these countries. Thus, for the whole year production of natural gas is expected to show a smaller decline of 4% to 3,975 mmscf/d (1998: 4,140 mmscf/d).

Tin

During the first eight months of 1999, tin output increased by 25.6% to 4,744 tonnes (January - August 1998 : 3,777 tonnes). Favourable tin prices,

Table 4.12

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

	1998	% change	1999 e	% change
Production ('000 tonnes)	5,756	13.6	7,000	21.6
Number of mines*	35	0.0	43	22.9
Dredges*	1	-66.7	1	0.0
Gravel pumps*	20	5.3	27	35.0
Open cast*	14	1.6	15	7.1
Workers employed*	1,269	-31.0	1,413	11.3

* As at end of June

e Estimate.

Source : Ministry of Primary Industries.

averaging between RM19.00 to RM21.00 per kilogramme has spurred tin production. In 1998 alone, 12 new mines were in operation while in 1999 an additional five new ones began operation. In response to favourable tin prices, existing mines have also stepped up their production. As for the whole year, output of tin is expected to increase by 21.6% or 7,000 tonnes (1998: 5,756 tonnes).

Construction Sector

Activity in the construction sector remains subdued largely due to the overhang from excess space of commercial buildings for office and retail and higher end condominiums. Nevertheless, due to more extensive civil engineering works associated with government projects as well as higher construction starts in low and medium cost housing projects, value added in the construction sector is expected to decline with smaller margin of 3.6% in 1999, against a contraction of 23% in 1998. Both volume and value of transactions for residential units have registered strong increases. During the first half of 1999, turnover volume increased by 20.2% to 76,410 transactions with value increasing by 26% to RM9.2 (January-June 1998: 63,573 transactions valued at RM7.3 billion). The increase is partly the result of the effort of the Housing Developers Association of Malaysia (HDAM), which together with the Government, launched a Home Ownership Campaign between 12 December 1998 to 12 January 1999. During the campaign period, buyers benefit from incentives such as exemption of stamp duty and lower financing cost. The relaxation of lending guidelines by BNM in September 1998 for purchases of houses costing RM250,000 and below also encouraged demand and construction of low and medium cost residential houses. The number of houses completed during the first half of 1999 increased by 29.4% to 66,430 units, against 51,339 units during the second half of 1998. Housing starts rose by 49.5% from 56,604 houses to 84,639 units during the same period of comparison. Out of the total 84,639 residential housing starts in June 1999, two-third were within the low and medium priced categories, with low-cost houses and flats accounting for 36.1% (30,587 units) and medium-cost terraced units 31.1% (26,329 units). This is in line with the 29.9% increase in the number of approvals given in the first half of 1999 for development of units costing RM60,000-RM100,000. On the other hand, approved units for houses costing more than RM100,000 for January to June 1999 declined by 26.2% to 24,182 units, compared with 32,787 units for the same period in 1998. This indicated continued weak demand for higher priced residential properties during the period.

The strong pick up in construction activity related to low and medium cost houses reflects the policy emphasis of the government in providing adequate and affordable housing especially to the low-income group through various funds and schemes. An additional allocation of RM200 million has been provided in November 1998 to the RM600 million **Housing Fund for Hardcore Poor** to build additional low-cost houses including in the estate areas. Up to August 1999, 19 projects were completed and another 8 projects are still under construction. Under the **RM500 million Fund to Accelerate the Construction of Low-Cost Housing**, a total of 47 projects were completed, while 16 projects were under construction. Up to August 1999, a total of RM297.5 million has been disbursed from the Fund to developers. Under the **Revolving Fund for Low-Cost Housing**, 75,132 units of houses including medium and high-cost units will be built in 1999 of which 2,223 units are already on the ground. Another 12,923 units are under various stages of construction. In addition, low cost houses are also being built by various State Governments. The provision of low-cost houses under the Public Low-Cost Housing Programme has been expedited. Up to August 1999, about 15,440 units have been completed and another 24,261 units are at various stages of construction.

Reflecting the combined impact of high level of stocks of higher priced residential properties, thereby forcing developers to sell at lower price to clear stocks and reduced affordability on the part of purchasers to buy higher priced properties, developers are shifting their focus to build low and medium cost houses. This has also affected prices of residential properties. The Malaysian House Price Index declined by an annual rate of 12% during the first half of 1999 compared to the same period of 1998. The price index for detached houses recorded the steepest decline by 13.4%, followed by semi-detached houses (-10.9%) and terrace houses (-7.8%) while high-rise units declined by 5%. Of the five development regions, the price index for Ipoh-Kinta and Seremban-Sepang registered increases of 7% and 1.4% respectively while Klang Valley, Johor Bahru and Penang Island recorded declines of 10.2%, 8.7% and 8.2% respectively.

In the **non-residential sector**, construction of office space and retail outlets remain sluggish. Overbuilding in recent years combined with weak demand resulted in excess supply in these property segments. It is estimated that the total stock of office space throughout the country is 9.38 million square metres (s.m.), of which 7.3 million s.m was occupied as at end of June 1999. Another 3.7 million s.m. is under construction. As a result of the oversupply situation, prices and rentals of office space have dropped markedly in most of the major urban areas. In Kuala Lumpur, the rental level dropped by 10% to 33% in the first half of 1999, compared to January to June 1998. Current rental rates range between RM19 to RM65 s.m. per month depending on location. For the country as a whole, the average occupancy rate dropped to 78.2% at the end of June 1999 compared to 82.5% at the end of June 1998.

Transactions of retail units in shopping complexes were generally subdued. The completion of another 372,300 s.m. of retail space during the first half of 1999 brought the total stock of retail space to 5.2 million s.m. throughout the country. An additional 2.2 million s.m. net floor area is expected to be added to the existing space of retail units when projects currently under construction come onstream within the next two years. Prices of these properties dropped between 10% to 20% in Kuala Lumpur, 17% in Ipoh, and 30% in Johor Bahru. The city fringes experienced some slight consolidation in retail property activities, while transactions and letting activities remain passive. As a result, construction activity in retail space have generally declined. The occupancy rates of retail space also declined in major towns throughout the country. However, in some states like Selangor, Perak, Pahang and Kedah, the average occupancy rate was higher. For the country as a whole, occupancy rate has improved to 70.9% at the end of June 1999 compared to 66.2% at the end of 1998.

Despite the overall weaknesses in the property sector, there is still demand for **new industrial units**. In Selangor, another 4,608 units were launched this year. New industrial developments were mostly concentrated in new areas like Puchong, Kapar, Serendah, Cheras and Kajang, usually as part of comprehensive development projects. In Johor, given the increased activities in the industrial sector, the volume of transactions increased by 6.2% in January to June 1999 compared to the corresponding period of 1998.

In line with efforts to promote tourism, there has been rapid development of projects in this sector. In 1999, 97 **new hotels** are envisaged to come into operation, bringing the total number of rooms available to 130,453. The current trend is towards construction of bigger hotels with more than 100 rooms. Within this year, out of 97 projects to be completed, 76 hotels or 78% fall within this category. Despite higher tourist arrivals during the first half of 1999 by 18.8% to 3.2 million tourists (January-June 1998:2.7 million) hotel occupancy rate has been low, averaging 47.8%.

Construction activities in **civil engineering** undertaken by the public sector continue to focus on the provision and improvement of infrastructure related to social development such as schools, health facilities, rural amenities, public works such as roads and bridges and transport. The Government has given emphasis to these construction activities, in recognition of the contribution of infrastructure and utility projects in reviving the economy through their linkages and spillover effect. In 1999, the focus is on completing critical infrastructure projects such as the New Pantai Highway, Kuala Lumpur Western Traffic Dispersal Scheme, Simpang Pulai-Lojing-Gua Musang-Kuala Berang Road and access road to Tanjung Pelepas Port. Priority is also given towards completing Section 2 of the LRT System II Pasar Seni to Gombak, KL Monorail and Express Rail Link (ERL) to KLIA from Kuala Lumpur Sentral. The completion of urban rail link projects will provide an integrated public transport system in the Klang Valley while the completion of a rail link to the North Butterworth Container Terminal and West Port of Port Klang will further improve rail freight services. To expedite capacity expansion of ports, several projects were launched. These include the construction of four container berths at Tanjung Pelepas Port, Johor, reclamation and dredging a new basin at Kuantan Port, Pahang, and completion of a hazardous cargo jetty at Pasir Gudang Port, Johor.

Services Sector

With recovery in aggregate demand for services, the services sector is envisaged to turn around with expected value added of 2.4% in 1999 (1998: -0.8%). Services provided by the **transport, storage and communication sub-sector** are expected to increase at a faster rate of 3% in 1999 (1998: 0.9%). Contributing to this increase is the sea transportation services industry, growth of which is expected to accelerate due to higher trade. Given that 90% of the nation's international trade is sea-borne, port, shipping and maritime-related services play an important role in underpinning the expansion of this sub-sector during the year. During the first seven months of 1999, the volume of cargo handled by the eight major ports in the country turned around to increase by 8.1% to 83 million freight weight tonnage (fwt) (January-July 1998: -12.1%; 76.8 million fwt) while container cargo handled increased by 31.6% to 2.2 million twenty equivalent units (TEUs) (January-July 1998: 0.3%; 1.7 million TEUs). The volume of cargo handled by Port Klang surged 32.2% during the first seven months of 1999 (January-July 1998: -18.2%).

An increase in value added in the air services industry is also expected in 1999 with increased inflow of tourists. Reflecting this is the 4.7% rise in the revenue of Malaysian Airline System Bhd. (MAS) during the first seven months of 1999. MAS passenger revenue increased by 6.1% to RM 3.2 billion (January-July 1998: 6.3%). Revenue from cargo transportation, however, contracted by 2.8% to RM569.8 million during the first seven months of 1999 (January-July 1998: 14.3%) due to lower cargo handling by 2.8%. In the case of rail transportation services, growth has been dampened by competition from other modes of transportation. As a result, Keretapi Tanah Melayu Berhad (KTMB) passenger revenue dropped by 8.9% during the first seven months of 1999 while cargo handling declined by 26%. Nevertheless, with improved facilities through the purchase of new locomotives and additional services such as the new rail link to West Port of Port Klang and the opening of North Butterworth Container Terminal, it is envisaged that these new services will contribute towards 10% or RM211.7 million increase in revenue of KTM in 1999 as against RM192.3 million in 1998.

In respect of **communications** services industry, demand for telecommunications services remains favourable. The number of cellular phone subscribers increased to 2.3 million at the end of July 1999 compared to 2.1 million at the end of 1998. Internet services provided by MIMOS increased by 55.3% to 222,730 subscribers at the end of August 1999 from 143,439 at the end of August 1998. This trend is also seen in the case of the other internet service provider, TM Net, where the number of subscribers increased by 65.5% to 364,200 at the end of August 1999 compared with 220,000 subscribers at the end of August 1998. As for fixed lines operated by Telekom Malaysia Berhad, the number of subscribers dropped by 1.8% during the first eight months of 1999 due to competition from cellular phones. The number of letters and parcels handled by Pos Malaysia is envisaged to increase by 1% from 1,036.5 million in 1998 to 1,050.4 million in 1999.

Value-added of the **finance, insurance, real estate and business services** sub-sector is envisaged to recover with a growth of 1% in 1999 (1998: -4.3%). Purchases of NPLs by Danaharta, recapitalisation by Danamodal and good progress in corporate debt restructuring has strengthened

Table 4.13

Services Sector Performance in Constant 1987 Prices

	Share of GDP (%)		Annual Growth Rate (%)	
	1998	*1999e*	*1998*	*1999e*
Electricity, gas and water	3.4	3.4	3.0	4.2
Transport, storage and communications	8.2	8.1	0.9	3.0
Wholesale and retail trade, hotel and restaurants	15.7	15.2	-3.1	1.5
Finance, insurance, real estate and business services	12.6	12.2	-4.3	1.0
Government services	7.3	7.2	1.8	3.5
Other services	8.4	8.4	3.8	4.0
TOTAL	55.6	54.6	-0.8	2.4

e estimate

banking institutions, enabling them to focus on intermediation activities. As a result, total loans outstanding (including loans sold to Cagamas and Danaharta) turned around to increase by RM424.9 billion or 1.2% at the end of July 1999 as against RM419.9 billion at the end of July 1998. Coupled with increased activities in securities market, value added in the financial services industry was higher. On the Kuala Lumpur Stock Exchange (KLSE) the total turnover of shares traded during the first nine months of 1999 increased by 83.2% to 72.9 billion units (January-September 1998: 39.8 billion units), while market capitalisation increased by 30% to RM487 billion as at 15 October 1999 (end 1998: RM374.52 billion). In the case of the insurance services industry, the combined premium income received by the industry grew by 2.9% to RM5.3 billion during the first half of 1999 (January-June 1998:3.4%). With domestic reinsurance capacity enhanced by higher capitalisation of a number of insurers while foreign professional reinsurers played a more active role, the outflow of premiums was reduced. Insurance premiums ceded overseas fell by 15.6% from RM912.6 million in 1997 to RM770.7 million in 1998. Growth however was dampened by continued decline in net premium income of general business.

Table 4.14

Growth Performance Indicators for Transport, Storage, Telecommunications, Electricity and Water Supply
(% annual change)

	Jan-July 1998	*Jan-July 1999*
Malaysia Airlines		
Revenue from cargo	14.3	-2.8
Revenue from passengers	6.3	6.1
KTM Berhad		
Revenue from cargo	-7.4	-26.0
Revenue from passengers	4.9	-8.9
Eight major ports		
Cargo throughput	-12.1	8.1
Containerised cargo	0.3	31.6
Telekom Malaysia Berhad[1]		
Business subscribers	5.5	-2.8
Residential subscribers	11.9	-1.4
Tenaga Nasional Berhad		
Electricity consumption	7.2	2.7
Installed capacity[2]	-0.8	7.3
Public Works Department		
Water consumption	2.3	1.5
Total production[2]	2.0	3.0

1 end of period

2 for whole year

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

Although the property sector is consolidating, the real estate industry has reported a significant pick up in enquiries especially for residential, commercial and industrial properties. The number of properties transacted recorded by the Valuation and Property Services Department during the first six months of 1999 increased by 15.3% to 110,754 transactions (January-June 1998: 96,085 transactions). The corresponding value of transactions increased by 17.1% to 16.94 billion (January - June 1998: RM14.46 billion).

The higher demand of the industrial and household sectors is expected to boost growth of services provided by the **electricity, gas and**

water sub-sector by 4.2% in 1999 (1998: 3.0%). Consumption of electricity by the industrial sector increased by 5.4% in January-July 1999 compared with a negative growth of 0.3% in the corresponding period of 1998. To cater to increasing demand, Tenaga Nasional Berhad is envisaged to increase its generating capacity in 1999 by 7.3% to 13,127 mega watts (mw), including through the purchase of 4,073 mw from Independent Power Producers. The volume of water supplied to customers is expected to increase by 3% to 10,382 million litres per day (mld) in 1999, from 10,080 mld in 1998. Emphasis will continue to be given to the expansion of capacities to meet increasing demand. The implementation of approved water supply projects will be accelerated to reduce the gap in urban and rural coverage.

The wholesale and retail trade, hotel and restaurant sub-sector which was also badly affected by economic slowdown is expected to turn around in 1999 with the recovery in domestic demand. Services provided by hotels and restaurants are expected to gradually pick up as a result of stronger demand and an expected stronger inflow of tourists as well as a marginal increase in per capita income. While hotel occupancy rate remained low at 47.8% for the first half of 1999, favourite tourist destinations such as hill resorts reported higher occupancy, averaging 64.3%. Reflecting the better performance of the wholesale and retail trade, collection of sales tax by the Royal Customs and Excise Department increased by 5.5% to RM2.8 billion during the first eight months of 1999 (January-August 1998: -32.5%). Consequently, for 1999 as a whole the value-added of the sub-sector is expected to increase by 1.5% (1998: -3.1%).

The Government services sub-sector which includes general public services, education, health, defence and others is expected to grow at 3.5% in 1999 against a 1.8% growth in 1998. This reflected the impact of fiscal stimulus as well as the need to expand services essential to the general population.