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Prices, Employment and Wages

Inflation, as measured by the Consumer Price Index (CPI, 1994=100), increased by 3% during the first nine months of 1999 compared with an increase of 5.2% during the same period in 1998. For the whole of 1999, the CPI is expected to remain at 3% given that the monthly CPI has decelerated from as high as 6.2% in June 1998 to 2.1% in September 1999. The pegging of the ringgit against the US dollar, decline in non-oil commodity prices and excess capacity in the domestic economy have eased price pressures. Besides, low inflation in major industrialised countries especially in Malaysia's major trading partners, has contributed to the moderation in domestic price increases. The Producer Price Index (PPI) which has decelerated significantly to 4.8% during the first eight months of this year, is also projected to decline by 3.1% in 1999 compared with an increase of 10.7% in 1998.

The labour market situation has improved in 1999 with signs of fewer retrenchments and more job vacancies. In view of an increasing number of new job seekers entering the labour market together with the excess capacity experienced by industries, wage pressures are likely to remain subdued. The unemployment rate is envisaged to improve from 3.2% in 1998 to 3.0% in 1999.

Prices

The CPI increased moderately by 3% during the first nine months of 1999 compared with an increase of 5.2% during the same period in 1998. Despite the recent pick-up in consumer demand and a decline in interest rate, inflationary pressures remained subdued because of excess capacity in the economy. In addition, price stability in Malaysia's major trading partners and the pegging

of the ringgit against the dollar at RM1=US\$0.2632 (US\$1=RM3.80) contributed to lower imported inflation. In Peninsular Malaysia, the CPI registered a growth of 3.2% during the first nine months of 1999 compared with 5.4% during the corresponding period in 1998. In Sabah, the index rose by 2.8% compared with 4.1% while in Sarawak, the CPI increased by 1.7% compared with 4.3% during the same period in 1998.

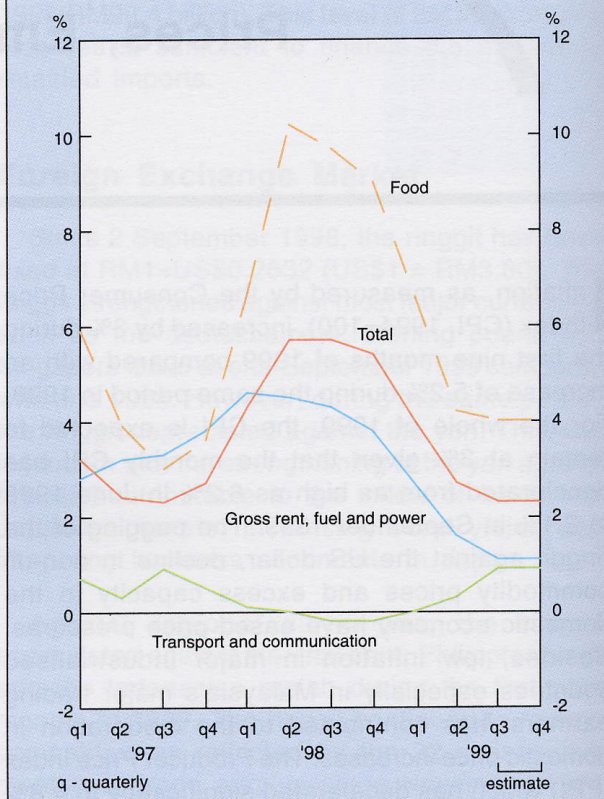
The increase in the CPI as a whole was largely due to the increase in the prices of food items, gross rent, fuel and power as well as transport and communication. The food sub-index increased moderately by 5% during the first nine months of 1999 compared with an increase of 8.9% during the corresponding period in 1998, contributing about 63% of the increase in the CPI for the period. Excluding food, the adjusted CPI increased by only 1.9%. Within the sub-group, the index for food at home from January to September 1999 registered an increase of 5.2% compared with 9.2% during the same period in 1998, while the index for food away from home increased by 4.4% compared with 8.1% during the corresponding period of 1998. In early 1999, the prices of chicken, fish and meat increased significantly as consumer demand increased as a result of shortages of pork following the outbreak of Japanese Encephalitis (JE) and Nipah virus. Since the outbreak, sales of chicken in Peninsular Malaysia increased by almost 50% from 800,000 to 1.2 million birds per day. Consumption in the Klang Valley amounted to 500,000 birds a day, double the pre-crisis level. To address the fluctuation in the prices of chicken, the Ministry of Domestic Trade and Consumer Affairs (MDTCA) has been conducting daily inspections to ensure that the pricing guideline set by the Ministry is complied. As a result, the price of chicken has remained below RM6.00 per kilogramme.

In an effort to increase food supplies, the Government has provided additional incentives by extending the Reinvestment Allowance (since 1996 Budget) to include the production of essential food items. It also provided exemption of import duties on specific equipment and inputs that would be directly used in the production of food on commercial or group enterprise basis. The Government also provides group relief incentive which allows large enterprises to deduct losses incurred in the production of approved food items from the profits of other companies in the same group for the purposes of income tax. This is in line with the Government's New Agriculture Policy (NAP) which emphasises the use of better-technology methods in commercial food production. In addition, to improve the supply and distribution of vegetables, measures have been put in place to expedite land leasing from state governments, and to upgrade the distribution and packaging system.

'Dana Pertanian' has also been launched to provide financing for agriculture projects valued between RM50,000 to RM3 million. An additional allocation of RM100 million was made to 'Dana Pertanian' over an earlier allocation of RM300 million. Under the Fund for Food Scheme (3F), a total of 2,276 applications valued at RM610.8 million were approved as at end of August this year. Out of the total, the animal husbandry sector recorded the highest loan approvals at RM310.4 million, followed by vegetables and fruits sector at RM142.2 million, fisheries (RM98.5 million), food processing (RM49.3 million) and marketing and distribution (RM10.3 million).

The Federal Agricultural Marketing Authority (FAMA) is also looking into price differentials at the farmers' markets. Farmers are encouraged to market their products direct to the consumers and in this regard FAMA has promoted the concept of 'green corner' where stalls are set up near offices, bus stations and other strategic locations to provide easier access for consumers to buy vegetables and fruits. To help keep prices in check, the machinery for enforcement and price checks of essential goods and weekly price monitoring on 233 basic items through 34 collection centres have been upgraded. The MDTCA has also opened 16 new offices nationwide and redeployed 200

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



officers from the Ministry of Agriculture to undertake enforcement work.

Among the non-food items, the index for beverages and tobacco as well as recreation, entertainment, education and cultural services increased at a higher rate of 9.4% and 3.0% compared with 2.8% and 2.9% for the period of January to September last year. On the other hand, the price index for the third largest sub-group in the CPI, transport and communication, increased at a lower rate of 0.3%, following the decline in the price index of motor cars, petrol and motor oil as well as insurance premium between 0.1% and 0.4%. This moderate increase, however, was partly offset by increases in fares for public transportation.

The CPI for medical care and health expenses, which accounted for 1.9% of the weight in the consumer basket, increased at a higher rate than

Table 7.1**Malaysia: Consumer Price Index
(1994 = 100)**

		<i>Annual Change (%) (January-September)</i>		
	<i>Weights</i>	<i>1998</i>	<i>1998</i>	<i>1999</i>
Total	100.0	5.3	5.2	3.0
Food	34.9	8.9	8.9	5.0
Beverages and tobacco	3.6	4.3	2.8	9.4
Clothing and foot wear	3.6	0.4	0.7	-2.1
Gross rent, fuel and power	21.1	4.4	4.5	1.8
Furniture, furnishings and household equipment and operation	5.6	3.9	3.7	1.7
Medical care and health expenses	1.9	6.2	6.0	3.4
Transport and communications	17.9	-0.1	0.0	0.3
Recreation, entertainment, education and cultural services	5.8	3.3	2.9	3.0
Miscellaneous goods and services	5.6	7.1	7.3	1.7
Peninsular Malaysia	100	5.5	5.4	3.2
Sabah	100	4.3	4.1	2.8
Sarawak	100	4.2	4.3	1.7

Source: Department of Statistics**Table 7.2****Malaysia: Consumer Price Index For Food
(1994 = 100)**

		<i>Annual Change (%) (January-September)</i>		
	<i>Weights</i>	<i>1998</i>	<i>1998</i>	<i>1999</i>
Total Food	34.9	8.9	8.9	5.0
Food at home	25.1	9.1	9.2	5.2
Rice, bread and other cereals	5.5	6.9	5.9	5.3
Meat	3.8	8.1	8.7	-0.4
Fish	4.9	9.1	9.3	11.2
Milk and eggs	2.3	4.7	4.4	4.3
Oils and fats	0.7	5.2	5.6	2.2
Fruits and vegetables	5.4	14.1	15.1	3.6
Sugar	0.6	19.3	18.7	2.0
Coffee and tea	0.8	10.1	9.3	4.6
Other food	1.1	4.2	3.7	4.7
Food away from home	9.8	8.4	8.1	4.4

Source: Department of Statistics

the national average. On the other hand, moderate price increases of 1.7% to 3.0%, were recorded for gross rent, fuel and power (weightage: 21.1%), furniture, furnishings and household equipment and operation, recreation, entertainment, education and cultural services and miscellaneous goods and services. The CPI for beverages and tobacco increased by 9.4% contributed partly by the increase in import and excise duty on cigarettes, tobacco products and alcoholic beverages in the 1999 Budget.

At the regional level, the CPI for Sabah increased by 2.8% for the first nine months in 1999 (January to September 1998: 4.1%) brought about mainly by a 6.1% increase in food prices. Other components that contributed to the increase are beverages and tobacco, miscellaneous goods and services, as well as furniture, furnishings and household equipment and operation. On the other hand, the prices of clothing and footwear as well as gross rent, fuel and power declined by 1.2% and 1.0%, respectively during the same period. The CPI for Sarawak, however, increased at a lower rate of 1.7% (January to September 1998: 4.3%) due to the moderate increase of 3.5% in food, the major component in the CPI. Other components which showed increases in prices were beverages and tobacco, medical care and health expenses, recreation, entertainment, education and cultural services as well as miscellaneous goods and services.

The Department of Statistics also formulated the CPI for lower income group to provide indicators on changes in the prices of essential goods and services affecting the purchasing power of this category of consumers. For the first eight months of this year, the average CPI for those earning below RM1,000 showed an increase of 4% compared with 6.2% increase for the whole of 1998. On the other hand, the increase in the CPI for those earning below RM1,500 was slightly lower at 3.7% compared with 5.8% increase in 1998. The higher rate of increase in CPI for those earning below RM1,000 is due to the fact that 43% of their monthly income is spent on food. The CPI for rural areas showed an above average increase of 3.5% for the first eight months of 1999, while that for urban areas showed an increase of 3%. The higher increase in the CPI for rural areas are due to the fact that a large proportion of the income of the rural population is also spent on food.

In an effort to provide greater protection to consumers, the Consumer Protection Act 1999 which will be gazetted by the end of this year, provides penalties for misleading and deceptive conduct, false representation and unfair practices. The Government would monitor the effectiveness of the Act, particularly provisions relating to redress for consumers as well as compliance by suppliers and manufacturers and the redress tribunal which would hear claims not exceeding RM10,000.

At the producer level, the Producer Price Index (PPI, 1989 = 100) continued to decline at 4.8% for the period of January to August 1999 compared with an increase of 13.5% during the same period in 1998 due largely to the depreciation in ringgit. The PPI measures prices of both intermediate and final goods charged by domestic producers and paid by importers. The PPI for animal and vegetable oils and fats declined by 26.6% during January to August 1999 compared with a significant increase of 77.4% for the same period in 1998. Other components which experienced price declines are crude materials inedible except fuels (-4.7%), food and live animals chiefly for food (-1.6%), manufactured good classified chiefly by materials (-1.3%) and machinery and transport equipment (-0.8%).

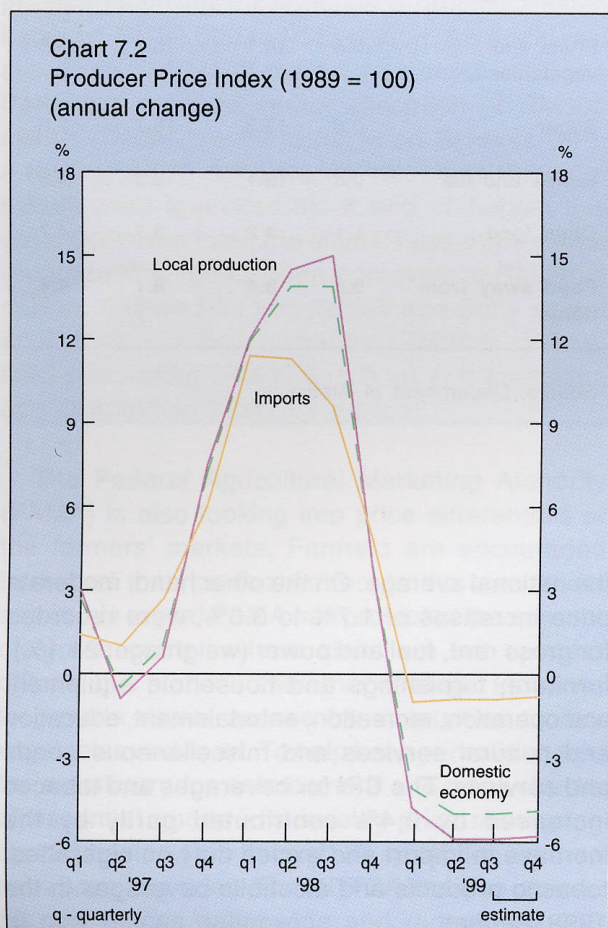


Table 7.3
Malaysia: Producer Price Index
(1989 = 100)

		<i>Annual Change (%) (January-August)</i>		
	<i>Weights</i>	<i>1998</i>	<i>1998</i>	<i>1999</i>
Domestic economy	100.0	10.7	13.5	-4.8
Food and live animals chiefly for food	14.9	8.5	9.8	-1.6
Beverages and tobacco	2.1	1.5	0.1	11.8
Crude materials, inedible except fuels	18.0	3.0	3.5	-4.7
Mineral fuels, lubricants and related materials	18.8	-2.6	2.7	3.0
Animals and vegetable oils and fats	8.5	63.8	77.4	-26.6
Chemicals and chemical productions	4.4	4.7	5.8	1.1
Manufactured goods classified chiefly by material	10.8	6.8	6.0	-1.3
Machinery and transport equipment	18.3	5.9	7.8	-0.8
Miscellaneous manufactured articles	3.6	5.4	5.1	1.9
Commodities and transactions not classified elsewhere	0.6	2.1	2.2	-0.7
Local production	79.3	11.2	14.1	-5.7
Import	20.7	9.2	11.0	-0.9

Source: Department of Statistics

Employment

The economic recovery in 1999 is expected to absorb a larger number of job seekers and therefore, provide greater stability in the job market. Total employment in 1999 is estimated to increase by 1.7% to 8.741 million compared with a decline of 2.5% in 1998. As a result, the unemployment rate is expected to improve to 3.0% in 1999 compared with 3.2% in 1998.

To minimise the impact of the financial crisis on employment, the Government undertook several measures including:

- (i) requiring employers to inform the Labour Department at least one month before retrenchment exercise;
- (ii) formulating a Guideline on Retrenchment;
- (iii) setting up task forces at the state and district levels to provide employment services to retrenched workers;
- (iv) revising the Employment Act, 1955 to allow greater flexibility in employment practices;
- (v) encouraging employers to resort to cost cutting measures such as pay-cuts, reduced working hours, temporary or voluntary lay-off besides providing career guidance for retrenched workers to get new jobs;
- (vi) setting up a fund with an allocation of RM5 million to retrain retrenched workers; and
- (vii) exempting employers in financial difficulties from paying the levy to the Human Resource Development Fund.

Employment in the agriculture, forestry and fishing sector in 1999 is estimated to continue to decline by 0.1% to 1.399 million persons (1998: 1.401 million persons). Employment in the mining and quarrying sector is also estimated to decline by 0.7% to 41,900 persons. In the construction sector, employment is estimated to decline at a smaller rate of 0.7% to 803,800 persons compared with the decline of 7.6% in 1998. Employment in the manufacturing sector which accounts for 27.1% of total employment is expected to increase by

Table 7.4

Malaysia: Employment by Sector (1998-1999)

	1998		1999 ¹	
	('000)	(% Share)	('000)	(% Share)
Agriculture, forestry and fishing	1,401.1	16.3	1,399.2	16.0
Mining	42.2	0.5	41.9	0.5
Manufacturing	2,277.1	26.5	2368.3	27.1
Construction	809.7	9.4	803.8	9.2
Electricity, gas and water	70.0	0.8	72.1	0.8
Wholesale and retail trade, hotels and restaurants	1,437.0	16.7	1,449.5	16.6
Finance, insurance, real estates and business services	417.8	4.9	420.3	4.8
Transport, storage and communications	435.3	5.1	441.9	5.1
Government services	874.8	10.2	876.5	10.0
Other services	831.9	9.7	867.2	9.9
Primary sector	1443.3	16.8	1441.1	16.5
Secondary sector	3086.8	35.9	3172.1	36.3
Tertiary sector	4066.8	47.3	4127.5	47.2
TOTAL	8,596.9	100.0	8,740.7	100.0

¹ Estimate

Source: Economic Planning Unit

4.0% to 2.368 million persons, after a decline of 4.1% in 1998. Similarly, employment in the finance, insurance, business services and real estate sector is also estimated to increase by 0.6%, while that in the transport, storage and communication sector is expected to increase by 1.5%, following further improvement in the domestic economy.

Chart 7.3 Employment Indicators

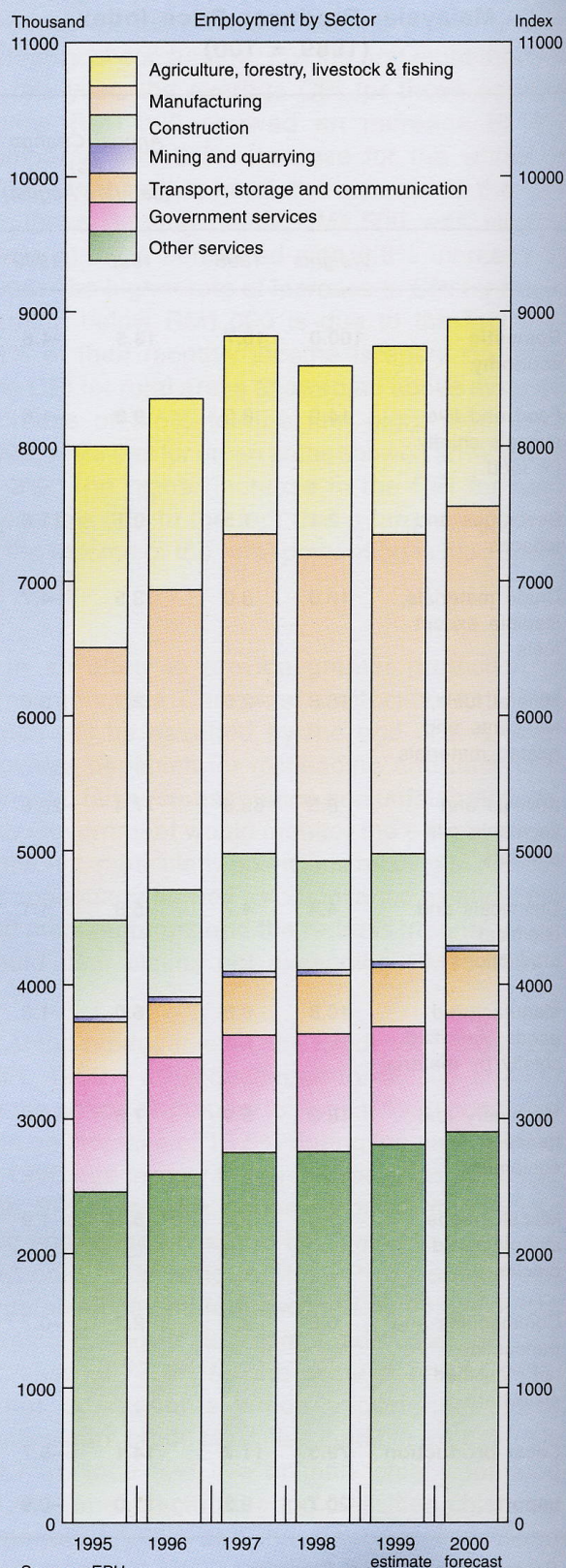


Table 7.5

**Malaysia: Comparison of Active Registrants and New Vacancies
By State**

	<i>Active Registrants¹</i>			<i>New Vacancies</i>		
	<i>July 1998</i>	<i>July 1999</i>	<i>Change (%)</i>	<i>Jan-July 1998</i>	<i>Jan-July 1999</i>	<i>Change (%)</i>
Perlis	608	636	4.6	229	262	14.4
Kedah	2,944	3,237	10.0	2255	1,775	-21.3
Pulau Pinang	1,313	1,395	6.2	13907	3,703	-73.4
Perak	2,222	2,211	-0.5	2,626	1,759	-33.0
Selangor	2,517	2,823	12.2	4,886	5,407	10.7
Negeri Sembilan	1,657	1,772	6.9	1,142	1,391	21.8
Melaka	675	620	-8.1	476	516	8.4
Johor	2,338	2,824	20.8	7,108	4,872	-31.5
Pahang	2,030	2,509	23.6	2,214	1,849	-16.5
Terengganu	3,547	3,284	-7.4	2,218	2,107	-5.0
Kelantan	1,665	1,652	-0.8	1,362	1,179	-13.4
Wilayah Persekutuan	6,104	6,797	11.4	1,582	1,408	-11.0
Sabah	4,056	4,148	2.3	2,569	1,614	-37.2
Sarawak	2,838	3,407	20.0	3,628	29,372	709.6
TOTAL	34,514	37,315	8.1	46,202	57,214	23.8

¹ Cumulative figures

Source: Manpower Department, Ministry of Human Resources

The job market for the period of January to July 1999 improved significantly with the number of job vacancies reported to the Manpower Department increasing by 23.8% to 57,214 vacancies. At the same time, the number of active job seekers registered with the Manpower Department had also increased by 17.7% to 247,998 persons (January–July 1998: 210,631 persons). The majority of the active job seekers were in the Federal Territory, which accounted for about 18.1% of total active registrants, followed by Sabah (11%), Sarawak (9%) and Kedah (9%). By occupational group, the highest number of registrants was in the clerical and related works which recorded 116,041 persons.

The number of registrants within the age group of 20-24 years, which accounted for 47% of the total number of registrants, increased by 13.3% to 116,529 registrants at the end of July 1999. Those in the age group of 15-19, which accounted for the second largest group, increased at a higher rate of 23.4% to 56,642, indicating that school leavers were among the largest new registrants in the job market. Most of them were Sijil Pelajaran Malaysia (SPM) holders, which recorded an increase of 16.1% to 126,650 persons at the end of July 1999.

As at the end of July 1999, job vacancies reported by the Manpower Department increased

by 23.8% (57,214 vacancies) compared with the same period last year (46,202 vacancies). The occupational group which recorded the most number of vacancies were production and related works, transport, equipment operators and labourers with 41,048 vacancies or 71.7% of the total. However, the agricultural sector reported the highest rate of increase in vacancies, increasing by 757.2% to 7,072 (January – July 1998: 825). Vacancies for professional, technical and related works were also higher at 1,866 (January-July 1998: 1,749). On the other hand, vacancies for clerical and related works remained at about the same level, with 3,914 vacancies (January-July 1998: 3,981).

The Government will continue to expand technical and vocational training institutions to meet the increasing demand for skilled labour. Thus far, a total of 65 vocational schools were upgraded to technical schools. As for polytechnics, two new ones (one each in Melaka and Terengganu) were added to the existing 12 in the country. In 1999, about 8,000 students are expected to graduate from these polytechnics. Next year, another polytechnic will be built in Perlis.

The curriculum is being constantly reviewed to ensure that students are well equipped to meet the changing requirements of a modern economy. Elements of information technology (IT) have already been incorporated into the science curriculum. At a later date, microelectronics will be incorporated into the physics curriculum. By the year 2005, 1,565 secondary schools and 7,242 primary schools will be provided with computer laboratories. In addition, smart school pilot projects involving 90 schools have been launched. It is envisaged that all 9,000 schools in the country will be part of the smart school project in the near future.

By the year 2000, the demand for tertiary education in local institutions of higher learning is expected to increase further. Total enrolment is expected to increase from 190,623 in 1998 to 243,143 in 2000. Private tertiary institutions are also expected to increase their enrolment, either through expansion of physical facilities or through increasing the number of new institutions being

approved. The Government, through the National Accreditation Board, will ensure that the quality of education offered by private institutions is of high standard and affordable, while teaching and learning facilities are at par with public institutions. The Government has also approved more private colleges to conduct “3+0” degree programmes, an arrangement which will enable students to complete the full duration of studies in Malaysia. By the end of 1999, the total number of private universities and colleges is expected to increase to 398 from 365 at the end of 1998.

The Government established the Human Resource Development Fund (HRDF) on January 1, 1993 to promote training of employees in the private sector, funded through a levy. However, with the onset of the crisis in 1997, the collection of levy was suspended. It was reactivated in August 1998 with companies showing profits required to pay the levy. Companies in industries experiencing a decline in their production or facing financial problems were exempted from the levy until 11 August 1999. As at 30 June 1999, a total of RM596 million has been collected, and about RM666 million was utilised in training 2.26 million employees. There is greater demand for training in technical areas, in enhancing quality and productivity, as well as in computer and management skills. The HRDF will be expanding its coverage to include private education institutions which have more than 10 Malaysian employees.

The number of reported retrenchment has declined significantly to 1,328 employees in August 1999 from 12,335 in July 1998, the highest retrenchment reported since the onset of the financial crisis. For the period of January to July 1999, about 24,036 employees were retrenched, a decline of 53.6% as compared with the same period of last year. Of the total, about 94.4% were Malaysians and 5.6% were foreign workers. Most of the retrenchments (43.5%) were in Selangor and Kuala Lumpur with 5,969 and 4,477 employees respectively. On sectoral basis, the manufacturing sector has retrenched 13,107 employees or 54.5% of the total.

While conditions in labour market have improved, **wage** pressures continued to remain subdued. Based on a monthly survey conducted by the Department of Statistics (DOS) for the manufacturing industries, the average nominal

Table 7.6
Malaysia: Private Sector Wage Agreements

	<i>No. of Wage Agreements</i>		<i>No. of Workers Involved</i>		<i>Average wage Increases (%)</i>	
	<i>1998</i>	<i>1999¹</i>	<i>1998</i>	<i>1999¹</i>	<i>1998</i>	<i>1999¹</i>
Manufacturing	146	55	37,175	14,174	8.0	6.8
Commerce	23	13	4,240	1,157	8.0	3.9
Transport	37	13	42,389	3,486	8.0	9.9
Services	52	12	50,419	3,495	14.0	8.1
Agriculture	11	9	6,665	51,964	13.0	16.1
Mining	4	1	160	9	11.0	4.0
Electricity	0	4	0	9,417	0.0	3.0
Construction	1	0	152	0	10.0	0.0
Others	10	6	1,171	441	11.0	8.4
TOTAL	284	113	142,331	84,143	9.2	6.7

¹ January-June

Source: Ministry of Human Resources

wage per worker declined marginally by 1% for the first seven months of 1999, compared with an increase of 6.4% for the same period in 1998. Similarly, the number of private sector collective wage agreements concluded in 1999 also declined. These collective agreements cover only 2% of the total workforce throughout the country. Wage agreements concluded in the manufacturing sector during the first six months of the year entailed an average wage increase of 6.8%, while transportation, storage and communication sector entailed a larger increase in average wage of 9.9%.

The survey also revealed that real average wage per worker declined further by 5% (January

– July 1998: -10.1%), as the increase in wage bill was relatively slower than the increase in sales revenue. Meanwhile, labour productivity, measured by total output per worker showed a slight improvement of 0.4% for the first seven months of 1999 (January – July 1998: -3.1%), partly due to the higher rate of increase in output than the increase in employment. Hence, the unit labour cost continued to decline by 5.4% during the same period (January – July 1998: -7.2%), which should make Malaysian products even more competitive in the global market. As the economy is expected to pick up strongly in the second half of 1999, productivity is likely to increase further. This is in line with Government's policy of encouraging productivity-based wage increase.

There were seven cases of strikes during the period January–July 1999. As a result, the number of man-days lost is more than five times higher at 8,568 compared with 1,479 during the same period last year. The manufacturing sector suffered the most number of man-days lost. The disputes, involving 2,459 workers, were mainly related to the terms and conditions of work and retrenchment.

The Government continues with its policy of reducing the economy's dependence on **foreign workers**. However, the continued shortage of trained workers particularly in the services sector, has led the Government to allow existing foreign workers to extend their work permits. Meanwhile, in an effort to boost employment, the Government

introduced a new regulation requiring hotels and entertainment outlets to employ Malaysians. As at July 1999, the number of foreign workers declined to 715,145 compared with 1,033,497 last year, due largely to the repatriation of foreign labour since early 1998. Foreign workers were mainly employed in the manufacturing sector (227,003 workers or 31.7% of total registered foreign workers). The Ministry of Home Affairs, together with the Ministry of Human Resources and the Immigration Department, in the process of formulating guideline to specify the type of jobs and sectors that could be opened to foreign workers in line with the Government's objective to reduce the number of foreign workers as well as expedite capital intensive production.