



Economic Performance and Prospects

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Economic Performance and Prospects

Overview

Economy remains resilient despite external challenges...

The Malaysian economy posted stronger-than-expected real Gross Domestic Product (GDP) growth of 6.7% in the first half of 2008. Growth was supported by robust private and public consumption as well as strong external demand. However, given the increased external uncertainties, growth is expected to moderate in the second half of the year. The slowdown of the United States (US) economy and high crude oil prices are expected to adversely impact export growth, especially electrical and electronic (E&E) products. On the domestic front, inflationary pressures arising from high oil and food prices are envisaged to affect consumer spending and investment. Notwithstanding these challenges, the economy continues to benefit from firm commodity prices as well as strong growth in developing and emerging markets, thus ameliorating the effects arising from the global slowdown. In addition, several measures taken by the Government to reduce household burden arising from high fuel prices are expected to mitigate the impact of rising costs. Overall, the economy is expected to record creditable growth of 5.7% in 2008.

On the supply side, growth is envisaged to be broad-based led by the services sector, especially the wholesale and retail trade, accommodation and restaurant as well as finance and insurance sub-sectors. Given the strong performance of resource-based industries and the slight recovery in global electronics demand, the manufacturing sector is envisaged to expand at a steady pace. Growth in the agriculture sector is expected to be propelled by palm oil production, while the

mining sector continues to be driven by higher crude oil output. Construction sector continues to grow supported by civil engineering works being implemented under the Ninth Malaysia Plan (9MP) as well as robust activities in the oil and gas industry.

Meanwhile, on the demand side, growth will be driven by consumption and private investment. Private consumption is expected to remain resilient on the back of strong commodity prices, favourable interest rates and low unemployment level. Growth in private investment is envisaged to be sustained, while public investment is expected to increase at a slower pace.

The balance of payments (BOP) position remains favourable despite uncertainties in the global market. Trade surplus is expected to be larger, backed by export receipts from commodities, such as palm oil and crude petroleum. As a result, the goods account is envisaged to register a higher surplus. Growth in the tourism industry contributes to the net inflows in the travel account. This, in turn, will cushion the higher net outflows from the transport and other services account. The current account is, therefore, projected to record a higher surplus of RM115.0 billion or 16.4% of Gross National Product (GNP).

With the moderation of economic activities in the second half of the year, national income as measured by GNP in nominal terms is expected to grow 11.6% to RM700.8 billion (2007: 12.9%; RM628.1 billion) with per capita income rising 9.3% to RM25,274 (2007: 10.7%; RM23,114). In terms of purchasing power parity (PPP), nominal income per capita is envisaged to record a double-digit growth rate of 14.7% to USD16,617 in 2008 (2007: 19.1%; USD14,483).

Sectoral Performance

Services Sector

Services sector remains the key engine of growth...

Growth momentum of the **services sector** is anticipated to remain strong in 2008, expanding 7.1% and accounting for 54.3% of GDP (2007: 9.7%; 53.6%), as shown in *Table 3.1*. The sector is expected to contribute 3.8 percentage points to the overall rate of GDP growth, driven by sustained domestic consumption and trade-related activities.

The **intermediate services** group is expected to remain healthy, registering growth of 7.4% (2007: 11.7%), spurred by finance and insurance as well as transport and storage sub-sectors. In addition, the **final services** group is expected to grow 7.6% in 2008 (2007: 9.2%), supported largely by the wholesale and retail trade as well as accommodation and restaurant sub-sectors.

The **wholesale and retail trade sub-sector** is expected to perform favourably, registering growth of 9.4% in 2008 (2007: 12.5%), while the **accommodation and restaurant sub-sector** is estimated to expand 7.6% (2007: 10.8%). The growth momentum of both sub-sectors is supported by higher consumer spending, sustained domestic investment and higher tourist arrivals.

Growth in retail activity is supported by the expansion of existing businesses and the establishment of new outlets by local and international hypermarket chain operators. Currently, there are 86 foreign-owned hypermarkets and superstores operating in the country. International branded outlets have entered the local retail market, selling designer fashions and goods, thereby creating new businesses and investment opportunities for local suppliers and investors. The presence of foreign retailers complements the Government's efforts to attract more tourists and increase receipts, particularly from high-spending tourists. In line with efforts to promote Malaysia as the preferred shopping

TABLE 3.1

Gross Domestic Product (GDP) by Sector 2007 – 2009

(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2007	2008 ¹	2009 ²	2007	2008 ¹	2009 ²	2007	2008 ¹	2009 ²
Agriculture	2.2	3.6	3.7	7.6	7.5	7.4	0.2	0.3	0.3
Mining	3.3	2.8	3.4	8.4	8.2	8.1	0.3	0.3	0.3
Manufacturing	3.1	4.7	4.3	30.1	29.8	29.5	1.0	1.4	1.3
Construction	4.6	4.0	3.1	3.0	3.0	2.9	0.1	0.1	0.1
Services	9.7	7.1	6.9	53.6	54.3	55.1	5.0	3.8	3.7
Less: Undistributed FISIM³	7.5	7.2	7.0	3.9	4.0	4.0	0.3	0.3	0.3
Add: Import duties	4.4	11.3	-0.2	1.1	1.2	1.1	0.0	0.1	0.0
GDP	6.3	5.7	5.4	100.0	100.0	100.0	6.3	5.7	5.4

¹ Estimate.

² Forecast.

³ Financial Intermediate Services Indirectly Measured (FISIM).

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.2

Services Sector Performance 2007 – 2009

(at constant 2000 prices)

	Change (%)			Share of GDP (%)		
	2007	2008 ¹	2009 ²	2007	2008 ¹	2009 ²
Intermediate services						
Transport and storage	10.0	8.4	7.3	3.7	3.8	3.9
Communication	7.0	8.0	8.7	3.7	3.8	3.9
Finance and insurance	11.1	8.4	8.1	10.7	10.9	11.2
Real estate and business services	18.2	4.3	7.8	5.3	5.2	5.3
Final services						
Utilities (electricity, water and gas)	3.9	4.3	4.3	3.0	3.0	2.9
Wholesale and retail trade	12.5	9.4	7.4	12.2	12.6	12.9
Accommodation and restaurant	10.8	7.6	6.9	2.4	2.4	2.4
Other services	5.0	5.4	5.4	5.7	5.7	5.7
Government services	4.5	4.2	4.0	6.9	6.8	6.7
Total	9.7	7.1	6.9	53.6	54.3	55.1

¹ Estimate.

² Forecast.

Source: Department of Statistics and Ministry of Finance, Malaysia.

destination, tourist expenditure on shopping is expected to increase 8.1% to RM13.3 billion in 2008 (2007: 31.5%; RM12.3 billion) and remains the second largest component of total tourist receipts.

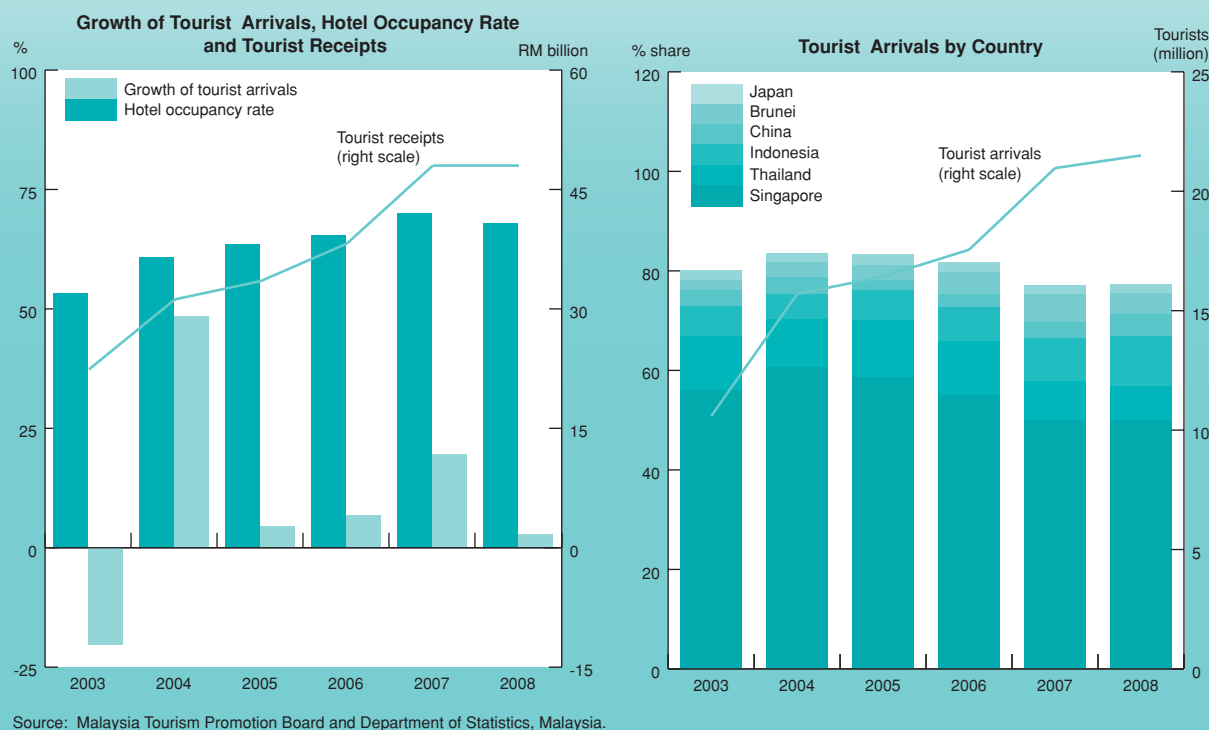
The tourism industry continues to spur growth in the services sector. In 2008, Malaysia is expected to receive 21.5 million tourists, with average length of stay of 6.7 nights and generating a total revenue of RM48 billion, following the extension of the Visit Malaysia Year (VMY) programme to August 2008. In addition, promotional activities in conjunction with Visit Kedah, Kelantan and Terengganu Year, launched in January 2008, are expected to further stimulate tourism activities. The Government's efforts to strengthen domestic tourism and develop tourist attractions in the growth corridors are anticipated to further drive the growth of the industry. Furthermore, the United Nations Educational, Scientific and

Cultural Organisation has listed Langkawi as part of its global network of geoparks, as well as designated Melaka and George Town as World Heritage Sites. These initiatives are anticipated to further position Malaysia as an international tourism destination.

During the first six months of 2008, tourist arrivals increased 2.6% to 11 million (January – June 2007: 24.8%; 10.7 million). The higher tourist arrivals were attributed to continuous marketing efforts, the hosting of various international events, increased flight frequencies and connectivity as well as competitive fares offered by domestic airlines. The top three tourist generating markets were Singapore (49.9%), Indonesia (10.0%) and Thailand (6.9%). Apart from Association of Southeast Asian Nations (ASEAN) countries, other markets that offer high growth opportunities for the tourism industry are China, India, Europe and West Asia.

CHART 3.1

Tourism Industry



Recognising the significant contribution from the tourism industry, the Government has focused on promoting specific tourism products and destinations. Special promotions are undertaken to market niche tourism products, such as eco-tourism, edu-tourism, health tourism, sports tourism, Malaysia My Second Home (MM2H) as well as homestay. The Government is also working closely with neighbouring countries to package the ASEAN region as an attractive destination. Furthermore, a Multiple Entry Visa, which provides a longer validity period up to one year, was also introduced to facilitate the entry of business travellers.

Foreign tourist spending also contributes to the growth in the accommodation and restaurant sub-sector. In 2008, expenditure on accommodation is expected to increase 0.8% to RM14.4 billion (2007: 10.9%; RM14.2 billion) and remains as the main component of total tourist receipts. Similarly, expenditure on food and beverages is expected to increase 1.3% to RM8.5 billion (2007: 22.9%; RM8.3 billion).

Malaysia's tourism industry has also benefited through spin-offs from the international Meetings, Incentives, Conventions and Exhibitions (MICE) activity. In 2008, the number of MICE visitors to Malaysia is expected to reach 2.3 million with 9,375 events, yielding RM7.1 billion tourist receipts (2007: 1 million; 4,221; RM3.2 billion). In addition, the Government has also intensified the promotion of the MM2H programme to attract more foreigners to stay long term and invest in Malaysia. Since 2002 till end-June 2008, there were 10,965 participants under the programme, mainly from China, Bangladesh, UK and Japan.

The **finance and insurance sub-sector** is estimated to expand 8.4% in 2008 (2007: 11.1%), supported by increasing bank lending and fee-based activities. The stable interest rate environment is expected to sustain demand for financing from households and businesses. Additionally, expansion in Islamic finance and capital market operations will further enhance growth of the sub-sector. As at end-June 2008,

total loans outstanding of the banking system grew 11.7% to RM685.9 billion (end-June 2007: 6.0%; RM614 billion), with loans to small and medium enterprises (SMEs) and households comprising 17.8% and 54.5%, respectively (end-June 2007: 17.7%; 55.7%). Furthermore, growth in the sub-sector was contributed by higher insurance activity due to improvements in the general insurance segment following higher demand for motor vehicles.

During the first half of 2008, growth in the **transport and storage sub-sector** was supported by increased travel and trade-related activities. Higher activity in the water transport services, particularly to cater for the oil and gas industry as well as improved port, airport and highway operations, contributed significantly to the expansion of the sub-sector. Despite high fuel prices, growth in the transport and storage sub-sector is expected to remain healthy at 8.4% for the whole of 2008 (2007: 10.0%).

Driven by strong increase in the volume of transshipment, total containers handled at seven major ports (Klang, Tanjung Pelepas, Johor, Penang, Kuantan, Bintulu and Kuching) recorded sturdy growth of 8.6% to 7.9 million twenty-foot equivalent units (TEUs) in the first half of 2008 (January – June 2007: 14.3%; 7.3 million TEUs). Rising regional transshipment, particularly in intra-Asian trade, coupled with enhanced connectivity to foreign ports, underpinned the strong performance in the segment. The upgrading of infrastructure and machinery along with improvements in productivity and efficiency also boosted demand for port services. Total container throughput is envisaged to grow 12.2% to 16.8 million TEUs in 2008 (2007: 12.9%; 15 million TEUs).

In the first six months of 2008, Port Klang, which comprises Northport and Westports, handled 3.9 million TEUs, accounting for 49.8% of total container throughput (January – June 2007: 3.4 million TEUs; 46.7%). Meanwhile, Port of Tanjung Pelepas (PTP) registered 2.8 million TEUs, contributing 34.9% of total containers handled (January – June 2007: 2.7 million TEUs; 37.4%). According to Containerisation International, Port Klang remained at 16th position (2006: 16th) and PTP improved to 18th position (2006: 19th) in terms

of total TEUs handled in 2007. The number of ships calling at major ports totalled 21,613 ships (January – June 2007: 21,767), with Port Klang taking the biggest share amounting to 38.9% (January – June 2007: 38.5%).

Concerted efforts are also underway to further enhance the capacity and competitiveness of domestic ports to meet the rising demand for efficient port services. These include, among others, initiatives to deepen wharfs and increase the number of berths to cater for larger ships as well as to secure more main line operators. Initiatives to upgrade facilities and services leading to efficient and fast turnaround vessel services are expected to further intensify port operations. More value added services, such as distribution park (distripark) services, *halal* hub services, warehousing, cold storage and Free Commercial Zones, are anticipated to further support the growth of the segment.

Growth in the land transportation segment is expected to continue at a steady pace in 2008, supported by higher ridership and the provision of improved facilities, services as well as land and rail infrastructure. In the first six months of 2008, the number of vehicles plying tolled highways increased 8.9% to 611.6 million (January – June 2007: 3.1%; 561.7 million). This is attributable to the ongoing upgrading of highways and completion of highway projects, such as the Butterworth Outer Ring Road and Stormwater Management and Road Tunnel, or SMART, as well as the Kuala Lumpur – Putrajaya Highway. Meanwhile, average daily ridership on RapidKL bus services increased 11.9% to 385,413 passengers during the period (January – June 2007: 344,532), largely due to improved frequency and service quality as well as increased connectivity. Additionally, RapidPenang, which started operations in August 2007, registered a total of 14.2 million passengers as at end-June 2008. The increase in ridership was also partly attributed to the shift from private vehicle usage to public transport following the fuel price hike, effective 5 June 2008.

Ridership on urban rail services in the Klang Valley (Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter) increased 2.1% to 83.7 million passengers in the

first half of 2008 (January – June 2007: 3.7%; 82 million). Several initiatives are being implemented to improve urban land and rail transportation. These include continuous enhancement in the integration of transport modes, particularly through improving connectivity, networks and information system as well as upgrading of ticketing machines at stations. In tandem with the rising demand for public transport, efforts are underway to improve the connectivity of the Kelana Jaya and Ampang Lines. These lines will be extended from Kelana Jaya and Sri Petaling to Putra Heights, which will be an interchange station for both lines.

Keretapi Tanah Melayu Berhad (KTMB) inter-city passenger traffic was sustained at 1.7 million passengers in the first half of 2008, while passenger revenue rose 3.5% to RM35.8 million (January – June 2007: -2.7%; RM34.6 million), largely due to increased number of long distance travellers. Revenue from freight services, the main earner for KTMB, rose marginally by 0.2% to RM58.8 million on account of sustained shipments of building materials for construction activities.

Growth prospects in the land transportation segment is expected to remain favourable supported by continuous improvement of public transport infrastructure, such as building of the integrated transport terminal (Bandar Tasik Selatan), construction of new highways (Senai – Desaru, East Coast Phase 2, Duta – Ulu Kelang, Kajang – Seremban and Kemuning – Shah Alam) and electrified double tracking projects (Sentul – Batu Caves, Seremban – Gemas and Ipoh – Padang Besar), as well as expansion of rail capacity with additional passenger coaches. Additionally, the completion of the Rawang – Ipoh electrified double tracking project in December 2007 will enable KTM Komuter services to be extended to Tanjung Malim by 2009.

Growth in the air transport segment remained encouraging during the first six months of 2008 despite the challenging operating environment following high global fuel prices. Continued network enhancement, fleet expansion, aggressive promotional activities as well as competitive rates offered by local airlines supported the growth of the segment. The number of passengers on

Malaysia Airlines System (MAS) and AirAsia grew 5.3% to 11.9 million passengers (January – June 2007: -0.1%; 11.3 million), largely attributed to higher demand for budget travel and the liberalisation of the Kuala Lumpur – Singapore route in February 2008. Similarly, air cargo for both carriers improved significantly at 10.4% to 277 million tonnes (January – June 2007: -6.1%; 251 million tonnes) on account of increased capacity and network. Additionally, the operations of new airlines, such as Firefly (April 2007), MASWings (October 2007) and AirAsia X (November 2007), also contributed to the growth of the segment. Since its inception till end-June 2008, Firefly registered 274,271 passengers and MASWings, 499,027 passengers while the number of passengers on AirAsia X stood at 111,428.

Passenger traffic at all airports in the country registered a healthy growth of 8.7% to 23.9 million passengers in the first six months of 2008 (January – June 2007: 2.1%; 22 million). Similarly, the Kuala Lumpur International Airport (KLIA) passenger traffic rose 7.7% to 13.5 million passengers (January – June 2007: 7.3%; 12.5 million), supported by the operations of new airlines and higher tourist arrivals. As at end-June 2008, the number of airlines operating at KLIA increased to 54 airlines (end-June 2007: 48), underpinned by intense promotional efforts coupled with attractive incentive packages as well as improved facilities at the airport. Total air cargo handled at all airports in the country rebounded significantly at 5.4% to 491 million tonnes (January – June 2007: -9.6%; 466 million tonnes). Likewise, air cargo handled at KLIA increased 17.7% to 345 million tonnes (January – June 2007: -9.3%; 293 million tonnes).

The domestic air transport industry is anticipated to remain competitive against a challenging backdrop of high fuel prices and the progressive liberalisation of the air industry. Apart from raising the fuel surcharge to manage higher operating costs, the airlines have also embarked on various efforts to ensure comfortable and customer-friendly services, including enhanced e-ticketing services and self check-in kiosks to increase efficiency and productivity. The budget travel industry is expected to receive a further boost with the upgrading of the Low-Cost Carrier Terminal at

KLIA, which is scheduled for completion in early 2009 to accommodate 15 million passengers, up from the current 10 million capacity. The air industry is also envisaged to benefit further with the hosting of the 14th World Route Development Forum in Kuala Lumpur by Malaysia Airports Holding Berhad in October 2008. As the first Asian country to host this event, Malaysia will benefit from new business opportunities, such as fostering partnerships and alliances as well as building networks with international players.

The **communication** sub-sector is envisaged to grow 8.0% in 2008 (2007: 7.0%), underpinned by significant growth in the telecommunications industry, largely attributed to higher usage of cellular and broadband services. The cellular segment continued its impressive performance with growth emanating mainly from increased usage of data, voice and multimedia services. As at end-June 2008, the cellular phone subscriber base grew 18.2% to 25.1 million (end-June 2007: -1.4%; 21.2 million) with prepaid and post-paid subscribers at a ratio of 80:20. The Malaysian cellular market is among the more matured markets in the region with a penetration rate of 90.6%, making Malaysia the second highest in Southeast Asia, after Singapore. Growth in the cellular segment was fuelled by intense competition and improved service quality by service operators. In addition, the expected launch of the Mobile Number Portability exercise and the entrance of new Mobile Virtual Network Operators, are anticipated to further intensify the competitive nature of the telecommunications industry.

Additionally, higher usage of data services as reflected by the short message services (SMS) traffic contributed further to the progress of the cellular segment. In the first six months of 2008, SMS traffic registered a notable growth of 35.9% to reach 34.2 billion (January – June 2007: 67.1%; 25.2 billion), mainly attributed to pervasive use during the 2008 general election. Furthermore, as at end-June 2008, third generation (3G) mobile services subscriptions increased markedly to 201.1% with 2.5 million subscribers, largely driven by affordable pricing and increasing demand for mobile broadband applications (end-June 2007: 319.2%; 830,000). The 3G adoption is expected to reach 3.9 million subscribers by end-2008.

The broadband segment continued to expand 51.6% to 1.7 million subscribers with a penetration rate of 6.1% as at end-June 2008 (end-June 2007: 69.1%; 1.1 million; 4.1%). This was largely due to offerings of bundled services along with innovative pricing plans and enhanced service quality. Growth in the segment is anticipated to remain buoyant as the Government adopts various measures to intensify broadband deployment across the country. This includes the setting up of the Cabinet Committee on Broadband in May 2007 as well as the public-private collaboration with *Telekom Malaysia* (TM) to roll-out high speed broadband services to cover 2.27 million premises over 10 years. Additionally, the Government has announced several fiscal incentives in the 2008 Budget to boost broadband adoption including the provision of last-mile infrastructure tax allowance, sales tax and import duty exemptions on broadband equipment as well as tax deductions to employers on broadband benefits provided to employees.

As for wireless broadband, the roll-out of hotspot services in Malaysia is expanding. As at end-June 2008, the number of wireless hotspots rose to 1,756 locations nationwide (end-June 2007: 1,463), with Selangor and Kuala Lumpur representing 55.8% of total hotspot locations. Additionally, to make Kuala Lumpur a wireless city by 2010, the KL Wireless Metropolitan Project outlined under the Klang Valley Broadband Push 90 initiative, aims to roll-out 1,500 Wireless Fidelity, or Wi-Fi hotspots, within selected areas in Kuala Lumpur by January 2009. The project is expected to provide Kuala Lumpur residents with free wireless broadband for two years, thus enabling 80% of Kuala Lumpur residents to have broadband access when fully deployed. Furthermore, the Worldwide Interoperability for Microwave Access, or WiMAX technology, is expected to contribute significantly towards achieving the Malaysian Information, Communications and Multimedia Services 886 target of 50% broadband household penetration by 2010.

As at end-June 2008, the internet dial-up subscriber base contracted marginally by 0.1% to reach 3.9 million subscribers (end-June 2007: 3.6%; 3.9 million). The growth rate in dial-up has been low and this trend is expected to continue since broadband services are increasing their market

share, particularly due to changing lifestyle patterns and ease of usage. Similarly, the number of fixed line subscriptions contracted 1.0% to 4.3 million (end-June 2007: 0.3%; 4.4 million), due to the preference for cellular phones.

As for broadcasting services, the subscription-based satellite television, ASTRO, has 2.4 million subscribers with household penetration rate of 42.2% as at end-June 2008 (end-June 2007: 2.3 million; 35.8%) on account of continuous upgrading of its service quality and offerings of attractive packages to cater for the diverse viewing preferences of consumers. Subscriber growth momentum is expected to pick up in the second half of 2008, particularly with the telecast of the Beijing 2008 Olympic Games.

The postal services activity as represented by *Pos Malaysia Berhad* (PMB) recorded revenue growth of 8.8% to reach RM470.6 million during the first half of 2008, on the back of higher mail and courier volume (January – June 2007: 3.8%; RM432.7 million). Total mail volume handled contracted 2.0% to 672.6 million items (January – June 2007: 4.0%; 686.5 million), largely due to competition from other service providers and migration of customers to electronic modes of communication. Meanwhile, the courier business continued to register robust growth of 70.0%, handling 8 million items (January – June 2007: 14.0%; 4.7 million), largely attributed to improved business volume from contract customers as well as deployment of the POS Integrated Track and Trace Information System. The transactions processed over-the-counter at all post offices nationwide are expected to increase, particularly during the second half of 2008 as PMB handles the disbursement of the fuel cash rebate to eligible private vehicle owners with effect from 14 June 2008 to 31 March 2009.

The **real estate and business services sub-sector** is anticipated to expand 4.3% in 2008 (2007: 18.2%), supported by steady real estate activity. The business services segment is expected to register slower growth in line with the anticipated lacklustre performance in the global equity market. During the first six months of 2008, trading

activity in *Bursa Malaysia* contracted 60.1% to a daily average turnover of 679.9 million units (January – June 2007: 98.8%; 1,705.1 million units), thereby resulting in lower brokerage fee. The number of real estate transactions grew 20.1% to 171,564 transactions (January – June 2007: 8.8%; 142,886), particularly in the residential sub-sector, raising the value of transactions by 39.5% to RM46.5 billion (January – June 2007: 11.7%; RM33.3 billion). In addition, loans approved for the purchase of residential property increased 43.1% to RM30 billion (January – June 2007: 27.8%; RM21 billion) and loans approved for the purchase of non-residential property rose 43.1% to RM17 billion (January – June 2007: 71.5%; RM11.9 billion).

The growth of the business services segment will also be supported by increased outsourcing activity and higher demand for information technology (IT) related services. The performance of the shared services and outsourcing (SSO) activities, which encompass business process outsourcing, is expected to remain favourable in view of the steady increase in the number of back-office processing and customer support-related companies. During the first six months of 2008, a total of 70 regional establishments were approved in Malaysia, comprising six operational headquarters, two international procurement centres, one regional distribution centre, 28 regional offices and 33 representative offices. These establishments, besides providing knowledge-based and high value added job opportunities, are also expected to enhance international connectivity and linkages with global companies.

Prospects for outsourcing activities are expected to remain positive with ongoing Government efforts to position Malaysia as the preferred location for high-end SSO services, as well as a one-stop outsourcing centre for multinationals. For the past three years, Malaysia has retained its position as the third best destination in the world for outsourcing activities, after India and China, as reflected in the A.T. Kearney Global Services Location Index. The ranking took into account three main categories,

namely, financial attractiveness, people and skills availability as well as the business environment.

Over the 12-year span since its inception till end-June 2008, the Multimedia Super Corridor Malaysia (MSC Malaysia) has contributed significantly towards developing the IT industry, spawning 2,076 companies across four technology clusters. These are Software and eSolutions (77.8%), Creative Multimedia (10.7%), SSO (7.2%) as well as Institutions of Higher Learning and Incubators (4.3%). During the first half of 2008, 82 companies were awarded the MSC Malaysia status (January – June 2007: 123). These companies are expected to provide 10,258 job opportunities and generate RM641 million investments by the third year of operations. Currently, there are 13 MSC Malaysia Cybercities and Cybercentres nationwide, including i-City and TM Tower that were recently awarded MSC Malaysia Cybercentre status in May 2008. During the 2008 – 2010 period, the roll-out of MSC Malaysia to Putra Square (Pahang), Kuching (Sarawak) as well as Kota Kinabalu (Sabah) is expected to further boost the business services segment. Moreover, the hosting of the 16th World Congress on Information Technology (WCIT) in May 2008 in Kuala Lumpur marked an important milestone in providing opportunities for local IT companies to promote their products and services globally.

The **utilities sub-sector** is estimated to expand 4.3%, reflecting sustained demand for electricity and water in 2008 (2007: 3.9%). During the first six months of 2008, electricity generation increased 3.7% (January – June 2007: 4.4%), while sales of electricity grew 5.8% following higher demand from industrial, commercial and household segments (January – June 2007: 4.8%). The industrial segment accounted for 46.9% of total electricity consumption followed by commercial (32.1%) and household (19.6%). Maximum demand for electricity peaked at 14,007 megawatts (MW) in May 2008 (January – June 2007: 13,409 MW; March). Meanwhile, water supply to customers grew 2.1% to 12,837 million litres per day (mld) (January – June 2007: 3.3%; 12,573 mld).

The **government services sub-sector** is expected to grow at a slower pace of 4.2% in 2008 (2007: 4.5%), partly due to recent measures to reduce expenditure. Nevertheless, government services will be supported by efficiency and productivity gains as well as continuous efforts to provide higher quality essential services.

The **other services sub-sector** is expected to sustain a growth rate of 5.4% in 2008 (2007: 5.0%). This is mainly attributed to increased activities in private education and health. As at end-June 2008, there are 525 private higher education institutions (HEIs), comprising 37 universities and universities colleges as well as 488 private colleges. The enrolment of international students in Malaysian HEIs is expected to increase 7.5% to 51,530 students in 2008 (2007: 8.0%; 47,928) with 42,300 students in private HEIs and the rest in public HEIs. The Malaysian Qualifications Agency (MQA) was established on 1 November 2007, following the merger of National Accreditation Board and Quality Assurance Division, Ministry of Higher Education. The MQA is entrusted to implement the Malaysian Qualifications Framework as a basis for quality assurance of higher education and as the reference point for the criteria and standards for national qualifications. Meanwhile, following the aggressive promotion of health tourism, the number of foreign tourists seeking treatment in private hospitals is expected to expand 15.0% to 392,482 patients, generating total revenue of RM329.9 million in 2008 (2007: 15.0%; 341,288; RM253.8 million). Currently, a majority of the patients are from Indonesia (78.0%) followed by Japan, Europe, India and China.

Manufacturing Sector

Growth driven by domestic-oriented industries...

The **manufacturing sector** is expected to grow 4.7% in 2008 (2007: 3.1%), driven by higher production in the domestic-oriented industries. Meanwhile, export-oriented industries are envisaged to register moderate growth due to marginal expansion in E&E output. However, the

output of petroleum, rubber as well as machinery and equipment industries are expected to record strong growth. Overall, the manufacturing sector registered higher output growth of 5.4% in the first six months of 2008 (January – June 2007: 0.4%). The positive performance of the manufacturing sector was reflected in the sales of manufactured products, which increased 15.9% to RM287 billion (January – June 2007: 3.0%; RM248 billion). Capacity utilisation rate for manufacturing sector remained high at 82.6% (Q1 2008: 83.0%) in the second quarter of 2008.

The **domestic-oriented industries** expanded strongly by 9.9% (January – June 2007: 4.1%) in the first six months of the year on account of higher growth in most of the sub-sectors, as

shown in *Table 3.3*. The transport equipment, construction-related and food products industries performed well and registered strong growth.

Output of **transport equipment** rebounded strongly by 27.1% (January – June 2007: -17.4%), largely underpinned by higher output of motor vehicles (26.8%), parts and accessories (29.1%) as well as other transport equipment (22.0%). Growth in the output of motor vehicles was boosted by higher production of passenger cars above 1,500 cc (87.5%), motor cycles and scooters (22.1%), commercial vehicles (12.4%) and passenger cars below 1,500 cc (9.1%). This was on account of higher demand following the launching of new models at affordable prices and

TABLE 3.3

Manufacturing Production Index
January – June
(2000 = 100)

Industries	Index		Change (%)		Share (%)	
	2007	2008	2007	2008	2007	2008
Export-oriented industries	134.7	138.2	-1.8	2.7	62.3	60.7
Electrical and electronic products	132.8	135.9	-5.2	2.4	37.3	36.2
Petroleum products	169.7	174.9	8.1	3.1	13.2	12.9
Textiles, apparel and footwear	79.5	81.1	-10.9	1.9	2.2	2.1
Wood and wood products	114.2	107.4	2.9	-6.0	3.1	2.7
Rubber products	150.9	157.2	9.5	4.2	3.7	3.7
Machinery and equipment	109.0	128.2	-14.8	17.6	1.6	1.8
Medical, optical and scientific instruments	124.2	131.5	8.5	5.8	1.2	1.2
Domestic-oriented industries	142.2	156.4	4.1	9.9	37.7	39.3
Chemicals and chemical products	152.2	154.4	9.2	1.4	9.9	9.6
Non-metallic mineral and other related products	113.5	122.9	0.5	8.3	3.9	4.0
Plastic products	170.4	181.5	-4.3	6.5	5.1	5.2
Food products	145.5	160.0	11.7	10.0	4.0	4.1
Transport equipment	129.1	164.1	-17.4	27.1	3.1	3.7
Off-estate processing	118.5	141.1	-7.5	19.1	2.8	3.1
Fabricated metal products	180.8	207.4	22.0	14.7	4.1	4.4
Basic metals	119.4	139.4	15.4	16.8	2.1	2.4
Paper and paper products	144.7	157.2	13.9	8.6	2.0	2.1
Beverages	116.9	126.1	9.0	7.9	0.5	0.5
Tobacco products	88.0	97.3	3.2	10.5	0.2	0.2
Total	137.4	144.9	0.4	5.4	100.0	100.0

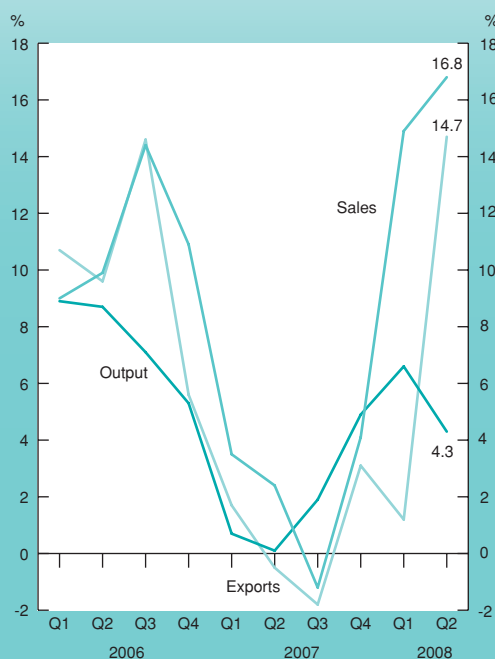
Source: Department of Statistics, Malaysia.

attractive financing terms. The higher demand was reflected from sales of motor vehicles in the first six months of 2008. New motor vehicles sold increased significantly by 25.9% to 277,973 units (January – June 2007: 220,739 units), of which 254,252 units were passenger cars. However, the production of motor vehicles, particularly of passenger cars above 1,500 cc, is expected to slow down in the second half of the year affected by the prospect of high oil prices and concerns of an inflationary outlook which could result in consumers holding back their purchase of motor vehicles.

Output of **construction-related industry** continued to expand 13.3% (January – June 2007: 11.0%) due to strong demand in fabricated metal products, basic metals as well as non-metallic mineral and other related products, as shown in *Table 3.4*. Production of fabricated metals products and basic metals recorded growth of 14.7% and 16.8%, respectively (January – June 2007: 22.0%; 15.4%). This is due to higher demand arising from construction-related projects, civil engineering works, renovation and

CHART 3.2

Performance of the Manufacturing Sector
(% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.4

Growth of the Construction-related Industries
January – June
(2000 = 100)

	Change (%)		Share (%)	
	2007	2008	2007	2008
Construction-related Industries	11.0	13.3	8.3	9.0
Glass and glass products	-3.2	15.2	1.5	1.7
Non-metallic mineral products (n.e.s.)	3.1	3.8	2.3	2.3
Structural metal products, tanks, reservoirs and steam generators	52.7	15.2	1.7	1.8
Wire, wire products and metal fasteners	-9.4	38.5	0.7	0.9
Basic iron and steel	26.6	8.3	1.0	1.1
Other basic precious and non-ferrous metals	9.1	23.4	1.1	1.2

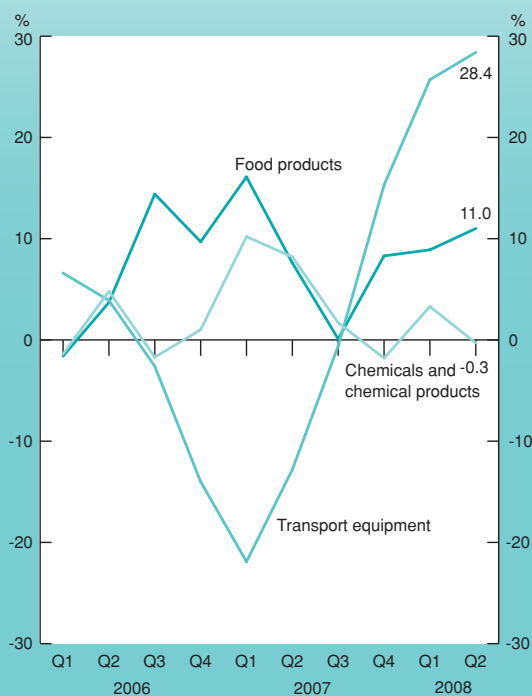
Source: Department of Statistics, Malaysia.

maintenance works as well as non-residential building construction. In addition, the robust oil and gas industry supported the demand for steel in the oil and gas construction-related activity. The lifting of the ceiling price of steel bars and billets coupled with the liberalisation of the import would address supply shortages as well as raise the competitiveness of the domestic steel industry. Similarly, the output of non-metallic mineral and other related products as a group grew 8.3% (January – June 2007: 0.5%), mainly backed by double-digit growth of 15.2% (January – June 2007: -3.2%) in glass and glass products. Production of hydraulic cement continued to expand 4.2% (January – June 2007: 11.4%), while other concrete, cement and plaster products grew strongly by 19.9% (January – June 2007: 8.1%). The abolishment of the administrative price control of cement on 5 June 2008 is expected to spur output of cement.

CHART 3.3

Performance of Selected Domestic-oriented Industries

(% annual change)



Source: Department of Statistics, Malaysia.

Production of **food and beverages** continued to increase despite the global hike in input prices for products, such as flour, edible oil and milk. Output of food rose 10.0% (January – June 2007: 11.7%), while that of beverages increased 7.9% (January – June 2007: 9.0%). While consumer sentiment was affected by the higher inflation outlook following the increase in global fuel prices, there was growth in the food and beverages production, such as full cream powdered milk (86.1%), rice (12.3%), wheat flour (5.2%), margarine (15.5%) and non-alcoholic drinks (5.6%). Meanwhile, production of frozen shrimps declined 7.1%, following temporary suspension of production by some local exporters in order to upgrade their manufacturing facilities to meet European Union's (EU) food safety and health standards.

Output of **chemicals and chemical products** grew 1.4% (January – June 2007: 9.2%), contributed mainly by higher production of pesticides and other agrochemical products as well as soaps

and detergents posted strong growth of 34.3% and 21.8%, respectively (January – June 2007: 16.3%; -15.6%). This was also reflected in the sales of pesticides and other agrochemical products, which registered an increase of 82.0% (January – June 2007: 5.5%), arising from external and domestic demand as well as higher prices. Similarly, sales of soaps and detergents rebounded 73.3% (January – June 2007: -1.7%). On the other hand, pharmaceuticals, medical chemicals and botanical products sub-sector registered a decline of 11.9% (January – June 2007: -34.1%), partly on account of the transition of production to high margin niche products. This is evident from the sales of these products which increased 21.9% to RM720 million. Total sales in 2008 is expected to exceed RM1 billion, of which 50% are export sales. The aging population and growing personal wealth in this region are expected to provide the growth impetus for the pharmaceuticals and medical chemicals industry in Malaysia. Meanwhile, output of basic chemicals as a group declined 1.5% (January - June 2007: 11.9%), on account of lower production of fertilisers (-10.0%) and industrial gases (-9.0%). However, increased production of plastics in primary form (5.3%), offset the lower output of basic chemicals, following higher demand from plastic packaging industry.

Output of **plastic products** grew significantly by 6.5% (January – June 2007: -4.3%) led by higher demand from the transport equipment industries. This was shown by the strong growth in the components, such as blow moulded plastics (16.6%) and extruded plastic products (14.5%). In addition, the strong recovery in output of computers and computer peripherals also supported the demand for plastic products.

Production of **export-oriented industries** registered a growth rate of 2.7% (January – June 2007: -1.8%), following slight recovery in global demand for semiconductors and other electronic products and components. The output of **E&E** products rebounded 2.4% (January – June 2007: -5.2%) driven by higher output of office, accounting and computing machinery as well as audio visual and communication apparatus, as shown in

TABLE 3.5

Growth of the E&E Industry
January – June
(2000 = 100)

	Change (%)		Share (%)	
	2007	2008	2007	2008
Total Manufacturing	0.4	5.4	100.0	100.0
Total E&E products	-5.2	2.4	37.3	36.2
Semiconductors and other components	-0.2	1.5	24.2	23.3
Audio visual and communication apparatus	-12.6	4.3	5.1	5.1
Office, accounting and computing machinery	-17.4	7.0	6.1	6.2
Electrical machinery and apparatus	12.9	-4.0	1.8	1.6
Domestic appliances	-53.0	-36.8	0.2	0.1

Source: Department of Statistics, Malaysia.

Table 3.5. Semiconductors and electronic components, accounting for 23.3% of total manufacturing output, improved 1.5% (January – June 2007: -0.2%). The increase in semiconductors demand from non-US markets offset the subdued demand from the US. The weak US demand was evident from the North America-based semiconductor equipment manufacturers' book-to-bill ratio of 0.81 in June 2008. Furthermore, the office, accounting and computing machinery segment staged a recovery of 7.0% (January – June 2007: -17.4%), mainly attributed to higher output of computers and computer peripherals (10.7%), on the back of increased demand from emerging markets. Report from Semiconductor Industry Association showed that share of US personal computers to total global sales declined to 21% from 31% previously, indicating increasing demand from emerging markets. Output of audio visual and communication apparatus grew 4.3%, supported by 24.8% growth of televisions and radio receivers, audio and video recording equipment also led to better performance of E&E sub-sector. With the increased demand for plasma and liquid crystal display televisions and more domestic companies shifting production

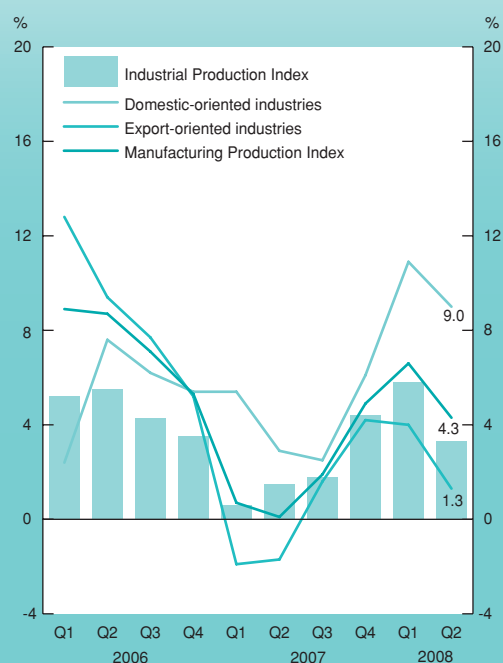
away from cathode ray tube televisions, Malaysia re-emerged as one of the largest exporters of televisions globally.

Output of **petroleum products** expanded 3.1% (January – June 2007: 8.1%) supported by better pricing as well as increased domestic and external demand. This was reflected in the sales of refined petroleum products, which increased significantly by 50.9% (January – June 2007: 0.8%) on account of better pricing and higher demand. High production of refined petroleum products was mainly due to the expansion in output of fuel oil, kerosene, liquefied petroleum gas and liquefied natural gas (LNG) to meet external demand. Furthermore, higher domestic demand from energy intensive industries, such as steel and cement as well as independent power producers also supported the growth of the industry.

Production of **rubber-based industry** grew 4.2% (January – June 2007: 9.5%), contributing 3.7% share to total manufacturing output. Rubber tyres and tubes expanded 7.2% (January – June 2007:

CHART 3.4

Output of the Manufacturing Sector
(% annual change)



Source: Department of Statistics, Malaysia.

4.9%) due to increased demand for high-end tyres and tubes. Meanwhile, output of rubber gloves, the largest component of the rubber-based industry, grew 3.5% (January – June 2007: 5.0%) as external demand for rubber gloves continued to rise partly on account of increasing mandatory use of rubber gloves for health workers. Production of latex-based catheters continued to expand 21.3% due to increase in external demand boosted by global expansion in medical services. However, output of **wood-based industry** contracted 6.0% (January – June 2007: 2.9%), largely due to lower production of plywood and veneer sheets following sluggish external demand. Apart from the impact of the US housing slump, the slow housing starts in Japan, which constitute the biggest importer of Malaysia's plywood, also contributed to the lacklustre performance of the sub-sector. Nevertheless, export price of plywood recovered between 5%-7% recently, indicating that the over-stocking situation had improved and production of plywood is envisaged to rebound in the second half of the year.

Manufactures of **textiles, apparel and footwear** industries rebounded 1.9% (January – June 2007: -10.9%), mainly supported by higher output in the textiles and footwear sub-sector, which recovered 3.9% and 48.1%, respectively (January – June 2007: -23.9%; -19.7%). The higher output was due to manufacturers taking advantage of the stronger ringgit to upgrade their production facilities and adopting better marketing strategies. This is reflected in the higher output of cotton yarn (33.9%) and cotton cloth (40.4%). Despite these positive developments, the textiles and apparel industry continues to face several challenges. Local textiles manufacturers have to contend with increased competition from the low-cost producers, such as China and Viet Nam. In 2009, the US will lift the export quota imposed on China. This will further affect Malaysian textiles exporters as the US constitutes the country's largest market. The industry is also highly dependent on foreign labour, hence, any restriction on foreign workers will also affect the operation of the industry. As such, local textiles and apparel manufacturers embarked on several

measures, including shifting the production bases to low labour cost countries, while maintaining the local facilities as design and development centres. To avoid being a sunset industry, local manufacturers also embarked on R&D to move up the value chain into niche products, such as wrinkle-free fabrics, fire retardant materials and functional fabrics.

Machinery and equipment industry expanded 17.6% (January – June 2007: -14.8%), on account of higher demand for industrial air-conditioning, refrigerating and ventilating machinery which rebounded 20.8% (January – June 2007: -11.2%). In addition, output of pumps, compressors, taps and valves recorded growth of 10.8% (January – June 2007: -21.6%) as a result of higher external demand. Meanwhile, output of **medical, optical and scientific instruments** increased 5.8% (January – June 2007: 8.5%), largely driven by higher domestic and external demand for medical appliances and instruments which grew 7.3% (January – June 2007: 6.0%). In addition, watches and clocks, which recorded 15.9% growth (January – June 2007: 10.0%) also contributed significantly to the industry's performance.

Agriculture Sector

Palm oil production on the up-cycle...

The **agriculture sector** is expected to strengthen 3.6% in 2008 (2007: 2.2%), as shown in *Table 3.6*, bolstered by oil palm, other agriculture and livestock sub-sectors. Implementation of various agriculture programmes with the private sector taking the lead, such as Permanent Food Production Parks, Agro-Entrepreneur, Contract Farming, National Feedlot Centre and Aquaculture Industrial Zone, will further enhance the role of agriculture sector in generating growth. The agriculture sector's share to GDP is estimated to remain stable at 7.5% in 2008 (2007: 7.6%).

Value added of the agriculture sector expanded strongly by 6.1% for the first half of the year (January – June 2007: 1.0%), largely attributed to higher palm oil yields. Other agricultural

TABLE 3.6

**Value Added in the Agriculture Sector
2007 – 2008**

(at constant 2000 prices)

	Growth (%)		Share to Agriculture (%)	
	2007	2008 ¹	2007	2008 ¹
Agriculture	2.2	3.6	100.0	100.0
Oil palm	-0.1	7.0	29.7	30.7
Rubber	-6.0	-1.1	6.3	6.1
Cocoa	9.9	-7.0	0.2	0.2
Forestry and logging	2.0	-1.5	22.1	20.9
Other agriculture ²	5.4	4.4	15.7	15.8
Fishing	3.5	4.0	16.3	16.4
Livestock	8.4	5.9	9.7	9.9

¹ Estimate.² Including padi, fruits, vegetables, copra, tobacco, tea, flowers, pepper and pineapples.

Source: Department of Statistics and Ministry of Finance, Malaysia.

produce, such as fruits and vegetables as well as aquaculture, also contributed to the strong performance of the sector.

Value added of the **oil palm industry** bounced back strongly to record a growth rate of 22.7% (January – June 2007: -7.9%) and contributed 30.9% to the overall performance of the agriculture sector. This is reflected in the production of crude palm oil (CPO) which rebounded 22.8% (January – June 2007: -8.0%), following improved yields and favourable weather conditions. For the whole year, production of CPO is expected to increase 7.1% to 17.0 million tonnes (2007: -0.4%; 15.8 million tonnes) as shown in *Table 3.7*.

Fresh fruit bunches yields increased to 9.5 tonnes per hectare (January – June 2007: 8.2 tonnes per hectare) following recovery from biological stress, favourable weather conditions, expansion in matured areas and good agricultural practices. Likewise, the oil extraction rate of palm oil recorded an average increase of 20.1% (January – June 2007: 20.0%) due to good weather and sufficient

rainfall in major producing states. The total oil palm plantation area is expected to expand to 4,450,000 hectares in 2008 (2007: 4,304,913 hectares), due to the opening of additional land for oil palm plantations, especially in Sabah and Sarawak. Currently, oil palm plantations account for 66% of the total area under agriculture. Immature planted areas are expected to increase 4.1% to 562,857 hectares, while mature areas are projected to increase 3.3% with 3,887,143 hectares. Of the total oil palm planted area, Sabah has the largest hectarage with 1,278,244 hectares or 29.7%, followed by Johor, 670,641 hectares (15.6%) and Sarawak, 664,612 hectares (15.4%). Malaysia remained the second largest palm oil producer, accounting for 41.4% of world output.

The overall stock of palm oil increased significantly by 45.4%, averaging 1.9 million tonnes (January – June 2007: -17.9%; 1.3 million tonnes) due to the surge in CPO production. The monthly closing stock recorded 2.0 million tonnes in June, the highest level thus far. From the total stock, CPO constituted 50.9%, while the rest, processed palm oil.

TABLE 3.7

**Oil Palm Area and Palm Oil Production
2007 – 2008**

			Change (%)	
	2007	2008 ¹	2007	2008 ¹
Planted areas ('000 hectares)	4,304	4,450	3.4	3.4
Matured areas ('000 hectares)	3,764	3,887	1.7	3.3
Production ('000 tonnes)				
Crude palm oil	15,824	16,955	-0.4	7.1
Palm kernel oil	1,908	2,086	-2.5	9.3
Yield (tonnes/hectare) ²	19.0	20.0	-2.9	5.1

¹ Estimate.² Fresh fruit bunches yield.

Source: Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

During the first half of 2008, CPO prices remained bullish underpinned by robust external demand following increased consumption of vegetable oils in China, India and the US. In addition, global supply shortages and surging prices of vegetable oils also contributed to the buoyant price trend of CPO. In particular, soybean oil was traded in June at a record-high premium of USD400 per tonne over CPO. Average local delivery price of CPO increased to RM3,478 per tonne (January – June 2007: RM2,184 per tonne). However, due to the prospects of global economic slowdown and greater volatilities in the commodity markets in the second half of 2008, the price of CPO is expected to trend down, averaging RM3,000 per tonne for the whole year (2007: RM2,517 per tonne).

Value added of **rubber** contracted by 3.6% (January – June 2007: -2.9%), following lower production, which declined 4.3% to 564,991 tonnes (January – June 2007: -3.3%; 590,106 tonnes), due to rainy weather in the first quarter of 2008. However, for the whole year, rubber production is expected to rebound 0.6% to 1.21 million tonnes (2007: -6.6%; 1.20 million tonnes) on account of higher yields in the second half of the

year, as shown in *Table 3.8*. Of the total rubber production, 95% is produced by smallholders and the remaining by estates. Malaysia is the third largest producer of natural rubber, accounting for 11.8% of total world supply.

Total area under rubber plantation is expected to decline further to 1,217,570 hectares (2007: 1,229,940 hectares) due to conversion into oil palm cultivation and housing development. In order to safeguard rubber downstream activities, the Government set a minimum area of 1.2 million hectares for rubber planting to ensure minimum production of one million tonnes per annum. In addition, each year 20,000 hectares will be allocated for replanting activities. To expand acreage under rubber, new plantation areas were identified, namely, Pulau Banggi, Kudat, and Bengkoka in Sabah as well as Sri Aman and Saratok in Sarawak.

The average price of Standard Malaysian Rubber 20 increased significantly by 22.3% to RM8.83 per kilogramme (kg) (January – June 2007: -1.5%; RM7.22 per kg). The buoyant rubber price is expected to be sustained due to strong demand following the rapid expansion of the automobile markets in China and India. In addition, rising synthetic rubber prices following the high price of crude oil led to higher demand for natural rubber. For the whole year, rubber price is expected to hold at RM8.50 per kg (2007: RM7.34 per kg) due to increasing world demand.

The **fishing industry** recovered 1.4% (January – June 2007: -0.6%), partly due to expansion in aquaculture output, which registered an increase of 4.9% to 134,234 tonnes (January – June 2007: 16.4%; 127,968 tonnes). The implementation of 11 Aquaculture Industrial Zones covering 6,695 hectares, including in Sungai Como, Terengganu as well as in Kuala Selangor and Sabak Bernam, Selangor, led to the expansion of aquaculture output. For the whole year, aquaculture output is expected to increase to 234,542 tonnes (2007: 220,950 tonnes). Similarly, marine fish landings increased marginally 0.3% to 678,492 tonnes (January – June 2007: 1.7%; 676,498 tonnes). New incentives, provided to vessel owners at a rate of 10 sen per kg of fish landed and RM200 per month given to registered fisherman to ease the fuel price burden, are expected to increase

TABLE 3.8

Rubber Area, Yield and Production 2007 – 2008

			Change (%)	
	2007	2008 ¹	2007	2008 ¹
Total area (‘000 hectares)	1,230	1,218	0.4	-1.0
Smallholdings	1,177	1,169	0.4	-0.6
Estate	53	48	0.6	-9.1
Yield (kg per hectare)				
Smallholdings	1,414	1,420	4.7	0.4
Estate	1,620	1,650	6.2	1.9
Total production (‘000 tonnes)	1,200	1,207	-6.6	0.6
Smallholdings	1,133	1,140	-6.8	0.6
Estate	67	67	-2.3	0.4
% of world production	12.3	11.8		

¹ Estimate.

Source: Ministry of Plantation Industries and Commodities, Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.9

Production of Other Agriculture 2007 – 2008

('000 tonnes)

			Change (%)	
	2007	2008 ¹	2007	2008 ¹
Cocoa	35	30	10.3	-14.8
Padi	2,376	2,384	10.3	0.4
Livestock				
Meat ²	236	235	-5.6	-0.7
Poultry	1,096	1,158	5.8	5.7
Eggs (million)	8,200	8,714	5.8	6.3
Milk (million litre)	51	57	12.4	10.6
Miscellaneous agriculture				
Fruits ³	1,151	1,169	1.4	1.6
Pepper	20	25	5.3	22.5
Vegetable	695	816	17.6	17.5
Coconut	505	497	1.0	-1.6
Tobacco (million kg)	62	63	5.2	1.1
Flowers (million cutting)	150	160	2.7	6.8

¹ Estimate.² Including beef, swine and mutton.³ Consists of star fruit, papaya, durian, guava, mangoesteen, banana, rambutan, watermelon, and pineapple.

Source: Ministry of Agriculture and Agro-Based Industry and Ministry of Plantation Industries and Commodities, Malaysia.

marine fish landings. Therefore, value added of the fishing industry is anticipated to grow 4.0% in 2008 (2007: 3.5%).

Livestock sub-sector grew 6.1% (January – June 2007: 13.1%) on account of higher poultry and cattle production. For the year, the sub-sector is estimated to grow 5.9% (2007: 8.4%) due to several programmes implemented, such as feedlot project and modern poultry farming.

Value added of **other agriculture sub-sector**, comprising padi, pineapples, tobacco, coconut, vegetables, fruits, flowers, tea and pepper improved further by 3.6% (January – June 2007: 2.2%), due to higher production of vegetables. Following the implementation of high impact projects and new incentives for farmers, growth of the other agriculture sub-sector is projected to increase 4.4% in 2008 (2007: 5.4%). Furthermore, agriculture programmes, including Integrated Farming and

Permanent Food Production Parks in Selangor, Pahang and Penang, led to higher production of vegetables. Higher external demand for vegetables and tropical fruits also contributed to the growth of the sub-sector. Malaysia is among the world's top 20 best producers for pineapple and papaya as well as one of the main producers and exporters of tropical fruits, namely, watermelon, banana, durian and coconut.

Meanwhile, padi production is expected to grow 0.4% in 2008 (2007: 10.3%), largely on account of improved productivity. Yield per hectare is expected to increase to 3.6 tonnes per hectare. At the current production level, Malaysia achieved a self-sufficiency level (SSL) at 73% for rice. Padi plantation area is projected to expand following the development of new padi areas, especially in Sarawak, Sabah and Pahang, land rehabilitation and improved agriculture infrastructure, including irrigation systems. Coupled with additional allocation to maintain food security, the production of rice is expected to achieve 86% SSL by 2010.

Mining Sector

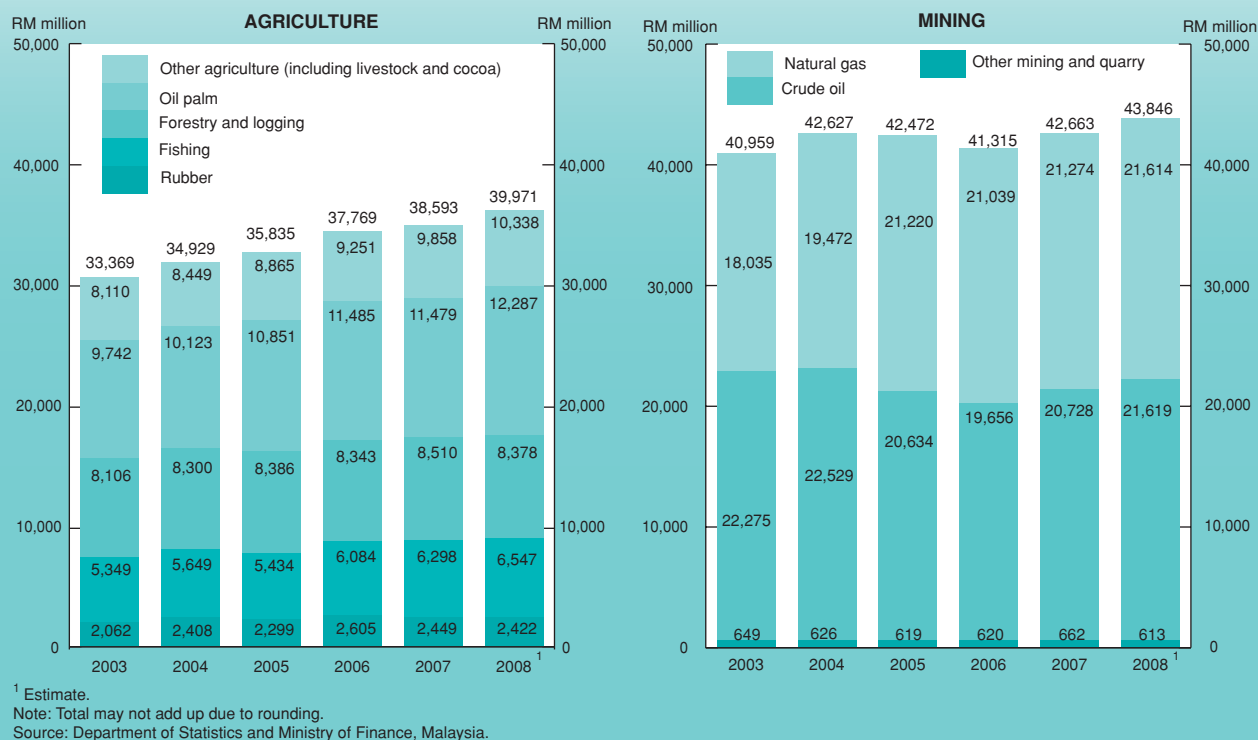
Higher crude oil production due to expanded capacity...

Growth of the **mining and quarrying sector** rose 1.6% in the first half of 2008 (January – June 2007: 3.5%), supported by higher crude oil production. Crude oil production (including condensates) increased 5.3% to 699,214 barrels per day (bpd) (January – June 2007: 0.5%; 664,013 bpd), mainly driven by higher production from Kikeh oil field, off-Sabah and Abu oil field, off-East Coast, Peninsular Malaysia. In 2008, the sector is estimated to grow 2.8% (2007: 3.3%) in tandem with the higher production of crude oil by 4.2% to 711,400 bpd (2007: 2.4%; 682,722 bpd), as shown in *Table 3.10*.

Amid growing global demand, tight supply and increased geopolitical tensions, crude oil future prices at the New York Merchantile Exchange rose to a new high when the West Texas Intermediate peaked at USD145.29 per barrel (pb) on 3 July 2008. The Malaysian Tapis also recorded a historical high of USD152.81 pb on

CHART 3.5

Value Added of Major Commodities



4 July 2008. Encouraged by high prices, *Petroleum Nasional Berhad* intensified exploration activities, especially in deepwater and in marginal fields, to expand its oil and gas reserves. Crude oil reserves were at 5.46 billion barrels as at 1 January 2008 (1 January 2007: 5.36 billion barrels) and are estimated to last 22 years. Although oil prices have retreated in August 2008 from the historical highs, the medium-term average price of crude oil is envisaged to remain firm. Given the sector's under-investment situation in the past decades, the firm oil prices would continue to encourage development as well as exploration activities.

In contrast, the production of natural gas declined 4.0% to 1,053,452 million standard cubic feet (mmscf) in the first six months of 2008 (January – June 2007: 5.8%; 1,096,858 mmscf), partly due to repair and maintenance of pipeline and plant. However, for the whole year, production of natural gas is expected to increase 21.2% to 2,602,100 mmscf arising from higher domestic demand, off-take by Japanese and South Korean buyers as well as an

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas
2007 – 2008

			Change (%)	
	2007	2008 ¹	2007	2008 ¹
Crude oil				
Production ² (‘000 barrels per day)	682.7	711.4	2.4	4.2
Reserves (billion barrels)	5.36	5.46	2.1	1.9
Reserves/production (years)	22	22		
Natural gas				
Production ³ (million standard cubic feet per day) (mmscfd)	5,868.2	7,129.0	1.9	21.2
Reserves (trillion standard cubic feet)	88.9	88.0	1.1	-1.0
Reserves/ production (years)	39	36		

¹ Estimate.² Including condensates.³ Excluding flaring and reinjection.

Source: Petroleum Nasional Berhad (PETRONAS).

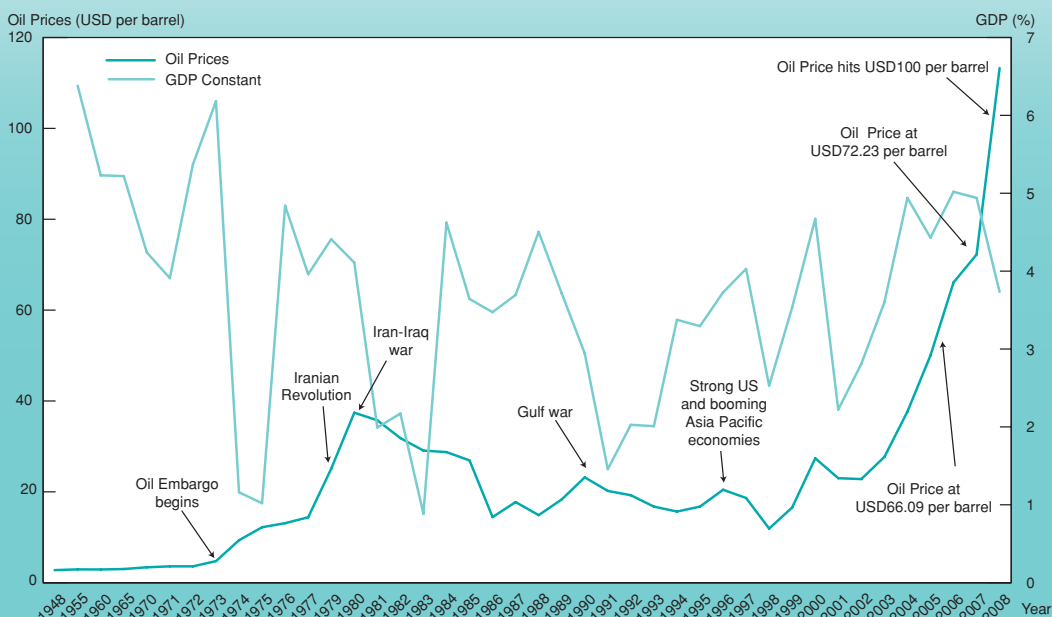
Managing the Impact of High Crude Oil Prices

Overview

Historically, global economic slowdowns have been associated with high crude oil prices, as shown in *Chart 1*. Oil prices are expected to remain persistently high as indicated by the New York Mercantile Exchange's West Texas Intermediate one-month future price for crude oil, which reached a historical high of USD145.29 per barrel (pb) on 3 July 2008. Given the current high crude oil prices, many developing economies are increasingly faced with the dilemma of containing inflation or stimulating economic growth. More importantly, governments also shoulder the responsibility of alleviating the hardship of lower income groups as a result of rising inflation. Macroeconomic strategies need to be formulated to ensure economic sustainability while simultaneously encouraging the efficient use of resources.

Chart 1

Oil Price Chronology and World Growth



Source: Bloomberg and US Energy Information Administration.

Factors Driving High Oil Prices

Demand

Global energy demand is rising rapidly and according to International Energy Agency, demand is expected to increase more than 30% to 112.5 million barrels per day (bpd) by 2030. While oil consumption in developed economies has stagnated due to the more efficient use of energy, it has been growing rapidly in developing countries, especially China and India, as shown in *Table 1*. This is partly due to the rising affluence brought about by the stellar economic growth recorded during the past few years, which inevitably raised energy consumption. The middle class expanded to about 350 million in China and 250 million in India and wield higher purchasing power to afford more comfortable lifestyles.

The situation is further exacerbated by the fuel subsidy system in most developing economies, which distorted market signals regarding the actual economic costs of energy consumption. This resulted in unconstrained consumption of fossil fuels, especially in the most heavily fuel-dependent transportation sector, with few available substitutes. In the face of the exponential growth of the transportation sector in most developing economies, world crude oil prices are expected to remain high.

Supply

According to industry estimates, world proven crude oil reserves are expected to last almost 42 years, while natural gas reserves to last 60 years. Despite ample reserves, under-investments in the exploration activities and refining facilities over the past 25 years have resulted in a demand-and-supply mismatch. Production of crude oil is further restricted by capacity constraints due to the ageing profile of the world's major oilfields, inadequate infrastructure and lack of skilled manpower. Furthermore, the industry is confronted with escalating costs of exploration, which increased threefold over the last three years. World supplies of crude oil continue to be disrupted by prolonged geopolitical tensions in the Middle East, political turmoil and worker strikes as well as ethnic violence in some countries, which have pushed crude oil prices higher.

Excessive Speculative Activity

Traditionally, trading in oil futures involve oil producers and refiners as well as pension hedge fund managers, who have exposure in oil-related investments. These players enter the markets with the purpose of hedging their refining margins or returns on investments. However, the oil futures market is now crowded with hedge fund managers who trade purely for profit rather than commercial reasons. In June 2006, the United States Senate Permanent Subcommittee on Investigations reported on '*The Role of Market Speculation in Rising Oil and Gas Prices*' and confirmed that '*...there is substantial evidence supporting the conclusion that the large amount of speculation in the current market has significantly increased prices*'. The increased speculative interest in the oil market is also seen in the rising popularity of commodity index funds, which have surged over the past three years recently as indicated by the tripling of the Goldman Sachs Commodity Index (GSCI). The weakening dollar also contributed to increased speculative activities in the oil futures market. Commodities, especially crude oil, are seen as hedges against a weakening dollar in an environment of low interest rates, higher inflation and slumping equity and real estate markets.

Impact of High Oil Prices on Malaysian Economy

As a net oil exporter, Malaysia benefits from higher crude oil prices in the immediate term due to better terms of trade. However, high oil prices are also a double-edged sword for Malaysia. Rising oil prices will impact on world growth and this, in turn, will affect world consumption, investment and income. Being an open economy, Malaysia is susceptible to the adverse second round effects on its private consumption, exports and real income (as a result of cost-push inflation) as well as employment.

Like many developing countries, Malaysia subsidises petrol prices to shield the public from volatile crude oil prices. These subsidies cover a wide range of petroleum products and benefit all sectors in the economy. These subsidies were relatively benign to the fiscal position when oil prices hovered around USD30 - USD40 pb before 2005, but, at today's prices of over USD100 per barrel, generous subsidies are no longer tenable. Large subsidies also resulted in the uneconomical use of non-renewable national resources. Furthermore, the price differential encourages the smuggling of subsidised fuel to neighbouring countries. As a result, fuel subsidies surged significantly from RM1.7 billion in 2002 to RM7.5 billion in 2007. Should the Government continue to provide subsidies, the amount would surge to RM28 billion in 2008, thus undermining Malaysia's fiscal sustainability.

TABLE 1:
WORLD DEMAND and SUPPLY (million bpd)

	2003	2004	2005	2006	2007	2008
World Demand	79.4	82.4	83.7	84.6	85.8	86.9
% Growth	1.6	3.8	1.6	1.1	1.4	1.3
Total Organisation for Economic Co-operation and Development (OECD)	48.6	49.4	49.7	49.3	49.1	49.1
North America	24.5	25.4	25.5	25.3	25.5	25.6
Western Europe	15.4	15.5	15.6	15.6	15.3	15.3
OECD Pacific	8.6	8.5	8.6	8.4	8.3	8.2
Total Developing Countries	26.2	28.3	29.2	30.5	31.8	32.9
China	5.6	6.5	6.7	7.2	7.6	8.0
India	2.3	2.4	2.4	2.6	2.7	2.9
Other Asia	5.6	6.0	6.3	6.2	6.4	6.4
Latin America	4.8	4.9	5.1	5.3	5.5	5.6
Middle East	5.1	5.5	5.8	6.2	6.5	6.8
Africa	2.7	2.7	2.9	3.0	3.1	3.1
Total Other Regions	4.5	4.7	4.8	4.8	4.9	5.0
World Supply	79.6	83.0	84.2	84.4	84.8	88.0
% Growth	6.1	4.2	1.4	0.2	0.5	3.8
Non-OPEC	47.6	48.4	48.5	48.9	49.4	50.5
OPEC	28.3	30.6	31.6	31.4	31.0	32.5
OPEC NGLs + non-conventional oils	3.7	4.0	4.1	4.1	4.4	5.0

Note: Total may not add up due to rounding.
World supply for 2008 is based on current supply.
NGL : Natural gas liquids.

Source: OPEC, US Energy Information Administration and Bloomberg.

Measures to Cushion the Negative Impact of Rising Pump Prices

When oil prices breached USD130 pb on 21 May 2008, the Government decided to restructure fuel subsidies. The move was difficult but necessary to avoid higher fiscal deficit over time. As a result, the Government decided to increase pump prices of petrol and diesel by 41% and 63%, respectively. Following this, electricity tariffs were raised between 18% and 26% for domestic, commercial and industrial users. However, for households that used less than 200kwh per month (RM43.60 per month), the tariff remains unchanged.

Several immediate measures were adopted to moderate the impact of the increased pump prices on the public. To reduce the burden of paying higher petrol and diesel prices, cash rebates were immediately introduced on 14 June 2008 to cover the period April 2008 to March 2009. These

were in the form of RM625 cash payout per vehicle, for owners of private vehicles with engine capacities of up to 2,000 cc as well as pickup trucks and jeeps with engine capacities of up to 2,500 cc. Owners of private motorcycles with engine capacities of up to 250 cc were given RM150 cash rebate. The Government also decided to extend cash rebates to owners of private vehicles up to 3,000 cc in the interior areas of Sabah and Sarawak. For owners of private vehicles with engine capacities exceeding 2,000 cc, road tax were reduced by RM200, and RM50 for owners of private motorcycles with engine capacities above 250 cc. Meanwhile, Government continues to subsidise diesel at RM1.43 per liter for fishermen and transport operators. Eligible transport companies including express bus and school bus operators were given fleet cards, allowing them to purchase diesel at a subsidised price of RM1.43 per litre. For petrol-powered taxi operators, they can continue buying petrol at subsidised price of RM1.92 per litre subject to a maximum of 720 litres per month. This is to ensure that these groups will not be burdened by higher fuel costs. In addition, prices for cooking gas and natural gas for vehicles remain unchanged.

Conclusion

While measures are being implemented to alleviate the hardship arising from cost-push inflation, it is also important that people change their lifestyles to help bring down the consumption of non-renewable energy. This will help reduce energy demand to a sustainable level and also contribute towards cleaner environment. Good habits of using energy efficiently are formed from young. Therefore, parents and schools should instil into our children the importance of energy conservation. Similarly, industry players must continue to invest in energy-saving measures and use fossil fuel efficiently to maintain long-term competitiveness.

increase in the producing gas fields. As at 1 January 2008, gas reserves stood at 88.0 trillion cubic feet (1 January 2007: 88.9 trillion cubic feet) sufficient to last 36 years.

Construction Sector

Construction activity remains positive...

Value added in the **construction sector** improved further by 4.5% (January – June 2007: 4.5%), attributed to higher civil engineering, special trade works and residential activities. The overall performance of the sector, however, remained steady and is estimated to grow at 4.0% (2007: 4.6%).

The **civil engineering sub-sector** grew 6.3% (January – June 2007: 3.5%) due to higher activity in the oil and gas sector as well as the implementation of 9MP projects and growth corridors development, as shown in *Table 3.11*. These include upgrading of Kuching, Kota Kinabalu and Kuala Terengganu International Airports as well as construction of Senai – Desaru Expressway, South Klang Valley Expressway,

TABLE 3.11

Major Ongoing Construction Projects

Senai – Desaru Expressway
Duta – Ulu Kelang Expressway
South Klang Valley Expressway
East Cost Expressway Phase 2
Kajang – Seremban Highway Phase 2
Kemuning – Shah Alam Highway
Ipoh – Padang Besar Electrified Double Tracking Project
Seremban – Gemas Electrified Double Tracking Project
Sentul – Batu Caves Electrified Double Tracking Project
Upgrading of Kuching International Airport
Upgrading of Kota Kinabalu International Airport

Source: Ministry of Works, Ministry of Transport and Economic Planning Unit, Malaysia.

East Cost Expressway Phase 2 and Seremban – Gemas Electrified Double Tracking project as well as Integrated Transport Terminal at Bandar Tasik Selatan. The construction of Second Penang Bridge is also expected to commence in 2008 and will further boost the civil engineering activities. Infrastructure development in Sabah and Sarawak is also expected to intensify with increased allocation to implement several projects including the construction of Jalan Kota Marudu – Ranau, Sandakan Northern Ring Road, Jalan Kota Samarahan – Gempeh and upgrading of Jalan Kuching-Sibu. The civil engineering sub-sector also benefited from the buoyant oil and gas construction activities, in particular, the construction of Sabah-Sarawak Gas Pipeline as well as deepwater exploration works.

On 6 August 2008, the Government announced several provisions to allow variations in the contract value of government projects. This is to assist contractors to cope with escalating prices of construction materials. For the civil engineering works, the price variation is extended from 5 to 11 types of building materials. In addition, contractors involved in design and build projects will be paid according to price variation of building materials.

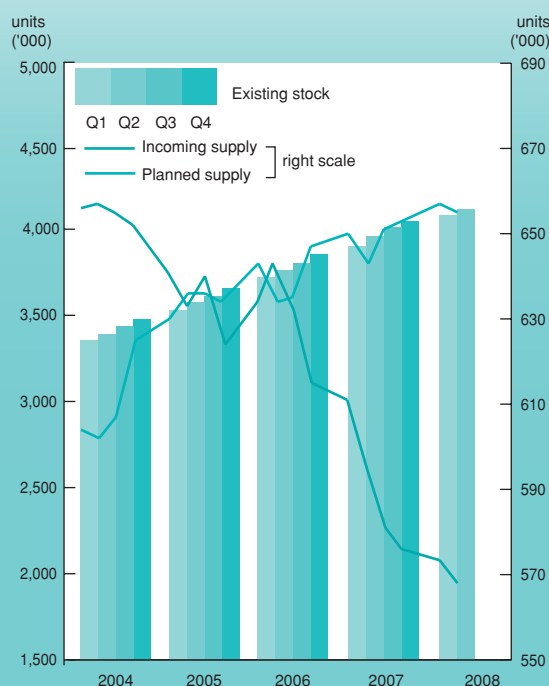
The **residential sub-sector** grew 3.5% (January – June 2007: 0.9%) during the first six months of 2008. The positive performance was partly due to accelerated implementation of Government's low and medium housing programs. These include the construction of 36,000 units of affordable houses by *Syarikat Perumahan Negara Berhad*. The liberalisation of the Foreign Investment Committee ruling on foreign purchases of properties and the promotion of MM2H also led to the expansion of the sub-sector. This was reflected in the higher construction activities for high-end condominium mainly in Selangor and Kuala Lumpur. However, due to the escalating prices of construction materials and increase inflationary pressures, developers were generally adopting a more cautious stance. Consequently, units of new launches were lower at 9,442 units (January – June 2007: 35,492 units). With the contraction in housing starts during the same period, the incoming supply of residential units under construction registered a total of 568,348 units (end-June 2007: 595,115 units). Completed units stood at 69,051, resulting in total existing stock increasing 4.0% as at end-June 2008 (end-

June 2007: 5.3%), with Selangor continuing to lead at 28.6%, followed by Johor (15.6%), Kuala Lumpur (9.0%) and Perak (8.8%).

On the demand side, the sales of new launches increased with a take-up rate of 26.5% (January – June 2007: 17.0%), partly driven by several Government's measures to encourage house ownership. In addition to exempting the Real Property Gains Tax (RPGT), a 50% stamp duty exemption on the instrument of transfer was given for the purchase of a housing unit valued at not more than RM250,000, thereby reducing the cost of purchasing a house up to a maximum of RM2,000. Since housing loan repayments constitute a major financial commitment for most households, Employees Provident Fund contributors are allowed to make monthly withdrawals from the balance in Account 2 to ease their financial burden. For those without fixed incomes, such as farmers and small traders as well as those who are unable to provide proof of their income streams, the Government established a fund with an initial sum of RM50 million to provide guarantees to *Bank Islam Malaysia Berhad* and

CHART 3.6

Residential Supply Indicators



Source: National Property Information Centre (NAPIC).

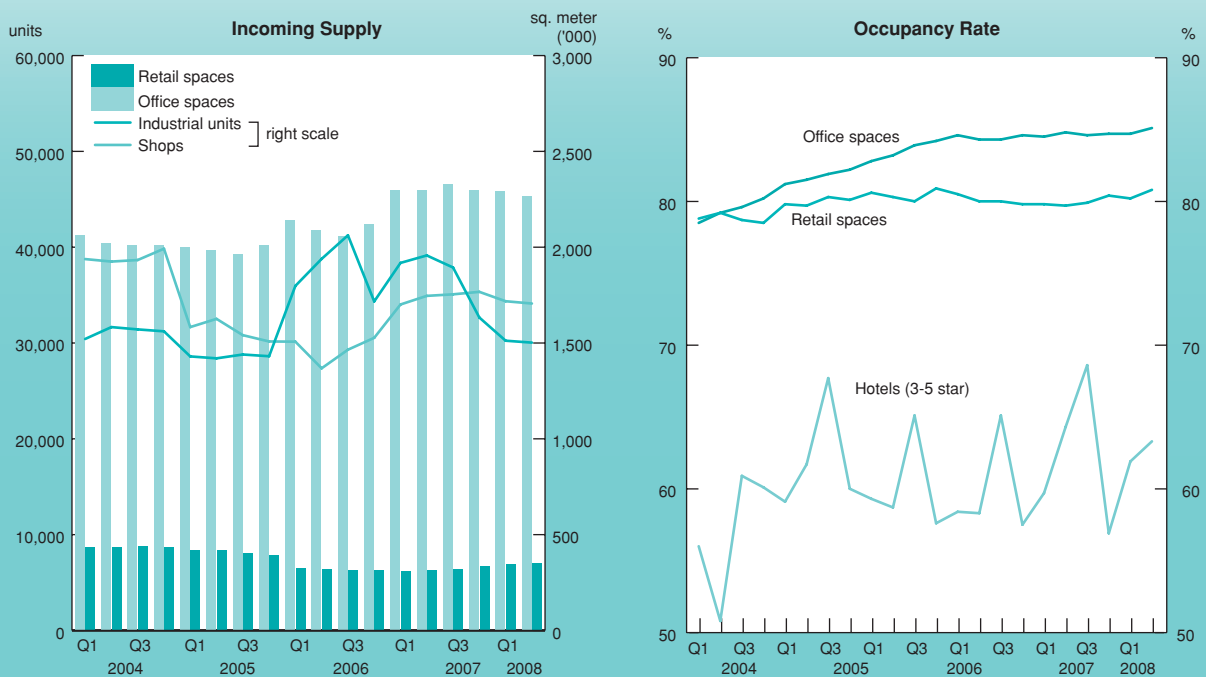
Bank Simpanan Nasional to extend loans to this group. In addition, the Government remains committed to provide adequate affordable housing for the low-income group.

The Government also undertook several measures to improve the delivery system for the construction sector, including expediting approvals, streamlining processes and introducing self-regulatory system. One-Stop Centres were established in various local authorities to 'fast-track' approvals for projects, especially high-impact projects and those with potential to attract foreign investment. This arrangement enables simultaneous processing by the local, state and federal departments, thus cutting back approval process time from 357 days to a maximum of 120 days. In addition, the Certificate of Fitness for Occupation was replaced with the Certificate of Completion and Competence. With this, the project engineer, architect or registered draftsman can certify the fitness of the building, thereby enabling faster handing over of the completed properties.

Construction activity in the **non-residential sub-sector** increased marginally 1.6% (January – June 2007: 6.7%), supported by ongoing construction of commercial properties, industrial units and hotels as shown in *Chart 3.7*. Construction starts for shops increased to 5,594 units (January – June 2007: 4,379 units) in addition to 42,097 units of shops currently under construction. Meanwhile, 17 shopping complexes which started construction in 2007 are expected to contribute additional 302,566 sm of retail space once completed. In addition, a total of 39,594 sm of retail space starts were recorded during the first six months of 2008. With the completion of new shopping complexes such as Pavillion and The Gardens Galleria in Kuala Lumpur as well as The Spring and Boulevard Shopping Complex in Sarawak, existing stock of retail space increased to 8,818,780 sm (end-June 2007: 8,201,000 sm). The overall occupancy rate of retail space remained high at 80.9% (end-June 2007: 79.8%), reflecting retailers' confidence in consumer spending.

CHART 3.7

Non-residential Supply Indicators



Source: National Property Information Centre (NAPIC).

The purpose-built office segment continued to perform favourably with 1.6 million sm of office space being constructed. The occupancy rate continued its upward trend to record an increase to 85.2% (end-June 2007: 84.9%) due to increasing demand for office space especially in the Klang Valley while supply remains limited. The construction of industrial property was also active with the increase in construction starts to 406 units (January – June 2007: 303 units). Total industrial units currently under construction increased to 6,865 units compared to 6,013 units as at end-June 2007.

Construction activity of leisure property intensified, backed by the continuous efforts taken by the Government to promote tourism. This was reflected in the ongoing construction of 66 hotels with 18,714 rooms (end-June 2007: 58 hotels; 16,704 rooms). As at end-June 2008, the existing stock totalled 2,204 hotels with 152,564 rooms (end-June 2007: 2,220 hotels; 151,886 rooms). The average occupancy rate of three to five star hotels was 63.4% (January – June 2007: 64.4%) on account of steady growth in tourist arrivals.

The value of property transactions increased 39.5% to RM46,487 million (January – June 2007: 11.7%; RM33,321 million), reflecting higher average prices of property transacted especially in the high-end residential segment. Similarly, the volume of transactions increased 20.1% to 171,564 transactions (January – June 2007: 8.8%; 142,886 transactions), supported by the availability of housing loan and favourable interest rates as well as RPGT exemption. Residential transactions accounted for 63.0% of the total transactions, followed by agricultural (21.4%), commercial (8.9%), development (4.4%) and industrial (2.3%).

Domestic Demand Performance

Domestic demand drives economic growth...

In the face of a more challenging external environment, domestic demand remained the main contributor to the economy and is anticipated to

expand 6.1% in 2008 (2007: 9.8%). Growth in domestic demand will be supported by strong private and public consumption spending, which are anticipated to grow 6.8% and 5.7%, respectively (2007: 10.8%; 6.6%).

Private sector expenditure is expected to expand 6.6% (2007: 10.6%) and increase its share to GDP to 62.9%, contributing 4.1 percentage points to GDP growth (2007: 62.3%; 6.3 percentage points), as shown in *Table 3.12*. Meanwhile, **public sector expenditure** is estimated to register a growth rate of 4.7% (2007: 7.9%), contributing 1.1 percentage points to GDP growth (2007: 1.9 percentage points). This growth is expected to accrue from capital investment by the Non-Financial Public Enterprises and public consumption.

Private investment is expected to remain sturdy at 6.2% (2007: 9.8%), supported by various Government initiatives to reduce the cost of doing business as well as to provide a conducive investment environment. As indicated by the Business Expectations Survey conducted by the Department of Statistics Malaysia (DOSM), the capital outlay by the private sector is expected to record a robust growth rate of 114.5% in the first half of 2008. The mining and electricity sector is estimated to contribute the largest share to the total capital outlay accounting for 38.3%, followed by services (37.6%), particularly in the transport and communication sub-sector.

The higher capital outlay also corresponded with other investment indicators. The imports of capital and intermediate goods rose 9.9% and 9.6%, respectively (January – June 2007: -3.2%; 7.7%), while sales of commercial vehicles rebounded 16.9% during the first six months of 2008 (January – June 2007: -11.9%). Furthermore, total loans disbursed by the banking system for non-household sector expanded significantly by 18.8% to RM221.9 billion (January – June 2007: -1.0%; RM186.8 billion). The loans were mainly for manufacturing sector (34.3%), followed by wholesale, retail trade, restaurants and hotels (24.7%) as well as finance, insurance and business activities (13.2%).

TABLE 3.12

Gross Domestic Product (GDP) by Aggregate Demand 2007 – 2009

(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2007	2008 ¹	2009 ²	2007	2008 ¹	2009 ²	2007	2008 ¹	2009 ²
GDP	6.3	5.7	5.4	100.0	100.0	100.0	6.3	5.7	5.4
Domestic demand³	9.8	6.1	6.0	86.6	87.0	87.5	8.2	5.3	5.3
Private expenditure	10.6	6.6	6.4	62.3	62.9	63.5	6.3	4.1	4.0
Consumption	10.8	6.8	6.5	50.5	51.0	51.6	5.2	3.4	3.3
Investment	9.8	6.2	5.8	11.9	11.9	12.0	1.1	0.7	0.7
Public expenditure	7.9	4.7	5.1	24.3	24.1	24.0	1.9	1.1	1.2
Consumption	6.6	5.7	4.0	12.9	12.9	12.8	0.9	0.7	0.5
Investment	9.3	3.6	6.4	11.4	11.1	11.2	1.0	0.4	0.7
Change in stocks				-1.2	-0.4	0.1	-1.3	0.8	0.5
External sector	-3.8	-2.9	-2.6	14.6	13.4	12.4	-0.6	-0.4	-0.3
Exports ⁴	4.2	4.7	4.6	122.2	121.1	120.2	5.2	5.7	5.6
Imports ⁴	5.4	5.7	5.5	107.7	107.7	107.8	5.8	6.1	6.0
GDP (RM billion, current value)	641.9	715.9	790.0						
Change (%)	11.9	11.5	10.4						

¹ Estimate.² Forecast.³ Excluding change in stocks.⁴ Goods and services.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

Projects approved by Malaysia Industrial Development Authority for domestic investors expanded to RM9.3 billion during the first six months of the year (January – June 2007: RM15.2 billion), particularly in basic metal products and transport equipment. This is due to robust global demand for products related to steel and vehicles. Meanwhile, approvals for foreign direct investment (FDI) in the manufacturing sector surged to RM23.3 billion (January – June 2007: RM16.4 billion), largely in the basic metal products and E&E industry. The overall total investment approved increased to RM32.5 billion (January – June 2007: RM31.6 billion), with a substantial proportion of investments in basic metal products, E&E products, transport equipment as well as chemicals and chemical products. This is in line with the Government's efforts to encourage investment in capital-intensive and high value added projects by both domestic and foreign investors. In

the first quarter of 2008, net FDI flows recorded RM3.4 billion, mainly into the manufacturing, mining and quarrying as well as agriculture sectors.

Private consumption expenditure is forecast to expand 6.8% to account for 51.0% share to GDP in 2008 (2007: 10.8%, 50.5%). This is supported by rising household income from stable labour market and high commodity prices. The growth in private consumption is reflected in several major consumption indicators, such as sales of passenger cars and motorcycles, which registered double-digit growth of 26.8% and 20.1%, respectively, in the first six months of 2008 (January – June 2007: -12.2%; 4.5%). Other consumption indicators also improved, such as sales tax collection (13.9%), imports of consumption goods (13.3%) and credit card

CHART 3.8

Private Investment Indicators

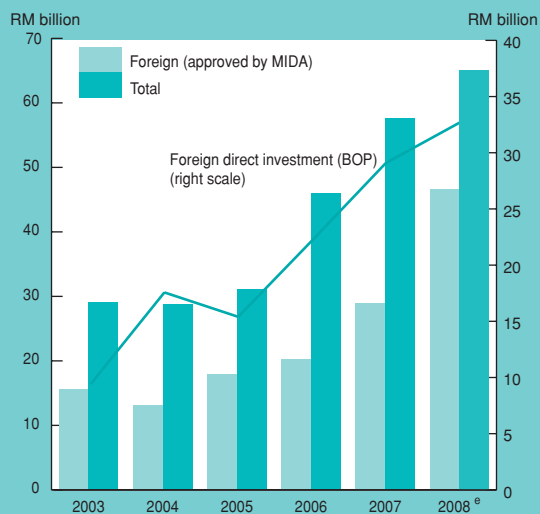
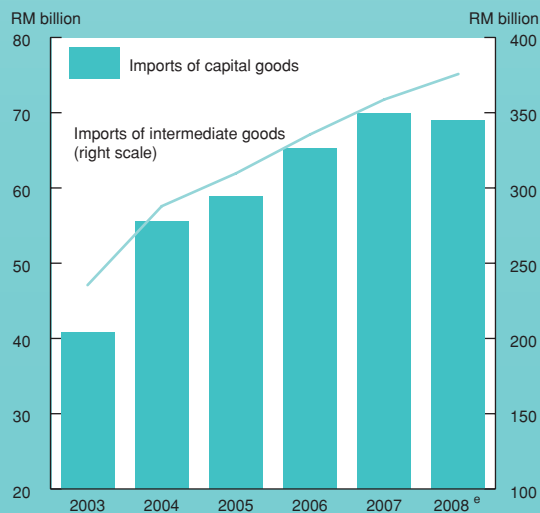
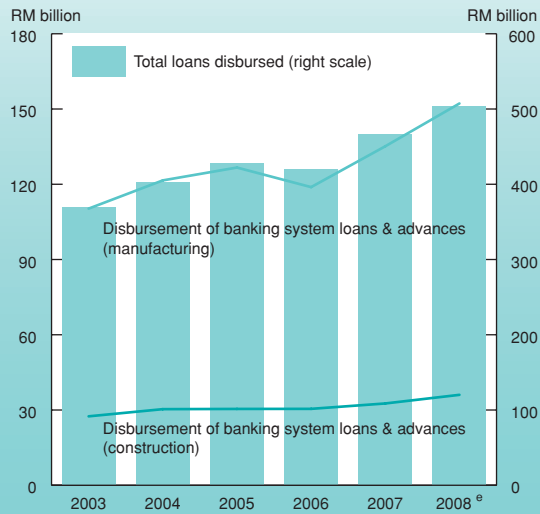
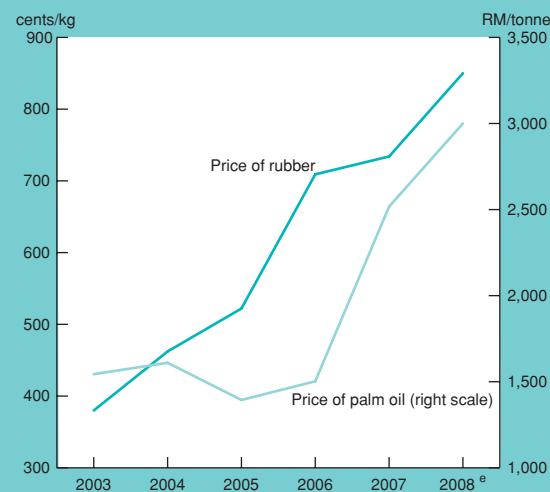
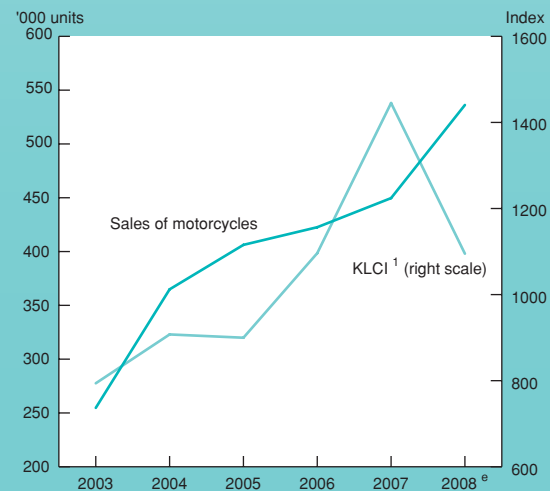
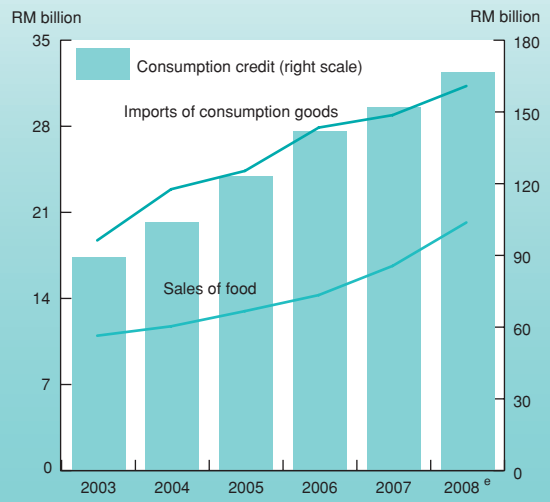
^e Estimate.

CHART 3.9

Private Consumption Indicators

^e Estimate.¹ As at end of the year and 15 August 2008.

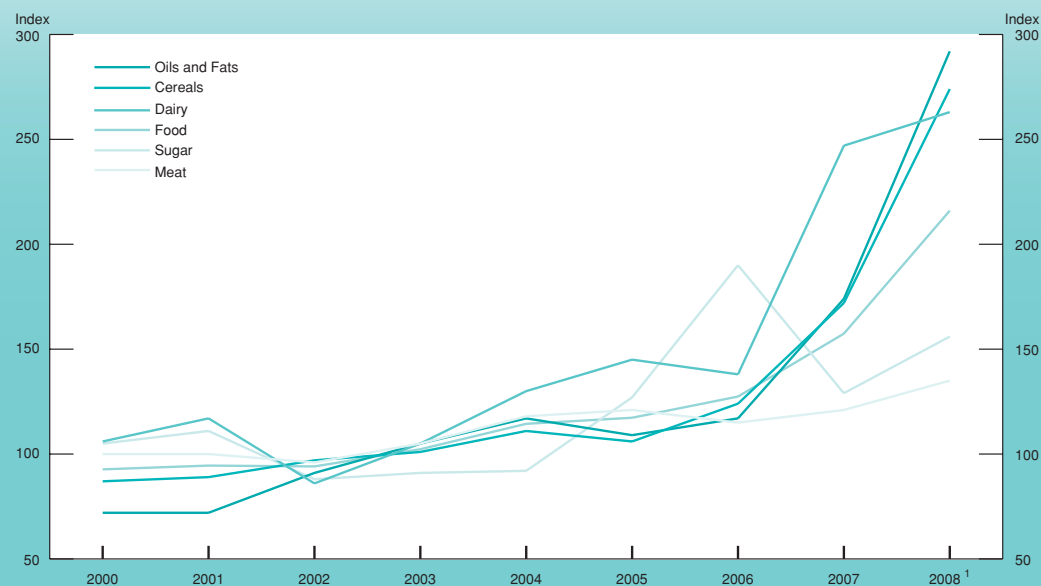
Addressing the Challenge of High Food Prices

Overview

The recent rapid increase in international food prices posed serious concerns around the world. According to the Food and Agriculture Organisation (FAO), the food price index climbed 44% in the first half of 2008, relative to the corresponding figure last year. In June 2008, the price index for cereals escalated 274%, oils and fats 292%, sugar 156%, meat 135%, as well as dairy 263%, as shown in *Chart 1*. The rising prices, which translate into higher food bills, widened the trade deficit, placing a heavy burden on developing countries. The World Bank estimates that the doubling of food prices over the last three years could push 100 million people deeper into poverty. The surge in food prices not only undermines the achievement of the Millennium Development Goals in eradicating poverty but has also triggered unrest in some developing countries, creating social and political instability.

CHART 1

World Food Price Index, 2000 – 2008



¹ June.

Source: Food and Agriculture Organisation (FAO).

Factors Underlying High Food Prices

The root cause of the recent surge in global food prices can be seen in terms of cyclical and structural factors. The cyclical factors are short-term phenomena that will ease over the years. These include, among others, bad weather conditions, speculative activities and depreciation of the United States' (US) dollar. Adverse weather conditions, such as drought in Australia, floods in parts of South Asia as well as cold climate and pest infestation in Viet Nam in 2007, resulted in crop failure and created shortage of food supply. Meanwhile, food prices have surged, partly driven by higher demand with increasing affluence, especially in China and India. Speculative activities have also contributed to high food prices as funds flowed into commodities following the turmoil in the finance, mortgage and housing markets that sparked off in the US last year. Likewise, the depreciation of the US dollar against all major currencies contributed to the price increases of "soft" commodities, denominated in US dollars, namely, wheat, soybean, corn and sugar. Furthermore, as

countries replenish their depleted food stocks as a precautionary measure, the higher demand for commodities have placed upward pressures on food prices. In addition, policy responses imposed by key rice-exporting countries in the form of export-bans and price controls to counter domestic inflation further exacerbated volatility and uncertainties in the international food market.

In contrast, structural causes, such as rising energy prices, growing population and urbanisation, are usually medium- to long-term phenomena related to the asymmetry between demand and supply and are expected to continue into the foreseeable future. The rising energy prices in recent years translate into higher agricultural production costs, thus increasing food prices. Furthermore, as oil price remains high, more grain is being used to produce biofuel as alternative energy. According to FAO, since 2000, grain demand for food increased 4.0% while grain demand for biofuels rose by more than 25.0% as more grain are converted into biofuel annually. For instance, in 2008, the US uses about 25.0% of its corn and 9.0% of its wheat to produce biofuel. Meanwhile, the European Union has targeted 10.0% of its transportation fuel to be plant-derived biofuel within 12 years. Therefore, grain supply, which is diverted to produce biofuel, has caused shortage of food supply for human consumption, contributing to higher prices.

Growing population, urbanisation and industrialisation compete with agriculture for the usage of land for commercial activities and residential areas. Cropping grain for biofuel also has reduced the availability of land used for food production. In addition, with demographic transformation, access to sufficient water supply for agriculture remains a challenge for many grain-producing countries. The growing population with rising income in many Asian countries has increased the demand for food for consumption, animal feed and industrial use. In contrast, productivity levels in agriculture remained low in recent years, reflected by the significant slowdown in yield growth, since 1990s. A report by the Asian Development Bank indicates that wheat and rice yields, which grew 3.8% and 2.3%, respectively, between 1961 and 1989, fell to 2.0% and 1.1% in recent years, respectively. This was caused by low rate of capital accumulation, traditional methods of farming as well as lack of intensive research in agriculture.

Another structural aspect is the failure of multilateral trade rules to protect farmers in developing countries from the cheap imports of agricultural produce from developed countries. This is mainly due to the subsidies provided to farmers in developed countries who are able to export “cheaper” products to developing countries. As a result, agricultural production in developing countries suffered setbacks and is expected to take a longer time to recover, as farmers in these countries are unable to compete with the level of technology and productivity of the developed countries. This caused under investment in the agriculture sector, thus creating shortage in food supply.

High Food Prices in Malaysia

Malaysia has also not been spared from the hike in global food prices as it has yet to attain self-sufficiency level (SSL) in selected food products. Malaysia imports large amounts of food products, particularly rice, as shown in *Table 1 and 2*.

Since November 2007, Malaysia had not only begun to experience price escalation of rice but also shortage in its supply due to the imposition of export curbs by various exporting countries, such as China, India and Viet Nam, as a measure to contain domestic food price inflation. The situation was exacerbated by hoarding activities, which caused further distortions in the rice market. Thus, after taking into account the welfare of consumers as well as the padi farmers, the Government announced five measures in May 2008 to ensure sufficient supply of rice and to contain high prices. These measures include:

- a. maintaining the 15% *Super Tempatan* rice as a controlled item with the prices ranging from RM1.65/kg to RM1.80/kg according to zones;
- b. fixing ceiling price for the 5% and 10% *Super Special Tempatan* at RM2.80/kg and RM2.70/kg, respectively, effective 1 June 2008;
- c. floating the price of imported rice, including White Thai rice;
- d. allowing the transfer of padi between the states in stages; and
- e. raising the Guaranteed Minimum Price of padi from RM650 a tonne to RM750 a tonne.

TABLE 1:
Malaysia: Exports and Import of Food and Beverages
2000 – 2008 (RM million)

	2000	2001	2002	2003	2004	2005	2006	2007	2007 ^a	2008 ^a
Exports	17,531	17,771	23,698	30,731	34,085	33,160	36,468	50,033	9,170	15,764
Imports	10,593	12,078	12,678	13,162	18,478	18,411	21,136	24,435	5,492	7,219
Trade balance	6,938	5,694	11,020	17,570	15,607	14,749	15,332	25,599	3,678	8,544

^a January-March.

Source: Department of Statistics, Malaysia.

TABLE 2:
Malaysia: Imports of Rice, 2000 – 2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
RM '000	689.3	529.7	510.1	398.7	548.1	688.7	1,048.9	1,072.9	189.3
'000 tonnes	594.1	516.6	495.5	365.4	506.0	581.1	836.1	796.0	123.6

^a January-February.

Source: Department of Statistics, Malaysia.

The price of six other food items, among others, wheat flour, sugar and cooking oil, have also been controlled in order to stabilise prices and prevent manipulation. Likewise, subsidies are given to bread and cooking oil producers to offset the increase in input prices.

The Government introduced some initiatives under the Ninth Malaysia Plan (9MP) to increase domestic food production through exploration of new areas for cultivation; optimisation of the usage of available resources; productivity enhancement through technology; and encouragement of private sector participation and investment. These efforts were further intensified under the Mid-Term Review of the 9MP to ensure self-sufficiency in essential food items to meet the growing demand as well as maintain low and stable prices. The measures include increasing productivity of the food sub-sector, improving the distribution network, and implementing the National Food Security Policy.

The National Food Security Policy, launched on 23 April 2008 with a commitment of RM2.5 billion this year, will address the problem of rising food prices and supply shortage. In addition, RM3.0 billion was allocated under the Mid-Term Review of the 9MP to provide vital infrastructure for expediting the implementation of the Policy. The Policy includes creating a rice stockpile; increasing production of agriculture, fisheries and livestock; providing incentives to farmers, fishermen and livestock entrepreneurs; strengthening Federal Agricultural Marketing Authority to ensure efficient marketing and distribution of agricultural products; opening up new land as well as managing idle land to raise food production; and protecting farmers from trade liberalisation. With these concerted efforts, food production in the country is expected to increase and the SSL for rice is expected to reach 86%, fruits 138%, fisheries 103% and poultry 122% by 2010 (2005: 72%, 117%, 91% and 121%). This is in line with FAO's call to all countries to increase global food supply in order to ensure that, *"everybody at all times, has physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life"*.

Conclusion

The upward pressure on food prices will likely persist over the next few years and the era of cheap food prices and sanguinity about food security may be over. Food price inflation will erode purchasing power, increasing the possibility of food deprivation and malnutrition. Therefore, it is necessary for the global community, national governments and other stakeholders to take remedial measures to reduce food prices as well as to mitigate the negative effects of rising food prices. Over the long run, better infrastructure as well as more research and investments should be channelled into the agriculture sector to increase food production.

Malaysia has abundant land and resources available for cultivation. Given the concrete measures taken by the Government, the food crop sub-sector is expected to grow at 6.2% per annum for the rest of the 9MP period. Emphasis will be given to productivity increases through replanting activities with new and high-yielding clones, land consolidation, which includes identifying abandoned land such as ex-mining land for aquaculture, good farm management practices as well as maximising the use of technology and mechanisation. With these pro-active measures, the phenomenon of rising food prices in the country is expected to be contained in the near future.

spending (10.4%). However, inflationary concerns are expected to slow down the private consumption in the second half of the year. Nevertheless, the cash rebate provided by the Government as well as other remedial measures to address rising food prices and food supply shortage are expected to provide relief to the low-income and vulnerable groups (refer feature article, *Addressing the Challenge of High Food Prices*).

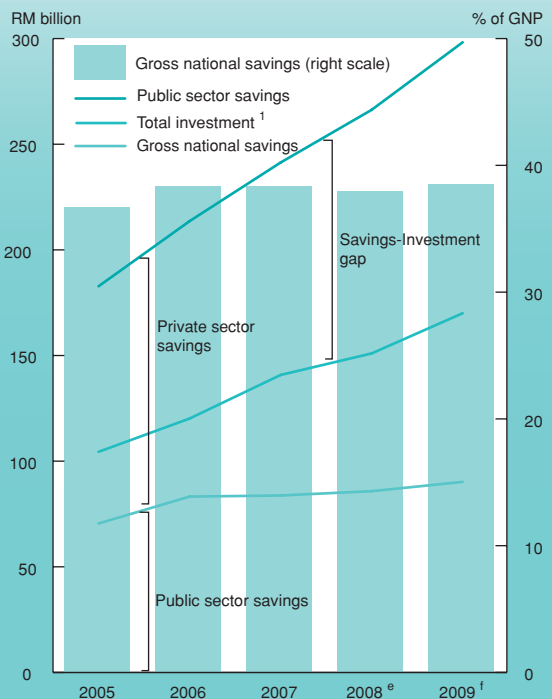
Similarly, **public consumption** is also envisaged to expand 5.7% (2007: 6.6%), driven by continued expenditure on measures to curb inflation. This includes, among others, subsidies to contain the high food and energy prices, various assistance to the low-income group as well as the implementation of National Food Security Policy to increase food production.

Public investment is expected to record a growth rate of 3.6%, contributing 11.1% to GDP (2007: 9.3%; 11.4%), supported by speedier implementation of development projects under the 9MP. In this regard, public investment will be targeted towards increasing capacity, efficiency and network coverage of transportation, including the upgrading of ports, airports and roads. In addition, emphasis will also be given to people-centric projects, such as improving accessibility

and quality of health care, education and basic utilities as well as opening up new and rehabilitating idle land to raise food production.

CHART 3.10

Savings-Investment Gap



^e Estimate.

^f Forecast.

¹ Including change in stocks.

TABLE 3.13

Savings-Investment Gap
2005 – 2009
 (at current prices)

	2005	2006	2007	2008 ¹	2009 ²
	RM million				
Public Sector					
Savings	70,506	83,226	103,937	79,806	76,789
Gross capital formation	53,480	58,480	64,643	68,358	73,986
Surplus/Deficit	17,026	24,746	39,294	11,448	2,804
Private Sector					
Savings	112,258	130,365	137,405	186,163	219,144
Gross capital formation ³	50,935	61,692	76,154	82,632	96,032
Surplus/Deficit	61,323	68,673	61,251	103,531	123,112
Overall					
Gross national savings	182,764	213,591	241,342	265,969	295,933
(as % of GNP)	36.7	38.4	38.4	38.0	38.2
Gross capital formation ³	104,415	120,172	140,797	150,990	170,018
(as % of GNP)	20.9	21.6	22.4	21.5	22.0
Surplus/Deficit	78,349	93,419	100,545	114,979	125,915
(as % of GNP)	15.7	16.8	16.0	16.4	16.3

¹ Estimate.² Forecast.³ Including change in stocks.

Source: Department of Statistics and Ministry of Finance, Malaysia.

National Resource Position

National resource position strengthens...

In 2008, national income in current prices continues to post a high growth rate of 11.6% (2007: 12.9%) due to strong domestic economic activities and firm commodity prices. Growth in **Gross National Savings** (GNS) continues to increase 10.2% to RM266.0 billion, constituting 38.0% of GNP (2007: 13.0%; RM241.3 billion; 38.4%), with private sector savings accounting for 70.0% (2007: 56.9%) of total savings. After taking into account the total investment (including change in stocks) at RM151.0 billion or 21.5% of GNP, the **savings-investment gap** in 2008 is forecast to record a larger surplus of RM115.0 billion or 16.4% of GNP (2007: RM100.5 billion; 16.0%), which could be mobilised for long-term productive investment without recourse to external financing.

Trade Performance

Export Performance

Commodities spur export growth...

Malaysia's total exports accelerated to 15.5% (January – June 2007: 1.2%) in the first six months of 2008, driven by strong exports of commodities and recovery in the exports of manufactured goods. The overall export earnings are expected to surge 9.3% in 2008 (2007: 2.7%), supported by higher earnings from commodity products, as shown in *Table 3.14*. Manufacturing exports, which contributed 76.2% to total exports and increased 4.5% (2007: 0.6%), remained the major contributor to total export earnings. The export earnings of agricultural commodities grew strongly by 31.7% (2007: 22.6%), due to higher prices and export volumes on the back of strong global demand. Meanwhile, export receipts from the mining sector rebounded strongly by 29.2%

TABLE 3.14

Gross Exports 2007 – 2008

	RM million		Change (%)		Share (%)	
	2007	2008 ¹	2007	2008 ¹	2007	2008 ¹
Manufactured goods	482,424	503,998	0.6	4.5	79.7	76.2
Agricultural goods	46,882	61,741	22.6	31.7	7.7	9.3
Mining goods	59,801	77,245	7.1	29.2	9.9	11.7
Others	16,047	18,182	5.5	13.3	2.7	2.8
Gross Exports	605,153	661,166	2.7	9.3	100.0	100.0

¹ Estimate.

Source: Department of Statistics and Ministry of Finance, Malaysia.

(2007: 7.1%) on account of higher prices of crude petroleum, LNG and refined petroleum products. Export earnings for LNG are expected to increase, underpinned by new supply contracts signed between Malaysia and other countries, namely, China and Japan.

Exports of Manufactured Goods

Manufactured exports driven by non-E&E industry...

Manufactured goods, the biggest export earner for Malaysia, grew 8.1% during the first six months of 2008 to RM247.4 billion (January – June 2007: 0.5%; RM228.8 billion), as shown in *Table 3.15*. The share of non-E&E to total export of manufactured goods increased to 44.7% or RM110,706 million (January – June 2007: 40.2%; RM92,084 million), whereas the share of the E&E export fell to 55.3% or RM136,706 million (January – June 2007: 59.8%; RM136,758 million). Exports of **non-E&E products** continued to expand and record double-digit growth of 20.2% (January – June 2007: 8.9%), with strong performance from rubber products (25.0%), petroleum products (68.9%) and processed food (40.5%). The significant increase in the non-E&E export was due to higher external demand and rising prices.

While exports of **E&E** declined marginally in the first six months of 2008 (January – June 2007: -4.4%), improvements were noted in April (13.5%), May (8.7%) and June (4.6%). Although the export of semiconductors contracted 5.5% (January – June 2007: 3.3%), it recovered in April (19.8%), May (13.8%) and June (5.5%) in line with the increased in global sales of semiconductors. Key demand drivers for semiconductors are personal computers and mobile phones on account of the improved functionality and affordability of these items. Semiconductors remain a major component of manufactured exports, accounting for RM44 billion or 17.7% of total manufactured exports (January – June 2007: RM46.4 billion; 20.3%). Export performance of electronic equipment and parts registered a marginal decline of 1.0% (January – June 2007: -10.6%), while machinery and electrical products recorded positive growth of 8.5% (January – June 2007: -3.6%).

Higher export receipts were recorded for **petroleum products**, which registered a strong growth rate of 68.9% (January – June 2007: -5.2%) due to higher export volume as well as rising prices. In addition, rapid development in the petrochemical industry in the region due to strong demand for petrochemical products, led to higher demand for propane, butane, petrol, gas and gaseous hydrocarbon, mainly used as feedstock for the industry. All sub-sectors recorded strong increase, particularly refined

TABLE 3.15

**Exports of Manufactured Goods
January – June**

	Value (RM million)		Change (%)		Share (%)	
	2007	2008	2007	2008	2007	2008
Electronics, electrical machinery and appliances	136,758	136,706	-4.4	-0.0	59.8	55.3
Semiconductors	46,453	43,906	3.3	-5.5	20.3	17.7
Electronic equipment and parts	54,810	54,282	-10.6	-1.0	24.0	21.9
Machinery and electrical products	35,494	38,516	-3.6	8.5	15.5	15.6
Non-E&E products	92,084	110,706	8.9	20.2	40.2	44.7
Chemicals, chemical and plastic products	20,128	23,136	22.1	14.9	8.8	9.4
Petroleum-based products	11,473	19,374	-5.2	68.9	5.0	7.8
Iron, steel and metal products	12,673	14,901	14.4	17.6	5.5	6.0
Wood based products	7,370	7,135	9.8	-3.2	3.2	2.9
Textiles, apparel and footwear	4,953	5,178	-8.4	4.6	2.2	2.1
Food, beverages and tobacco	6,298	8,851	15.6	40.5	2.8	3.6
Rubber-based products	4,960	6,199	16.7	25.0	2.2	2.5
Transport equipment	4,003	4,780	-21.0	19.4	1.7	1.9
Non-metallic mineral products	1,823	2,329	14.9	27.7	0.8	0.9
Other manufactured goods	18,399	18,819	12.2	2.3	8.0	7.6
Total	228,843	247,412	0.5	8.1	100.0	100.0

Source: Department of Statistics, Malaysia.

petroleum (80.8%; RM15,457 million), liquefied propane and butane (61.9%; RM1,803 million) as well as petrol, gas and gaseous hydrocarbon products (14.3%; RM1,761 million).

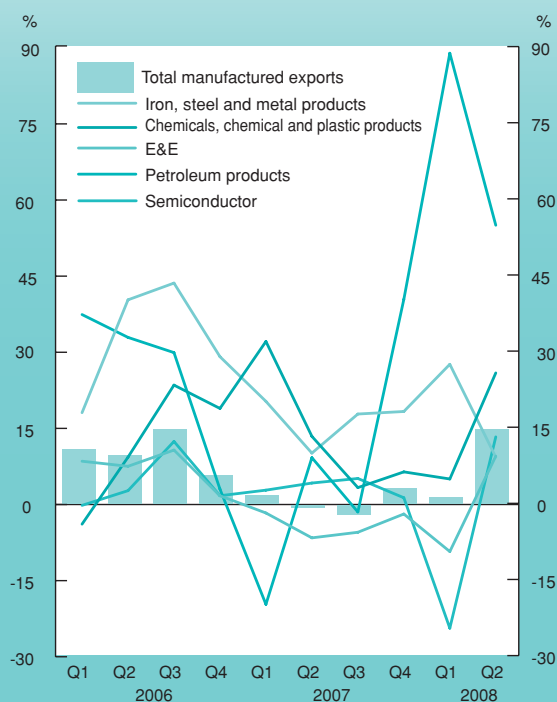
Similarly, export earnings from **iron, steel and metal products** recorded robust growth of 17.6% (January – June 2007: 14.4%). Within this group, major export items were fabricated metal products and non-ferrous metals. Exports of fabricated metals increased markedly by 39.0% to RM5,322 million (January – June 2007: 15.8%; RM3,829 million) on account of greater demand from major importers, namely, Indonesia, Viet Nam and Singapore in tandem with the buoyant regional oil and gas industry. Meanwhile, non-ferrous metals recorded 22.0% growth to RM4,404 million (January – June 2007: 30.0%; RM3,609 million) due to strong demand for copper and aluminium, mainly from

the telecommunications and construction sectors. Exports of iron and steel contracted 0.2% to RM4,972 million (January – June 2007: 3.5%; RM4,984 million), as a result of rising domestic demand.

Exports of **rubber products** recorded high growth of 25.0% during the first six months of 2008 (January – June 2007: 16.7%). This was backed by strong growth in exports of rubber materials and rubber tyres, which grew 54.1% to RM1,955 million and 33.2% to RM521 million, respectively (January – June 2007: 14.0%; RM1,269 million and 63.2%; RM391 million). Meanwhile, exports of rubber gloves, the main contributor to the industry, grew 10.9% to RM3,158 million (January – June 2007: 15.2%; RM2,848 million), attributed to higher demand for medical purposes and rising prices. Malaysia remains the largest exporter of rubber gloves.

CHART 3.11

Performance of Selected Manufactured Exports (% annual change)



Source: Department of Statistics, Malaysia.

Food, beverages and tobacco products recorded an impressive growth of 40.5% (January – June 2007: 15.6%) with Singapore, Australia and Japan as the major export destinations. Export receipts from food products increased 46.5% to RM7,735 million (January – June 2007: 16.2%; RM5,279 million) due to higher external demand, while beverages and tobacco increased 9.5% to RM1,116 million (January – June 2007: 12.7%; RM1,019 million). This strong performance was as a result of continuous efforts undertaken to increase productivity through automation as well as focus on new growth areas, such as *halal* food industry.

Exports of **chemicals and plastic products** grew 14.9% (January – June 2007: 22.1%), mainly due to rising demand for organic chemicals, essential oils and non-primary form plastics. Exports of organic chemicals and essential oils increased 20.9% to RM6,692 million and 36.3% to RM1,499

million, respectively (January – June 2007: 43.4%; RM5,535 million and 14.0%; RM1,099 million). Exports of plastics in non-primary form registered growth of 18.5% to RM1,774 million (January – June 2007: 1.5%; RM1,497 million), whereas plastics in primary form continued to grow 15.4% to RM5,329 million (January – June 2007: 16.8%; RM4,619 million). Meanwhile, exports of inorganic chemicals grew 22.2% to RM808 million (January – June 2007: 12.5%; RM661 million). Overall, exports of chemicals and plastic products accounted for 9.4% of total manufacturing exports (January – June 2007: 8.8%).

Exports of **transport equipment** recorded a turnaround of 19.4% in the first six months of 2008 (January – June 2007: -21.0%), mainly due to strong export growth of road vehicles, which registered 23.7% to RM2,675 million (January – June 2007: 32.5%; RM2,163 million). Major export destinations for transport equipment were Singapore and the US. Exports of other transport equipment, such as aircrafts, ships, boats and floating structures, registered 14.4% growth to RM2,106 million (January – June 2007: -46.4%; RM1,840 million).

Strong growth was also noted in exports of **other non-E&E**, such as non-metallic mineral products as well as textiles and apparels, which increased 27.7% and 4.6%, respectively (January – June 2007: 14.9%; -8.4%). Meanwhile, exports of **other manufactured goods**, such as furniture and parts, declined 9.3% to RM1,868 million (January – June 2007: 17.3%; RM2,061 million) due to lower demand from the US and Japan.

Exports of Primary Commodities

Primary commodities posted strong export growth...

Boosted by firm prices and robust external demand, export earnings from primary commodities, comprising agriculture produce and mineral

TABLE 3.16

Primary Commodity Exports 2007 – 2008

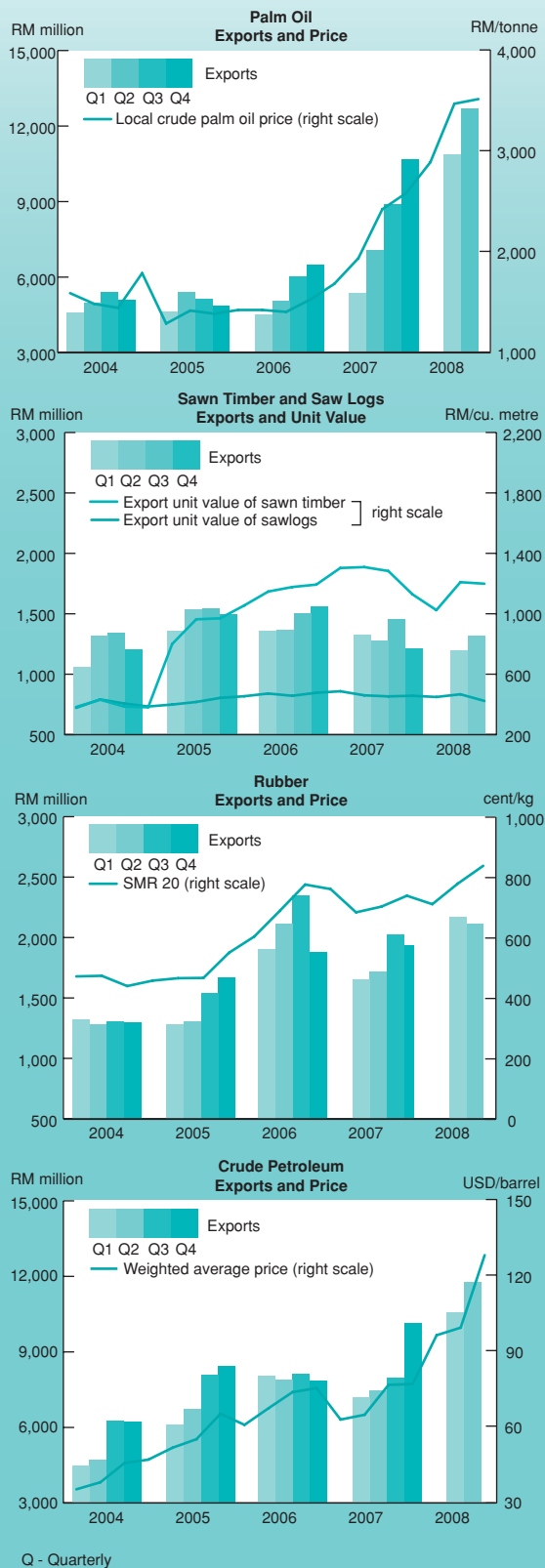
	2007	2008 ¹	Change (%)	
	2007	2008 ¹	2007	2008 ¹
AGRICULTURE				
Palm oil²				
Volume ('000 tonnes)	13,676	14,904	-4.4	9.0
Unit Value (RM/tonne)	2,387	2,900	54.3	21.5
Value (RM million)	32,643	43,221	47.6	32.4
Palm kernel oil				
Volume ('000 tonnes)	873	940	6.6	7.7
Unit Value (RM/tonne)	2,969	3,900	29.4	31.3
Value (RM million)	2,592	3,666	38.0	41.4
Saw logs				
Volume ('000 cubic metres)	4,644	4,500	-2.7	-3.1
Unit Value (RM/cubic metres)	455	465	-4.0	2.2
Value (RM million)	2,112	2,093	-6.6	-0.9
Sawn timber				
Volume ('000 cubic metres)	3,356	3,200	14.3	-4.6
Unit Value (RM/cubic metres)	948	1,300	-21.3	37.1
Value (RM million)	3,181	4,160	-10.0	30.8
Rubber				
Volume ('000 tonnes)	1,018	990	-10.3	-2.8
Unit Value (RM/tonne)	7,205	8,350	-0.7	15.9
Value (RM million)	7,335	8,263	-10.9	12.6
Pepper				
Volume ('000 tonnes)	15	17	-9.3	9.9
Unit Value (RM/tonne)	12,436	12,500	43.2	0.5
Value (RM million)	187	206	29.9	10.5
Cocoa				
Volume ('000 tonnes)	18	20	32.0	12.2
Unit Value (RM/tonne)	6,500	6,600	16.1	1.5
Value (RM million)	116	132	53.0	13.5
Total agriculture (RM million)	48,167	61,741	25.9	28.2
MINING				
Crude petroleum				
Volume ('000 tonnes)	16,959	17,425	0.6	2.7
Unit Value (RM/tonne)	1,938	2,675	2.2	38.1
Value (RM million)	32,863	46,614	2.8	41.8
Liquefied natural gas				
Volume ('000 tonnes)	22,669	22,970	5.3	1.3
Unit Value (RM/tonne)	1,154	1,300	6.7	12.7
Value (RM million)	26,157	29,861	12.3	14.2
Tin				
Volume ('000 tonnes)	16	14	-18.5	-11.4
Unit Value (RM/tonne)	49,522	55,000	64.6	11.1
Value (RM million)	780	770	33.8	-1.3
Total mining (RM million)	59,801	77,245	7.1	29.2
Total value (RM million)	107,968	138,985	14.8	28.7

¹ Estimate.² Includes crude palm oil, processed palm oil and stearin.

Source: Department of Statistics, Ministry of Plantation and Commodities and Ministry of Finance, Malaysia.

CHART 3.12

Primary Commodity Exports



products, are estimated to surge 28.7% to RM138,985 million in 2008 (2007: 14.8%; RM107,968 million), as shown in *Table 3.16*. During the first half of the year, export earnings from agricultural commodities increased 66.5% (January – June 2007: 13.5%), while that from the mining sector grew 42.8% (January – June 2007: 1.4%). This resulted in primary commodities increasing its share to total export to 22.1% or RM72,391 million (January – June 2007: 16.8% or RM47,442 million).

Malaysia continued to be the largest exporter of **palm oil** amounting to 47% of world demand. China remained the largest importer of Malaysian palm oil, followed by Pakistan, the Netherlands, the US, Japan and India. Export volume of palm oil increased significantly by 23.1% to 7.4 million tonnes (January – June 2007: -9.0%; 6.1 million tonnes), partly on account of increasing demand for vegetable oils from new markets, namely Russia, North Africa and Middle East. Likewise, export receipts increased 90.4% to RM23,663 million (January – June 2007: 29.8%; RM12,430 million) on the back of high palm oil prices and increasing global demand. For the whole year, the high demand and prices for palm oil is expected to boost export volume and receipts to 14.9 million tonnes and RM43,221 million, respectively (2007: 13.7 million tonnes; RM32,643 million). The higher prices coupled with strong global demand for palm oil led to a surge in average export price of palm oil to RM3,177 per tonne (January – June 2007: RM2,055 per tonne). Accordingly, the contribution of palm oil to total agriculture exports is expected to rise to 70.0%.

Export receipts of **palm kernel oil** (PKO) soared 95.1% to RM2,040 million (January – June 2007: 22.8%; RM1,045 million). This is on account of higher export volume of 495,284 tonnes and export price of PKO, which surged 62.3% to RM4,118 per tonne (January – June 2007: 5.7%; RM2,537 per tonne).

The export receipts of **rubber** increased 26.2% to RM4,273 million (January – June 2007: -15.6%;

RM3,385 million), on account of higher shipment and export price averaging at RM8.46 per kg. For the whole year, export receipts and volume of rubber are expected to increase to RM8,263 million and 990,000 tonnes, respectively (2007: RM7,335 million; 1,018,052 tonnes), following the improvement in rubber prices. Malaysia supplies about 11.8% of the total world demand for rubber, with 42% of its total export going to China, its largest importer.

Export volume of **crude petroleum** increased 2.1% to 8.6 million tonnes (January – June 2007: 0.7%; 8.4 million tonnes) backed by higher global demand. The uptrend in crude oil export prices which rose to RM2,575 per tonne (January – June 2007: RM1,756 per tonne) boosted export receipts 49.7% to RM22,120 million (January – June 2007: -7.5%; RM14,772 million). In 2008, high demand and prices of crude oil are expected to increase export receipts by 41.8% to RM46,614 million (2007: 2.8%; RM32,863 million).

Despite a decline of 1.2% in export volume, export earnings of **LNG** expanded 29.6% to RM16,694 million (January – June 2007: 14.9%; RM12,878 million) on account of higher prices which rose to RM1,400 per tonne (January – June 2007: RM1,067 per tonne). For the whole year, export earnings for LNG is estimated to increase 14.2% to RM29,861 million (2007: 12.3%; RM26,157 million).

Import Performance

Imports registered strong growth...

Gross value of imports, including cost, insurance and freight (c.i.f), expanded 8.3% during the first six months of 2008 (January – June 2007: 3.6%), as shown in *Table 3.17*. This was reflected in higher imports of intermediate goods for the manufacturing sector as well as demand for investment goods. The trend is likely to continue during the second half of the year with import growth in 2008 remaining strong at 8.1% (2007: 5.0%). Imports of intermediate and capital goods are envisaged to register 9.5% and 9.2%, respectively (2007: 6.9%; 7.2%). Similarly, imports

TABLE 3.17

**Gross Imports by End Use
January – June**

	RM million		Change (%)		Share (%)	
	2007	2008	2007	2008	2007	2008
Capital goods	31,418	34,515	-3.2	9.9	13.1	13.3
Capital goods (except transport equipment)	27,443	30,235	0.8	10.2	87.3	87.6
Transport equipment (industrial)	3,976	4,279	-23.7	7.6	12.7	12.4
Intermediate goods	171,387	187,857	7.7	9.6	71.6	72.4
Food and beverages, primary and processed mainly for industry	5,764	8,338	7.9	44.7	3.4	4.4
Industrial supplies, primary and processed	59,711	66,766	23.1	11.8	34.8	35.5
Fuel and lubricants primary processed, others	16,437	23,434	1.5	42.6	9.6	12.5
Parts and accessories of transport equipment	5,713	6,751	-4.3	18.2	3.3	3.6
Parts and accessories of capital goods (except thermionic valves and tubes)	28,152	32,215	-1.4	14.4	16.4	17.1
Thermionic valves and tubes	55,610	50,354	1.9	-9.5	32.4	26.8
Consumption goods	13,807	15,637	4.9	13.3	5.8	6.0
Food and beverages, primary and processed, mainly for household consumption	5,042	6,147	8.8	21.9	36.5	39.3
Transport equipment (non-industrial)	144	234	-4.0	61.9	1.0	1.5
Other consumer goods	8,621	9,256	2.9	7.4	62.4	59.2
<i>Durables</i>	2,111	2,135	15.5	1.1	15.3	13.7
<i>Semi-durables</i>	2,648	2,831	-8.7	6.9	19.2	18.1
<i>Non-durables</i>	3,861	4,290	5.8	11.1	28.0	27.4
Others (including dual use goods)	10,254	10,631	1.5	3.7	4.3	4.1
Imports for re-exports	12,582	10,672	-23.2	-15.2	5.3	4.1
Total	239,448	259,311	3.6	8.3	100.0	100.0

Source: Department of Statistics, Malaysia.

of consumption goods are likely to increase 9.5% (2007: 3.6%), partly due to higher prices of imported consumer items.

Imports of **intermediate goods** increased 9.6% in the first six months of the year (January – June 2007: 7.7%) and remained the largest contributor amounting to 72.4% of total merchandise imports. On a disaggregated basis, imports of primary and processed materials used in the food and

beverages industry increased strongly by 44.7% (January – June 2007: 7.9%), as a result of higher input costs. Imports of parts and accessories for transport equipment continued to surge significantly by 18.2% (January – June 2007: -4.3%), reflecting the favourable performance of the automobile assembly industry. Imports of parts and accessories for capital goods, except transport equipment, contracted 1.4% (January – June 2007: 0.8%), reflecting the slowdown in global E&E demand.

Imports of **capital goods** expanded 9.9% (January – June 2007: -3.2%) on account of higher exploration activity in oil and gas industry. This development coupled with sustained investment activities in other sectors resulted in higher demand for capital goods. As a result, imports of capital goods excluding transport equipment grew 10.2% (January – June 2007: 0.8%). Imports of transport equipment for industrial use rebounded significantly by 7.6% (January – June 2007: -23.7%), as a result of expansion in aviation services and delivery of vessels for LNG transportation. Capital goods accounted for 13.3% of total imports.

Imports of **consumption goods** rose 13.3% (January – June 2007: 4.9%), driven by higher import price of food and volume of non-industrial transport equipment. The higher prices of food items, such as rice, milk and meat, partly contributed to a 37.5% (January – June 2007: 5.2%) increase in import value of processed food. Imports of non-industrial transport equipment, such as bicycles, motorcycles and outboard motors, surged 61.9% (January – June 2007: -4.0%) on the back of rising cost of fuel and increasing use of bicycles. Imports of durables, semi-durables and non-durables goods increased 1.1%, 6.9% and 11.1%, respectively (January – June 2007: 15.5%; -8.7%; 5.8%).

Other imports, including dual use goods, trended upwards by 3.7% (January – June 2007: 1.5%), mainly due to higher imports of processed fuel and lubricants and motor spirits 41.3% (January – June 2007: 14.1%). Meanwhile, imports for re-exports, comprising mainly packing and assembling activities of E&E products contracted 15.2% (January – June 2007: -23.2%) as a result of lower demand from the US.

Direction of Trade

Stronger trade surplus supported by commodity exports...

Malaysia's total trade expanded 12.2% during the first six months of 2008 (January – June 2007: 2.2%) in line with the increased global demand for commodity products as well as higher import

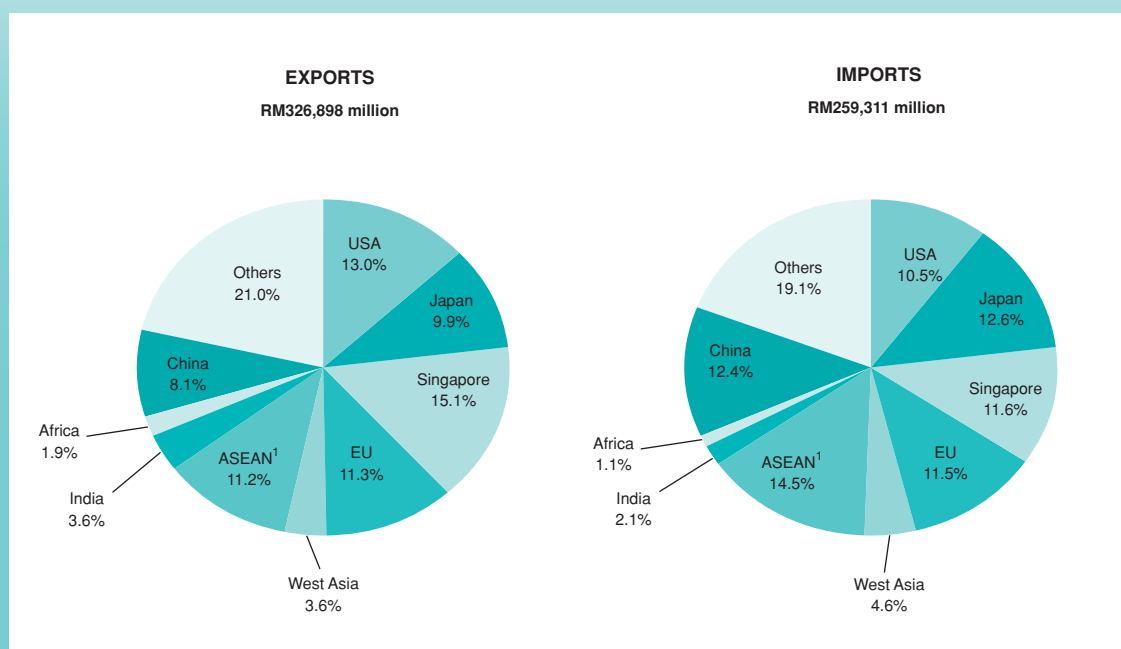
prices. The trade surplus registered RM67,587 million (January – June 2007: RM43,681 million), with exports accounting for 55.8% of the total trade. Despite global uncertainties, external trade continued to strengthen on account of increasing intra-regional trade in the Asia Pacific region and further diversification into non-traditional markets, namely, Australia, Mexico and the United Arab Emirates. Singapore emerged as Malaysia's largest trading partner, followed by the US, Japan and China, together accounting for 47.2% of total trade. Meanwhile, trade with the Republic of Korea, ASEAN (excluding Singapore) and the EU rose to 28.5% of total trade.

Malaysia's trade with **Singapore** escalated 15.1% to RM79,226 million in the first six months of 2008 (January – June 2007: -3.2%; RM68,832 million), accounting for 13.5% of total trade. Exports to Singapore rebounded 19.8% to RM49,243 million (January – June 2007: -9.1%; RM41,100 million), while imports expanded 8.1% (January – June 2007: 7.0%), as shown in *Table 3.18*. The bulk of exports to Singapore mainly comprised crude petroleum products, petroleum products, E&E products as well as manufactures of metal. Meanwhile, major items imported from Singapore were refined petroleum products, machinery, appliances and parts as well as transport equipment. Malaysia registered a larger trade surplus with Singapore amounting to RM19,260 million (January – June 2007: RM13,368 million).

Exports to the **US** contracted 9.0% (January – June 2007: -11.5%) due to sluggish demand for E&E which constitute the bulk of Malaysia's exports to the US (71.4%). Furthermore, demand for wood products, especially furniture, also declined following the slowdown in US consumer spending due to the slump in the US housing market. Consequently, the US moved from first to second position as Malaysia's most important trading partner. As a positive development, exports of palm oil to the US increased significantly by 90.4% (January – June 2007: 29.8%), making the US the fourth largest importer of Malaysian palm oil. Imports from the US recovered 0.4% (January – June 2007: -14.1%) on account of improved demand for E&E products,

CHART 3.13

Direction of External Trade - Malaysia January – June 2008



¹ Not Including Singapore.

Source: Department of Statistics, Malaysia.

machinery, appliances and parts as well as iron and steel products. In this regard, Malaysia registered a total trade surplus of RM15,159 million (January – June 2007: RM19,443 million).

Japan remains as one of Malaysia's main trading partners with a share of 11.1% of total trade, which strengthened to RM65,092 million in the first six month of 2008 (January – June 2007: RM57,499 million). Exports to Japan, which constitute 9.9% of Malaysia's total exports, expanded 24.0% to RM32,522 million (January – June 2007: 6.8%; RM26,232 million). Major exports were LNG, E&E, wood products as well as optical and scientific equipment. Meanwhile, imports from Japan rose marginally by 4.2% to RM32,570 million (January – June 2007: -0.6%; RM31,267 million), mainly comprising transport equipment, machinery, appliances and parts, as well as manufactures of metal. With the faster growth of exports relative to imports, the trade deficit narrowed to RM48 million (January – June 2007: RM5,035 million).

China remained Malaysia's fourth largest trading partner with its share increasing to 10.7% of total trade. Exports to China grew 34.3% (January – June 2007: 25.5%), contributed by E&E products (44.3%), followed by palm oil (21.0%) as well as chemicals and chemical products (9.1%). Imports from China, comprising mainly E&E products, grew 10.5% to reach RM32,232 million (January – June 2007: 7.3%; RM29,182 million), with China remaining the major source of E&E imports. The trade deficit with China narrowed further to RM1,449 million (January – June 2007: RM6,269 million).

Malaysia's trade with **ASEAN (excluding Singapore)** surged 18.0% to RM74,274 million (January – June 2007: 0.1%; RM62,959 million), accounting for 12.7% of the country's total trade in the first six months of 2008. Growth in trade was supported by increased demand, particularly from Viet Nam and Thailand. Exports grew 18.2% to RM36,676 million (January – June 2007: 1.7%; RM31,018 million), comprising mainly crude petroleum, refined petroleum products as well as E&E products. In contrast, imports from

ASEAN (excluding Singapore) rebounded 17.7% (January – June 2007: -1.5%), backed by higher imports of E&E and commodities, such as rice and crude rubber.

Trade with the **EU** accounted for 11.4% of total trade. Among the EU countries, Germany remained the largest trading partner, accounting for 27.2% of total trade, followed by the Netherlands (19.6%), the UK (13.3%) and France (10.3%). Malaysia's trade with the EU grew 1.1% (January – June 2007: 10.3%), partly due to diversification to new markets, such as Romania and Bulgaria. Total exports contracted 0.7% (January – June 2007: 9.6%) as a result of lower export of consumer electronics products to the EU, due to price attrition despite the improved technology of electronic products.

However, the export of hybrid integrated circuits, palm oil and rubber gloves has cushioned the declined in E&E exports. Exports to the Netherlands, the largest export market in the EU, increased 3.0% to RM10,966 million. Meanwhile, imports from the EU increased 3.5% (January

– June 2007: 11.1%), largely from Germany, the UK and France comprising mostly E&E products, machinery, appliances and parts. Trade with the EU, which recorded a surplus of RM7,000 million (January – June 2007: RM8,259 million), continues to be in Malaysia's favour.

Balance of Payments

Current account recording higher surplus...

The **balance of payments** position in 2008 is expected to strengthen, driven by a strong current account surplus and smaller net outflows in the financial account. The current account surplus is expected to remain high at RM114,979 million or 16.4% of GNP (2007: 16.0%; RM100,410 million), as shown in *Table 3.19*, primarily due to stronger surplus in the goods account and higher tourist receipts. The financial account improved with a smaller net outflow, mainly due to higher inflows of FDI following incentives offered to attract foreign investors and the development of

TABLE 3.19

Current Account of the Balance of Payments 2008 – 2009 (RM million)

	2008 ¹			2009 ²		
	Receipts	Payments	Net	Receipts	Payments	Net
Goods	662,026	516,913	145,113	712,057	555,124	156,934
Services	103,010	102,412	598	108,418	106,283	2,134
Transportation	23,969	40,019	-16,050	24,662	42,139	-17,476
Travel	49,651	19,242	30,409	53,392	20,334	33,057
Other services	29,082	42,410	-13,328	30,028	42,979	-12,952
Government transactions	308	741	-433	336	831	-496
Income	42,915	57,948	-15,033	47,734	63,981	-16,247
Compensation of employees	5,829	6,091	-262	6,488	6,808	-320
Investment income	37,086	51,857	-14,771	41,246	57,173	-15,927
Current transfers	1,789	17,488	-15,699	2,453	19,359	-16,906
Current account	809,740	694,761	114,979	870,662	744,747	125,915

¹ Estimate.

² Forecast.

Source: Ministry of Finance, Malaysia.

growth corridors under 9MP. In line with these developments, the international reserves position is anticipated to remain strong.

The surplus in the **goods account** is expected to record substantial growth of 13.7% to RM145,113 million (2007: -5.1%; RM127,673 million), attributed to stronger commodity prices. Thus, exports free on board (f.o.b) are anticipated to increase 9.3% to RM662,026 million (2007: 2.7%; RM605,916 million), buoyed by higher export earnings from major commodities, such as palm oil, crude petroleum and LNG. Meanwhile, imports f.o.b are expected to increase 8.1% to RM516,913 million (2007: 5.1%; RM478,243 million), following expansion in investment activity, particularly in the mining and manufacturing sectors.

The **services account**, which comprises travel, transportation, government transactions and other services, is expected to register a surplus for the second consecutive year at RM598 million (2007: RM2,373 million). This is due to the strong surplus in the travel account, supported by higher tourist receipts which are expected to offset the deficit in transport and other services account. The *travel account* will continue to register a surplus of RM30,409 million (2007: RM29,115 million), largely due to anticipated increase in tourist arrivals. Arrivals are expected to reach 21.5 million in 2008 (2007: 20.9 million) boosted by the extension of the VMY campaign until August 2008 and hosting of international conventions and events, such as the WCIT, Malaysia International Halal Showcase 2008 and Rodeo Malaysia. Inflows in the travel account is envisaged to expand 2.8% to reach RM49,651 million (2007: 26.3%; RM48,289 million). Gross outflows, particularly expenses for business, leisure and pilgrimage, are anticipated to increase slightly by 0.4% to RM19,242 million (2007: 30.1%; RM19,174 million).

Expansion in total trade is expected to widen the deficit of the *transport account* at RM16,050 million (2007: -RM13,173 million). Outflows for transportation account are expected to be higher, reflecting the continuous reliance on foreign companies and the rise in transport payments following higher fuel and freight costs. Meanwhile, gross receipts of the transport account

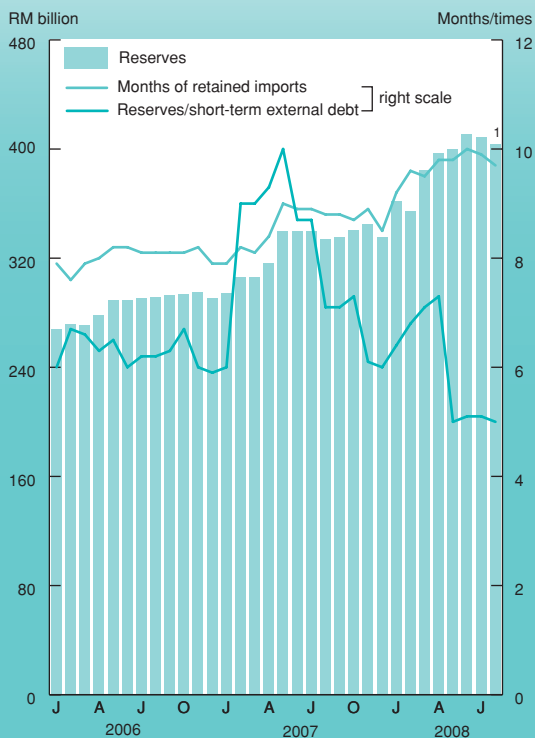
are envisaged to be lower due to a decline in earnings from transport of passengers and cargo as well as leasing of vessels. Net outflows in the *other services account* is anticipated to increase slightly as Malaysia continues to engage foreign professional, business and technical expertise. In addition, higher payments for royalties, licence fees and trade-related services, including finance, leasing as well as escalating risk premiums in several routes, are expected to contribute to the net outflows in the account. The trend of MNCs outsourcing their accounting and back office services to overseas will further widen the deficit.

The **income account** is expected to record a higher deficit of RM15,033 million (2007: -RM13,893 million). The widening deficit is mainly due to the higher repatriation of profits and dividends although there is an increase of gross receipts accruing from Malaysian investment overseas. The repatriation of profits and dividends is expected to increase 9.9% to RM57,948 million (2007: 9.0%; RM52,733 million), on account of better earnings of MNCs. Nevertheless, they are expected to retain a portion of the investment income for reinvestment. Meanwhile, gross receipts are anticipated to increase 10.5% to RM42,915 million (2007: 24.9%; RM38,840 million) as a result of higher earnings from Malaysian companies investing abroad, especially in the construction, financial services and manufacturing sectors. In addition, higher returns from external reserves holding are expected to increase further. *Compensation of employees account*, which includes salaries and benefits in-kind earned by residents working abroad and non-residents working in Malaysia, is expected to record a lower deficit.

Net outflows of the **current transfers** are expected to decline at RM15,699 million (2007: -RM15,743 million). Inflows of the transfers account, mainly from remittances by Malaysians working abroad and transfer of savings are projected to expand RM1,789 million (2007: RM1,444 million). Meanwhile, gross payments for repatriation earnings by foreigners in Malaysia are expected to increase marginally to RM17,488 million (2007: RM17,187 million).

CHART 3.14

International Reserves



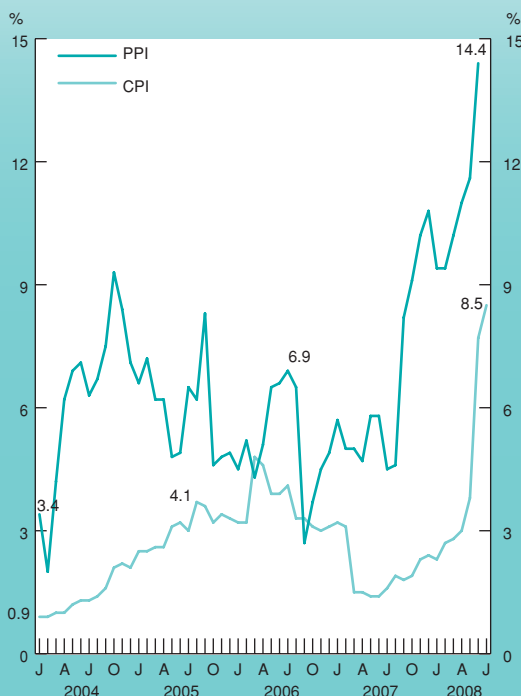
FDI inflows. The reserves position remained strong at RM403.9 billion (USD123.7 billion) as at 15 August 2008 compared to RM335.7 billion (USD100.7 billion) as at end-2007, useable and unencumbered, adequate to finance 9.7 months of retained imports and is 5 times the short-term external debt. The strong international reserves position increased Malaysia's resilience and capability to meet any contingencies, including outflows in financial intermediary especially for short-term liability, such as portfolio investment, short-term external debt and deposits in the banking system.

Prices

Rising inflation...

Inflation rose worldwide in 2008 due to high energy and food prices. Since the second half of 2007 to June 2008, crude oil prices rose 79.0%, while prices of food commodities (wheat, rice, soybean, corn and CPO) increased between

CHART 3.15

CPI and PPI Trends
(% annual change)

Source: Department of Statistics, Malaysia.

The **financial account** is expected to record lower net outflows, mainly due to the moderation of outflows from other investments and higher inflows of FDI. Manufacturing and services sectors is expected to be the major recipients of FDI inflows, particularly following the development of Iskandar Malaysia. Conducive investment policies coupled with business friendly environment have opened opportunities and strengthened Malaysia's position to attract foreign investors. Outflows from direct investments overseas are expected to increase, reflecting the interest of Malaysian companies to invest abroad and have a strategic global presence. However, the BOP position will continue to remain favourable with the rising outflows expected to be cushioned by the strong surplus in the goods account and higher inflows of FDI.

International reserves are expected to strengthen further in line with the strong trade surplus, underpinned by robust commodity exports and

Inflation Trends in Malaysia

Introduction

The world continues to grapple with rising inflation, which has been accelerating since the beginning of 2008 spurred by escalating food and energy prices. Inflation rates in many countries continue to post record highs, reaching double-digit rates in some developing countries. Malaysia experienced higher inflation in 2008, averaging 4.4% in the first seven months compared with 2.0% in 2007. In July, the headline inflation rate surged 8.5% mainly due to higher food and fuel prices, marking its highest level since January 1982 when inflation was 7.6%. The higher fuel pump prices were due to the restructuring of the fuel subsidy on 5 June 2008.

Measurement of Inflation

Headline inflation in Malaysia is measured by the annual change in the Consumer Price Index (CPI). Core inflation, on the other hand, is a measure that excludes items facing volatile price movements, such as food and energy. To measure inflation, a price index is used to compare how prices, taken as a whole, differ between time periods or geographical locations. The CPI measures the change in the cost of a fixed basket of goods and services that are commonly consumed by an average Malaysian household in the current period compared to the base period. The basket covers a wide range of goods and services totalling 460 items with 900 specifications, and are classified into 12 groups based on the United Nations "Classification of Individual Consumption According to Purpose" (COICOP). The selection of items and the weight assigned to each item are obtained from the Household Expenditure Survey (HES) conducted by the Department of Statistics (DOS). Since 1990, the HES has been conducted every five years.

Items with larger weights in the basket of goods and services will have a greater influence on the CPI than those with smaller weights. The categories carrying the most weights in the CPI are food, housing and utilities, and transport, accounting for 68.7% of the CPI, as shown in *Table 1*. As household income rises, the proportion of household expenditure on food declines, as reflected by the reduced weight on food to 31.4% in 2005 from 46.8% in 1967. The Malaysian CPI weight on food is typical of most developing economies, which range between 30.0% and 40.0%, as compared with about 15.0% in developed economies. Soaring global food prices since mid-2007 have thus had a greater effect on the inflation of developing economies.

In the same vein, the impact of rising food prices is greater on poor and lower-income households as a substantial portion of their income is spent on food. The weightage on food and non-alcoholic beverages is 43.0% for Malaysian households with monthly income of less than RM1,000 and 38.9% for households with less than RM1,500. Rural households also spend more on food carrying a weight of 37.0% as compared with 29.2% for urban households.

Prices *Vis-à-vis* Inflation

Rising inflation erodes the purchasing power of consumers, as they can only buy fewer goods and services with their disposable income. In a period of soaring prices, there is a perception that the CPI does not reflect actual price increases on the ground. It must be noted that the CPI is a weighted average index, that is, individual price increases or decreases will be averaged out among many items to arrive at the index. The CPI is designed to provide a broad indicator of changes in the retail prices experienced by households in general and does not reflect the consumption pattern

TABLE 1
Components of the CPI by Weight

	Group	1967= 100	1980= 100	1990= 100	1994= 100	2000= 100	Group	2005= 100
1.	Food	46.8	36.9	33.7	34.9	33.8	Food & Non-Alcoholic Beverages	31.4
2.	Beverages & Tobacco	8.9	4.7	4.3	3.6	3.1	Alcoholic beverages & tobacco	1.9
3.	Clothing & footwear	4.8	4.8	4.0	3.6	3.4	Clothing & footwear	3.1
4.	Gross rent, fuel & power	9.4	18.7	20.2	21.1	22.4	Housing, water, electricity, gas and other fuels	21.4
5.	Furniture, furnishing & household equipment & operations	6.6	5.8	5.8	5.6	5.3	Furnishings, household equipment & routine household maintenance	4.3
6.	Medical care & health expenses	2.0	1.2	1.8	1.9	1.8	Health	1.4
7.	Transport & equipment	10.4	16.0	18.6	17.9	18.8	Transport	15.9
8.	Recreation, entertainment education & cultural services	5.6	6.4	5.2	5.8	5.9	Communication	5.1
9.	Miscellaneous goods & services	5.5	5.5	6.4	5.6	5.5	Recreation services & culture	4.6
10.							Education	1.9
11.							Restaurants and hotels	3.0
12.							Miscellaneous goods & services	6.0
	Total	100.0	100.0	100.0	100.0	100.0	Total	100.0

Source: Department of Statistics, Malaysia.

of any particular household. *Table 2* demonstrates the difference between actual price change of selected items *vis-à-vis* percentage change by group. For instance, during the period from 2005 to January – June 2008, the price of a kilogramme of *kembong* fish rose 9.9%, while the food group index increased 12.2%. During the same period, the price of a ready-made *baju kurung* decreased 4.0% while the clothing and footwear group declined 2.9%. However, the CPI for the same period rose 9.0%. The difference in the percentage change between the actual price of a specific item and the group index is due to the weightage of each item in the CPI.

TABLE 2
Price Changes of Selected Items
(2005 = 100)

Item	Weight	Average Price (RM)	Change (%) January – June 2008 against 2005		
		2005	Price	Group Index	CPI
Beras ST 15% / kg	0.560	1.67	10.8	12.2	9.0 ¹
Kembong fish / kg	0.596	7.18	9.9	12.2	
Condensed milk / 400 gm tin	0.014	1.87	36.4	12.2	
Milk powder / 700 gm pack	0.185	10.63	6.1	12.2	
Baby milk powder / 800 gm pack ²	0.185	14.07	4.1	12.2	
Margarine / 500 gm pack	0.014	5.04	21.0	12.2	
Local coffee powder / 250 gm	0.104	2.79	13.6	12.2	
Chocolate drink / 200 gm pack	0.130	3.09	24.9	12.2	
Baju kurung (ready-made) / unit	0.264	54.91	-4.0	-2.9	
Cellular phone / unit	0.118	627.55	-21.3	-3.1	

¹ Change (%) in the CPI after taking into account the average price changes of all items in the 12 groups in the basket of goods.

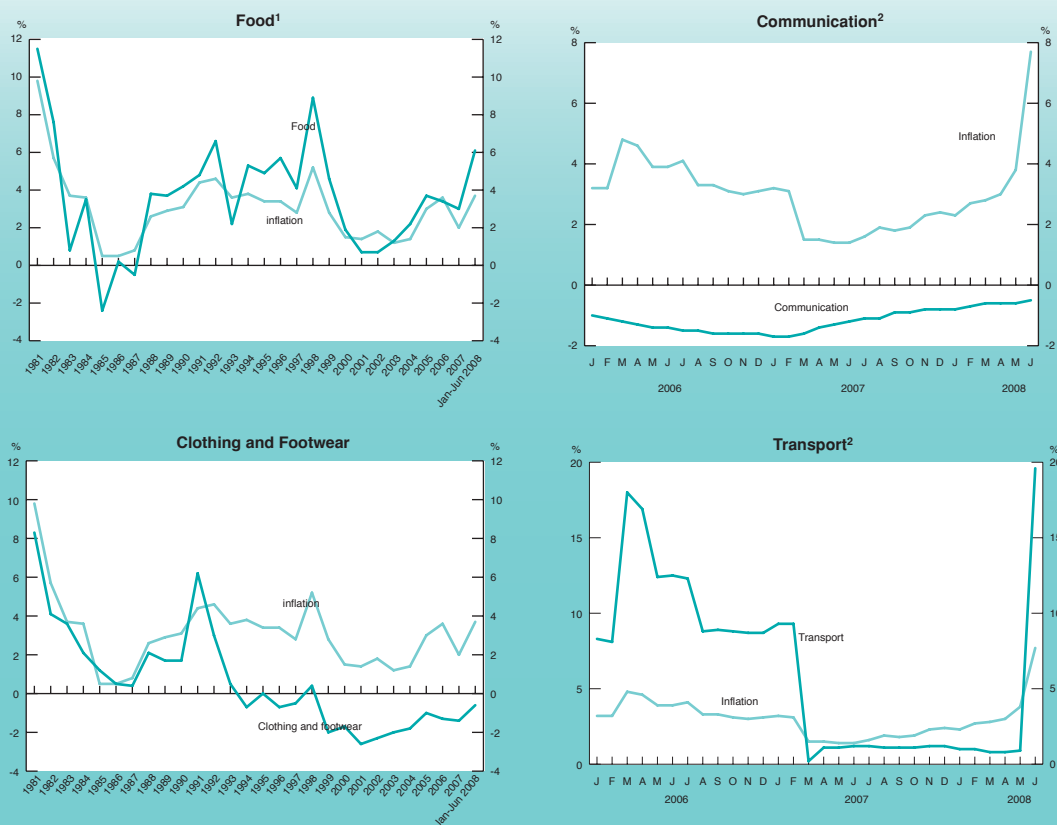
² Refers to 650 gm pack in 2008.

Source: Department of Statistics, Malaysia.

Chart 1 shows the annual percentage change of selected groups *vis-à-vis* the CPI for the period from 1981 to January – June 2008. The price movements of the food group closely track the CPI due to its significant weightage in the index. Although the transport group accounts for 15.9% of the weightage, the recent adjustment to petrol and diesel pump prices in June has resulted in this group contributing nearly half of the 7.7% increase in the CPI. The increase in the CPI is partly mitigated by the continued price declines in the clothing and footwear, and communication groups.

Consumers use the CPI to assess the extent to which their purchasing power has been eroded by rising prices. The Government uses it to help decide monetary policy stance and formulate programmes to assist the poor and low-income households, while trade unions and employers use it as a reference for wage negotiations.

CHART 1

Annual Index Percentage Change of Selected Groups *Vis-à-vis* CPI

¹ Reclassified as Food and non-alcoholic beverages in 2005.

² Separate classification for transport and communication in 2005.

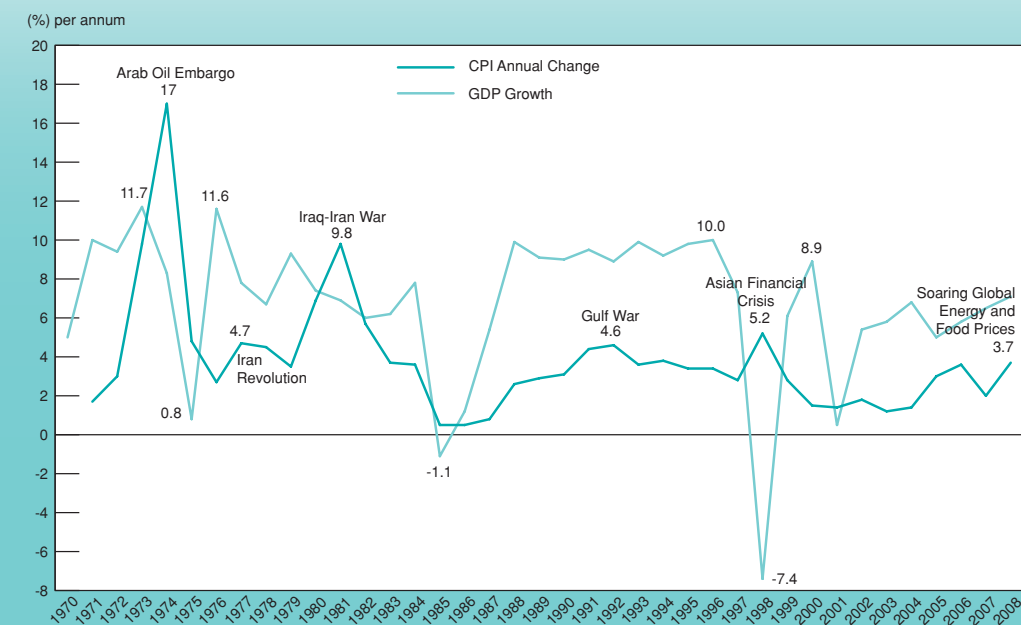
Source: Department of Statistics, Malaysia.

Inflation Trends, 1970 – 2008

Malaysia has generally enjoyed relatively stable and low inflation, despite spikes in some years, mainly due to the impact of high crude oil prices, as shown in *Chart 2*. Inflation in some years was also due to aggregate demand exceeding supply and aggravated by tight labour market conditions.

High inflation rates were experienced during the oil shocks. Malaysia experienced an all-time high inflation rate of 17.0% in 1974 in the aftermath of the first oil shock following the Arab oil embargo in 1973 and 1974. Crude oil prices surged from USD2.59 per barrel in January 1973 to USD11.65 in January 1974. However, following the world recession in 1974 and 1975, the Malaysian economy decelerated to 0.8% in 1975 (1974: 8.3%). The ensuing deflationary conditions resulted in domestic inflation declining from 17.0% in 1974 to 4.8% in 1975.

CHART 2

Malaysian Inflation and GDP Growth Trends, 1970 – 2008¹¹ January – June 2008.

Source: Department of Statistics, Malaysia.

The next peak in inflation occurred during the second oil shock, sparked by the Iran-Iraq war in 1979-1980, which saw oil prices reaching USD32 per barrel in November 1980 from USD13 in January 1979. Domestic inflation crept up from 3.5% in 1979 to 6.9% in 1980 and 9.8% in 1981. The third oil shock was precipitated by the invasion of Kuwait by Iraq in August 1990, which led to oil prices rising to USD36 per barrel in October 1990 from USD18 per barrel before the invasion. The immediate impact of the oil crisis was an increase in inflationary pressures in the industrial and developing countries. Malaysia's inflation rose to 4.4% in 1991 from 3.1% in 1990.

Malaysia experienced low inflation rates of 0.5% – 0.8% during the period 1985 – 1987, following the recession in 1985 due to the global decline in the prices of major commodities, such as crude palm oil (-31.3%), soybeans (-21.2%), rubber (-20.8%), corn (-17.3%) and tin (-5.7%). The slowdown in exports coupled with the cutback in both public and private expenditure resulted in the economy contracting by 1.1% in 1985. The unemployment rate increased to 7.6% in 1985 from 6.3% in 1984, while total employment rose at a slower pace of 1.4% compared with 2.7% in 1984.

The next hike in inflation was in 1992 following strong economic growth during 1986 – 1993, which averaged 11.6% annually and raised aggregate domestic demand significantly. In addition, foreign investment inflows added pressure on the tight labour market, which led to increased wages and contributed to cost pressures. Money supply also expanded strongly during the period and reached a high of 23.5% in 1993. The increase in money supply generated excess demand and exerted further pressure on prices. Amid these developments coupled with capacity constraints, inflation rose 4.6% in 1992, the highest level since 1982.

The Asian financial crisis in 1997/1998 severely affected the Malaysian economy, with growth contracting 7.4%. Inflation rose to 5.2% in 1998, reflecting higher import prices due to a weaker ringgit. This was the highest level recorded in the 1990s. Inflation moderated to 2.8% in 1999 and dipped below 2.0% during the period 2000 – 2004 in the absence of domestic and external inflationary pressures.

Inflation touched 3.0% in 2005 (2004: 1.4%), following the adjustment in the administered prices of goods and services, such as diesel, petrol and liquefied petroleum gas (LPG), chicken, toll charges and public transport fares. The prices of alcoholic beverages and tobacco also rose following the increase in excise duties in the 2005 Budget. With inflation edging up amid sustainable growth prospects, the Overnight Policy Rate (OPR) was raised by 30 basis points to 3.00% in November 2005, the first time since its introduction in April 2004.

On the international front, inflation remained a major concern in 2006 as energy and commodity prices rose due to growing demand, following the strong performance of the world economy in recent years. Crude oil prices reached a high of USD77 per barrel in July 2006. The retail prices of domestic petroleum products were raised in February, which resulted in inflation surging to 4.8% in March, though inflation for the year averaged 3.6%, as shown in *Table 3*. The OPR was increased twice, in February by 25 basis points to 3.25% and in April by another 25 basis points to 3.50% to align monetary conditions to the current environment. In 2007, despite rising crude oil and commodity prices, inflation moderated to 2.0%. This was particularly due to the fuel subsidy provided by the Government, while strong competition among producers and retailers as well as the substitution of goods by consumers in response to higher prices helped to mitigate the pass-through of global prices into domestic prices.

Global food and energy prices escalated further in 2008, causing inflation to accelerate worldwide. Crude oil prices hit new highs several times this year and reached a record USD145 per barrel in early July. Domestic inflation rose 3.8% in May and surged to a 26-year high at 7.7% in June, following higher food prices and the hike in petrol prices, which together contributed 6.7 percentage points to the increase in the CPI. Inflation rose further to 8.5% in July. The OPR was, however, left unchanged at 3.50% in July, as the risks to slower growth have increased considerably relative to the risks to higher inflation. In view of these developments, the immediate concern is to avoid an economic slowdown, which would lead to unemployment and cause hardship especially to the poor and vulnerable groups.

The moderation in global and domestic growth in the second half of 2008 and into the first half of 2009 is expected to reduce the pressure on prices. On a positive note, global prices of commodities have started to ease, reflected by the Standard & Poor's Goldman Sachs Commodity Index declining 12.0% to 760.2 points as at end-July 2008 from 862.7 points as at end-June 2008. Crude oil prices also dipped below USD120 per barrel in early August. The Government will continue to closely monitor domestic and external developments and will adopt an appropriate policy response based on the assessment of the risks to growth and extent of generalised price increases.

Policy Response

Promoting growth with price stability remains the major thrust of monetary policy. Pragmatic management of the economy has enabled Malaysia to continue enjoying growth with relatively stable and low inflation, despite sharp price increases in some years largely due to external factors. In addition, other measures have been undertaken to address inflationary pressures, including increasing food production, establishing a rice stockpile and improving food distribution as well as price control of essential food items, subsidy on essential items and strict enforcement to deter indiscriminate price increases.

The Government also established a Special Cabinet Committee on Anti-Inflation in April 2008 to propose measures to ease the burden of the poor and vulnerable groups in coping with rising costs of food and energy. The Committee has since been replaced by the Economic Council in August, which acts as an advisory body to recommend measures to sustain economic growth, in light of the global economic slowdown as well as to identify approaches to contain inflationary pressures.

Conclusion

Since early 2008, developed and developing countries are faced with rising inflation, following soaring food and energy prices. Inflation in Malaysia surged to a 26-year high of 8.5% in July due to higher food and fuel prices. Slower global growth is, however, expected to reduce the pressure on prices. The Government will continue to undertake measures to ease the burden of rising prices on the poor and vulnerable groups, with emphasis on expanding the coverage of the social assistance programmes and raising food production. The nation's experience in managing similar situations and reinforced by the strong economic fundamentals and a sound banking system, should see it riding out the current challenges of rising inflation and slower growth.

TABLE 3
Price Adjustment of Petroleum Prices and Impact on Inflation

Effective Date		RM	Monthly Inflation		Annual
			Before	After	
2000					
1 October	Petrol ¹ – 1.20 (+0.10)	September	October	1.5	
	Diesel – 0.701 (+0.05)	1.5	1.8		
	LPG ² – 1.28 (+0.10)				
2001					
20 October	Petrol – 1.30 (+0.10)	September	October	1.4	
	Diesel – 0.711 (+0.10)	0.9	1.5		
2002					
1 May	Petrol – 1.32 (+0.02)	April	May	1.8	
	Diesel – 0.731 (+0.02)	1.9	1.9		
	LPG – 1.29 (+0.01)				
1 November	Petrol – 1.33 (+0.01)	October	November		
	Diesel – 0.741 (+0.01)	2.1	1.6		
	LPG – 1.31 (+0.02)				
2003					
1 March	Petrol – 1.35 (+0.02)	February	March	1.2	
	Diesel – 0.761 (+0.02)	0.7	1.0		
	LPG – 1.33 (+0.02)				
2004					
1 May	Petrol – 1.37 (+0.02)	April	May	1.4	
	Diesel – 0.781 (+0.02)	1.0	1.2		
	LPG – 1.35 (+0.02)				
1 October	Petrol – 1.42 (+0.05)	September	October		
	Diesel – 0.831 (+0.05)	1.6	2.1		
	LPG – 1.40 (+0.05)				
2005					
1 March	Diesel – 1.881 (+0.05)	February	March	3.0	
		2.5	2.6		
5 May	Petrol – 1.52 (+0.10)	April	May		
		1.0	1.2		
31 July	Petrol – 1.62 (+0.10)	September	October		
	Diesel – 1.28 (+0.20)	1.6	2.1		
	LPG – 1.45 (+0.05)				
2006					
28 February	Petrol – 1.92 (+0.30)	February	March	3.6	
	Diesel – 1.58 (+0.30)	3.2	4.8		
	LPG – 1.75 (+0.30)				
2008					
5 June	Petrol – 2.70 (+0.78)	May	June	5.5%-6.0% ³	
	Diesel – 1.58 (+1.00)	3.8	7.7		

¹ Petrol refers to RON 97.

² liquefied petroleum gas.

³ Forecast by Bank Negara Malaysia.

Source: Department of Statistics and Ministry of Domestic Trade and Consumer Affairs, Malaysia.

30.0% and 130.0%. In view of the higher prices, domestic headline inflation, as measured by the annual percentage change in the **Consumer Price Index (CPI)**, crept up 4.4% during the first seven months of 2008 (January – July 2007: 2.0%) (refer feature article, *Inflation Trends in Malaysia*). Following the price adjustment of petrol (41%) and diesel (63%), and electricity tariffs of between 18% and 26% for domestic, commercial and industrial users effective 1 July 2008, inflation surged 8.5% in July, the highest level since December 1981, as shown in *Chart 3.15*. Amid prospects of global prices persisting at high levels, inflation is projected to remain high in the second half of the year and into early 2009 before moderating in the second half.

The main contributors to the CPI increase were the food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport

groups due to their substantial weight of 68.7% to the CPI. During the first seven months of 2008, prices in the **food and non-alcoholic beverages group** increased 6.9%, as shown in *Table 3.20*, and contributed 2.2 percentage points to the CPI increase (January – July 2007: 2.8%; 0.9 percentage point). The food items, which experienced significant price increases were rice, bread and other cereals, vegetables, fruits, meat, fish and seafood. Prices in the **transport group** rose 6.7% and contributed 1.1 percentage points to the CPI increase (January – July 2007: 3.2%; 0.5 percentage point). Prices in the **housing, water, electricity, gas and other fuels group** increased 1.4% and contributed 0.3 percentage point to the CPI increase (January – July 2007: 1.4%; 0.3 percentage point). On the other hand, the increase in inflation was partly mitigated by the continued price declines in the **clothing and footwear group** and **communication group** of 0.6% and 0.6%, respectively (January – July 2007: -1.6%; -1.4%). The lower prices were attributed to strong competition among domestic apparel and footwear producers as well as cheaper imports. Similarly, competitive pricing in the communication industry contributed to the price decrease in the communication group.

TABLE 3.20

Consumer Price Index (CPI)
January – July
(2005 = 100)

Total	Weight	Change (%)	Contribution to CPI growth (%)
		2008	2008
Food and non-alcoholic beverages	31.4	6.9	50.3
Alcoholic beverages and tobacco	1.9	7.7	3.6
Clothing and footwear	3.1	-0.6	-0.4
Housing, water, electricity, gas and other fuels	21.4	1.4	6.6
Furnishings, household equipment and routine household maintenance	4.3	2.0	1.9
Health	1.4	1.9	0.6
Transport	15.9	6.7	25.7
Communication	5.1	-0.6	-0.7
Recreation services and culture	4.6	2.1	2.2
Education	1.9	2.1	0.9
Restaurants and hotels	3.0	7.0	4.8
Miscellaneous goods and services	6.0	3.4	4.5

Source: Department of Statistics, Malaysia.

The **Producer Price Index (PPI)**, a measure of changes in the prices of commodities charged by domestic producers and those paid by local importers, registered a higher increase of 11.1% in the first six months of the year (January – June 2007: 5.3%) on account of higher commodity prices, such as rubber, CPO and crude oil, as shown in *Table 3.21*. Both the local production and imported components of the PPI increased at a stronger pace of 13.3% and 6.4%, respectively (January – June 2007: 6.0%; 4.1%).

The increase in the **PPI for local production** was largely from higher prices of **mineral fuels, lubricants and related materials**, which rose 41.2% and contributed 8.7 percentage points to the PPI. Prices of **inedible crude materials** increased 15.2% and contributed 1.1 percentage points, while prices of **animal and vegetable oils and fats** rose 51.8% and accounted for 4.0 percentage points to the PPI. Meanwhile, the increase in the **PPI for imports** was due to higher prices of **machinery and transport equipment group**, which rose 4.2% and contributed 2.7 percentage points to the increase in the PPI.

TABLE 3.21

Producer Price Index (PPI)
January – June
 (2000 = 100)

	Weight	Change (%)		Contribution to PPI growth (%)	
		2007	2008	2007	2008
Domestic economy	100.0	5.3	11.1	100.0	100.0
Food and live animals	5.3	8.5	10.6	8.0	6.6
Beverages and tobacco	1.0	-2.9	4.8	-0.5	0.6
Crude materials, inedible excepts fuels	4.4	14.8	16.1	11.6	8.3
Mineral fuels, lubricants and related materials	11.9	-4.3	38.1	-9.2	53.1
Animal and vegetable oils and fats	3.8	34.9	51.4	23.7	23.0
Chemicals and related products n.e.s. ¹	5.1	4.2	9.1	3.8	5.4
Manufactured goods, classified chiefly by material	11.0	5.8	6.2	11.2	7.9
Machinery and transport equipment	50.5	5.2	-0.9	46.7	-5.6
Miscellaneous manufactured articles	6.9	3.0	1.0	3.7	0.8
Commodities and transactions not classified elsewhere in the SITC ²	0.4	12.9	15.5	0.9	0.7
Local production	65.6	6.0	13.3	73.6	79.9
Imports	34.4	4.1	6.4	26.4	20.1

¹ Not elsewhere stated.

² Standard International Trade Classification.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Labour Market

Stable labour market...

The labour market is expected to remain stable in 2008 on the back of a buoyant services sector and improvement in the manufacturing sector. This is reflected by an increase in **employment** of 1.7% to 11.6 million workers (2007: 2.2%; 11.4 million). Meanwhile, the number of new jobs created is estimated to decline from 250,600 jobs in 2007 to 196,200 jobs in 2008, due to increased utilisation of new technology and ICT as well as improvements in work processes. However, the **unemployment rate** is expected to be sustained at 3.2% (2007: 3.2%), while the **labour force** is expected to increase 1.7% to 12.0 million persons (2007: 2.0%; 11.8 million). At the same time, 4.4% of the population is 65 years old and above compared to 4.3% in 2007 as a result of better health care and quality of life.

The aged dependency ratio, which measures number of people aged 65 years and above to the total working age population, is expected to increase to 6.46% (2007: 6.45%). About 67.1%

TABLE 3.22

Labour Market Indicators

	('000)		Change (%)	
	2007	2008 ¹	2007	2008 ¹
Labour force	11,781.0	11,985.8	2.0	1.7
Employment	11,409.6	11,605.9	2.2	1.7
Unemployment	371.5	379.9	3.2	3.2

¹ Estimate.

² Percentage of labour force.

Source: Economic Planning Unit, Malaysia.

of the population are in the working age group of 15 – 64 years (2007: 67.0%). Both male and female participation rates are expected to be sustained at 87.2% and 46.2%, respectively (2007: 87.0%; 46.1%). The 20 – 29 age group, the largest component, accounting for 31.3% of the total workforce, followed by 30 – 39 age group at 27.5%. The quality of the labour force is expected to improve further with the number of those with tertiary education projected to increase 23.8% to 2.9 million persons (2007: 22.5%; 2.6 million).

With the continued expansion of the economy, employment opportunities are envisaged to increase in all sectors, with the services sector remaining the largest employer, accounting for 52.1% of total employment (2007: 51.9%). This is followed by manufacturing (29.0%), agriculture (12.0%), construction (6.5%) and mining (0.4%).

The favourable labour market condition is also reflected by the increasing number of active **vacancies**. In the first half of 2008, job vacancies reported via the Electronic Labour Exchange (ELX) surged 34.8% to 512,300 vacancies (January – June 2007: -4.2%; 379,967). The demand for professional jobs, which consists of legal officers, senior officials and managers, professionals, technicians and associate professionals, increased significantly by 125.6% to 79,214 vacancies (January – June 2007: 136.7%; 35,120). The share of professional vacancies also increased to 15.5% (January – June 2007: 9.2%). Graduate-level vacancies increased 72.2% to 54,426 (January – June 2007: 31,604; 153.5%), with most job openings reported in the services sector, particularly in the finance, real estate and business services as well as education. These developments reflect the increasing demand for knowledge workers, in line with the initiative to move towards a knowledge-based economy. The

TABLE 3.23

Employment by Sector

	('000)		Change (%)		Share (%)	
	2007	2008 ¹	2007	2008 ¹	2007	2008 ¹
Agriculture	1,391.2	1,389.7	-0.1	-0.1	12.2	12.0
Mining and quarrying	42.9	43.2	0.8	0.7	0.4	0.4
Manufacturing	3,296.6	3,369.0	2.2	2.2	28.9	29.0
Construction	757.3	760.0	0.3	0.4	6.6	6.5
Services	5,921.6	6,043.9	3.1	2.1	51.9	52.1
Electricity, gas and water	96.8	98.4	1.9	1.7	0.8	0.8
Wholesale and retail trade, accommodation and restaurant	1,957.7	1,986.0	1.4	1.4	17.2	17.1
Finance, insurance, real estates and business services	789.7	813.0	2.9	3.0	6.9	7.0
Transport, storage and communication	660.0	673.6	2.1	2.1	5.8	5.8
Government services	1,244.4	1,266.8	8.0	1.8	10.9	10.9
Other services	1,173.0	1,206.1	2.0	2.8	10.3	10.4
Total	11,409.6	11,605.9	2.2	1.7	100.0	100.0
Primary	1,434.1	1,432.9	-0.1	-0.1	12.6	12.3
Secondary	4,053.9	4,129.0	1.8	1.9	35.5	35.6
Tertiary	5,921.6	6,043.9	3.1	2.1	51.9	52.1

¹ Estimate.

Source: Economic Planning Unit, Malaysia.

elementary occupations, such as labourers in the manufacturing, agriculture, construction and services sectors as well as domestic helpers and cleaners, constitute the largest vacancies with a share of 66.4% (January – June 2007: 55.2%). The services sector reported the highest number of vacancies at 161,149 amounting to 31.5%, followed by the manufacturing sector (30.5%) and the agriculture sector (27.9%).

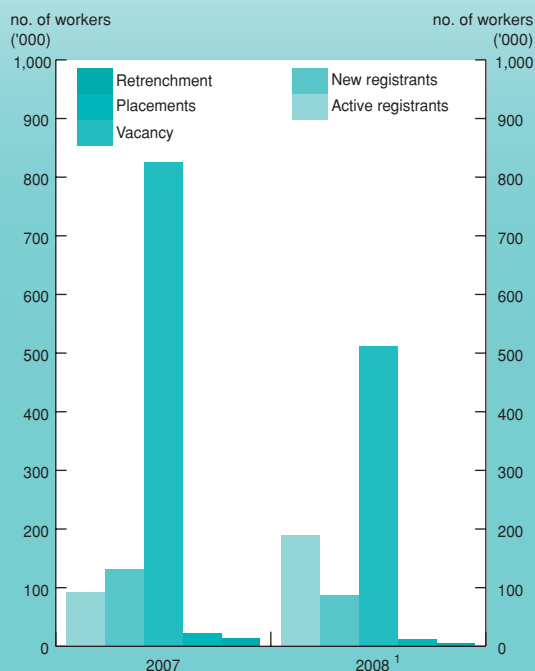
The number of **active job seekers** stood at 190,237 as at end-June 2008 (end-December 2007: 92,508). In terms of qualification, 47.3% were degree and diploma holders, while 29.7% were *Sijil Pelajaran Malaysia* (SPM) school leavers (end-December 2007: 45.2%; 30.0%). Graduate job seekers registered with the ELX system were mainly from business administration, IT, arts as well as science and technical fields. Of the total job seekers, 60.6% were in the 20-24 age group, while 21.8% were in the 25-29 age group (end-December 2007: 59.2%; 23.0%).

The stable labour market condition in 2008 is reflected by the declining rate of the total **retrenchment**. In the first six months of 2008, the total retrenchment decreased 37.7% to 5,218 (January – June 2007: -18.2%; 8,382). The manufacturing sector, particularly in the apparel, radio, television and communication equipment as well as furniture sub-sector recorded the highest retrenchments of 3,495, accounting for 67.0% of total retrenchments (January – June 2007: 6,351; 75.8%). The affected workers were mainly plant and machine operators and assemblers, general workers as well as those in craft and related trades.

In efforts to reduce dependence on foreign workers, the Government initiated several measures, including promoting higher utilisation of the Industrialised Building System (IBS), particularly in Government projects as well as encourage greater automation and mechanisation for manufacturing and agriculture sectors. As at end-March 2008, total **foreign workers** stood at 2.1 million of which 36.0% are in manufacturing sector followed by plantation (16.1%) and construction (14.9%).

CHART 3.16

Job Markets Indicators



¹ January-June.

Source: Ministry of Human Resources, Malaysia.

As Malaysia progresses towards a knowledge-based economy, demand for skilled and knowledge workers will continue to rise. The Government adopted several measures, such as improving the approval process and reducing red tape, to facilitate the employment of expatriates in areas experiencing shortages of professional and skilled workers. In addition, spouses of expatriates, with professional qualification are also allowed to work in Malaysia. As at end-June 2008, a total of 38,090 expatriates (2007: 36,554 expatriates) were employed, particularly in the services sector (55.7%) and manufacturing sector (29.9%). The majority were from India (19.4%), followed by China (9.3%) and Japan (8.4%). To facilitate the employment of expatriates, the Government will implement on-line application by end-October 2008. In addition, PEMUDAH also published a "Guidebook on the Employment Expatriates: Processes and Procedures" to assist the expatriate community and investors in all aspects of expatriate employment.

Outlook for 2009

Malaysian Economy

Domestic economy is expected to remain resilient...

The knock-on effects of global high oil prices and inflationary pressures, which gathered pace in the second half of 2008, are expected to continuously impact the global economy in 2009. However, the slowing global demand is expected to stem the boom in commodity prices and inflationary pressures. Under such scenario, global economy is expected to stabilise and recover gradually in the second half of 2009. On the domestic front, while the high fuel and food prices could continue to dampen consumer and business activities, firm commodity prices, steady income growth and favourable employment conditions coupled with the Government's pro-active measures to alleviate consumers' burden are expected to mitigate these impacts. Hence, domestic demand is anticipated to remain resilient. The increased 9MP spending and speedier implementation of various growth corridor development projects are expected to augment the domestic demand. In addition, steady economic outlook in the Asian and other emerging economies arising from their resilient domestic demand are expected to support the external sector and cushion the weaker demand from developed economies. Overall, GDP growth is expected to be broad-based, with a growth rate of 5.4% in 2009 (2008: 5.7%). Following this, the nominal GNP per capita is expected to rise 8.1% to RM27,334 (2008: 9.3%; RM25,274). In terms of PPP, income per capita is expected to increase 5.6% to reach USD17,549 (2008: 14.7%; USD16,617).

Sectoral Outlook

Broad-based expansion...

Growth in the economy will continue to be led by the services and manufacturing sectors. The **services sector** is anticipated to post a firm growth rate of 6.9% in 2009 (2008: 7.1%), supported by broad-based expansion in all sub-sectors. The wholesale and retail trade sub-sector is expected to be bolstered by steady household spending as

well as higher tourist arrivals. The accommodation and restaurant sub-sector is also expected to benefit from these developments. Furthermore, activity in the real estate and business services is expected to regain momentum supported by increased business activities. Growth in the finance and insurance sub-sector is projected to strengthen further contributed by increased fee-based activities and innovative financial products. The transport and storage as well as communication sub-sectors are expected to sustain their growth underpinned by brisk trade-related activities and improved network coverage by telecommunications service providers.

The **manufacturing sector** is expected to grow 4.3% (2008: 4.7%) on account of stable performance of the export oriented-industries and continued expansion in domestic demand. The E&E industry is projected to improve slightly led by demand from the emerging markets while that of resource-based industry is expected to remain firm arising from strong demand for petroleum products, plastics and chemicals as well as rubber-based products. In addition, the non-metallic minerals and metal industries are projected to perform favourably supported by steady activities in the construction sectors.

Growth in the **agriculture sector** is envisaged at 3.7% (2008: 3.6%) on account of the expansion in food production and the sustained growth of palm oil and rubber. Production of other agriculture sub-sector is expected to expand strongly at 8.0% (2008: 4.4%) backed by higher output of padi, fruits and vegetables. Output of fisheries and livestock is projected to increase following the Government's continuous efforts to develop further these industries. In the plantation sector, production of palm oil is forecast to be sustained at 1.3% amid improved yield and expansion in matured areas. Rubber production is expected to increase on account of higher output from better quality clones and improved tapping techniques.

The **mining sector** is expected to strengthen by 3.4% (2008: 2.8%) with growth emanating from production of crude oil and gas. Output of crude oil is envisaged to expand following

higher production from the Kikeh deepwater oil fields as well as new oil fields including Sumandak and Bunga Orkid. Production of LNG is projected to increase with additional demand from Japan and Korea as well as new demand from China.

The **construction sector** is projected to grow 3.1% (2008: 4.0%) driven by civil engineering sub-sector, with the implementation of infrastructure projects under 9MP as well as continued exploration activities in oil and gas industry. In addition, the faster pace of corridor developments is also expected to spur construction works. The non-residential sub-sector is envisaged to pick up with support from rising demand for office space and industrial buildings due to increased business activities. The residential sub-sector is expected to perform favourably with further incentives to encourage house-ownership and increased allocation for low- and-medium cost housing projects.

Domestic Demand

Private sector stimulating growth...

Aggregate domestic expenditure (excluding change in stocks) is expected to register a growth rate of 6.0% (2008: 6.1%), supported by strong private sector activities. Private sector expenditure is envisaged to expand 6.4% (2008: 6.6%), supported by strong investment spending and sustained consumption. The impact of higher petrol pump prices on consumption is expected to moderate in 2009 following various pro-active measures taken by the Government to curb inflation, thereby sustaining household disposable income. The private sector contribution to GDP growth will remain high at 4.0 percentage points (2008: 4.1 percentage points). Meanwhile, public sector expenditure is expected to grow 5.1% (2008: 4.7%), and is anticipated to contribute 1.2 percentage points to GDP in 2009 (2008: 1.1 percentage points).

Private investment is projected to increase 5.8% and account for 12.0% of GDP (2008: 6.2%; 11.9%) spurred by Government's initiatives to create a conducive business environment,

especially in reducing the cost of doing business and the upgrading of infrastructure. In addition, private finance initiatives announced in the 9MP is expected to further boost private investment activities. As a whole, all sectors will continue to attract private investment, although the bulk of the capital will be channelled into manufacturing and services sectors as well as oil and gas industries. Meanwhile, **public investment** is estimated to expand 6.4% (2008: 3.6%), spearheaded by the continuous implementation of people-centric projects to alleviate poverty, reduce regional disparities as well as to improve social and physical infrastructures.

Private consumption is expected to expand 6.5% (2008: 6.8%) as the higher income arising from better labour market conditions and firm commodity prices will benefit consumers. In addition, measures to alleviate the burden of inflation on the low-income group will raise disposable income, and hence, sustain consumption. Furthermore, favourable financial conditions, including longer repayment period for housing loan, will continue to support private consumption. In tandem with the increased expenditure on the measures taken to contain high food and energy prices, **public consumption** is anticipated to expand 4.0% (2008: 5.7%).

National Resource Position

Savings-investment surplus continues to remain large...

GNS is anticipated to strengthen further by 11.3% in 2009 (2008: 10.2%), in line with the expected increase in the nominal national income by 10.4% (2008: 11.6%). Consequently, the share of GNS as a percentage of GNP remains high at 38.2% (2008: 38.0%). Of the total GNS, 74.1% is expected to be generated by private sector. Meanwhile, total investment expenditure (including change in stocks) is projected to increase strongly by 12.6% to RM170.0 billion and account for 22.0% of GNP (2008: 7.2%; RM151.0 billion; 21.5%). The **savings-investment surplus** in 2009 is expected to remain substantial at RM125.9 billion or 16.3% of GNP (2008: RM115.0 billion; 16.4%), providing ample liquidity to finance investment activities.

External Sector

Stronger exports boost current account surplus...

Favourable economic and trade performance amid gradual global recovery is anticipated to result in higher current account surplus in 2009. Malaysia's external sector is anticipated to remain favourable, following the sustained growth in world trade. The trade performance is supported by strong growth in commodity and manufacturing exports. The **goods account** of the BOP is expected to continue to register a surplus of RM156,934 million spurred by favourable export performance, which is anticipated to expand 7.6% to RM712,057 million (2008: 9.3%; RM662,026 million). The strong export position is largely supported by improvements in the global demand for E&E products and strong commodity prices. Meanwhile, imports f.o.b is anticipated to record a growth of 7.4% to RM555,124 million (2008:

8.1%; RM516,913 million), in line with favourable domestic economic activities and higher imported input for manufactured exports.

The **services account** is expected to record a bigger surplus at RM2,134 million (2008: RM598 million), largely due to higher net inflows for travel account and improved net outflows in the other services account. Meanwhile, deficit in the **income account** is anticipated to increase slightly to RM16,247 million (2008: -RM15,033 million), due to an increase in the repatriation of profits and dividends by foreign companies. Net outflow of **current transfers account** is expected to increase to RM16,906 million (2008: -RM15,699 million), comprising mainly remittances by foreign workers. The surplus in the goods and services account will be more than sufficient to offset net outflows in the income and transfers accounts. As a result, the **current account** surplus is expected to remain high at RM125,915 million or 16.3% of GNP (2008: RM114,979 million; 16.4%).