ECONOMIC PERFORMANCE AND PROSPECTS 3

Overview

Growth anchored by domestic demand

The Malaysian economy remains resilient despite a more challenging external environment, including moderate global growth, declining commodity prices and volatility in financial markets. Real GDP grew by 5.3% during the first half of 2015 supported by steady domestic demand, particularly private sector expenditure. Exports and imports contracted by 1.4% and 2%, respectively, during the first eight months of the year. However, exports of manufactured goods registered modest growth led by demand mainly for electrical and electronic (E&E) products.

As a small and highly open economy, Malaysia is vulnerable to developments in the external environment. However, the structural reforms undertaken over the years to diversify the economy and strengthen the financial system, have placed the economy on a stronger footing as well as enhanced its resilience to weather the external challenges. Real GDP is expected to register a growth of 4.5% – 5.5% in 2015 (2014: 6%) supported by resilient domestic economic activity. The national income, as measured by the Gross National Income (GNI), is estimated to increase by 5.5% to RM1.13 trillion with income per capita growing by 4.2% to RM36,397 (2014: 8.6%; RM1.07 trillion; 7.2%; RM34,945).

Domestic demand will be the main driver of growth amid external uncertainties, supported by private sector expenditure. Private consumption is expected to remain strong underpinned by stable employment and continued wage growth. Private investment is anticipated to expand, albeit at a moderate pace, driven largely by capital spending in the manufacturing and services sectors. Public investment is expected to rebound, attributed to higher capital spending by the Federal Government and public corporations. Federal Government development expenditure (DE) is expected to expand mainly led by construction of major infrastructure projects. Capital spending of public corporations will be mainly in oil and gas (O&G), utilities, transport and communication sectors. Meanwhile, public consumption is anticipated to register a lower growth in line with fiscal consolidation efforts.

On the supply side, growth in 2015 is expected to be supported by expansion in all economic sectors. The services and manufacturing sectors are expected to drive growth. Resilient domestic consumption is expected to boost growth in the services sector, especially wholesale and retail trade as well as food, beverage and accommodation subsectors. The manufacturing sector is anticipated to grow on account of steady demand for E&E products. In line with resilient domestic consumption and steady private investment, domestic-oriented industries such as construction-related and transport equipment are expected to remain favourable. The construction sector continues to expand driven by ongoing private investment and Tenth Malaysia Plan (10MP) projects. In addition, the residential subsector is expected to expand with steady demand for affordable houses. Meanwhile, the agriculture sector is expected to expand further, supported by increased output of the palm oil and food commodity subsectors. Despite some investment cutback in upstream O&G activities, the mining sector is anticipated to expand, supported by higher crude oil output.

In 2015, the external position will continue to be weighed down by weak commodity prices, a soft ringgit, slower growth in emerging economies and lacklustre regional demand. Malaysia is therefore expected to post a lower current account surplus, in the range of 1.5% – 2.5% of GNI mainly driven by a lower surplus in the goods and services account. Exports and imports are anticipated to decline by 0.7% and 1.2%, respectively. Meanwhile, the deficit in the services account is expected to widen further primarily due to lower net travel receipts.

Despite the volatility in global financial markets, the financial account will see sustained two-way flows as foreign direct investment (FDI) is expected to increase underpinned by confidence in the macroeconomic fundamentals and growth prospects of the domestic economy. Malaysian companies will continue to invest abroad to improve earnings as well as increase shareholder value and market share in niche sectors. During the year, portfolio flows are expected to remain volatile driven by the expectation of an interest rate hike by the US Federal Reserve (Fed), concerns over the slowdown in China and the impact of commodity prices on Malaysia's growth prospects. However, the healthy international reserves, deep capital markets, and a well-diversified investor base will continue to provide a cushion against the portfolio outflows.

Headline inflation averaged 1.9% in the first eight months of 2015 compared with 3.3% during the corresponding period in 2014. Despite the implementation of the Goods and Services Tax (GST) on 1 April 2015, inflation remained benign following lower oil pump prices with the implementation of the managed float fuel pricing mechanism. In addition, the list of zero-rated items, which covers 30% of the Consumer Price Index (CPI) basket, helped to cushion the impact of GST. Given that the near-term outlook of commodity prices and global inflation remains subdued, domestic inflation is expected to be in the range of 2% – 2.5% in 2015.

TABLE 3.1

GDP by Sector
2014 – 2016
(at constant 2010 prices)

	% Share	% Growth		
	2015[1]	**2014**	**2015[1]**	**2016[2]**
Agriculture	*8.9*	*2.1*	*1.3*	*1.3*
Mining	*8.8*	*3.3*	*3.5*	*4.0*
Manufacturing	*22.9*	*6.2*	*4.5*	*4.3*
Construction	*4.4*	*11.8*	*8.8*	*8.4*
Services	*53.8*	*6.5*	*5.7*	*5.4*
GDP	***100.0***	***6.0***	***4.5 - 5.5***	***4.0 - 5.0***

[1] Estimate.
[2] Forecast.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Sectoral Performance

On the supply side, all sectors registered positive growth during the first six months of 2015 except the agriculture sector. Growth continued to be driven by the services sector on the back of resilient consumption-related activity such as wholesale and retail trade as well as food & beverage and accommodation subsectors. Meanwhile, the expansion of trade-related activity supported the higher growth in the transport and storage subsector. The services sector remained the largest contributor to growth during the period. Growth in the manufacturing sector increased on account of improved external demand for E&E products. The construction sector continued to expand, albeit moderately, amid the near completion of some key public infrastructure projects during the first half of the year. Meanwhile, the residential subsector increased marginally mainly due to lower housing approvals and property launches. Growth in the agriculture sector remained stagnant while the mining sector expanded driven by increased production of crude oil (including condensates).

Services Sector

Services sector remains strong

The **services sector** increased by 5.7% during the first half of 2015 (January – June 2014: 6.6%), mainly driven by sustained consumption and investment activities. In 2015, the services sector is expected to record 5.7% growth, accounting for 53.8% of GDP (2014:6.5%; 53.5%). The ***intermediate services group*** is anticipated to grow by 5.7% (2014: 5.9%) supported by the information and communication as well as real estate and business services subsectors. Meanwhile, the ***final services group*** is expected to increase by 6.8% (2014: 7.3%) led by the wholesale and retail trade, food, beverage and accommodation as well as other services subsectors.

The *wholesale and retail trade subsector* continued to grow by 7.9% during the first half of 2015 (January – June 2014: 8.9%) supported by higher consumer spending, particularly prior to the implementation of GST. The wholesale segment expanded further to 9.2% (January – June 2014: 8.4%) supported by wholesale of petrol, diesel and construction materials as well as wholesale of agricultural raw materials which include rubber, palm oil and livestock. The retail segment increased by 7.4% (January – June 2014: 10.2%) backed by sales at specialised and non-specialised stores of household, information and communication equipment, as well as food, beverage and tobacco. In addition, the 1Malaysia Mega Sales carnival, aimed at promoting the country as a preferred shopping destination and the expansion of retail outlets such as hypermarkets, large-scale superstores as well as departmental stores contributed to the segment's growth. As at end-July 2015, there were 189 foreign-owned hypermarkets, superstores and departmental stores operating nationwide (end-July 2014: 186). Meanwhile, the motor vehicle segment moderated to 4.8% (January – June 2014: 6.6%) due to slower sales of parts and accessories as well as new and used vehicles. In 2015, the wholesale and retail trade subsector is expected to increase by 7.6% (2014: 8.9%) supported by steady domestic consumption.

The *food, beverage and accommodation subsector* expanded by 7% during the first half of 2015 (January – June 2014: 6.1%) on account of higher spending during the school holidays and festivities as well as tourism-related activities. In 2015, the subsector is expected to grow by 6.2% (2014: 6.5%) backed by domestic tourism activity and foreign tourist arrivals through various tourism promotions and campaigns.

The unfortunate aviation incidents in 2014, and more recently, security concerns and natural calamities as well as the challenging external economic environment, have affected tourist arrivals in the country. During the first quarter of 2015, tourist arrivals contracted by 8.6% to 6.5 million (January – March 2014: 10%; 7.1 million). Tourists from China declined by 27.1% while arrivals from Singapore and Indonesia contracted by 18.6% and 0.8%, respectively. Therefore, the Government has introduced various initiatives and programmes to reinvigorate the tourism sector. These include relaxing visa requirements and extending period of stay for tourists from selected countries. In addition, several tourism campaigns were undertaken to boost tourism activities. These campaigns include MyFEST 2015, KL Grand Prix, 1Malaysia Mega Sales carnival and *Cuti-Cuti 1Malaysia DEKAT JE.*

In the Meetings, Incentives, Conventions and Exhibitions (MICE) segment, the number of visitors is projected to record 184,243 from 266 events, generating RM1.5 billion in 2015 (2014: 267,271; 379 events; RM1.8 billion). This is supported by promotional activities in new and potential markets, which include Australia, China, Europe, India and Republic of Korea (ROK) as well as establishing greater collaboration with industry associations through the *Kesatria 1Malaysia* programme to host major international events in the country.

The *finance and insurance subsector* moderated to 1.1% during the first half of 2015 (January – June 2014: 1.8%). The finance segment grew by 1.5% (January – June 2014:

TABLE 3.2

Services Sector Performance 2014 – 2016
(at constant 2010 prices)

	% Share	% Change		
	2015[1]	2014	2015[1]	2016[2]
Intermediate services				
Finance and insurance	*7.1*	*2.3*	*1.5*	*1.6*
Real estate and business services	*4.4*	*8.0*	*7.9*	*7.1*
Information and communication	*5.7*	*9.7*	*9.7*	*9.6*
Transport and storage	*3.5*	*5.2*	*5.4*	*5.0*
Final services				
Wholesale and retail trade	*14.7*	*8.9*	*7.6*	*6.5*
Food, beverage and accommodation	*2.8*	*6.5*	*6.2*	*6.0*
Utilities	*2.6*	*3.8*	*4.5*	*4.0*
Other services	*4.4*	*4.8*	*5.9*	*5.0*
Government services	***8.6***	***6.1***	***2.7***	***3.0***
Total	***53.8***	***6.5***	***5.7***	***5.4***

[1] Estimate.
[2] Forecast.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

1.7%) due to slower growth in net interest and fee-based incomes. Total loan applications contracted further by 1.5% to RM387 billion (January – June 2014: -0.8%; RM393 billion), while total loans approved rebounded by 3.8% to RM196 billion (January – June 2014: -1.1%; RM189 billion) contributed by the business sector. The insurance segment declined by 0.5% during the first half of the year (January – June 2014: 2.5%) due to higher insurance claims and benefits paid. For 2015, the finance and insurance subsector is expected to expand, although at a slower pace of 1.5% (2014: 2.3%).

The *real estate and business services subsector* expanded by 6.9% during the first six months of 2015 (January – June 2014: 7.9%). The business services segment recorded a growth of 7.6% (January – June 2014: 9%). Growth was partly driven by sustained demand for professional services, particularly engineering services in the construction sector, as well as computer and accounting services following the transition to the GST system. Meanwhile, the real estate segment increased by 5.4% (January – June 2014: 5.8%). Growth was mainly contributed by a rebound in industrial property transactions (4.7%) while commercial property transactions moderated to 1.6% (January – June 2014: -3.3%; 6.5%). This helped to cushion the decline in the residential property transactions. In 2015, growth of the subsector is projected to record 7.9% (2014: 8%).

During the first half of 2015, growth in the *information and communication subsector* remained robust at 9.5% (January – June 2014: 9.8%) led by strong demand for mobile internet, especially data and computer services. Growth was also supported by higher demand for GST software and sustained demand for communication services. As at end-June 2015, cellular phone subscriptions grew marginally by 0.7% to 44.2 million to reach a penetration rate of 144.8% (end-June 2014: 3%; 43.9 million; 145.8%), with the prepaid segment dominating 81% of total subscriptions. The marginal growth was due to a marked shift in consumer preference to Over-the-Top (OTT) communication channels and social media. As a result, there was a sharp decline in voice and SMS usage.

The take-up rate of mobile broadband services has further accelerated partly driven by the "Smart Device with Internet Package" product under the Universal Service Provision (USP) programme. The broadband segment stood at 27.9 million subscriptions as at end-June 2015 with mobile broadband accounting for the largest share at about 85% of total broadband subscriptions. In addition, the Ministry of Communications and Multimedia had announced earlier this year that basic broadband package prices would be reduced in line with the aspiration of transforming Malaysia into a digital nation. As a result, telecommunication companies have lowered their prices up to 50% and launched new affordable broadband packages.

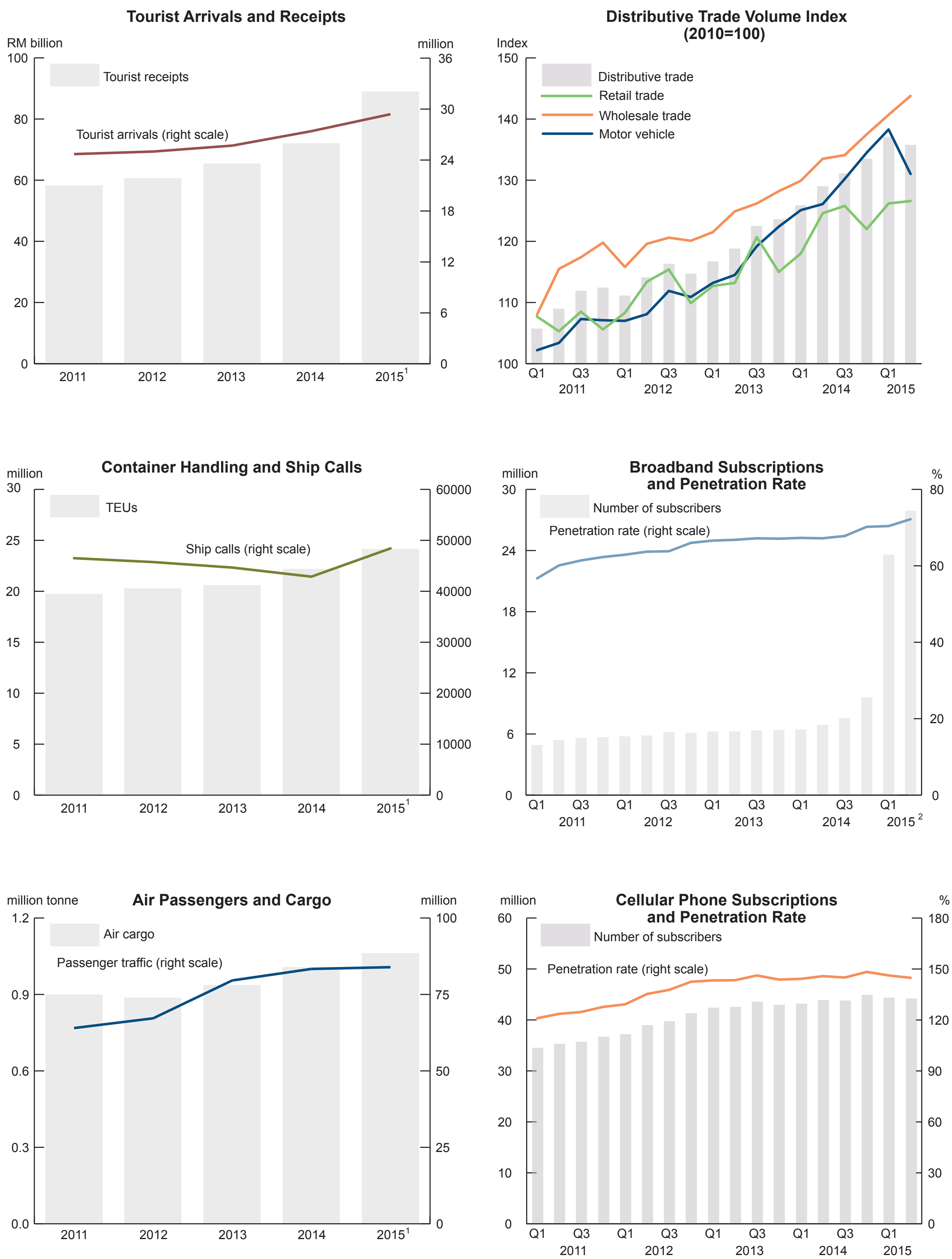
Growth of the broadband segment is expected to remain buoyant supported by the Government's various measures to strengthen and upgrade the quality of broadband services across the country. These include the National Broadband Initiative (NBI) that addresses the provision of infrastructure and facilities through the implementation of High-Speed Broadband (HSBB) and Broadband to General Population (BBGP). The Government through the public-private partnership (PPP) initiative with Telekom Malaysia (TM) has implemented HSBB projects in the inner Klang Valley, Iskandar Malaysia and selected industrial areas. As at end-June 2015, the HSBB project has linked 1.7 million ports recording a total of 823,000 subscriptions covering 685,000 homes and 138,000 businesses (end-June 2014: 747,000; 626,000; 121,000). Meanwhile, under the BBGP, broadband is implemented across the country through various technologies such as Asymmetric Digital Subscriber Line (ADSL), 3G/ High-Speed Downlink Packet Access (HSDPA) and Worldwide Interoperability for Microwave Access (WiMAX).

As part of efforts to enhance ICT experience among the rakyat living in remote areas, USP projects are carried out through the *Kampung Tanpa Wayar 1Malaysia* (KTW1M) initiative, also known as *Wi-Fi Komuniti* (WK), which provides free wireless access to selected villages nationwide. In addition, *Pusat Internet 1Malaysia* (PI1M) was also established to function as an ICT training and knowledge hub. As at 30 June 2015, 5,860 WK and 562 PI1M (end-June 2014: 4,737; 431) have been established in rural areas throughout the country. In 2015, growth in the subsector is expected to remain strong at 9.7% (2014: 9.7%).

In the first half of 2015, the *transport and storage subsector* expanded further by 5.6% (January – June 2014: 4.8%) attributed to higher highway, port and airport operations. The land transport segment grew by 5.6% during the first half of 2015 (January – June 2014: 6.1%). Traffic volume on tolled highways increased by 6.6% to 898.8 million vehicles (January – June 2014: 4.1%; 843.4 million) due to higher traffic during festivities amid lower fuel

CHART 3.1

Selected Indicators for the Services Sector



[1] Estimate.
[2] Includes pay-per-use data subscription.

Source: Malaysia Tourism Promotion Board, Department of Statistics, Malaysia, seven major ports (Port Klang, Port of Tanjung Pelepas, Pulau Pinang, Johor, Bintulu, Kuching and Kuantan), Malaysia Airports Holdings Berhad, Senai International Airport and Malaysian Communications and Multimedia Commission.

prices. In urban public transport, total rail[1] ridership in the Klang Valley rose by 3.1% to 114.2 million passengers (January – June 2014: 5.5%; 110.8 million) following improved service efficiency and increased frequencies. Meanwhile, bus[2] ridership expanded by 5.7% to 77.3 million passengers (January – June 2014: 1.7%; 73.1 million) raising revenue by 5.4% to RM99.1 million (January – June 2014: -12.2%; RM94 million). This was attributed to the improvement in efficiency and connectivity of Rapid bus services via the introduction of a Bus Integrated System as well as the commencement of Bus Rapid Transit (BRT) Sunway Line service.

Keretapi Tanah Melayu Bhd (KTMB) freight volume declined by 20.3% to 2.9 million tonnes (January – June 2014: 9.7%; 3.6 million tonnes) with revenue decreasing by 2.8% to RM72.3 million (January – June 2014: 9.2%; RM74.4 million). This was due to the increase in freight rates; lack of locomotives servicing the landbridge route from Padang Besar Station; and the closing of Gemas – Gua Musang sector for repair and upgrade. Likewise, KTMB Intercity ridership contracted further by 31.1% to 0.8 million passengers (January – June 2014: -18%; 1.2 million) while revenue declined by 31.3% to RM22.4 million (January – June 2014: -17%; 32.6 million), largely due to the floods in the East Coast during the end of 2014 causing eight train services to be suspended. Meanwhile, ridership on the Electric Train Service (ETS) declined by 2% to 804,000 passengers (January – June 2014: 12.8%; 820,000). However, with the commencement of new ETS routes: KL – Padang Besar in July; and KL – Gemas, Gemas – Butterworth and Gemas – Padang Besar in October, total revenue is expected to increase to RM78.4 million in 2015 (2014: RM44.3 million).

The water transport segment rebounded by 1.2% (January – June 2014: -2.9%) on account of stronger port activities. This is reflected in the improvement in the freight segment with cargo services posting a positive growth. Total container throughput in major ports[3] grew by 8.4% to 11.6 million twenty-foot equivalent units (TEUs) (January – June 2014: 5.1%; 10.7 million TEUs). In addition, Port Klang and Port of Tanjung Pelepas (PTP) registered higher volumes at 5.8 million TEUs and 4.4 million TEUs (January – June 2014: 5.3 million TEUs; 4.1 million TEUs) accounting for 50% and 38.4% of total container throughput, respectively (January – June 2014: 49.4%; 38.2%). Port Klang and PTP, the leading container ports in the country, continued to be ranked among the world's top 20 container ports. According to the Containerisation International Report, in terms of total TEUs handled in 2014, Port Klang ranked at 12th while PTP ranked at 18th position. Moving forward, several initiatives including the Logistics and Trade Facilitation Masterplan (LTFM) launched in March this year, to improve the last-mile connectivity to Port Klang and a new queuing system at PTP, are expected to enhance port operations, cargo clearance and container services in the future.

During the first half of 2015, the air transport segment moderated to 2.4% (January – June 2014: 4.9%) following lower passenger arrivals and air cargo handled. The air passenger segment recorded a marginal growth of 0.4% to 42.6 million (January – June 2014: 12%; 42.4 million). Meanwhile, total air cargo grew by 2.9% to 498,255 tonnes (January – June 2014: 7.1%; 484,238 tonnes) on account of slower regional trade. However, growth of the subsector is anticipated to increase further to 5.4% in 2015 (2014: 5.2%) on account of new routes as well as promotions offered by airlines and incentive programmes to encourage new and existing airlines to fly in more passengers.

In tandem with higher economic activities during the first six months of 2015, the *utilities subsector* increased by 3.8% (January – June 2014: 3.1%). The electricity and gas segment expanded further by 3.3% (January – June 2014: 3.1%). Electricity consumption rose by 2.2% to 73,938 million kilowatt-hours (kWh) (January – July 2014: 5.3%; 72,318 million kWh) with the industrial, commercial and mining segment contributing 77.5% to total electricity consumption, while domestic and public lighting segment, 22.5%. Electricity generation grew by 1.9% with maximum distribution of 12,223 million kWh in March 2015 (January – July 2014: 4%; 11,901 million kWh; May). Similarly, gas consumption increased by 8.2% to 77.5 million British thermal unit (mmBtu) (January – June 2014: 5.8%; 71.6 mmBtu) with sales rising by 23.3% to RM1,541 million (January – June 2014: 12.8%; RM1,250 million). The higher sales performance was driven by the expansion of natural gas pipeline to new industrial areas. In 2014, Gas Malaysia Bhd built 86.4 km natural gas pipeline with another 80.8 km expected to be completed by the end of 2015.

The water, sewerage and waste management segment expanded by 6.2% during the first half of 2015 (January – June 2014: 2.9%). Demand for water supply from consumers grew by 1.2% to 15,546 million litres per day (mld) (January – June 2014: 1%; 15,364 mld) due to improved access to water supply in existing areas and supply of water in new residential, industrial and commercial areas. A major initiative by the Government to address the water shortage problem is to increase capacity and existing reserve margin by building new water treatment plants and upgrading existing ones. In addition, cloud-seeding activity will be continued to increase reservoir levels which declined during the hot and dry weather. In 2015, the subsector is expected to register a higher growth of 4.5% (2014: 3.8%).

The *other services subsector* grew by 4.7% (January – June 2014: 4.8%) supported by higher private education and health activities. As at end-July 2015, there were 510 private higher education institutions nationwide (end-July 2014: 513), comprising nine foreign university branch campuses, 95 private universities and university colleges as well as 406 private colleges. The number of

[1] Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter.
[2] RapidKL, RapidPenang and RapidKuantan.
[3] Port Klang, Port of Tanjung Pelepas, Pulau Pinang, Johor, Bintulu, Kuching and Kuantan.

foreign patients in private hospitals is expected to record 854,000 generating revenue of RM854 million in 2015 (2014: 881,751; RM776.6 million). The higher revenue is attributed to competitive rates offered by healthcare providers. For the year, the other services subsector is expected to expand by 5.9% (2014: 4.8%) supported by strong regional demand for quality healthcare and private education especially from the ASEAN region. Meanwhile, the *government services subsector* expanded by 4% during the first half of 2015 (January – June 2014: 7.2%) as reflected in the moderate increase in emoluments. In 2015, the subsector is expected to moderate by 2.7% (2014: 6.1%).

Manufacturing Sector

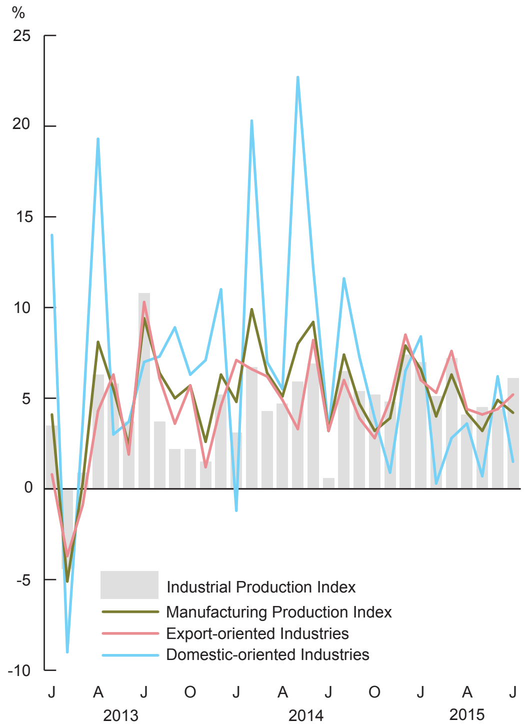
Moderate performance of manufacturing sector

Value-added of the **manufacturing sector** expanded at a slower pace of 4.9% during the first six months of 2015 (January – June 2014: 7.2%). Output of the sector moderated to 4.8% (January – July 2014: 6.6%) while the sales value of manufactured products grew marginally by 0.1% to RM379.9 billion during the first seven months of 2015 (January – July 2014: 7.7%; RM379.5 billion). Output from ***export-oriented industries*** increased at a slower pace of 5.3% (January – July 2014: 5.6%) due to weaker global demand. The production of ***domestic-oriented industries*** also moderated to 3.3% (January – July 2014: 9.5%) due to the slower performance of

CHART 3.2

Output of Manufacturing Sector

(% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.3

Manufacturing Production Index
January – July
(2010 = 100)

	Index		% Change		% Share to Total	
	2014	**2015**	**2014**	**2015**	**2014**	**2014**
Export-oriented industries	**117.9**	**124.1**	***5.6***	***5.3***	***73.2***	***73.6***
Electronics and electrical products	128.5	138.6	*13.3*	*7.9*	*25.8*	*26.5*
Chemicals and chemical products	121.8	129.9	*0.3*	*6.6*	*14.5*	*14.7*
Petroleum products	108.4	110.6	*2.0*	*2.0*	*18.9*	*18.4*
Wood and wood products	103.8	111.1	*5.0*	*7.1*	*3.5*	*3.6*
Off-estate processing	103.8	103.8	*5.0*	*0.0*	*3.9*	*3.7*
Rubber products	130.1	135.6	*-0.2*	*3.4*	*2.7*	*2.7*
Paper products	111.2	114.0	*-1.2*	*2.5*	*2.8*	*2.7*
Textiles, wearing apparel, leather products and footwear	114.2	122.4	*11.5*	*7.2*	*1.3*	*1.3*
Domestic-oriented industries	**128.1**	**132.4**	***9.5***	***3.3***	***26.8***	***26.4***
Non-metallic mineral and other related products	119.0	127.6	*5.5*	*7.2*	*4.1*	*4.2*
Fabricated metal products	161.1	166.9	*2.8*	*3.6*	*4.2*	*4.1*
Basic metals	102.2	104.8	*2.7*	*2.5*	*3.4*	*3.3*
Transport equipment	149.4	160.5	*22.8*	*7.6*	*6.8*	*7.0*
Food products	123.1	116.6	*8.7*	*-5.2*	*6.0*	*5.4*
Beverages	114.0	130.5	*19.8*	*14.4*	*0.9*	*1.0*
Tobacco products	103.3	112.2	*-9.5*	*8.6*	*0.5*	*0.5*
Others	106.6	103.2	*6.8*	*-3.1*	*0.9*	*0.8*
Total	**120.5**	**126.2**	***6.6***	***4.8***	***100.0***	***100.0***

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

transport equipment and food products, which was, however, partly offset by the better performance of the construction-related cluster. The manufacturing sector continued to attract domestic and foreign investments, with projects approved by the Malaysian Investment Development Authority (MIDA) valued at RM49.5 billion for the first six months of 2015 (January – June 2014: RM47.4 billion). The average wage per employee in the sector remained steady at RM2,897 while productivity increased by 5.4% (January – July 2014: RM2,772; 4%). However, the capacity utilisation rate eased slightly to 75.5% during the second quarter of 2015 (Q2 2014: 80.4%) reflecting moderate business conditions. Supported by resilient domestic economic activity amid slower external demand, the manufacturing sector is expected to grow by 4.5% in 2015 (2014: 6.2%).

Output of *E&E* expanded by 7.9% during the first seven months of 2015 (January – July 2014: 13.3%). Growth was mainly driven by production of consumer electronics which rose sharply by 102% while machinery and equipment (M&E) expanded by 5.7% (January – July 2014: 9.4%; 5.2%). Going forward, the E&E industry will continue to be driven by research, commercialisation and innovation in the Internet of Things and cutting-edge semiconductor technology. Meanwhile, the Semiconductor Industry Association's book-to-bill ratio, which hovered above 1 in the first eight months of 2015, augurs well for the Malaysian semiconductor industry. This is further reinforced by the World Semiconductor Trade Statistics' (WSTS) forecast of sales growth for the global semiconductor market at 3.4% for 2015. Meanwhile, sales in the Americas and Asia-Pacific have been projected to grow by 3.7% and 7%, respectively. Approved investment in the domestic E&E industry recorded RM4.5 billion in the first half of 2015 (January – June 2014: RM7.3 billion).

TABLE 3.4

Manufacturing Output: E&E Subsector January – July

(2010 = 100)

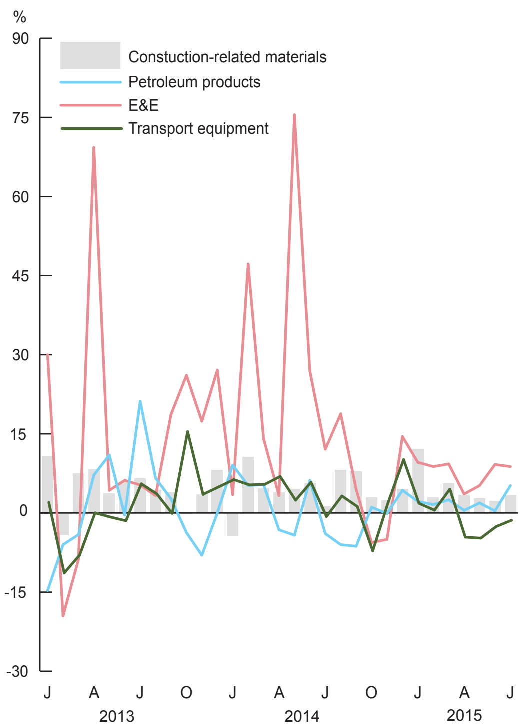
	% Change		% Share	
	2014	**2015**	**2014**	**2015**
Electronic components and boards	*16.6*	*-3.2*	*15.0*	*13.9*
Computers and peripheral equipment	*2.6*	*-2.1*	*2.7*	*2.5*
Communication equipment	*28.8*	*-1.8*	*1.6*	*1.5*
Consumer electronics	*9.3*	*102.0*	*2.4*	*4.6*
Electric motors, generators, transformers and electricity distribution and control apparatus	*1.4*	*6.6*	*0.6*	*0.6*
Wiring and wiring devices	*4.3*	*4.0*	*0.8*	*0.8*
Domestic appliances	*37.2*	*-4.2*	*0.4*	*0.3*
Machinery and equipment	*5.2*	*5.7*	*2.4*	*2.4*
General-purpose machinery	*-9.3*	*2.9*	*1.0*	*1.0*
Special-purpose machinery	*20.2*	*7.9*	*1.3*	*1.4*
Total E&E	**13.3**	**7.9**	**25.8**	**26.5**

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

CHART 3.3

Performance of Selected Industries

(% annual change)



Source: Department of Statistics, Malaysia.

Output of *chemicals and chemical products* increased further by 6.6% (January – July 2014: 0.3%) supported by increasing demand and production of liquefied or compressed inorganic industrial or medical gases; basic organic chemicals; as well as pharmaceuticals, medicinal chemical and botanical products, at 23.1%, 12.3% and 10.7%, respectively (January – July 2014: -6.3%; 3.5%; 6.8%). Meanwhile, production of wood and wood products rose by 7.1% (January – July 2014: 5%) largely supported by higher demand for wooden and cane furniture as well as particleboard and fibreboard with output up by 6.5% and 35.4%, respectively (January – July 2014: 2.4%; 5.9%). Exports of sawn timber increased by 17% (January – August 2014: 5.1%) mainly to Thailand, the Netherlands, China, Japan and Singapore. The overall positive performance of the wood products subsector was attributed to higher demand from the US, Singapore and Australia.

Output of *rubber products* rebounded to 3.4% (January – July 2014: -0.2%), mainly due to higher output of rubber gloves (3.1%) and rubber tyres for vehicles (5.9%), benefiting from lower raw material prices. The sales value of rubber gloves rebounded sharply to 24.6% (January – July 2014: -5.1%) indicating strong global demand for rubber gloves despite the growing market for nitrile gloves. The rubber-based industry stands to benefit from the strengthening US dollar, as most of the input costs are in ringgit while sales are in US dollar.

TABLE 3.5

Manufacturing Output: Construction-related Materials
January – July
(2010 = 100)

	% Change		% Share	
	2014	2015	2014	2015
Construction-related materials	***3.5***	***4.5***	***11.7***	***11.7***
of which:				
Glass and glass products	*11.4*	*1.1*	*0.8*	*0.8*
Non-metallic mineral products n.e.c.	*4.1*	*8.7*	*3.3*	*3.4*
Structural metal products, tanks, reservoirs and steam generators	*3.1*	*-3.3*	*1.6*	*1.5*
Other fabricated metal products, metal working service activities	*2.6*	*7.7*	*2.6*	*2.7*
Basic iron and steel	*0.2*	*3.1*	*2.3*	*2.3*
Basic precious and other non-ferrous metals	*8.4*	*1.2*	*1.1*	*1.0*

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

TABLE 3.6

Value-added in the Agriculture Sector 2014 – 2015
(at constant 2010 prices)

	% Change		% Share of Total	
	2014	2015[2]	2014	2015[2]
Agriculture	***2.1***	***1.3***	***100.0***	***100.0***
Oil palm	*2.4*	*0.8*	*46.8*	*46.6*
Rubber	*-19.2*	*0.9*	*6.7*	*6.7*
Livestock	*7.9*	*5.8*	*10.5*	*11.0*
Other agriculture[1]	*8.0*	*3.0*	*17.5*	*17.8*
Forestry and logging	*2.8*	*-6.6*	*7.8*	*7.1*
Fishing	*2.1*	*2.2*	*10.7*	*10.8*

[1] Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple.
[2] Estimate.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Resilient domestic demand continued to support domestic-oriented manufacturing activity amid moderate external sales. Production of *construction-related materials* expanded by 4.5% (January – July 2014: 3.7%) with higher output of *non-metallic mineral products* at 7.2%, *fabricated metal products* 3.6% and *basic metal products* 2.5% (January – July 2014: 5.5%; 2.8%; 2.7%). These subsectors were supported by ongoing private investment and 10MP projects such as Pengerang Intergrated Complex (PIC), Sabah Ammonia-Urea (SAMUR) and West Coast Expressway.

Output of *transport equipment grew* by 7.6% (January – July 2014: 22.8%), mainly supported by production of parts and accessories for motor vehicles and motorcycles which increased by 34.9% and 8.7%, respectively (January – July 2014: 10.2%; -0.9%). However, building of ships and boats moderated to 10.2% (January – July 2014: 59%). Total production of passenger and commercial vehicles increased by 3.7% to 417,654 units during the first eight months of 2015 (January – August 2014: 4.4%; 402,688 units). Meanwhile, sales of motor vehicles fell to 434,282 units from 444,551 units in the corresponding period of 2014. This was mainly due to subdued business optimism and moderation in consumer sentiment.

The *manufacture of food products* declined by 5.2% (January – July 2014: 8.7%) mainly due to lower production of refined palm oil products which contracted by 16% (January – July 2014: 18.2%). Production of dairy products grew at a stronger pace of 18.9% on account of higher output of condensed, powdered and evaporated milk at 19.6% (January – July 2014: 1.2%; 1.1%). Output of beverage continued to record a double-digit growth of 14.4% (January – July 2014: 19.8%) due to higher domestic demand during festivities as well as increased regional demand. Meanwhile, production of tobacco products rebounded significantly by 8.6% (January – July 2014: -9.5%).

Agriculture Sector

Stronger growth of food commodities

Value-added of the **agriculture sector** declined by 4.7% in the first quarter of 2015 due to the floods but was offset by the rebound of 4.6% in the second quarter. The net impact was zero growth in the first half of 2015 (January – June 2014: 4.6%). The lacklustre performance was mainly due to lower production of crude palm oil (CPO). However, the output of food commodities expanded strongly during the first half of 2015, following the Government's efforts to strengthen food supply. During the second half of 2015, growth of the agriculture sector is expected to pick up supported by higher production of palm oil and rubber. In addition, the food commodity subsector is expected to continue contributing in increasing rural household income and employment amid good agricultural practices and promotion of self-sufficiency to increase food production as well as various initiatives to enhance knowledge and skills of farmers. For 2015, the agriculture sector is expected to grow by 1.3%, accounting for 8.9% of GDP (2014: 2.1%; 9.2%).

Value-added of the *oil palm subsector* contracted by 0.4% in the first half of 2015 (January – June 2014: 7.8%) following lower production of CPO. Production of CPO declined by 0.2% to 9 million tonnes (January – June 2014: 8%; 9.1 million tonnes) mainly due to lower growth in fresh fruit bunch yields (Q1 2015: -12.7%) and oil extraction rate (OER) (Q1 2015: -1.8%) following heavy rainfall and floods in the early part of the year. However, production of CPO grew by 1.2% to 12.9 million tonnes

TABLE 3.7

Palm Oil: Areas, Yield and Production 2014 – 2015

	2014	2015[2]	% Change 2014	% Change 2015[2]
Planted areas ('000 hectares)	**5,392**	**5,600**	***3.1***	***3.9***
Matured areas ('000 hectares)	**4,689**	**4,861**	***3.6***	***3.7***
Yield (tonnes/hectare)[1]	**18.63**	**19.56**	***-2.1***	***5.0***
Production ('000 tonnes)				
Crude palm oil	19,667	19,850	*2.4*	*0.9*
Crude palm kernel oil	2,277	2,350	*0.3*	*3.2*

[1] Fresh fruit bunch yields.
[2] Estimate.

Note: Total may not add up due to rounding.
Source: Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

TABLE 3.8

Rubber: Areas, Yield and Production 2014 – 2015

	2014	2015[1]	% Change 2014	% Change 2015[1]
Total areas ('000 hectares)	**1,066**	**1,088**	***0.8***	***2.1***
Smallholdings	986	993	*0.6*	*0.7*
Estates	80	95	*3.5*	*18.7*
Yield (kg per hectare)				
Smallholdings	1,350	1,407	*-1.2*	*4.2*
Estates	1,556	1,560	*1.8*	*0.3*
Total production ('000 tonnes)	**669**	**675**	***-19.1***	***1.0***
Smallholdings	613	619	*-20.3*	*0.9*
Estates	56	57	*-2.8*	*1.0*
% of world production	***5.5***	***5.4***		

[1] Estimate.

Note: Total may not add up due to rounding.
Source: Department of Statistics, Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

in the first eight months of 2015 (January – August 2014: 8.1%; 12.8 million tonnes) driven by higher output since the second quarter. CPO output is expected to expand further towards the end of the year driven by higher demand from the domestic market partly on account of the implementation of B7 biodiesel programme. For the year, the total output of CPO is expected to increase by 0.9% to 19.9 million tonnes (2014: 2.4%; 19.7 million tonnes).

The total oil palm planted areas expanded by 4.6% to 5.6 million hectares as at end-June 2015 (end-June 2014: 3.1%; 5.3 million hectares), with private plantation companies accounting for the largest share at 61.4%. This was followed by smallholders organised under FELDA at 12.7%, FELCRA 3.1% and RISDA 1.4%. Independent smallholders accounted for the remaining 15.3% while other Government agencies 6.1%. In the second half of 2015, the total oil palm planted areas is expected to increase with the opening of 11,417 hectares of new cultivated areas mainly in Sarawak (8,528 hectares), Pahang (836 hectares) and Kelantan (666 hectares). Meanwhile, new areas coming into maturity are mainly in Sabah (5,875 hectares), Sarawak (5,754 hectares) and Pahang (3,989 hectares).

The average price of CPO dropped to RM2,165 per tonne during the first nine months of 2015 (January – September 2014: RM2,489 per tonne). CPO price hit a low of RM1,802 per tonne on 27 August 2015, amid lower global demand, pressure from prices of competing soybean oil and rapeseed oil as well as declining crude oil prices. For 2015, CPO price is expected to average RM2,200 per tonne (2014: RM2,413 per tonne).

Value-added of the ***rubber subsector*** rebounded by 0.9% (January – June 2014: -13.2%), supported by the turnaround in rubber production at 0.6% to 345,371 tonnes (January – June 2014: -13.2%; 343,437 tonnes). However, production of rubber was slightly down by 0.9% during the first seven months of 2015, (January – July 2014: -15.7%) amid weak demand, particularly from China as well as unfavourable weather conditions. For the year, rubber production is envisaged to turn around by 1% to 675,000 tonnes (2014: -19.1%; 668,613 tonnes) as smallholders are expected to increase tapping activities following the Government's move to revise the Rubber Production Incentive (IPG) which will benefit smallholders nationwide. The IPG, introduced in January 2015, is to assist smallholders during the decline in rubber prices. Effective from 1 September 2015, the activation price for IPG has been revised to RM5.10 per kilogramme (kg) from RM4.60 per kg for SMR 20 rubber. Similarly, the incentive for cuplumps (50% dry rubber content) was also raised to RM2 per kg. The IPG initiative will also help to maintain annual production of rubber to meet the downstream industry requirements as well as reduce import of natural rubber. Thus, in 2015 the rubber subsector is expected to rebound by 0.9% (2014: -19.2%) despite lower demand from China.

Rubber planted areas are expected to expand by 2.1% to 1.09 million hectares in 2015 (2014: 0.8%; 1.07 million hectares), with 0.8 million hectares (72.8%) in Peninsular Malaysia and 0.3 million hectares (27.2%) in Sabah and Sarawak. About 92% of total rubber output is produced by smallholders and the remaining by estates. Malaysia remains the sixth largest producer of natural rubber contributing 5.5% to total world supply. The average price of rubber SMR 20 remained low at RM5.26 per kg during the first nine months of 2015 (January – September 2014: RM5.73 per kg). The price weakness reflected a slowdown in demand from emerging economies, particularly China. Taking into account the weaker external demand, SMR 20 rubber price is expected to remain flat, averaging RM5.20 per kg in 2015 (2014: RM5.55 per kg).

In tandem with increased consumer spending on food, the value-added of food commodities, comprising livestock, fishing and other agriculture, expanded by 3.2% during

TABLE 3.9

Production of Other Agriculture 2014 – 2015

	('000 tonnes)		% Change	
	2014	**2015[3]**	**2014**	**2015[3]**
Cocoa	**2.7**	**3.0**	***-5.1***	***12.6***
Paddy	**2,864**	**3,322**	***10.0***	***16.0***
Livestock				
Meat[1]	272	272	*-0.4*	*-0.1*
Poultry	1,496	1,550	*2.6*	*3.7*
Eggs (million)	11,961	12,233	*4.9*	*2.3*
Milk (million litre)	75	79	*1.8*	*4.3*
Miscellaneous agriculture				
Fruits[2]	1,119	1,248	*2.8*	*11.6*
Pepper	28	29	*3.8*	*3.6*
Vegetables	1,657	1,830	*0.4*	*10.5*
Coconut (million unit)	654	680	*4.6*	*4.1*
Flowers (million cutting)	509	621	*5.0*	*22.0*

[1] Including beef, mutton and swine.
[2] Consists of star fruit, papaya, durian, guava, mango, mangosteen, banana, rambutan and pineapple.
[3] Estimate.

Note: Total may not add up due to rounding.
Source: Malaysian Pepper Board, Ministry of Agriculture and Agro-Based Industry and Ministry of Finance, Malaysia.

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas 2014 – 2015

			% Change	
	2014	**2015[3]**	**2014**	**2015[3]**
Crude oil				
Production[1] ('000 bpd)	603	630	*4.7*	*4.5*
Reserves (billion barrels)	5.79	5.95	*-1.0*	*2.8*
Reserves / production (years)	28	27		
Natural gas				
Production[2] (mmscfd)	6,331	6,420	*1.0*	*1.4*
Reserves (trillion cubic feet)	100.7	103.9	*2.4*	*3.2*
Reserves / production (years)	42	44		

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

Note: Total may not add up due to rounding.
Source: PETRONAS and Ministry of Finance, Malaysia.

the first half of 2015 (January – June 2014: 5.9%). The value-added of the *livestock subsector* increased by 3.7% (January – June 2014: 7.4%) driven by higher production of poultry and eggs. The *fishing subsector* increased by 2.2% (January – June 2014: 1.6%) with the marine fishing segment growing by 2.3% and aquaculture 2%. Meanwhile, the *other agriculture subsector* recorded a moderate growth of 3.5% (January – June 2014: 7.7%) supported by higher value-added of fruits (7.3%) and vegetables (5.2%). However, the *forestry and logging subsector* declined by 14.3% (January – June 2014: 1.2%) on account of lower production of saw logs in Peninsular Malaysia and Sarawak.

Mining Sector

Higher crude oil production

The **mining sector** grew strongly by 7.8% during the first half of 2015 (January – June 2014: 1%) largely driven by the higher output of crude oil (including condensates) which offset the lower production of natural gas. The output of crude oil (including condensates) registered a double-digit growth of 12.3% to 665,876 barrels per day (bpd) during the first eight months of 2015 (January – August 2014: 0.1%; 584,138 bpd) on the back of sound reservoir management and production enhancement efforts in existing fields. Despite weaker crude oil prices, the ongoing operations in the production phase will continue. Thus, production of crude oil (including condensates) is expected to grow by 4.5% to 630,000 bpd in 2015 (2014: 4.7%; 602,815 bpd).

Output of natural gas decreased by 1.5% to 6,155 million standard cubic feet per day (mmscfd) during the first eight months of 2015 (January – August 2014: 0.3%; 6,251 mmscfd), partly on account of scheduled maintenance of some liquefied natural gas (LNG) plants. However, production for 2015 is expected to increase marginally by 1.4% to 6,420 mmscfd (2014: 1%; 6,331 mmscfd) despite subdued LNG prices. Thus, value-added of the mining sector is expected to grow by 3.5% in 2015 (2014: 3.3%) supported by the increase in production of crude oil (including condensates) and natural gas.

During the first nine months of 2015, the average price of Dated Brent dropped by 48.1% to average USD55.4 per barrel (pb) (January – September 2014: -1.9%; USD106.6 pb). On 24 August 2015, price of Dated Brent declined further to USD40.7 pb, marking its lowest level since 2009. Global crude oil prices are expected to remain low and average USD50 pb in 2015 due to excess supply amid weak demand. Since 2014, oil production has risen in non-OPEC sources, particularly shale oil. Furthermore, OPEC is not willing to undertake production cuts to maintain its market share. The weak oil prices are further weighed down by the moderate global growth including the slowdown in China.

Construction Sector

Construction sector continues to expand

Value-added of the ***construction sector*** grew at a moderate pace of 7.7% during the first half of 2015 (January – June 2014: 14.5%) on slower civil engineering and residential activities. The highest share was contributed by the residential (27.7%) followed by civil engineering (27.1%), non-residential (26.4%) and specialised construction activities (18.8%) subsectors. The total value of construction work completed during the first half of 2015 expanded by 11.6% to RM56 billion with 20,056 construction projects registered (January – June 2014: 15.7%; RM50 billion; 19,649 projects). The non-residential subsector contributed 34.7% to the value of construction work, followed by civil engineering (30.4%), residential (30.2%) and specialised construction activities (4.7%) subsectors. The private sector continued to dominate construction activities with a share of 67.7% in the first half of 2015. Amid the moderate growth outlook, the construction sector is expected to expand by 8.8% in 2015 (2014: 11.8%).

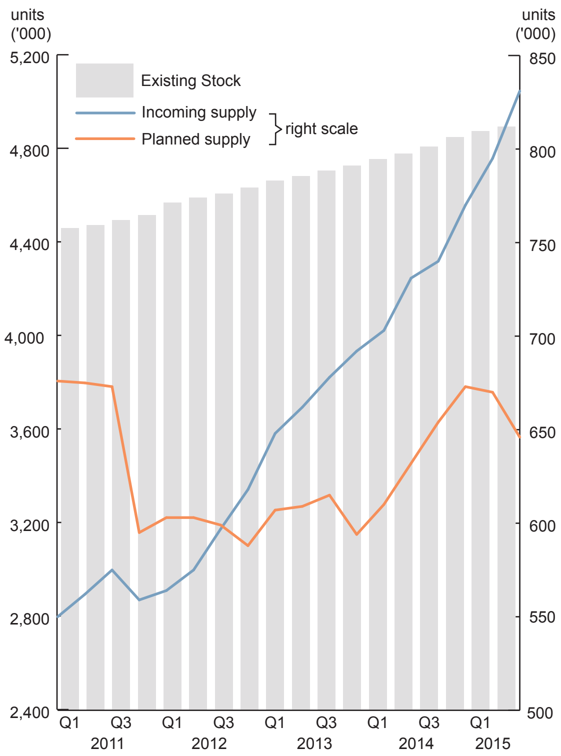
The **civil engineering subsector** moderated to 1.3% (January – June 2014: 6.2%) following the completion of some major infrastructure projects. However, construction projects in the O&G industry, which started in 2015, such as piping and associated facilities at Petronas LNG Complex (PLC) Bintulu, as well as Pengerang Deepwater Petroleum Terminal with marine facilities and jetty, helped to cushion the moderation in growth of the subsector. The huge land reclamation activity in Southern Johor also supported the subsector. Further, the construction of a new deep water terminal at Kuantan Port; Pan-Borneo Highway; road upgrading works including Pulau Indah Highway and Bintulu – Samalaju road; as well as Kota Kinabalu flyover and third lane project, will continue to support construction growth over the medium term.

The **residential subsector** expanded moderately by 9.8% (January – June 2014: 22.1%) partly due to the decline in new housing approvals which decreased by 32.9% to 66,770 units (January – June 2014: 37.3%; 99,461 units), reflecting cautious sentiment among housing developers amid a challenging environment. However, the moderation was cushioned by the steady growth in incoming supply at 13.8% (January – June 2014: 10.3%). During the first six months of the year, the Klang Valley continued to dominate the incoming supply, accounting for 29% of the total supply (January – June 2014: 28.9%). Housing starts rebounded by 38% to 100,712 units (January – June 2014: -1.8%; 72,935 units), supported by service apartments as well as condominiums/apartments which accounted for 28.3% (28,541 units) and 22.5% (22,673 units), respectively, of the total starts. The take-up rate for residential units increased to 31.4% to 8,542 units in the first half of 2015 (January – June 2014: 23.8%; 11,588 units).

The total value of property transactions declined by 6.6% to RM76.6 billion, while volume contracted by 3.5% to 186,661 transactions during the first six months of 2015 (January – June 2014: 19.3%; RM82 billion; 3.3%; 193,403 transactions). The Government initiatives to curb speculative activity, including the Real Property Gains Tax (RPGT) as well as macroprudential measures to promote responsible lending, have seen some moderation in the residential property market. The volume of residential property transactions, which accounted for 64% of total property transactions, contracted by 2.6% to 119,604 transactions (January – June 2014: 2.3%; 122,830 transactions), while the value dropped by 9.7% to RM36.4 billion (January – June 2014: 19.4%; RM40.3

CHART 3.4

Supply Indicators of Residential Property

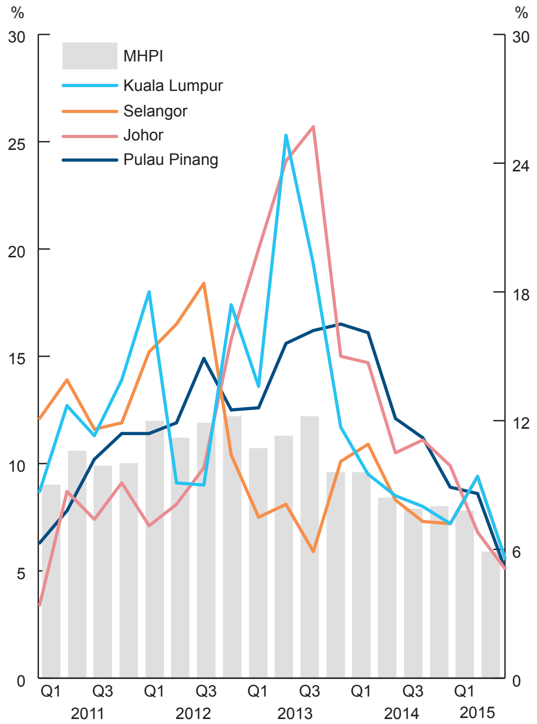


Source: National Property Information Centre.

CHART 3.5

Malaysian House Price Index

(% annual change)



Source: National Property Information Centre.

Info Box 1

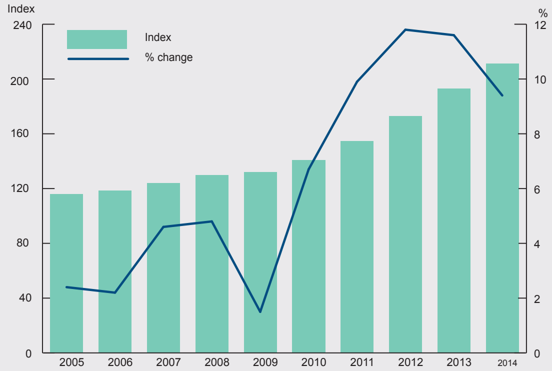
Trends in House Prices – Some Highlights

All-House Average Price

The all-house average price, as measured by the Malaysian House Price Index[1] (MHPI), has been on the upward trend since 2005, registering annual single-digit growth rates until 2012. In 2009, growth of the MHPI decelerated to 1.5% following the contraction in the domestic economy due to the global financial crisis in 2008/2009. With the recovery in the domestic economy, house prices picked up. The trend of double-digit growth started in Q2 2011, dipping to single-digit growth in Q3 2011 before continuing for eight consecutive quarters. The MHPI peaked at 12.2% in Q3 2013.

CHART 1

Malaysia All-House Price Index and Annual Change



Source: National Property Information Centre.

Over the period 2004 – 2014, the MHPI increased at a compounded average growth rate (CAGR) of 6.3%. Between 2010 and 2014, the CAGR accelerated to 10.3%. Average prices in four states, namely Selangor, Pulau Pinang, Sabah and Sarawak as well as Kuala Lumpur, continued to exceed the all-house average price since 2004. The all-house average price hit the RM300,000 mark in H1 2015. Preliminary data for Q2 2015 shows the MHPI registering 220.2 points, indicating that the all-house price has more than doubled since 2000. At the national level in 2014, median house prices (RM242,000) exceed the median annual household income (RM55,020) by 4.4 times vis-à-vis the global norm for housing affordability at 3 times.

Curbing Rising House Prices

Bank Negara Malaysia (BNM) introduced several responsible lending guidelines to promote sustainable household debt in 2012 and 2013. These include a maximum loan-to-value at 70% on the third property; maximum tenure for housing loans capped at 35 years from 45 years previously; loan consideration to take into account debt repayment obligations and income after statutory deductions. The Government also introduced a number of measures in the 2014 Budget to curb excessive speculative activity in the property market. These include raising the Real Property Gains Tax (RPGT) from 15% to 30% on disposal of property within 3 years; increasing the minimum price of property from RM500,000 to RM1 million for foreign purchase; requiring more transparency in property sales price; and abolishing the Developer Interest Bearing Scheme (DIBS).

The cooling measures showed a positive impact as reflected by the slower increase in the MHPI from 11.8% in 2012 to 11.6% in 2013 and to single-digit growth of 9.4% in 2014. On a quarterly basis, the growth rate of the MHPI began to moderate to a single-digit at 9.6% since Q4 2013 (Q3 2013: 12.2%) and decelerated further to 7.8% in Q1 2015 and 5.9% in Q2 2015. The responsible lending guidelines also led to the moderating growth in household debt from 15.1% in 2010 to 9.4% in 2014 and further to 7.9% in August 2015. Similarly, the growth in outstanding loans for purchase of residential property also slowed from 15.2% in 2010 to 13.6% in 2014 and to 11.4% in August 2015.

Recent Market Activity

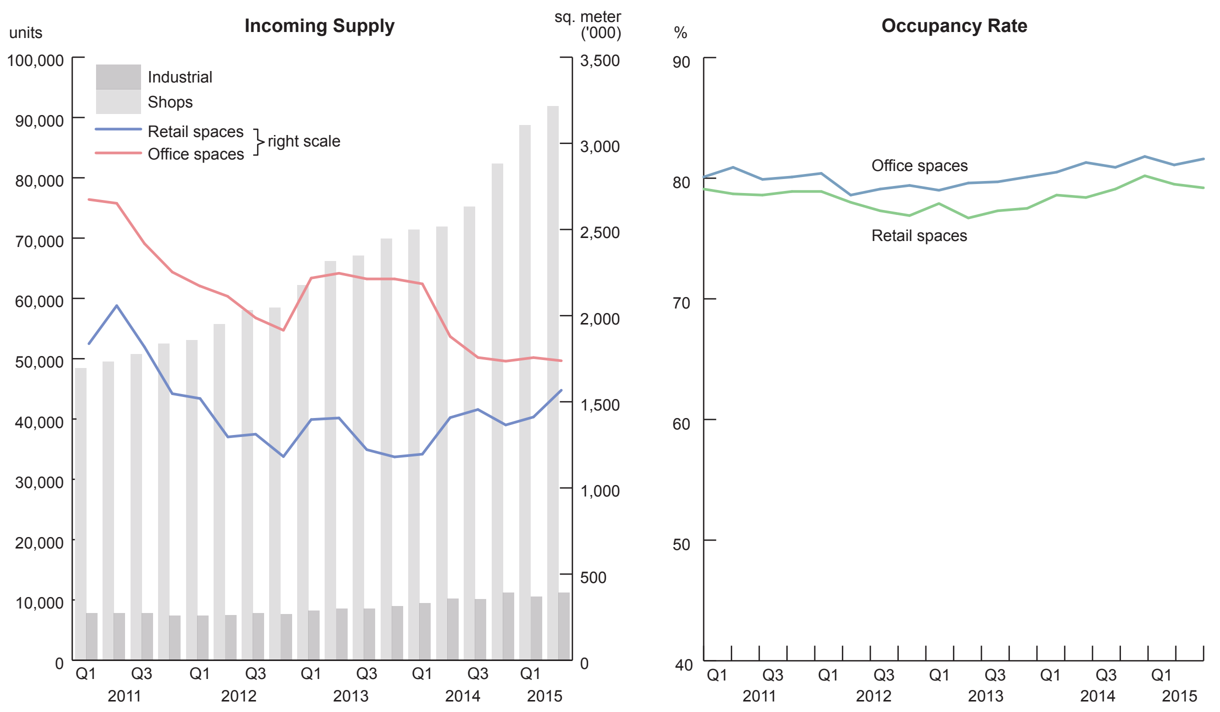
Market activity of residential property moderated in H1 2015 as reflected by the decline in transactions and value. Residential property transactions declined by 2.6% to 119,604 while the value fell by 9.7% to RM36.4 billion in H1 2015 (H1 2014: 2.3%; 122,830 transactions; 19.4%; RM40.3 billion). Residential transaction volume also shrank year-on-year in H1 2015 in four major states, namely Johor, Pulau Pinang, WP Kuala Lumpur and Selangor by 17.9%, 14.2%, 6.4% and 1.8%, respectively. Residential new launches were down by 44.1% to 27,231 units in H1 2015 (H1 2014: 56.3%; 31,155 units) amid cautious sentiment of developers. The residential overhang increased by 8.9% to 10,473 units in H1 2015 compared with H1 2014 (-16%; 11,491 units). Unsold residential units under construction rose by 32.7% year-on-year to 67,126 units in H1 2015 (H1 2014: 4.7%; 50,588 units), with Johor accounting for the highest overhang at 23.3%.

[1] The MHPI is collated by National Property Information Centre. It is a transaction-based index, using sales data on all housing transactions in the country. The base year is 2000.

Source: National Property Information Centre, Ministry of Finance, Malaysia.

CHART 3.6

Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

billion). Residential transactions declined in the four major urban areas, namely Kuala Lumpur (-6.4%), Selangor (-1.8%), Johor (-17.9%) and Pulau Pinang (-14.2%). The residential overhang declined by 8.9% to 10,473 units with a total value of RM4.8 billion during the first half of 2015 (January – June 2014: -16%; 11,491 units; RM4 billion). However, unsold units under construction rose by 32.7% to 67,126 units (January – June 2014: 4.7%; 50,588 units). Johor accounted for the highest overhang at 23.3% of the total overhang units.

During the second quarter of 2015, the Malaysia House Price Index moderated to 5.9% (Q2 2014: 8.5%). This was the lowest quarterly rate of increase since the third quarter of 2010. All states continued to record a positive growth except Kelantan (-1.5%). Perak registered the highest increase of 7.4%, followed by Pahang (7%), Sarawak (6.9%), Kedah (6.9%) and Selangor (6.1%). The average all-house price in Malaysia stood at RM305,075 (Q2 2014: RM288,193), with semi-detached units recording the highest increase at 6.3%, followed by terrace houses (6.1%), high-rise units (4.8%) and detached houses (4.8%).

In the **non-residential subsector**, construction activity grew by 14.5% (January – June 2014: 14.2%) as reflected in the expansion of incoming supply, particularly in the shop, shopping complex and industrial segments at 27.8%, 11.3% and 9.6%, respectively, (January – June 2014: 8.7%, 20%, 0.2%). The Purpose-Built Office (PBO) segment registered a significant increase in construction starts to 251,916 square metres (sm) despite the contraction in incoming supply by 7.5% in the first half of 2015 (January – June 2014: 7,764 sm; -16.4%). The shop overhang increased by 2.2% to 4,915 units with a total value of RM1.9 billion during the period (January – June 2014: 9%; 4,810 units; RM1.5 billion). However, the demand for commercial buildings remained stable with the average occupancy rate of office and retail space at 84.2% and 81.6%, respectively, reflecting sustained demand, particularly for commercial space located in prime areas. As at end-June 2015, the existing stock of PBO and shopping complexes stood at 19.8 million sm and 13.2 million sm, respectively (end-June 2014: 19.1 million sm; 12.4 million sm).

The Purpose-Built Office Rent Index Wilayah Persekutuan Kuala Lumpur (PBO-RI WPKL) increased by 3.5% to 123.7 points in the second quarter of 2015 (Q2 2014: 4.1%; 119.5 points). This was on account of the positive growth across the four regions, namely Kuala Lumpur City Centre-Golden Triangle (KLCC-GT), Central Business District (CBD), Within City Centre (WCC) and Suburban. KLCC-GT recorded the highest rental increase at 4.6% to RM5.72 per square feet (psf), surpassing the average office rental in Wilayah Persekutuan Kuala Lumpur at RM4.44 psf. The increase was influenced by upgraded services and facilities provided in office buildings in the KLCC-GT region. The rental in WCC registered an increase of 2% to RM4.62 psf, the lowest among the four regions.

Feature Article 1

Structural Changes in the Malaysian Economy

Introduction

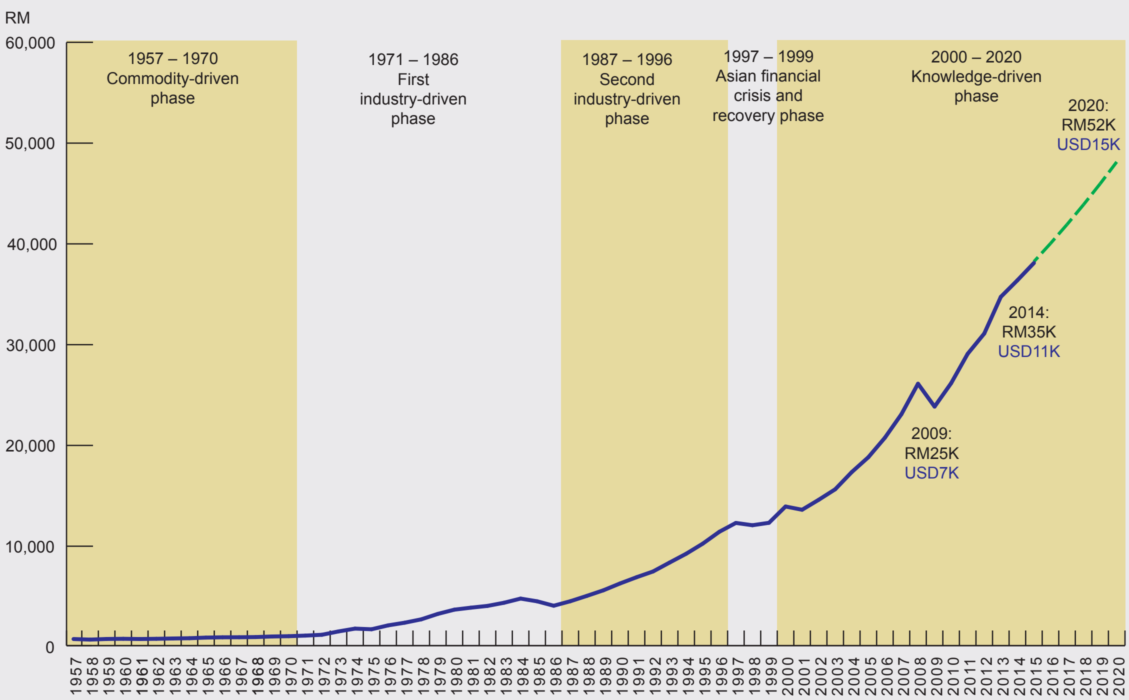
The Malaysian economy has made significant strides since independence as reflected by its remarkable growth rate. Real GDP grew at an average of 6.4% per annum between 1970 – 2014, while income per capita expanded more than 25-fold from USD347 in 1970 to USD10,677 in 2014. This achievement in economic growth has been accompanied by a marked improvement in the quality of life. The overall incidence of poverty declined from 49.3% to 0.6% between 1970 and 2014, while hardcore poverty has been eradicated. The Gini coefficient declined from 0.513 to 0.401 during the same period, reflecting better distribution of wealth. The literacy rate has increased from 58% in 1970 to 95.2% in 2014. Health services too have improved significantly with life expectancy at birth increasing to 74.8 years in 2014. These economic and social achievements are the outcome of planned structural reforms which have transformed Malaysia from a predominantly agriculture-based economy to one focused on manufacturing and modern services.

The structural changes which have taken place in the Malaysian economy are best seen in the following phases of development:

a. Commodity-driven phase (1957 – 1970);
b. First industry-driven phase (1971 – 1986);
c. Second industry-driven phase (1987 – 1996);
d. Asian financial crisis and recovery phase (1997 – 1999); and
e. Knowledge-driven phase (2000 onwards).

CHART 1

GNI per capita (at nominal prices)



Source: Department of Statistics and Economic Planning Unit, Malaysia.

Changing Structure of the Malaysian Economy

Commodity-driven phase (1957 – 1970)

Post-independence, Malaysia was a low-income agrarian economy depending heavily on primary commodities, namely rubber and tin. In 1960, the two commodities accounted for 29.5% of GDP, 40.3% of employment and made up about 63.6% of exports. However, the commodity-based economy could not provide sufficient employment opportunities for the fast-growing population. As a result, in 1960, the unemployment rate was as high as 6%. The severe fluctuations in export earnings due to high volatility in commodity prices made it difficult for the country to achieve sustained economic growth.

The Government introduced the first wave of import-substitution policy to generate employment and reduce imports. This policy was aimed at expanding downstream manufacturing industries, particularly consumer goods. However, the import-substitution policy was unable to create jobs as planned and production was limited due to the small domestic market. By end-1970, the manufacturing sector only employed 9.2% of the labour force and accounted for 13.1% of total output[1]. Overall, between 1957 and 1970, gross national income (GNI) per capita in nominal terms increased moderately by an average rate of 2.4% from RM788 to RM1,070.

First industry-driven phase (1971 – 1986)

This period of economic development was driven by the overarching goals of the New Economic Policy (NEP). The main objective of the NEP was to eradicate poverty by creating more jobs as well as to restructure and eliminate the identification of race with economic function.

The agriculture sector was diversified with the introduction of large-scale cultivation of oil palm. This resulted in Malaysia becoming the world's largest producer and exporter of palm oil in the 1970s. During this period, Malaysia also ventured into the oil and gas (O&G) industry with the establishment of PETRONAS in August 1974. Since then, Malaysia has become a net oil exporter[2].

From 1971 to 1985, there was a concerted move to adopt an export-oriented policy to further diversify the economy by encouraging light manufacturing in areas such as electronics, textiles, footwear and clothing. Faced with rising competition and production costs in the developed economies, many MNCs shifted the assembling-and processing-type operations to developing economies. Malaysia leveraged these developments and attracted foreign investment by providing export incentives, investment credits and tax exemptions. During this period, export-processing zones were set up, facilitating MNCs to play a pivotal role in bringing in investment and creating employment opportunities. These incentives, coupled

CHART 2

Contribution to Real GDP by Economic Activity

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

CHART 3

Employment by Sector

Source: Department of Statistics, Economic Planning Unit and Ministry of Finance, Malaysia.

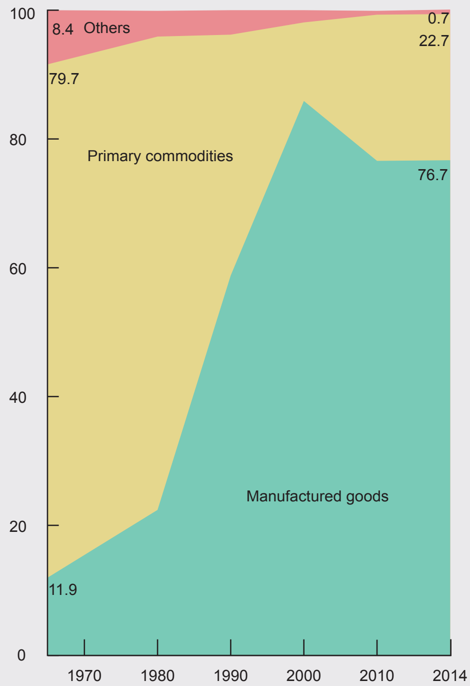
[1] Refers to West Malaysia.
[2] Exclude petroleum products.

with the availability of low-cost, semi-skilled workforce, led to the rise of the semiconductor industry in Malaysia.

The import-substitution policy re-emerged in the 1980s, this time through state-led heavy industries. The policy aimed at developing domestic large-scale, capital-intensive, high-technology and high-skill projects or through joint ventures with foreign companies. The efforts to promote import-substitution heavy industries were intensified with the establishment of the Heavy Industries Corporation of Malaysia (HICOM) in 1981. Among the targeted industries were petrochemicals, iron and steel as well as automotive. These industries utilised domestically available natural resources, including O&G, to produce intermediate inputs as well as strengthen the manufacturing sector by creating strong backward and forward linkages for the development of other industries. This was in line with the 'Look East Policy' which was launched in 1981 to emulate industrialisation and work ethics of Japan and South Korea. The import-substitution policy was successful in terms of employment creation and enhancing the resilience of the domestic economy. However, the import-substitution industries were not competitive due to the domestic protectionist policy. Hence, only a few resource-based industries benefited from the policy[3].

CHART 4

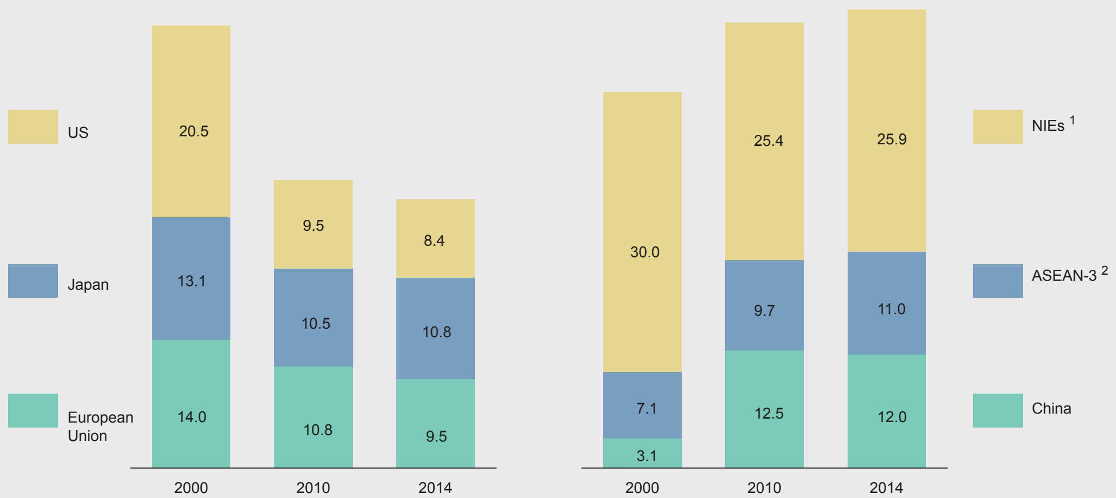
Components of Exports
(% of exports)



Source: Department of Statistics and Malaysia External Trade Development Corporation, Malaysia.

CHART 5

Diversification of Export Markets
(% of exports)



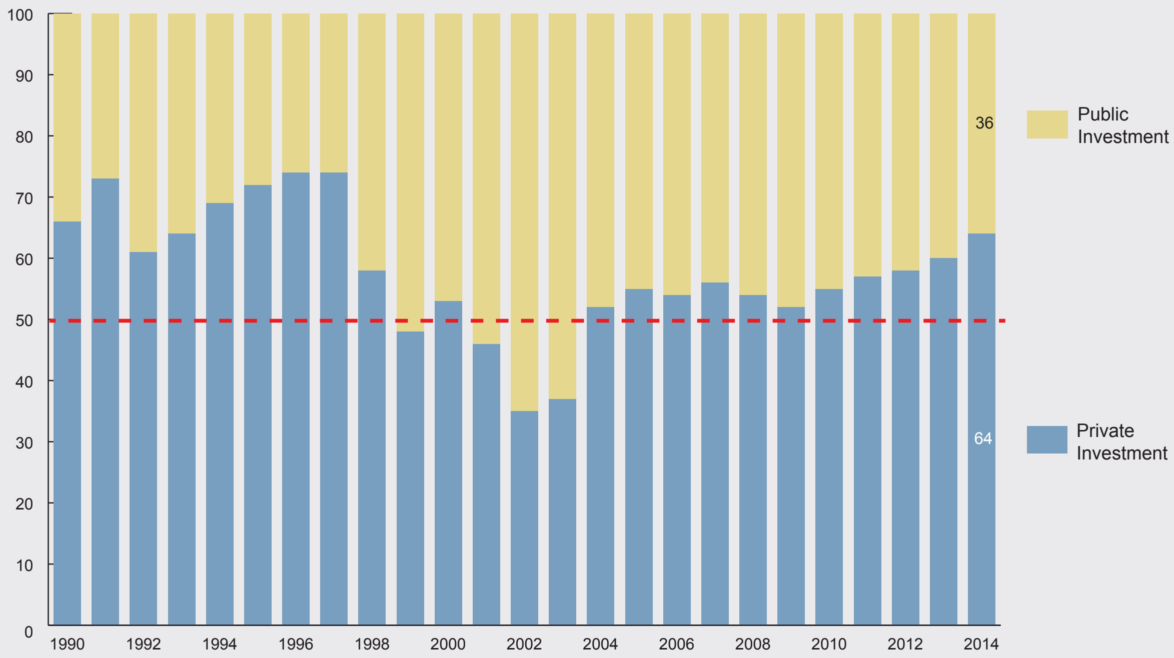
[1] Newly Industrialised Economies (NIEs) refer to Singapore, Hong Kong, Taiwan and Korea.
[2] ASEAN-3 refers to Thailand, Indonesia and the Philippines.
Source: Department of Statistics and Malaysia External Trade Development Corporation, Malaysia.

[3] Malaysia: Policies and Issues in Economic Development, ISIS, 2011.

CHART 6

Composition of Real Gross Fixed Capital Formation

(% of total)



Source: Department of Statistics, Malaysia.

Second industry-driven phase (1987 – 1996)

The sharp recession in the mid-1980s coupled with the limitations in the state-led import-substitution strategy led the Government to rethink its industrialisation policy. The Government then shifted to the second industrialisation phase, also known as the 'adjustment and liberalisation phase'. During this phase, the Government actively promoted private sector participation through the Promotion of Investment Act 1986, which provided greater incentives for manufacturing, agriculture and tourism industries. These efforts were intensified with the introduction of the privatisation policy in the mid-1980s, aimed at improving efficiency and productivity through greater private sector participation while reducing the Government's financial and administrative burden. Once again, export-oriented industries, particularly foreign-owned became the major driver of economic growth. The export-oriented industries also benefited from the massive capital outflows from developed markets to developing economies, including Malaysia following the appreciation of the yen under the Plaza Accord (1985). Real private investment increased significantly, contributing 36% to GDP in 1996, with FDI mostly channelled into the manufacturing sector.

According to the United Nations Conference on Trade and Development (UNCTAD), FDI flows reached USD7,297 million in 1996, mainly from the US, Japan, Taiwan and Singapore. With the private sector leading economic growth, the public sector played a facilitative role. Public investment was focused on expanding the capacity of the economy. This was seen in the construction of large-scale infrastructure projects such as airports, ports, bridges, highways, railways and urban rails to meet the rising demand of an expanding economy.

The structural shift in the Malaysian economy from agriculture to manufacturing was reflected in the changing composition of the GDP. Between 1987 and 1996, the manufacturing sector became the engine of growth, with its share of GDP rising to 29.1%, surpassing that of agriculture at 9.8%, and providing employment for about 22% of the labour force. By the end of 1995, Malaysia was the world's largest exporter of air-conditioners, semiconductors, oleochemicals and latex-dipped products, such as gloves, rubber thread and catheters. GNI per capita grew rapidly at 10.8% per annum increasing from RM4,537 in 1987 to RM11,400 in 1996.

Asian financial crisis and recovery phase (1997 – 1999)

The period of rapid growth in the 1990s was disrupted by the Asian financial crisis in 1997/98. Real GDP contracted by 7.4% in 1998, while private investment shrank by 55.2%. However, proactive measures were taken by the Government to stimulate the economy. Some of the measures included introducing capital controls and pegging the ringgit to the US dollar at RM3.80. The recovery of the Malaysian economy was further supported by developments in the external front, including the upsurge in the world electronics cycle. This, together with stable exchange rate, supported the expansion of export-oriented manufacturing industries, particularly E&E. In 1999, the exports of manufactured goods accounted for 84.7% of gross exports. By 1999, the economy turned around to record a growth of 6.1%. With the total trade accounting for about 200% of GDP, Malaysia became one of the most open economies in the region.

Knowledge-Driven Phase (2000 onwards)

The Malaysian economy recorded steady growth, averaging 5.9% annually from 2002 to 2007, except in 2001 (0.5%) due to the bursting of the technology bubble or dot.com crisis. However, growth was below the average rate of 9.2% achieved from 1990 to 1997. This was mainly due to lower private investment in the aftermath of the Asian financial crisis. This phenomenon was due to stiff competition for FDI flows from China, India and Viet Nam; fewer mega-projects; prolonged over-investment, especially in the property sector in the 1990s; structural problems such as shortage of skilled workers, low labour productivity and innovation as well as bureaucratic red tape. In addition, there was an increasing trend of outward direct investment by Malaysian companies in search of greater market access and to leverage comparative advantage in the host countries.

During the Asian financial crisis, the Government recognised the need to move to a knowledge-based economy as the input-driven model depending on cheap labour and primary production was unable to sustain long-term economic growth. As a result, the Knowledge-based Economy Master Plan was introduced in 2002. The plan was aimed at transforming the country into an innovation-based economy through improvements in efficiency and productivity to achieve high-income status by 2020. However, the implementation of the plan was disrupted by the global financial crisis (2008) which was transmitted to the country mainly through financial and trade channels. The economy declined by 1.5% with exports contracting significantly by 10.9% in 2009. FDI contracted by 78.6% in 2009 from a positive growth of 32.9% in 2007.

In 2010, the Government embarked on the National Transformation Programme (NTP) to strengthen domestic economic resilience as well as to accelerate the role of the private sector in driving growth. The transformation was in line with the Government's policy to shift from an input-driven to a knowledge and productivity-driven economy to sustain rapid economic growth and enhance international competitiveness in the medium and long term. While traditional factors of production, namely labour, capital, raw materials and entrepreneurship, remain important, innovation and knowledge would be the key factors in leading growth; creating high-value products and services; and providing the platform to remain competitive in the knowledge-based economy. Recognising the efforts to promote a knowledge and innovation-led growth; Malaysia was singled out as one of the 'innovation achievers' for outperforming its economic peers in the Global Innovation Index 2015. Malaysia was ranked in the top three positions in high-tech imports and exports, reflecting its successful integration into the global value chain.

As a result of the implementation of the Economic Transformation Programme (ETP) in 2010, the private sector has re-emerged as the key driver of growth contributing 68.5% to GDP in 2014, with investment accounting for 17% and consumption 52.7% of GDP. With domestic demand taking the lead, the share of the external sector to growth became smaller. However, the structure of the external sector has become more diversified in terms of markets and products. In 2014, China, India and ASEAN accounted for 44.1% of total exports (2010: 41.2%) while the share of G3[4] economies declined to 29% (2010: 31%). Over the years, the Malaysian economy has become more broad-based with sufficient buffers to weather shocks.

[4] Refers to the US, the EU and Japan.

The domestic services sector has assumed an increasing share of GDP as the economy matures, similar to the experience of developed countries. As Malaysia moves towards becoming a developed nation, there was a policy shift towards an integrated development of the services sector to spur higher economic growth. The services sector has the capacity to support and uplift other industries due to its strong backward and forward linkages with the rest of the economy. In this respect, the National Key Economic Areas (NKEAs) launched in 2010, mainly focuses on services subsectors such as education, health, tourism, business services, communication as well as finance and insurance. In 2014, the services sector contributed 54% to GDP and employed 59% of the country's total workforce. The transformation programmes initiated by the Government since 2010 has resulted in robust economic growth between 2010 and 2014. The GNI per capita increased further from RM27,819 in 2010 to RM34,945 in 2014.

Conclusion

Economic diversification has been and remains the core of Malaysia's development strategies. From an agrarian economy in the 1970s, Malaysia is now more diversified with the manufacturing and services sectors contributing 77% to economic growth. The structural reforms undertaken over the years have resulted in a more broad-based and diversified economy enabling Malaysia to remain fundamentally strong in the face of external uncertainties. Going forward, the Government will continue to accelerate the implementation of productivity-enhancing reforms to improve the quality of human capital and enhance competitiveness to reach high-income status by 2020, while ensuring growth remains inclusive and sustainable.

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Domestic Demand Performance

Domestic activity remains strong

Domestic demand will continue to spearhead the economy in 2015 and is expected to grow by 5.9% (2014: 5.9%), despite uncertainties in the external environment. **Private sector expenditure** led by strong consumption activities is expected to grow by 6.9% (2014: 7.9%) and remains the engine of domestic demand. Thus, the share of private sector expenditure to GDP is projected to increase to 69.7% (2014: 68.5%). Meanwhile, growth in **public sector expenditure** is anticipated to be sustained, supported by Federal Government DE and high capital outlays by public corporations. For 2015, real GDP is projected to record a steady growth of 4.5% – 5.5% (2014: 6%)

Private investment is anticipated to expand by 7.3% (2014: 11%), mainly supported by investment activity in the services and manufacturing sectors. Capital spending in the services sector will be mainly in consumer-related activities such as wholesale and retail trade; food, beverage and accommodation; as well as communication subsectors. Meanwhile, investment in the manufacturing sector will be driven by export-oriented subsectors, especially E&E, chemicals and chemical products as well as M&E. The Entry Point Projects (EPPs) under the Economic Transformation Programme (ETP) continue to drive investment. During the first half of 2015, a total of RM372.7 billion worth of investment was channelled into the EPPs, which is expected to generate RM546.8 billion of GNI by 2020. The five economic corridors, which were initiated under the Ninth Malaysia Plan (9MP), have continued to attract domestic and foreign investments in specific focus areas which include manufacturing, services and O&G industries. As of June 2015, all five economic corridors attracted RM497.2 billion in committed investment.

Malaysia remains an attractive destination for investors following the Government's continuous efforts to provide a competitive and business-friendly environment. This was reflected in MIDA's **approved investments** which increased further to RM113.5 billion during the first half of 2015 (January – June 2014: RM112 billion). The bulk of investments were in the services sector totalling RM61.7 billion, accounting for 54.4% of total investments, followed by the manufacturing sector at RM49.5 billion (43.6%). During the period, 2,487 projects were approved and are expected to create 101,785 job opportunities. The services sector attracted 2,071 projects mainly in the real estate, transport, utility and financial services subsectors. In the manufacturing sector, domestic investment contributed RM36.4 billion while foreign investment, RM13.1 billion. In terms of source of foreign investment, Hong Kong (RM3.2 billion), Japan (RM2.6 billion) and the US (RM2.2 billion) were the top three contributors. In terms of location, Perak and Pulau Pinang attracted the highest foreign investment at RM2.6 billion each, followed by Selangor (RM2.3 billion) and Melaka (RM1.5 billion). Most of the domestic investment was channelled into petroleum products (68.9%), transport equipment (14.1%) and fabricated metal products (3.3%). Johor attracted the highest domestic investment at RM25.9 billion followed by Melaka (RM4.7 billion) and Selangor (RM1.9 billion).

TABLE 3.11

GDP by Aggregate Demand 2014 – 2016
(at constant 2010 prices)

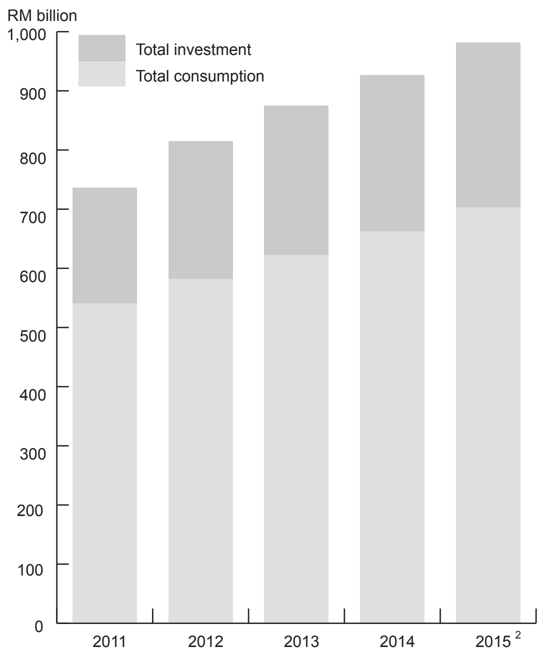
	% Share	% Change		
	2015[3]	2014	2015[3]	2016[4]
GDP	***100.0***	***6.0***	***4.5 – 5.5***	***4.0 – 5.0***
Domestic demand[1]	***92.3***	***5.9***	***5.9***	***5.5***
Private expenditure	***69.7***	***7.9***	***6.9***	***6.4***
Consumption	*52.7*	*7.0*	*6.8*	*6.4*
Investment	*17.0*	*11.0*	*7.3*	*6.7*
Public expenditure	***22.5***	***0.4***	***2.8***	***2.7***
Consumption	*13.4*	*4.4*	*3.6*	*3.0*
Investment	*9.2*	*-4.7*	*1.6*	*2.3*
External sector	***7.8***	***12.8***	***-12.3***	***-4.4***
Exports[2]	*71.9*	*5.1*	*-0.8*	*0.9*
Imports[2]	*64.1*	*4.2*	*0.8*	*1.5*

[1] Excluding change in stocks.
[2] Goods and non-factor services.
[3] Estimate.
[4] Forecast.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

CHART 3.7

Composition of Aggregat Demand[1]
(at constant 2010 prices)



[1] Excluding stocks.
[2] Estimate.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Malaysia continues to attract **FDI** despite the challenging external environment. During the first half of 2015, Malaysia recorded higher net inflow of FDI worth RM22.4 billion (January – June 2014: RM17.9 billion) mainly from Japan (RM8.1 billion), the US (RM5.4 billion) and the UK (RM1.3 billion). Investment was channelled into the manufacturing (41.8%), mining and quarrying (38.7%) as well as services (17.6%) sectors. Malaysia was ranked the sixth most attractive investment destination out of 110 countries in the Baseline Profitability Index (BPI) by the Foreign Policy Magazine in 2015 (2014: 11th position). This reflects that Malaysia provides a business-friendly environment that makes it an attractive and lucrative place to invest. In addition, Malaysia improved its ranking to 18th position (2014: 20th position) in the Global Competitiveness Report 2015 – 2016 by World Economic Forum (WEF).

Public investment is projected to rebound by 1.6% in 2015 (2014: -4.7%). The turnaround is expected to be driven by higher capital spending by the public corporations and Federal Government DE. PETRONAS continues to play an active role in the O&G industry with focus on downstream and upstream projects such as Refinery and Petrochemicals Integrated Development (RAPID) in Pengerang, Floating LNG (FLNG) Project 1 & 2 in Labuan and Kebabangan offshore field in Sabah. In addition, the ongoing Sungai Buloh – Kajang Line (MRT Line 1) project and the new Sungai Buloh - Serdang - Putrajaya Line (MRT Line 2) by the Mass Rapid Transit Corporation Sdn Bhd (MRT Corp), will contribute to higher capital spending. Meanwhile, Tenaga Nasional Berhad's (TNB) capital expenditure is mainly to improve electricity generation and distribution in Pahang, Perak and Selangor. Federal Government DE is expected to be driven by construction of public infrastructure projects. The bulk of DE has been channelled into the economic sector to enhance competitiveness and productive capacity of the economy. These include the Pan-Borneo Highway, West Coast Expressway, Central Spine Road and the East Coast Highway as well as the Gemas – Johor Bahru Double-Track projects. Meanwhile, capital spending in the social services sector has been geared towards enhancing and improving essential services such as education and training, R&D&C, healthcare and welfare services as well as building affordable houses to improve the well-being of the rakyat.

Private consumption will continue to support growth, albeit at a moderate pace of 6.8% (2014: 7%), compared with the long-term average growth rate of 7.3% (2000 – 2014), partly due to the one-off effect of GST in the second quarter of 2015. Consumption spending continues to be supported by stable income growth, manageable inflation and lower fuel prices. In addition, the continuation and increase in *Bantuan Rakyat 1Malaysia* (BRIM) to targeted households and individuals as well as cash assistance to public servants during the Eid celebration, helped to boost consumer spending. The resilience in private consumption was reflected in major consumption indicators such as import of consumption

TABLE 3.12

Committed Investments in Five Economic Growth Corridors (End-June 2015)

Corridor	RM billion	Major Projects in Progress
Iskandar Malaysia	172.5	• Forest City • Sunway Iskandar • Jade Palace • Nusajaya Downtown • Mid Valley Southkey Megamall • Tebrau Bay Waterfront City • Danga Bay Waterfront
Sabah Development Corridor (SDC)	149.2	• Sipitang Oil and Gas Industrial Park (SOGIP) • Sandakan City Centre (SCC) • Sabah Agro-Industrial Precinct (SAIP) • KK Waterfront Development • International Technology Convention Centre (ITCC)
East Coast Economic Region Corridor (ECER)	78.0	• Genting Tourism Integrated Project • Aromatic Chemical Manufacturing Plant • Integrated Cement Plant • Kuantan Port Expansion
Northern Corridor Economic Region (NCER)	66.9	• Solar Module Manufacturing Company • Development of Integrated Waterfront City • Designer Village • Medical and Industrial Examination Glove Manufacturing Company
Sarawak Corridor of Renewable Energy (SCORE)	30.6	• Petro-chemical Plant • Aluminum Smelting Manufacturing Plant • Polysilicon Plant • Halal Park

Source: Respective regional economic growth corridors.

Info Box 2

East Coast Economic Region (ECER) Development – An update

- The East Coast Economic Region (ECER) covers Kelantan, Terengganu, Pahang and the district of Mersing, Johor.
- Since its inception in 2007, ECER has attracted RM78 billion in investments, representing 71% of the RM110 billion target by 2020. In addition, 76,120 jobs were created.
- The bulk of investments are in manufacturing, accounting for 57% of the total, followed by tourism (17%) and bioeconomy (7%).
- In terms of distribution of private investment and employment, Pahang received the lion's share with RM39.5 billion investment and created 36,636 jobs, followed by Terengganu (RM25.1 billion; 24,087 jobs), Kelantan (RM11.8 billion; 13,687 jobs) and the North-East Johor (RM1.61 billion; 1,710 jobs).
- Seven nodes have been identified to promote urban-rural integration and ensure balanced economic development, as follows:

TABLE 1

Investment in ECER by Growth Nodes

	Nodes	Investment[1] (RM billion)	Projects
1	Special Economic Zone (ECER SEZ)	37.5	• Kuantan Port expansion • Malaysia-China Kuantan Industrial Park • Kuantan Integrated Biopark • Kertih Biopolymer Park • Pekan Automotive Park
2	Cross-Border Development	5.1	• Pasir Mas Halal Park • Pengkalan Kubor Collection, Processing & Packaging Centre • Tok Bali Fisheries Park • Kota Bharu City Centre • Jeli-Bukit Bunga Conurbation
3	KTCC – Kenyir – Dungun	5.1	• Kuala Terengganu City Centre Development • Dungun Coastal Tourism Development • Pasir Raja Herbal Park • Kuala Berang Sheep Breeding Centre • Telaga Papan Goat Multiplier Farm
4	Mersing – Rompin	2.7	• Rompin Integrated Pineapple Plantation • Cattle Research and Innovation Centre in Muadzam Shah • Endau-Rompin State Park • Island Tourism off the Coast of Mersing, Johor
5	Gua Musang – Kuala Lipis	6.3	• Lojing Highlands Integrated Park Management • Lanchang – Kuala Lipis – Gua Musang – Kuala Krai Ecotourism • South Kelantan Agropolitan Project
6	Bentong – Raub	5.8	• Genting Highlands Theme Park • Bukit Tinggi Resort and Janda Baik
7	DARA – Jengka	0.6	• Promoting sustainable development • Enhancing public transportation • Developing a progressive community

[1] Excludes MIDA's investment (RM14.1 billion) and investment outside node areas (RM0.8 billion).

- ECER also implements programmes to empower the Bumiputera community. As of June 2015, a total of 97 Bumiputera companies invested RM12.2 billion and are expected to create 14,491 jobs. These companies also received ECER incentives.
- Bumiputera companies also play a key role in the manufacturing cluster with TERAJU companies accounting for 30% from the total of RM1.1 billion investment.

Source: East Coast Economic Region.

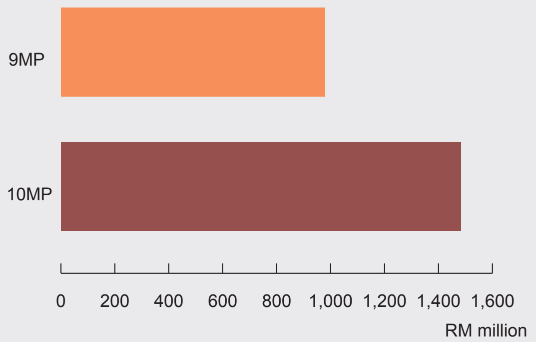
Info Box 3

Latest Developments in Sarawak Corridor of Renewable Energy (SCORE)

- The Sarawak Corridor of Renewable Energy (SCORE) marks its eighth year of implementation in 2015 and continues to show promising signs of growth.
- Total investment planned in SCORE amounted to RM334 billion, of which 80% is expected to come from the private sector and the remaining from the public sector.
- Regional Corridor Development Authority (RECODA), as the lead agency in implementing the SCORE initiative, focuses on coordinating and accelerating the speed of development.
- To date, SCORE has received private investments worth RM30.6 billion and created over 16,044 jobs.

CHART 1

Allocation to SCORE



Source: Economic Planning Unit, Malaysia.

TABLE 1

Summary of Direct Investment by Growth Nodes

	Number of Projects	FDI (RM billion)	Number of Jobs
Samalaju	15	25.0	13,052
Mukah	1	0.6	800
Tanjung Manis	2	2.1	1,692
Kidurong	1	2.6	500
Total	**19**	**30.3**	**16,044**

Source: Sarawak Corridor of Renewable Energy.

TABLE 2

List of Projects under Samalaju, Mukah and Tanjung Manis Growth Nodes

Samalaju Growth Node

Foreign Investment
- ✓ 15 projects – among others, Tokuyama, Sakura Ferroalloys, Pertama Ferroalloys OM Materials, Press Metal, Iwatani-SIG Industrial Gases

Domestic Direct Investment
- ✓ Integrated Waste Management System
- ✓ Samalaju Port
- ✓ Samalaju Eco-Park, Samalaju Township, Samalaju Service Centre, Samalaju Beachfront and Samalaju Light Industrial Park

Public Investment
- ✓ Roads linking industrial park with Tanjung Kidurong
- ✓ Telecommunication services – installation of fibre optic lines
- ✓ Water treatment plant

Other Projects
- ✓ Pan-Borneo Highway
- ✓ Palm oil refineries plant
- ✓ Huchems Fine Chemical Corp in Tanjung Kidurong Industrial Area
- ✓ Bintulu Port activities
- ✓ Upgrading works in the O&G sector in the Kidurong area

Mukah Growth Node

Domestic Direct Investment
- ✓ Press Metal
- ✓ Mukah and Balingian coal-fired plant

Public Investment
- ✓ Mukah Airport
- ✓ Mukah Regional Water Supply
- ✓ Mukah Polytechnic, UiTM Mukah, Kolej Laila Taib, UNIMAS R&D and Sarawak Skills Development Centre

Tanjung Manis Growth Node

Foreign Direct Investment
- ✓ Sea Party Technology Sdn Bhd

Domestic Direct Investment
- ✓ Shipbuilding
- ✓ Central Oil Distribution Terminal (CODT)
- ✓ Palm Oil Industrial Cluster
- ✓ Agro-based business
- ✓ Fieldmart Sdn Bhd

Public Investment
- ✓ Sibu to Tanjung Manis Water Supply Projects
- ✓ Tanjung Manis Halal Hub Access Road Projects

Baram, Tunoh and Rural Area of SCORE Growth Node

Domestic Direct Investment
- ✓ Bakun and Murum Hydroelectric Dams

Public Investment
- ✓ Long Lama, Baram and Murum Access Road Projects

Source: Sarawak Corridor of Renewable Energy.

goods and disbursement for consumption credit which grew by 16.4% and 2.9%, respectively, during the first eight months of 2015. ***Public consumption*** is expected to record a moderate growth of 3.6% (2014: 4.4%). This is in line with continuous efforts to rationalise and optimise Goverment expenditure without compromising the quality of service delivery.

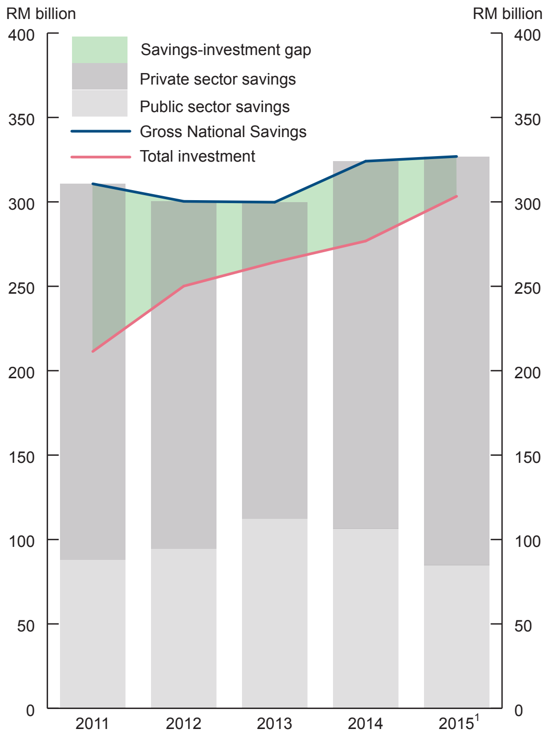
National Resource Position

Narrowing current account surplus

National income in current prices is expected to pose a moderate growth of 5.5% (2014: 8.6%). **Gross National Saving (GNS)** is anticipated to grow by 0.9% (2014: 8.1%). The bulk of GNS is expected to be contributed by private sector saving, accounting for 79.6% of total savings and contributing 23.1% to GNI. Private sector saving is anticipated to increase by 11.5% to RM260.5 billion while public sector saving is expected to decrease by 26.4% to RM66.6 billion. Since 2010, gross fixed capital formation has been on the rise following the acceleration in private investment. The higher investment activity amid lower national savings has resulted in narrowing of the **savings-investment gap** to RM23.4 billion or in the range of 1.5% – 2.5% of GNI (2014: RM47.3 billion; 4.4%).

CHART 3.8

Gross National Savings and Savings-Investment Gap



[1] Estimate.
Source: Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.13

Savings-Investment Gap 2014 – 2016
(at current prices)

		RM million	
	2014	**2015[2]**	**2016[3]**
Public sector			
Savings	90,465	66,588	83,401
Gross capital formation[1]	103,596	107,407	112,199
Surplus/Deficit	**-13,131**	**-40,819**	**-28,798**
Private sector			
Savings	233,653	260,519	259,202
Gross capital formation[1]	173,204	196,322	219,115
Surplus/Deficit	**60,449**	**64,198**	**40,087**
Overall			
Gross national savings	324,118	327,107	342,603
% of GNI	*30.3*	*29.0*	*28.4*
Gross capital formation[1]	276,800	303,729	331,314
% of GNI	*25.9*	*26.9*	*27.5*
Surplus/Deficit	**47,317**	**23,379**	**11,289**
% of GNI	*4.4*	*1.5 – 2.5*	*0.5 – 1.5*

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

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

External Sector

Malaysia's external position is expected to remain resilient in 2015 despite challenges to growth and heightened volatility in financial markets. Supported by continued expansion in domestic and regional economic activity as well as steady demand for manufactured goods, the current account is expected to remain in surplus, though smaller. Meanwhile, sound macroeconomic fundamentals; sufficient international reserves; well-developed capital markets; and a broad pool of domestic institutional investors will provide ample buffer against volatility in financial flows.

Trade Performance

Lower trade surplus

In the first eight months of 2015, total trade contracted by 1.7% to RM941.9 billion (January – August 2014: 7.8%; RM957.8 billion) due to tepid global demand, slower growth in China, weak commodity prices, and a softer ringgit. Although gross exports and imports contracted by 1.4% and 2%, respectively, the trade surplus rose to RM54.2 billion (January – August 2014: 9.5%; 6.1%; RM52.2 billion) due to a smaller contraction in export growth. Receipts from agriculture and mining exports fell while exports of manufactured goods rose modestly. Hence, the share of manufactured goods, now accounts for about 80% of overall exports. Meanwhile, the decline in import growth was due to a contraction in intermediate and capital goods. Given the

TABLE 3.14

External Trade 2014 – 2016

	RM million			% Change		
	2014	2015[1]	2016[2]	2014	2015[1]	2016[2]
Total trade	**1,448,354**	**1,435,050**	**1,467,656**	***5.8***	***-0.9***	***2.3***
Gross exports	**765,417**	**760,154**	**770,426**	***6.3***	***-0.7***	***1.4***
of which:						
Manufactured	587,175	607,363	619,423	*7.1*	*3.4*	*2.0*
Agriculture	69,175	63,853	67,027	*0.5*	*-7.7*	*5.0*
Mining	104,051	79,056	75,502	*6.2*	*-24.0*	*-4.5*
Gross imports	**682,937**	**674,896**	**697,230**	***5.3***	***-1.2***	***3.3***
of which:						
Capital goods	95,882	93,811	99,076	*-2.4*	*-2.2*	*5.6*
Intermediate goods	408,181	401,563	415,549	*7.6*	*-1.6*	*3.5*
Consumption goods	50,309	58,041	57,173	*5.7*	*15.4*	*-1.5*
Trade balance	**82,480**	**85,258**	**73,197**	***15.7***	***3.4***	***-14.1***

[1] Estimate.
[2] Forecast.

Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

uneven growth prospects for key trading partners, coupled with prolonged weakness anticipated in commodity prices, **gross exports and imports** in 2015 are expected to decline by 0.7% and 1.2%, respectively (2014: 6.3%; 5.3%). Nevertheless, the trade surplus is expected to be higher at RM85.3 billion or 7.3% of GDP (2014: RM82.5 billion; 7.5%) due to a smaller contraction in export receipts.

Exports of Manufactured Goods

E&E provides support

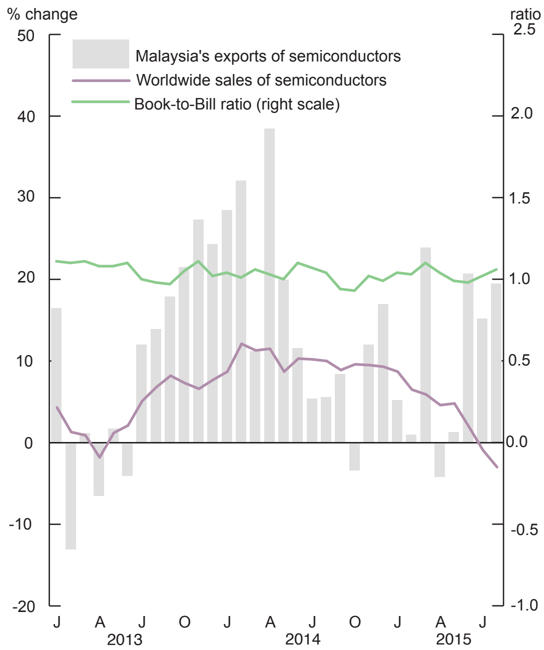
Exports of manufactured goods decelerated by 3% (January – August 2014: 10%), in part, due to the high base effect during the corresponding period last year. Although, a weak ringgit should have bolstered exports, the gains were, however, muted by weak external demand coupled with the depreciation in regional currencies during the period. During the first eight months of the year, the slower expansion in E&E exports and weaker earnings from the non-E&E segment weighed down the overall exports of manufactured goods.

E&E exports grew by 7.4% (January – August 2014: 9.6%) mainly driven by steady demand from the US, Singapore and China as well as the EU, particularly the Netherlands and Germany. Although global sales have moderated, demand for semiconductors remains strong. This was reflected in the book-to-bill ratio which has been, on average, above 1 for the past eight months. Exports of semiconductor devices grew by 10.3% during the period (January – August 2014: 17.9%). Within the segment, demand for electronic integrated circuits (9.9%) and photosensitive semiconductor devices (25.5%) remained robust (January – August 2014: 21.3%; 10.7%). Meanwhile, exports of telecommunication equipment and parts contracted by 1.4% (January – August 2014: 29.3%) in tandem with the worldwide slowdown in the sales of smartphones.

Export earnings of ***non-E&E*** remained flat at RM220.5 billion weighed down by sluggish demand for petroleum products while modest growth was generally registered

CHART 3.9

Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and Book-to-Bill Ratio



Source: Department of Statistics, Malaysia, Semiconductor Industry Association, and Semiconductor Equipment and Materials International.

TABLE 3.15

Gross Exports
January – August

	RM million		% Change		% Share	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Manufactured	386,379	398,122	*10.0*	*3.0*	*76.5*	*79.9*
Agriculture	45,675	43,294	*3.1*	*-5.2*	*9.0*	*8.7*
Mining	69,371	53,637	*11.5*	*-22.7*	*13.7*	*10.8*
Others	3,553	3,025	*0.6*	*-14.9*	*0.7*	*0.6*
Total	**504,977**	**498,078**	***9.5***	***-1.4***	***100.0***	***100.0***

Note: Total may not add up due to rounding.

Source: Malaysia External Trade Development Corporation and Department of Statistics, Malaysia.

across all other major subsectors. Lower crude oil prices, coupled with weak demand from major markets, namely Singapore, Indonesia and Australia led to a 27.4% contraction in the exports of *petroleum products* (January – August 2014: 15.3%). Of significance, the demand for refined petroleum products as well as petroleum gases and other gaseous hydrocarbons decelerated to 36.6% and 37.8%, respectively.

Receipts from *chemicals and chemical products* continued to grow, albeit at a slower pace of 5.7% (January – August 2014: 7.6%), mainly due to a slack in the demand for organic chemical products (-3.5%) as major markets, namely India, China and the US reduced their imports. However, the overall growth in the subsector was supported by higher exports of plastics in primary form (12.2%), particularly to China, Indonesia and Viet Nam. Meanwhile, receipts from *plastic products* grew by 4% (January – August 2014: 14.3%) contributed by plastic plates, sheets, film, foil and strip products; as well as finished plastic products, particularly containers.

Exports of *machinery, appliances and parts* continued to post double-digit growth of 14.3% (January – August 2014: 15.6%) driven largely by specialised machinery for specific industries, particularly for civil engineering as well as the manufacture of semiconductors and parts. In addition, higher demand also emanated from general industrial machinery and equipment, particularly heating and cooling equipment as well as pumps, compressors, fans and parts. Key export destinations for machinery, appliances and parts were Singapore, Thailand, the US, China and Viet Nam.

Boosted by robust demand for non-ferrous metals, in particular, aluminium (9.5%) and nickel (148.3%), export receipts from *manufactures of metal* rebounded by 15.6% (January – August 2014: -0.7%). Likewise, exports of other manufactures of metals grew by 14.6%, led by the segment of metal structures. Meanwhile, exports of *non-metallic mineral product*s grew by 4.4% (January – August 2014: 7.4%), supported by higher receipts from glass and glassware as well as mineral manufactures such as ceramics and manufactures of asbestos. In contrast, receipts from *iron and steel products* contracted sharply by 3.6% (January – August 2014: 25.6%), due to lower demand mainly for tubes, pipes and hollow profiles.

Export earnings of *processed food* grew by 3.8% (January – August 2014: 17.8%) mainly supported by higher demand for dairy products (18.9%); prepared cereals and flour preparations (16.6%); and prepared vegetables and fruits (27.9%). The main export markets for processed food were Singapore, China and Thailand. Meanwhile, exports of *optical and scientific equipment* moderated by 2.8% (January – August 2014: 18.7%). Growth in the subsector was contributed by sustained demand for professional scientific equipment, in particular, measuring and controlling instruments and apparatus. Key markets for the subsector included the US, Singapore and Japan.

Amid lower commodity prices, export earnings from *rubber products* rebounded strongly by 8.7% (January – August 2014: -5.9%) driven by a resurgent demand mainly for rubber gloves (20.5%) and new pneumatic tyres (8.2%), predominantly from the US, Japan and China. Exporters of rubber products continue to benefit from the strong US dollar; lower input costs which are mainly denominated in ringgit; and steady demand for rubber and nitrile gloves. During the first eight months of 2015, export earnings of *wood products* remained high at RM9.8 billion supported by strong demand for wooden furniture (9.2%), particularly for homes and office. Key destinations for wooden furniture included the US, Japan and Australia. Meanwhile, demand for veneer and plywood, contracted by 7.4% following lower demand mainly from Japan.

Exports of *textile, clothings and footwear* grew at a slower pace of 6.8% (January – August 2014: 15.2%) mainly due to a contraction in the exports of the textile segment, particularly textile yarns and woven fabrics. Meanwhile, exports of *transport equipment* grew by 5.7% (January – August 2014: 11.7%) mainly due to slower expansion in the road vehicles segment. However, growth in the subsector was driven by stronger receipts from aircraft and associated equipment and parts, which rose by 35.6%. Demand emanated mainly from the US, UK and Singapore.

TABLE 3.16

Exports of Manufactured Goods January – August

	RM million		% Change		% Share	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
E&E	**165,492**	**177,665**	***9.6***	***7.4***	***42.8***	***44.6***
Non-E&E	**220,886**	**220,457**	***10.4***	***-0.2***	***57.2***	***55.4***
Petroleum products	48,178	34,999	*15.3*	*-27.4*	*12.5*	*8.8*
Chemicals and chemical products	33,838	35,750	*7.6*	*5.7*	*8.8*	*9.0*
Machinery, appliances and parts	20,146	23,032	*15.6*	*14.3*	*5.2*	*5.8*
Manufactures of metal	17,521	20,257	*-0.7*	*15.6*	*4.5*	*5.1*
Optical and scientific equipment	15,849	16,291	*18.7*	*2.8*	*4.1*	*4.1*
Rubber products	11,868	12,903	*-5.9*	*8.7*	*3.1*	*3.2*
Processed food	10,845	11,255	*17.8*	*3.8*	*2.8*	*2.8*
Wood products	9,683	9,770	*4.8*	*0.9*	*2.5*	*2.5*
Textiles, clothings and footwear	8,070	8,622	*15.2*	*6.8*	*2.1*	*2.2*
Manufactures of plastics	7,855	8,169	*14.3*	*4.0*	*2.0*	*2.1*
Transport equipment	7,160	7,565	*11.7*	*5.7*	*1.9*	*1.9*
Iron and steel products	6,698	6,456	*25.6*	*-3.6*	*1.7*	*1.6*
Jewellery	4,518	5,105	*-15.1*	*13.0*	*1.2*	*1.3*
Non-metallic mineral products	3,780	3,946	*7.4*	*4.4*	*1.0*	*1.0*
Beverage and tobacco	2,646	2,864	*7.8*	*8.2*	*0.7*	*0.7*
Paper and pulp products	2,472	2,619	*4.8*	*5.9*	*0.6*	*0.7*
Other manufactured goods	9,761	10,854	*20.0*	*11.2*	*2.5*	*2.7*
Total	**386,379**	**398,122**	***10.0***	***3.0***	***100.0***	***100.0***

Note: Total may not add up due to rounding.
Source: Malaysia External Trade Development Corporation and Department of Statistics, Malaysia.

Exports of Commodities

Weaker demand, excess supply

Export earnings of commodities plummeted by 15.7% during the first eight months of the year (January – August 2014: 8%). Commodities are a major contributor to the current account surplus in the balance of payments (BOP), apart from E&E and tourism. Receipts from agriculture goods fell by 5.2% (January – August 2014: 3.1%) led by a contraction in rubber and palm oil exports. Likewise, weak global demand and excess supply of crude petroleum and LNG saw mining exports plunge by 22.7% (January – August 2014: 11.5%).

Despite a marginal increase in export volume at 10.8 million tonnes during the period, export receipts from ***palm oil*** decreased by 8.3% to RM25.8 billion (January – August 2014: -0.6%; RM28.2 billion). This was mainly due to a 11.4% drop in the average unit value (AUV) to RM2,396 per tonne (January – August 2014: 9.9%; RM2,705 per tonne). Although demand from the major traditional markets, China (-16%), the US (-20.7%), Pakistan (-21.8%) and the Netherlands (-5.6%) fell, the slack was offset by a higher uptake from India (12.5%) the world's largest importer of CPO. Going forward, the price of CPO is expected to improve due to supply constraints related to the prevailing El-Nino weather phenomenon; bio-diesel mandate promoted by Malaysia (B7) and Indonesia (B15); and protracted haze. The recent move by the Indonesian Government to encourage more downstream value-added activity through an imposition of an export levy may also curb supply.

Export receipts of ***rubber*** fell by 17.5% (January – August 2014: -26.6%) as prices continued to tumble and export volume contracted. The AUV of rubber contracted by 16.5% to RM5.64 per kg while export volume declined by 1.3% during the first eight months of 2015 (January – August 2014: -21.6%; RM6.75 per kg; -6.4%). Shipments to China, the largest export destination with a share of 49%, shrank by 10.5%. Exports to other major markets such as Germany and the US also declined.

LNG export price tracks crude oil prices with a lag of a few months. The benchmark reference for Asian LNG price is the Japan Crude Cocktail (JCC) which is the average price of customs-cleared crude oil imports into Japan. The AUV of LNG fell sharply by 26.4% to average RM1,895 per tonne despite a slight increase in export volume during the first eight months of the year (January – August 2014: 9.8%; RM2,576 per tonne). Shipments to principal export destinations, namely Japan (-26.7%), ROK (-19.9%) and Taiwan (-40.7%) fell, reducing export earnings by 25.8%. However, exports to China grew by 8%. Over the medium term, LNG prices are anticipated to come under pressure as Japan restarts its nuclear power plants and regional supply increases mainly from

TABLE 3.17

Commodity Exports January – August

	2014	2015	% Change 2014	% Change 2015
Commodity exports (RM million)	**115,046**	**96,931**	***8.0***	***-15.7***
Agriculture exports (RM million)	**45,675**	**43,294**	***3.1***	***-5.2***
Palm oil[1]				
Volume ('000 tonnes)	10,414	10,787	*-9.6*	*3.6*
Unit value (RM/tonne)	2,705	2,396	*9.9*	*-11.4*
Value (RM million)	28,174	25,843	*-0.6*	*-8.3*
Palm kernel oil				
Volume ('000 tonnes)	634	662	*-16.3*	*4.5*
Unit value (RM/tonne)	4,134	3,826	*49.0*	*-7.5*
Value (RM million)	2,620	2,534	*24.8*	*-3.3*
Saw logs				
Volume ('000 cubic metres)	2,101	2,102	*4.5*	*0.0*
Unit value (RM/cubic metres)	651	647	*11.3*	*-0.7*
Value (RM million)	1,368	1,360	*16.3*	*-0.6*
Sawn timber				
Volume ('000 cubic metres)	1,262	1,314	*-3.6*	*4.2*
Unit value (RM/cubic metres)	1,358	1,515	*8.5*	*11.6*
Value (RM million)	1,714	1,992	*4.6*	*16.2*
Rubber				
Volume ('000 tonnes)	497	490	*-6.4*	*-1.3*
Unit value (RM/tonne)	6,748	5,636	*-21.6*	*-16.5*
Value (RM million)	3,352	2,764	*-26.6*	*-17.5*
Pepper				
Volume ('000 tonnes)	9	10	*32.0*	*3.4*
Unit value (RM/tonne)	27,960	34,936	*25.9*	*24.9*
Value (RM million)	261	337	*66.1*	*29.2*
Cocoa				
Volume ('000 tonnes)	65	47	*158.1*	*-28.6*
Unit value (RM/tonne)	7,871	9,950	*-0.9*	*26.4*
Value (RM million)	654	531	*225.8*	*-18.8*
Mining exports (RM million)	**69,371**	**53,637**	***11.5***	***-22.7***
Crude petroleum				
Volume ('000 tonnes)	8,018	9,643	*6.9*	*20.3*
Unit value (RM/tonne)	2,765	1,692	*5.9*	*-38.8*
Value (RM million)	22,175	16,314	*13.2*	*-26.4*
Liquefied natural gas				
Volume ('000 tonnes)	16,376	16,523	*0.2*	*0.9*
Unit value (RM/tonne)	2,576	1,895	*9.8*	*-26.4*
Value (RM million)	42,184	31,305	*10.1*	*-25.8*
Tin				
Volume ('000 tonnes)	22	29	*-1.5*	*30.0*
Unit value (RM/tonne)	73,697	60,262	*8.1*	*-18.2*
Value (RM million)	1,625	1,727	*6.4*	*6.3*

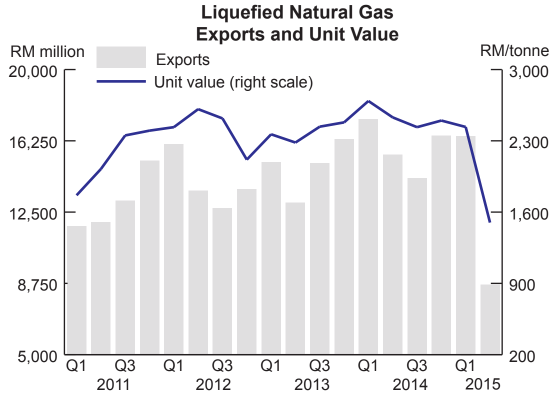
[1] Includes crude palm oil, processed palm oil and stearin.

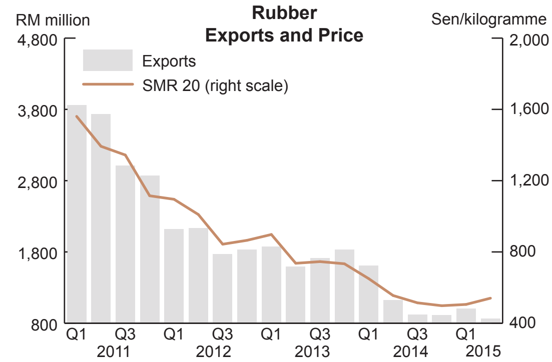
Note: Total may not add up due to rounding.

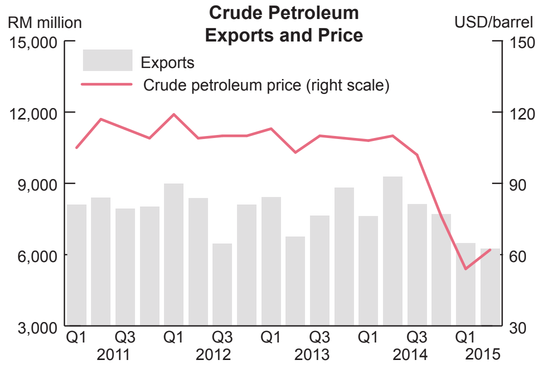
Source: Malaysia External Trade Development Corporation and Department of Statistics, Malaysia.

CHART 3.10

Major Commodity Exports







Source: Bloomberg, Department of Statistics, Malaysia, Malaysian Palm Oil Board and Malaysian Rubber Board.

Australia. Of Japan's 43 nuclear reactors, one nuclear plant (Sendai 1) became operational in September while Sendai 2 is targeted to resume commercial operations by November 2015.

Although export volume of ***crude petroleum*** rose by 20.3%, receipts declined by 26.4% during the first eight months of 2015 (January – August 2014: 6.9%; 13.2%) as crude oil prices remained low. The AUV of crude petroleum contracted by 38.8% to average RM1,692 per tonne (January – August 2014: 5.9%; RM2,765 per tonne) reflecting weak demand from key trading partners such as Australia, India and Japan. Nevertheless, regional demand from ASEAN, particularly from Thailand (97.8%) and Singapore (9%) continued to remain positive.

Import Performance

Strong growth in consumption goods

Gross imports fell by 2% to RM443.8 billion (January – August 2014: 6.1%; RM452.8 billion) due to lower demand for intermediate and capital goods, coupled with a decline in re-export activity during the first eight months of 2015. However, imports of consumption goods rose by 16.4%, in part, due to front loading of purchases prior to the implementation of the GST in April 2015.

In tandem with continued expansion in the manufacturing and services sectors, imports of ***intermediate goods*** amounted to RM262.4 billion (January – August 2014: RM267.5 billion). The component was supported by higher imports of parts and accessories of capital and transport goods (6.3%) as well as food and beverage (7.7%). Meanwhile, imports of industrial supplies were sustained at RM111.4 billion in line with continued expansion, particularly in export-oriented industries such as E&E; chemicals and chemical products; as well as machinery, appliances and parts. Driven mainly by lower crude oil prices, imports of fuel and lubricants plummeted by 26.2% during the period.

Meanwhile, imports of ***capital goods***, accounting for 13.9% of total imports, contracted by 3.3%, dragged down by a double-digit decline in imports of industrial transport equipment at 40.4%. Weaker demand for lumpy items such as aircraft, motor vehicles and cruise ships during the period contributed to the decline. However, imports of other key capital goods grew by 4.8% spurred by demand for items such as telephone sets; automatic data processing machines; as well as electrical transformers, static converters and inductors.

During the first eight months of the year, imports of ***consumption goods*** posted a robust growth of 16.4% (January – August 2014: 7.7%) indicating resilient private

TABLE 3.18

Gross Imports by End Use
January – August

	RM million		% Change		% Share	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Capital goods	**63,796**	**61,669**	***-0.9***	***-3.3***	***14.1***	***13.9***
Capital goods (except transport equipment)	52,302	54,823	*0.3*	*4.8*	*11.6*	*12.4*
Transport equipment (industrial)	11,494	6,846	*-6.4*	*-40.4*	*2.5*	*1.5*
Intermediate goods	**267,463**	**262,381**	***5.4***	***-1.9***	***59.1***	***59.1***
Food and beverage, primary and processed, mainly for industry	11,733	12,641	*3.5*	*7.7*	*2.6*	*2.8*
Fuel and lubricants, primary processed and others	39,762	29,354	*21.5*	*-26.2*	*8.8*	*6.6*
Industrial supplies, n.e.s.[1] primary and processed	113,442	111,393	*0.5*	*-1.8*	*25.1*	*25.1*
Parts and accessories of transport equipment	13,604	15,682	*18.5*	*15.3*	*3.0*	*3.5*
Parts and accessories of capital goods (except thermionic valves and tubes)	19,662	21,334	*-18.3*	*8.5*	*4.3*	*4.8*
Thermionic valves and tubes	69,260	71,975	*13.1*	*3.9*	*15.3*	*16.2*
Consumption goods	**33,366**	**38,823**	***7.7***	***16.4***	***7.4***	***8.7***
Food and beverage, primary and processed, mainly for household consumption	14,316	15,946	*8.4*	*11.4*	*3.2*	*3.6*
Transport equipment (non-industrial)	744	728	*-12.3*	*-2.2*	*0.2*	*0.2*
Other consumer goods	18,306	22,149	*8.2*	*21.0*	*4.0*	*5.0*
Durables	4,894	5,002	*16.9*	*2.2*	*1.1*	*1.1*
Semi-durables	5,158	7,831	*-0.7*	*51.8*	*1.1*	*1.8*
Non-durables	8,253	9,316	*9.5*	*12.9*	*1.8*	*2.1*
Others (including dual-use goods)	**21,058**	**16,643**	***-2.1***	***-21.0***	***4.7***	***3.7***
Imports for re-exports	**67,101**	**64,314**	***19.2***	***-4.2***	***14.8***	***14.5***
Total	**452,784**	**443,831**	***6.1***	***-2.0***	***100.0***	***100.0***

[1] Not elsewhere stated.

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

consumption despite rising cost of living. Pre-GST purchases, festivities and tourist spending boosted import growth during the period. Imports of consumer durables such as medicaments, garments, articles of plastics and orthopaedic appliances rose sharply by 21%. Meanwhile, higher demand for items such as meat, rice as well as bulb vegetables contributed to a strong growth of 11.4% in the food and beverage group.

In tandem with lacklustre global manufacturing activity, imports for ***re-exports*** contracted by 4.2% to RM64.3 billion (January – August 2014: 19.2%; RM67.1 billion) due to markedly lower re-exports of petroleum products, electronic devices and refined copper. Comprising 14.5% of total imports, re-export activity is expected to pick up with the improvement in external demand. For the year, **gross imports** are anticipated to decline by 1.2% to RM674.9 billion (2014: 5.3%; RM682.9 billion), supported by steady expansion in domestic economic activity, and sustained demand from regional and advanced economies.

Direction of Trade

Uneven demand across key trading partners

In line with the slowdown in international trade, coupled with lacklustre regional demand, Malaysia's total trade registered a sharp decline of 1.7% to RM941.9 billion during the first eight months of the year (January – August 2014: 7.8%; RM957.8 billion). Supported by a smaller contraction in export growth, trade surplus rose to RM54.2 billion (January – August 2014: RM52.2 billion).

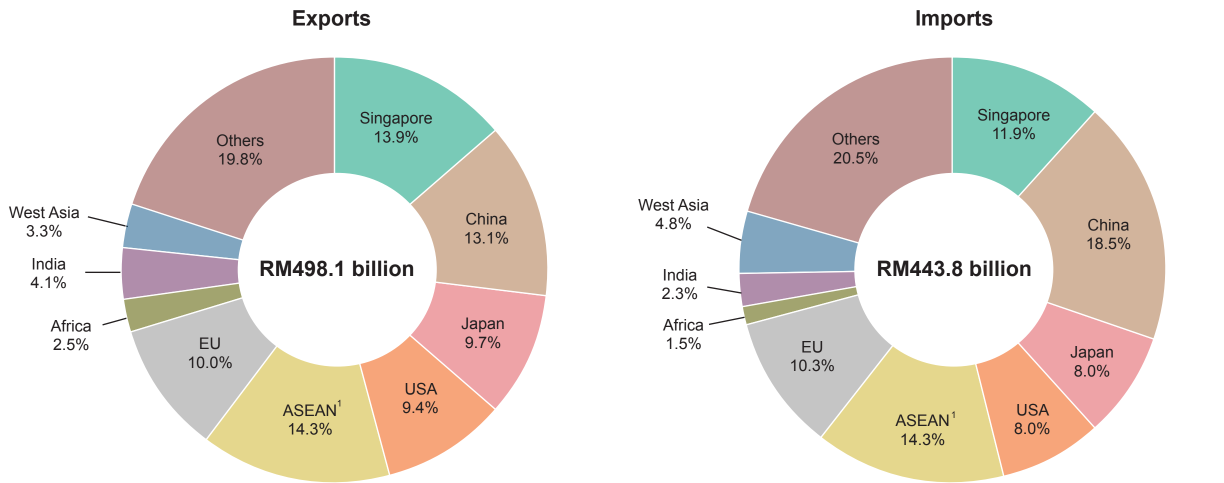
China continues to be Malaysia's largest trading partner since 2009 despite ongoing concerns about the severity of the downturn in its economy. Total trade grew by 9.6%, with exports and imports expanding by 9.3% and 9.8% (January – August 2014: 4.3%; 0.9%; 7.2%), respectively. E&E products; petroleum products; chemicals and chemical products; as well as metalliferous ores and metal scrap were among the main exports to China. While exports of LNG remained strong (8%), demand for palm oil (-16%), rubber (-10.5%) and crude petroleum (-82.2%) continued to shrink. Imports from China were primarily manufactured goods, notably E&E products; machinery, appliances and parts, manufactures of metal, as well as chemicals and chemical products. Although E&E products accounted for about 40% of the total trade between the two countries, they comprise mainly intermediate inputs catering for the final demand in advanced economies such as the US, Japan, Germany and the Netherlands. With imports outpacing exports, the trade balance remains in China's favour.

In sharp contrast, trade with ***Singapore*** dipped significantly by 6.2% (January – August 2014: 8.8%) as exports (-3.7%) and imports (-9.2%) fell in the first eight months of 2015. While exports of petroleum products contracted sharply, demand for E&E remained strong, expanding by 11.5%. The bulk of exports to Singapore were E&E; petroleum products; machinery, appliances and parts; as well as manufactures of metal. Malaysia continues to enjoy a healthy trade surplus with Singapore.

Total trade with ***Japan*** declined by 9.2% to RM83.5 billion (January – August 2014: 3.6%; RM92 billion) with exports and imports contracting by 12.5% and 4.4%,

CHART 3.11

Direction of External Trade
January – August 2015
(% share)



[1] Not including Singapore.
Source: Department of Statistics, Malaysia.

Info Box 4

National Export Council

Introduction

Malaysia is well integrated into the global economy. As such, the external environment continues to have a significant impact on the domestic economy through trade, investment and financial flows. Merchandise trade and services export accounted for about 131% and 12.4%, respectively of GDP in 2014.

Given that exports are a key determinant of economic growth, the Government established the National Export Council (NEC) on 8 December 2014 to accelerate export performance. The focal point for the NEC is Malaysia External Trade Development Corporation (MATRADE).

Role

The NEC, chaired by the Prime Minister, meets four times a year. The role of the NEC includes:

- formulating policies, strategies and action plans to enhance export growth;
- reviewing and streamlining roles and responsibilities of government agencies in the trade ecosystem;
- strengthening cooperation between Government agencies and the private sector to facilitate higher trade activity; and
- ensuring the legal and regulatory framework supports and keeps abreast of developments in trade and commerce.

The NEC complements strategies and action plans outlined in the 11th Malaysia Plan (2016 – 2020) to achieve an export target of RM974.6 billion for goods, and RM195.9 billion for services by 2020 (2014: RM765.4 billion; RM137.3 billion). Efforts will also be stepped up to spur contribution of small and medium enterprises (SMEs) to export growth, from the current 17.8% to 23% by 2020.

National Key Export Areas

Key export areas have been identified based on their potential for high value-add (eg. resource-based industries); low import content or ability to increase local content; and growth potential. The focus areas, which come under the purview of several Ministries, include:

- Electrical and Electronics (E&E)
- Machinery and Equipment (M&E)
- Petrochemicals
- Automotive Parts and Components
- Medical Devices
- Palm Oil
- Agrobusiness
- Medical Tourism
- Tourism
- Construction Services
- Information and Communication Technology (ICT) Services
- Education Services

Working together with associations and main industry players, the relevant Ministries will drive export growth. For instance, the Ministry of Health (MOH) will partner with the Association of Private Hospitals Malaysia (APHM) to strengthen medical tourism, while the Ministry of International Trade and Industry (MITI) will collaborate with Malaysian American Electronics Industry (MAEI) to ensure E&E exports are part of high-end technology.

Strategies

In strengthening export performance, the NEC has identified six strategies towards meeting its goals. They include:

i. Improving the Export Ecosystem

Gaps in the export ecosystem which impede export performance will be addressed. They include improving logistics infrastructure (physical and electronic); minimising regulatory burden to reduce the cost of doing business; simplifying processes and procedures to enhance competitiveness; and matching the right skills and expertise to meet industry demands.

ii. Managing Trade with China

As China transitions to a more sustainable growth model, its demand for commodities has declined noticeably. However, opportunities abound in the services sector and consumption-related activity, given its booming and affluent middle-class. Healthcare services; education and language training; food and beverage; green and organic products; as well as lifestyle products such as quality building materials and interior fittings are some areas which hold promise for Malaysian exporters. Hence, trade with China must factor in the new development agenda, changing business practices and investment models as well as lifestyle choices.

iii. Maximising Opportunities in ASEAN and Greenfield Markets

Trade with ASEAN has remained stable over the years. In 2014, ASEAN accounted for 26.8% of Malaysia's total trade and is targeted to reach 30% by 2020. The ASEAN Economic Community (AEC) 2015, a dynamic region with a population of about 620 million, can be capitalised to further deepen economic integration, promote quality trade and investment as well as access the regional and global supply chain. Areas to address include opening up the services sector, reducing non-tariff barriers and trade facilitation.

Further, the Regional Comprehensive Economic Partnership (RCEP), which is currently under negotiations between ASEAN and six Free Trade Agreement (FTA) partners, namely Australia, China, India, Japan, Republic of Korea (ROK) and New Zealand, will offer immense economic opportunities to promote trade, investment and create well-paying jobs.

iv. Moving Up the Value Chain and Enhancing Downstream Activities

Companies will be encouraged to export more high-value products through investments in new technologies such as smart materials, nano-technology, flexible electronics and 3D integration. Technology acquisition by Malaysian-owned companies, new investments as well as reinvestments from technology leaders will be intensified. Focus will also be given to promoting higher value-added activity in downstream resource-based industries as well as participation in global production networks. Ongoing programmes to identify, develop and nurture local mid-tier companies to become regional and international players will be further enhanced.

v. Internationalisation of Services

Although the services sector is the largest contributor to GDP growth at 53.5% in 2014, export of services continues to lag, with the exception of tourist receipts. Export of services will be further enhanced, focusing on high-value tradable services in areas such as oil and gas (O&G), ICT, creative Industry, maintenance, repair and overhaul (MRO), construction and professional services.

vi. Institutional Changes and Transforming Approaches for Export Promotion

Structural changes will be undertaken in key promotion agencies like MATRADE to build competencies, acquire skills and retain talent. MATRADE's role will be fine-tuned to become a strategic enabler to drive export growth. New approaches will be employed to promote exports such as using market linkers, industry specialists, lobbyists and leveraging the Malaysian diaspora. E-commerce, a proven platform to drive growth exponentially, will be widely used to enhance trade. Meanwhile, the brand Malaysia will be strengthened in a more cohesive and integrated manner as numerous Ministries, agencies, state governments and government-linked companies (GLCs) are involved in trade promotion. In this respect, MITI will play a pivotal role in ensuring greater collaboration across entities to advance the trade agenda at home and abroad.

Conclusion

The renewed focus on exports will foster a strong external sector which will boost the resilience of the domestic economy. Additionally, it will provide jobs, generate foreign exchange, enhance technology utilisation and ultimately improve the well-being of the rakyat. A broad-based economy is also a necessary buffer against shocks to the economy.

Source: Malaysia External Trade Development Corporation, Ministry of Finance, Malaysia.

respectively (January – August 2014: 6.3%; -0.2%). Consequently, the trade surplus was significantly narrower at RM12.9 billion (January – August 2014: RM18.1 billion) mainly on account of lower demand for LNG. In the first eight months of the year, shipments of LNG to Japan, the largest market, plunged 26.7% on account of lower volume and price. However, exports of E&E products, accounting for 24.5% of total exports, grew by 9.2% in line with steady demand for semiconductor devices.

Improved household spending and business fixed investment in ***the US*** economy augured well for Malaysian exports which grew 12.4% in the first eight months of the year, leading to a higher trade surplus of RM11.3 billion (January – August 2014: 8%; RM6.2 billion). Manufactured exports registered a double-digit growth of 14.8% driven by stronger demand for E&E; rubber products; optical and scientific equipment; as well as wood products. With a share of 56.4% of total exports, E&E continues to dominate exports to the US. Of significance, exports of semiconductor devices, comprising about 33% of total E&E exports, grew by 24.6%. Meanwhile, imports from the US remained flat at RM35.4 billion, in part due to the appreciating US dollar. Principal imports included E&E products; chemicals and chemical products; machinery, appliances and parts; as well as transport equipment.

Trade with ***ASEAN (excluding Singapore)***, the most important regional trading partner, has remained stable with a share of 14.3%. During the first eight months of the year, exports and imports grew by 2.7% (RM71 billion) and 6.1% (RM63.4 billion), respectively with the trade balance in Malaysia's favour. Exports to Thailand, mainly driven by strong demand for E&E; crude petroleum, chemicals and chemical products; as well as machinery, appliances and parts, grew by 8.5% to RM28.9 billion, while imports were sustained at RM26.2 billion. Unlike Thailand, Malaysia's trade with Indonesia was in deficit during the same period. Exports fell by 10.7% primarily dragged by lower demand for petroleum products. However, markedly higher imports of palm oil by Malaysia contributed to the trade deficit. Viet Nam continues to have a trade surplus with Malaysia. Exports to Viet Nam posted double-digit growth of 23.9% on account of strong private investment and consumption activities. Major imports included E&E and crude petroleum.

Despite uneven recovery across ***the EU***, trade remained steady at RM95.4 billion with Malaysia continuing to register a trade surplus since January 2014. Germany remains the largest trading partner, followed by the Netherlands, the UK and France. Exports to the EU grew by 4.5%, led by strong demand for E&E products mainly from the Netherlands and Germany. E&E products accounted for 50.3% of total exports to the EU. Growth was also driven by optical and scientific equipment; rubber products; as well as chemicals and chemical products. However, exports of palm oil fell by 3.8% during the same period. Meanwhile, imports from the EU declined by 2.3% mainly due to lower demand for transport equipment as well as machinery, appliances and parts.

Balance of Payments

Current account remains positive

The current account surplus rose to RM17.6 billion or 3.2% of GNI during the first half of 2015 (July – December 2014: RM12.8 billion; 2.3%) despite a challenging external environment. This was attributed to a smaller deficit in the primary income account amid a surplus, albeit smaller, in the goods and services account. Given the continued weakness in external demand, lower commodity prices, and a softer ringgit, Malaysia's **overall BOP** is expected

TABLE 3.19

Current Account of the Balance of Payments (BOP) 2015 – 2016
(RM million)

	2015[1]			2016[2]		
	Receipts	**Payments**	**Net**	**Receipts**	**Payments**	**Net**
Balance on goods and services	**806,165**	**731,063**	**75,102**	**818,816**	**755,095**	**63,721**
Goods	**673,971**	**584,173**	**89,798**	**679,610**	**604,479**	**75,131**
Services	**132,194**	**146,890**	**-14,696**	**139,206**	**150,616**	**-11,410**
Transport	14,823	40,595	-25,772	15,409	41,722	-26,314
Travel	68,721	38,874	29,847	74,875	41,011	33,864
Other services	48,650	67,421	-18,771	48,922	67,882	-18,960
Primary income	**50,076**	**83,252**	**-33,176**	**51,357**	**85,053**	**-33,696**
Compensation of employees	6,070	12,091	-6,021	6,144	12,455	-6,311
Investment income	44,006	71,161	-27,155	45,213	72,598	-27,384
Secondary income	**10,470**	**29,017**	**-18,547**	**10,938**	**29,674**	**-18,736**
Balance on current account	**866,711**	**843,332**	**23,379**	**881,111**	**869,822**	**11,289**
(% of GNI)			***1.5 – 2.5***			***0.5 – 1.5***

[1] Estimate.
[2] Forecast.

Note: Total may not add up due to rounding.
Source: Ministry of Finance, Malaysia.

to moderate in 2015, with the **current account** posting a lower surplus in the range of 1.5% – 2.5% of GNI (2014: 4.4%). The financial account will continue to experience two-way flows despite uncertainties in the global financial markets. This will be supported by steady inflows of FDI and portfolio funds even as Malaysian companies strengthen their foothold abroad to expand their market share and maximise earnings. To shore up the value of the ringgit and ensure the current account continues to post a surplus, the Government has urged these companies to review their investment plans and purchase of assets abroad as well as reinvest their earnings in the domestic economy.

In 2015, the surplus in the ***goods and services account*** is expected to narrow sharply to RM75.1 billion (2014: +RM102.2 billion) in line with uneven growth in major trading partners, a strong US dollar and low commodity prices amid a higher deficit in the services account. The deficit in the ***services account*** is expected to widen to RM14.7 billion mainly on account of a lower surplus in the *travel account* at RM29.8 billion (2014: -RM11.2 billion; +RM33.5 billion). Travel receipts, the largest contributor to earnings in the services account, are expected to decline by 7.1% to RM68.7 billion (2014: 9.2%; RM74 billion). Despite gains from a weak ringgit, the unfortunate airline incidents, natural calamities and security concerns continue to dent tourist arrivals. Nevertheless, the relaxation of visa requirements for Chinese tourists on group tours effective October 2015 till March 2016 is anticipated to support growth of the tourism industry. Meanwhile, outbound travel for business, leisure, education and medical treatment is expected to decline by 4% to RM38.9 billion (2014: 5%; RM40.5 billion) due to cautious consumer sentiment on weaker purchasing power.

Continued reliance on foreign freight services will see the transport account remain in deficit. In 2015, gross payments are expected to decline by 2.7% to RM40.6 billion (2014: 8.1%; RM41.7 billion) in tandem with lower trade activity as the bulk of total outflows comprise freight charges to foreign shippers. Similarly, gross receipts are expected to contract by 5.1% to RM14.8 billion (2014: 6.2%; RM15.6 billion). These include earnings from passenger fares and airport facilities and services such as aircraft parking; cargo handling and port dues; as well as maintenance and repair provided by domestic shipping companies. Consequently, the deficit in the *transport account* is projected at RM25.8 billion (2014: -RM26.1 billion).

Meanwhile, net outflows in the *other services account* are anticipated to remain stable at RM18.8 billion (2014: -RM18.6 billion) driven by continued reliance on imported professional, management consulting, technical and trade-related services. This includes payments for use of intellectual property rights (IPR); construction services; financial intermediation and insurance; telecommunications, computer and information services; as well as research and development (R&D) services.

The primary income account comprises investment income and compensation of employees. In 2015, the ***primary income account*** is expected to register an improved deficit of RM33.2 billion (2014: -RM37.3 billion). This is primarily due to lower repatriation of profits, dividends and interest by foreign investors in Malaysia. Amid a challenging business environment, investment income accruing to foreign investors in Malaysia is expected to decline by 10.5% to RM71.2 billion (2014: 8.7%; RM79.5 billion) due to pressure on profit margins and higher operating costs. Most of the investments are mainly in manufacturing and services, in particular, finance, wholesale and retail trade; as well as O&G. Nevertheless, a portion of the income is expected to be retained for reinvestment as well as long-term business plans. Similarly, repatriation of investment income accruing to Malaysian companies investing abroad, particularly, in the O&G, construction and services sectors is expected to be lower by 6.7% to RM44 billion (2014: 9.2%; RM47.2 billion). Thus, with a significantly lower repatriation of profits by foreign investors, the deficit in the *investment income account* is expected to improve to RM27.2 billion (2014: -RM32.3 billion).

The other component in the primary income account, *compensation of employees*, includes salaries, wages and other benefits earned by Malaysian workers abroad, or paid to non-resident workers in Malaysia. With continued demand for foreign professional skills and technical expertise, net outflows are anticipated to be larger at RM6 billion (2014: -RM5 billion).

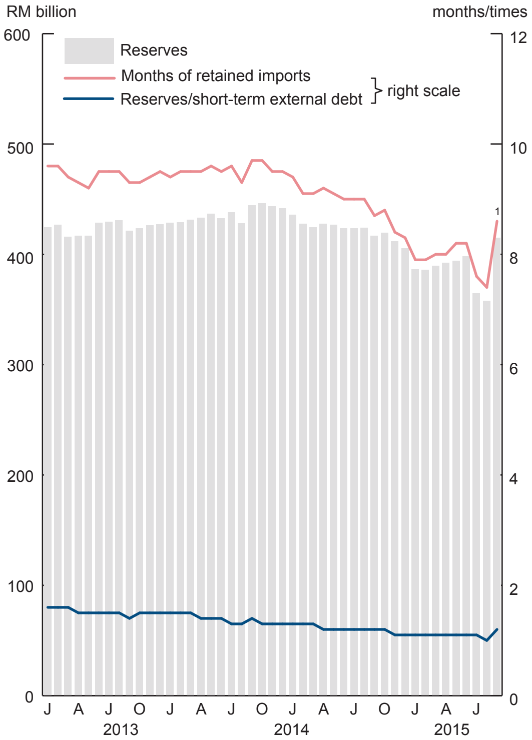
In 2015, gross outflows, primarily remittances by foreign workers in Malaysia, are expected to increase by 4% to RM29 billion (2014: 11.2%; RM27.9 billion) in line with higher requirement for labour in construction, agriculture and manufacturing sectors. Likewise, remittances by Malaysians working abroad are expected to increase, in part due to foreign exchange gains. However, net outflows in the ***secondary income account*** are expected to be larger at RM18.5 billion (2014: -RM17.6 billion) due to higher remittances by foreign workers in Malaysia who are mainly from Indonesia, Nepal, Bangladesh, Myanmar and India. As at end-August 2015, there were 2.2 million registered foreign workers in the country. Moving forward, the Government is to introduce an online single-window system for a more efficient recruitment and management of foreign workers in the country.

As an open economy, Malaysia is vulnerable to developments in the external environment. The timing, pace and magnitude of the US interest rate hike, apprehensions over the depth of Chinese slowdown, and impact of weaker commodity prices on the Malaysian economy are some of the factors influencing market volatility. Despite the uncertainties in the global economy, the **financial account** recorded lower net outflows of RM27.4 billion in the first half of 2015, compared with RM32.4 billion in the second half of 2014. This was mainly due to significantly lower net outflows in portfolio investment amid higher investments abroad by Malaysian companies.

On the assets side, *outward direct investment* registered larger outflows of RM27.6 billion during the first half of 2015 (July – December 2014: -RM16 billion) supported by higher extension of intercompany loans by Malaysian companies to their affiliates mainly for acquisitions in the O&G sector. The steady injection of equity capital

CHART 3.12

International Reserves



[1] As at 30 September 2015.
Source: Bank Negara Malaysia.

to their subsidiaries overseas also contributed to the net outflows. Malaysian companies are expected to continue venturing abroad in areas of their expertise, seeking to leverage opportunities in new and existing markets. This is expected to benefit the Malaysian economy through the repatriation of profits, dividends and interest as well as the acquisition of technical and professional skills. Investments abroad are predominantly in O&G, financial services, plantation agriculture, telecommunications, real estate and manufacturing.

Malaysia remains an attractive investment destination despite challenges in the domestic and external front. *Inward direct investment* recorded larger flows of RM22.4 billion (July – December 2014: RM15.8 billion) in the first six months of the year mainly driven by higher injections of equity capital and reinvestments by MNCs. The main beneficiaries of the FDI were the mining, manufacturing and financial sectors. For the year, steady inflows of FDI are expected, spurred by confidence in the resilience of the real economy and its growth prospects.

Portfolio investment mainly refers to international transactions in equity securities (eg. shares) and debt securities (eg. bonds, sukuk). During the first half of 2015, resident investors continued to acquire portfolio assets abroad, mainly in debt securities. These outflows were, however, mitigated by a significant turnaround in the purchases of debt securities by non-residents as they continued to diversify into domestic financial assets for higher returns. Consequently, *portfolio investment* recorded smaller net outflows of RM19.6 billion (July – December 2014: -RM31.5 billion). Pending greater certainty in interest rate normalisation policy in the US, portfolio flows are expected to remain volatile for the rest of the year.

Other investment recorded net outflows of RM2.1 billion (July – December 2014: -RM0.1 billion). This was due to lower placement of deposits mainly by non-residents into the domestic banking system; lower extension of trade credits by Malaysian exporters; and lower net repayment of external loans by residents. For the year, the other investment account is expected to continue experiencing net outflows.

Malaysia's **international reserves** amounted to RM415.1 billion or USD93.3 billion as at 30 September 2015 (end-December 2014: RM405.3 billion; USD115.9 billion) on account of steady two-way flows as the real economy remained resilient. The reserves level is adequate to finance 8.6 months of retained imports and is 1.2 times the short-term external debt.

Prices

Inflation eases further

The headline inflation rate, as measured by the annual change in the **CPI**, eased to 1.9% in the first eight months of 2015 (January – August 2014: 3.3%). Despite the implementation of GST in April 2015, and a weaker ringgit, inflation was mitigated by lower domestic fuel prices, following the implementation of the managed float pricing mechanism[4] for fuel in December 2014. The weak global crude oil prices have helped to lower pump prices of petroleum products. This, in turn, helped to contain inflationary pressures. In addition, more than 900 items in the CPI basket are zero-rated which helped to cushion the impact of GST.

The three major groups that contributed to the overall increase in the CPI were the ***food and non-alcoholic beverage; housing, water, electricity, gas and other fuels*** and ***alcoholic beverage and tobacco*** groups, which together accounted for 1.88 percentage points to the CPI increase. However, prices in the ***transport*** group declined by 4.1%, which lowered the CPI by 0.63 percentage point. Prices in the ***food and non-alcoholic beverage*** group rose at a slower pace of 3.2% and contributed 1.04 percentage point increase (January – August 2014: 3.6%; 1.14 percentage point), mainly due to a 3% price increase in the **food at home** category. This was partly due to supply disruption arising from the flood in several states during the first quarter compounded by strong demand during the festivities and school holidays as well as the GST implementation in the second quarter. The price index in the ***food and non-alcoholic beverage*** was driven by increases in the *fish and seafood* (3.3%); *milk and eggs* (5.6%) as well as *vegetables* (5.3%) subgroups.

[4] Under the managed float system, the average cost of petroleum products from the previous month will be used as a reference in determining the price for the following month.

TABLE 3.20

Consumer Price Index (CPI)
January – August
(2010 = 100)

		% Change		% Contribution to CPI growth	
	Weights	**2014**	**2015**	**2014**	**2015**
Food and non-alcoholic beverage	30.3	*3.6*	*3.2*	*34.5*	*54.9*
Alcoholic beverage and tobacco	2.2	*13.1*	*11.8*	*8.6*	*15.1*
Clothing and footwear	3.4	*-0.2*	*0.4*	*-0.1*	*0.4*
Housing, water, electricity, gas and other fuels	22.6	*3.4*	*2.3*	*22.6*	*28.9*
Furnishings, household equipment and routine household maintenance	4.1	*1.1*	*2.1*	*1.4*	*4.4*
Health	1.3	*2.6*	*4.3*	*1.0*	*3.1*
Transport	14.9	*5.4*	*-4.1*	*24.1*	*-33.3*
Communication	5.7	*-0.6*	*1.3*	*-1.1*	*3.4*
Recreation services and culture	4.6	*1.7*	*1.3*	*2.4*	*3.1*
Education	1.4	*2.3*	*2.4*	*1.0*	*1.8*
Restaurants and hotels	3.2	*4.7*	*4.0*	*4.7*	*7.2*
Miscellaneous goods and services	6.3	*0.5*	*3.3*	*0.9*	*11.0*
Total	**100.0**	***3.3***	***1.9***	***100.0***	***100.0***

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

Prices in the ***housing, water, electricity, gas and other fuels*** group, the second largest component in the CPI basket, increased at a slower pace of 2.3% (January – August 2014: 3.4%). The increase was driven by higher prices in *maintenance and repair of dwelling* (4.6%) as well as increase in *actual rental paid by tenants* (3.4%). The ***alcoholic beverage and tobacco*** group increased by 11.8% (January – August 2014: 13.1%), following the increase in cigarette prices in April and June 2015.

Following the implementation of the managed float pricing mechanism, prices in the ***transport*** group registered a decline of 4.1% (January – August 2014: 5.4%). This was mainly due to price declines in *fuel and lubricants for personal transport equipment* (-8.5%) as well *as passenger transport by air* (-7.2%). In contrast, prices in the ***clothing and footwear*** as well as ***communication*** groups increased marginally by 0.4% and 1.3%, respectively (January – August 2014: -0.2%; -0.6%) due to the impact of GST.

TABLE 3.21

Producer Price Index (PPI)
January – August
(2010 = 100)[1]

		% Change		% Contribution to PPI growth	
	Weights	**2014**	**2015**	**2014**	**2015**
Domestic economy	**100.0**	**2.9**	**-5.7**	***100.0***	***100.0***
Food	5.7	5.0	1.2	*0.28*	*0.07*
Beverage and tobacco	1.0	3.3	0.2	*0.03*	*0.00*
Crude materials, inedible	6.7	1.9	-6.9	*0.09*	*-0.31*
Mineral fuels, lubricants, etc.	19.9	4.6	-23.5	*0.95*	*-4.92*
Animal and vegetable oils and fats	7.3	12.5	-8.0	*0.45*	*-0.32*
Chemicals	8.2	2.9	-0.8	*0.21*	*-0.01*
Manufactured goods	11.3	0.5	0.2	*0.05*	*0.02*
Machinery and transport equipment	33.9	1.1	2.0	*0.45*	*0.87*
Miscellaneous manufactured articles	5.4	0.7	1.5	*0.04*	*0.08*
Miscellaneous transactions and commodities	0.6	-3.7	5.0	*-0.02*	*0.02*
Local production	**66.4**	**3.8**	**-8.6**	***3.8***	***-8.6***
Imports	**33.6**	**1.4**	**0.3**	***1.4***	***0.3***

[1] Effective January 2015, the PPI base year was revised from 2005 to 2010.

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

The **CPI** for **urban** and **rural areas** increased at a slower pace of 2% and 1.5%, respectively (January – August 2014: 3.4%; 3.1%), mainly contributed by the food and non-alcoholic beverage as well as housing, water, electricity and other fuels groups. On an income basis, the CPI for **income groups** of **less than RM3,000, less than RM1,500** and **less than RM1,000** recorded an increase of 2.1% for each groups (January – August 2014: 3.4%; 3.3%; 3.1%).

The **Producer Price Index (PPI)** a measure of change in the prices of commodities charged by domestic producers and those paid by importers, declined by 5.7% during the first eight months of 2015 compared to an increase of 2.9% during the same period last year. This was mainly due to the price decline in ***local production*** to 8.6%, while prices of ***import*** components increased by 0.3% (January – August 2015: 3.8%; 1.4%). The contraction in the PPI was largely attributed to the price decline in the *mineral fuels, lubricants and others* (-23.5%), *animals and vegetables oils and fats* (-8%) as well as *crude materials, inedible and others* (-6.9%) groups, which contributed to a decrease of 5.55 percentage points to the PPI.

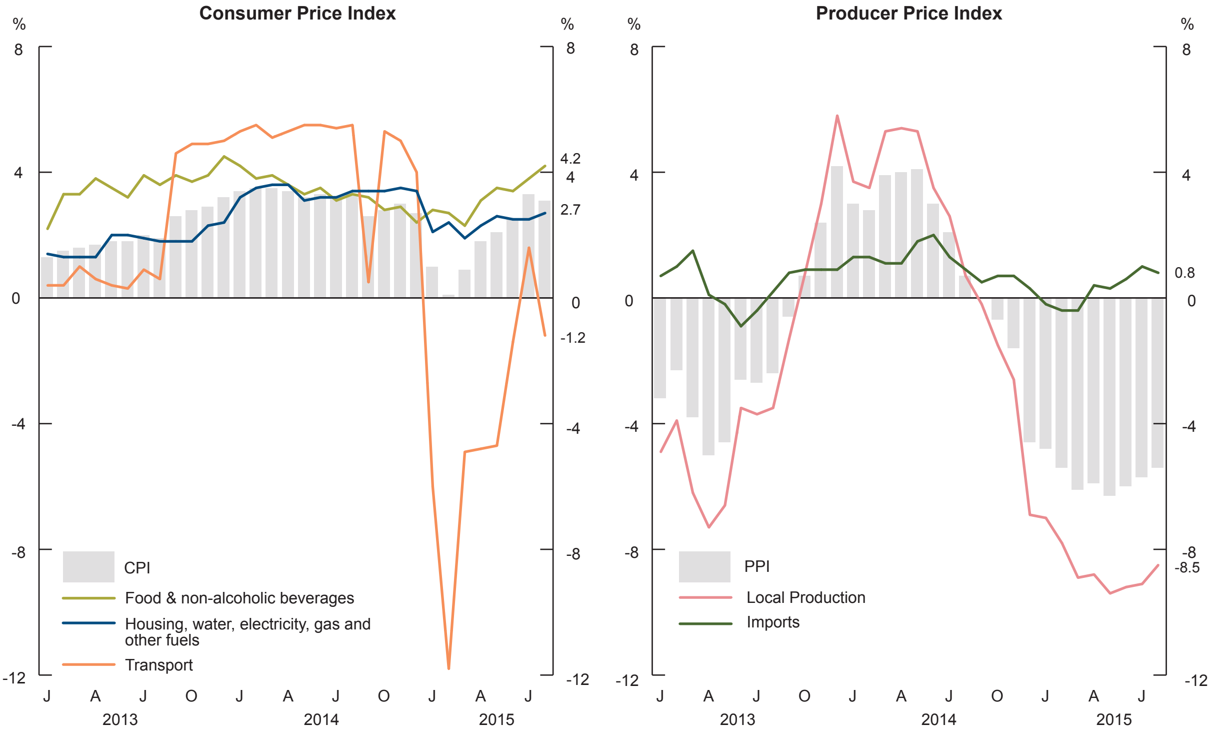
The ***PPI for local production***, which constitutes 66.4% of total PPI, recorded a decline of 8.6% (January – August 2014: 3.8%). This was mainly attributed to the price drop in the *mineral fuels, lubricants and others* group (-25.9%), contributing a decrease of 6.92 percentage points, followed by *crude materials, inedible and others* (-8.8%) with a decrease of 0.5 percentage point. The ***PPI for imports***, which comprises the remaining 33.6% of total PPI, increased marginally by 0.3% (January – August 2014: 1.4%). This was mainly due to the price increase in the *machinery and transport equipment* at 2.2%, contributing 1.33 percentage point to the increase in the index. However, this was weighed down by a price decline in the *mineral fuels, lubricants and others* group by 10.2%, pulling down the index by 0.94 percentage point.

By **stage of processing** category, the decline in PPI for local production was recorded in *crude materials for further processing* at 24.2%, followed by the decline in *intermediate materials, supplies and components* at 6.3%, while *finished goods* increased by 0.9%. Meanwhile, the PPI for imports recorded an increase in *intermediate materials* (1.5%), followed by *finished goods* (0.7%), but was weighed down by the decline in *crude materials for further processing* at 7.6%.

CHART 3.13

CPI and PPI Trends

(% annual change)



Source: Department of Statistics, Malaysia.

Labour Market

Labour market remains favourable

Labour market conditions remained favourable in the first half of 2015 in line with continued expansion in the economy which contributed to the sustained demand for labour. During the period, the ***labour force*** grew by 1.8% to 14.1 million persons (January – June 2014: 3.5%; 13.9 million persons). Total ***employment*** rose 1.7% to 13.7 million (January – June 2014: 3.6%; 13.5 million) with the services sector continuing to provide the largest employment at 8.2 million (59.9%), mainly from the wholesale and retail trade subsector (2.3 million; 16.9%), followed by manufacturing (2.2 million; 15.7%) and agriculture (1.7 million; 12.7%). The increase in total employment was mainly contributed by the age group 25 – 34 in the labour market and a slight growth in the female labour participation rate at 53.8% (January – June 2014: 53.5%). Overall, the economy continued to experience full employment with the ***unemployment rate*** at 3.1% during the first half of 2015 (January – June 2014: 3%). In line with the projected GDP growth in the range of 4.5% to 5.5% in 2015, the labour market is expected to remain favourable with a low unemployment rate of 2.9%. The services sector will remain the main contributor to employment.

TABLE 3.22

Labour Market Indicators January – June

	('000) 2014	('000) 2015	% Change 2014	% Change 2015
Labour force	13,894.0	14,146.5	*3.5*	*1.8*
Employment	13,483.4	13,711.4	*3.6*	*1.7*
Unemployment	410.7	435.1	*(3.0)*	*(3.1)*

Note: Figures in parentheses refer to unemployment rate.
Source: Department of Statistics Malaysia.

The ***working-age population***[5] is expected to increase 1.5% to 20.9 million persons in 2015 (2014: 20.6 million persons), representing 68% of the total population. Due to the increasing number of working-age population, the ***dependency ratio***[6] was sustained at 45.4 in 2015 (2014: 45.7).

In terms of employment opportunity, the total job ***vacancies*** reported by JobsMalaysia were 763,883 during the first eight months of 2015 (January – August 2014: 757,031). The manufacturing sector was the biggest contributor to the total job vacancies at 28.9% or 220,823 jobs, followed by services (27.3%; 208,169), agriculture (24.6%; 187,575) and construction (19%; 145,063). In terms of occupational group, the ***elementary occupations***[7] recorded the highest job vacancies with 518,538 followed by service and sales workers (83,825) and plant and machine operators and assemblers (67,849) (January – August 2014: 534,887; 64,090; 85,207). In addition, 22,694 vacancies were recorded for professionals, 19,687 for managers as well as 10,198 for technicians and associate professionals (January – August 2014: 21,672; 3,007; 13,079).

The number of ***active jobseekers*** declined by 27.2% to 292,550, of which 64,482 (22%) were new registrants during the first eight months of 2015 (January – August 2014: -1.4%; 401,827; 104,779). Of the total active jobseekers, 66.1% were in the 20 – 24 age group, followed by the 25 – 29 age group (15.8%) and the 15 – 19 age group (13%). Most of the registered and active jobseekers were degree holders (103,562; 35.4%), followed by SPM school leavers (76,008; 26%) and diploma holders (72,831; 24.9%). In terms of placement, the manufacturing sector absorbed 15,085 jobseekers, followed by services (9,017), construction (3,337), agriculture (2,180) and mining (149) sectors.

During the same period, the number of ***retrenched workers*** as reported by the Ministry of Human Resources (MOHR) decreased by 10.3% to 13,403 persons during the first eight months of 2015 (January – August 2014: -29.7%; 14,949)[8]. The retrenched workers were mainly plant and machine operators and assemblers as well as technicians and associate professionals totalling 4,720. On a sectoral basis, the services sector registered the highest number of retrenchments, accounting for 50% of total retrenchments followed by the manufacturing sector (44.2%) due to the closure of some businesses and downsizing of workforce by employers.

Labour productivity[9] grew by 3.5% to RM61,708 in 2014 (2013: 0.9%; RM59,622) mainly contributed by higher labour output in export-oriented industries. Productivity in the manufacturing sector increased by 3.8% to RM90,556 (2013: 4.2%; RM87,248) supported by the double-digit growth in basic pharmaceutical products, wood and wood products and E&E subsectors. The construction sector recorded the highest productivity performance at 13.2% to RM26,895 (2013: 3.8%; RM23,755) mainly due to the strong growth in the residential and non-residential subsectors. Productivity in the services sector grew by 2.2% to RM63,897 in 2014 (2013: 2.6%; RM62,492) contributed by the healthcare industry as well as transportation and storage.

The average monthly ***salaries and wages*** received by paid employees based on the 2014 Salaries and Wages Survey Report by the Department of Statistics increased by 8.7% to RM2,231 in 2014 (2013: 7.1%; RM2,052). The mining and quarrying sector recorded the highest average wage of RM4,904, followed by real estate activities (RM3,887) and education (RM3,772). In contrast, the agriculture, forestry and fishing sector recorded the lowest average wage of RM1,138. Meanwhile, the average

[5] Refers to those between 15 and 64 years who are either in or outside the labour force.
[6] Dependency ratio is a measure of the number of dependents (aged 0-14 and 65 years and above) over the total working-age population (aged 15-64 years). Improvement in the dependency ratio is an indicator that highlights Malaysia's demographic dividend – growing number of working-age.
[7] Elementary occupations perform single and routine task which mainly requires the use of handheld tools and in some cases considerable physical effort. Most occupations in this major group require skills at the first level such as cleaners, helpers and labourers.
[8] Revised number by Ministry of Human Resources.
[9] Productivity Report 2014/2015 by the Malaysia Productivity Corporation.

TABLE 3.23

Employment by Industry
January – June

	(‘000)		% Share	
	2014	**2015**	**2014**	**2015**
Agriculture, forestry and fishing	1,676.5	1,691.0	*12.4*	*12.7*
Mining and quarrying	77.7	98.9	*0.6*	*0.7*
Manufacturing	2,207.8	2,174.1	*16.4*	*15.7*
Electricity, gas, steam and air conditioning supply	63.8	52.2	*0.5*	*0.4*
Water supply; sewerage, waste management and remediation activities	81.1	73.4	*0.6*	*0.5*
Construction	1,228.5	1,268.9	*9.1*	*9.3*
Services	8,002.8	8,214.5	*59.4*	*59.9*
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,296.7	2,328.8	*17.0*	*16.9*
Transportation and storage	606.8	627.6	*4.5*	*4.6*
Accommodation and food beverage service activities	1,109.3	1,106.5	*8.2*	*8.0*
Information and communication	208.1	219.5	*1.5*	*1.6*
Financial and insurance/takaful activities	307.5	361.2	*2.3*	*2.6*
Real estate activities	74.7	68.3	*0.6*	*0.5*
Professional, scientific and technical activities	315.2	369.2	*2.3*	*2.7*
Administrative and support service activities	633.8	622.4	*4.7*	*4.6*
Public administration and defence; compulsory social security	756.4	756.5	*5.6*	*5.4*
Education	884.5	913.1	*6.6*	*6.7*
Human health and social work activities	518.5	560.9	*3.8*	*4.0*
Arts, entertainment and recreation	92.7	78.6	*0.7*	*0.6*
Other service activities	198.6	201.9	*1.5*	*1.5*
Activities of households as employers	142.5	137.5	*1.1*	*1.0*
Activities of extraterritorial organisations and bodies	2.9	0.8	*0.0*	*0.0*
Total	**13,483.3**	**13,711.4**	***100.0***	***100.0***

Note: Industry is classified according to the ‘Malaysia Standard Industrial Classification (MSIC) 2008’.
Source: Department of Statistics, Malaysia.

monthly salary of employees with tertiary education was RM3,686, secondary education (RM1,713) and primary education (RM1,182). For the first seven months of 2015, the average salary and wage per employee in the manufacturing sector increased by 4.5% to RM2,897 (January – July 2014: 6.9%; RM2,772). As data on wages is crucial for the labour market, the Government announced the establishment of a National Wage Index (NWI) in the 11MP that will serve as a guide and benchmark for employers in determining the wage level for employees in accordance with their qualifications, skills and productivity. In addition, the implementation of the Minimum Wages Policy has helped to address the distortions in the labour market. At the end of 10MP, a total of 1.9 million wage earners are expected to benefit from the minimum wage policy. The Government is currently reviewing the Minimum Wages Order 2012 to address the issue of low wages and rising cost of living.

The quality of the labour force has improved with the number of tertiary educated labour force increasing to 3.9 million representing 27.8% of the total workforce in the first half of 2015 (January – June 2014: 3.6 million; 26.1%). Efforts to prepare youth for employment and secure job placements will be intensified through special programmes such as *Skim Kemahiran dan Kerjaya 1Malaysia* (SKK1M), National Dual Training System (NDTS)[10] and 1Malaysia Skills Training and Enhancement for the Rakyat (1MASTER). In addition, under the 11MP, the Government will increase the accessibility to higher education and skills training for students from B40[11] households through special programmes. Meanwhile, to increase the number of Technical and Vocational Education and Training (TVET) students, the Government will implement three main strategies, namely strengthening the governance of TVET; enhancing quality and delivery of TVET programmes and rebranding TVET to increase its attractiveness.

As Malaysia shifts from a middle-income country towards a high-income country by 2020, there is a need to create jobs at every skill level with continuous engagement between the Government, academia, industry and training institutes to meet industry requirements. Towards this, the establishment of the Critical Skills Committee (CSC), which is jointly led by Talent Corporation Malaysia Berhad (TalentCorp) and Institute for Labour Market Information and Analysis (ILMIA), identifies the critical skills to coordinate policy interventions related to immigration, upskilling,

[10] NDTS offers employees workplace-based training with 70% of the training at the company and 30% at TVET institutes.
[11] Refers to households with income up to RM3,855 (based on Household Income and Expenditure Survey 2014).

Feature Article 2

Labour Market: Issues and Challenges

Introduction

Malaysia's labour market situation remains tight with the unemployment rate hovering around 3% over the past five years, indicating full employment. The labour force participation rate has recovered steadily from a low of below 63% in 2008 to 67.5% in 2014, led by a steady increase in the female participation rate to 53.6% in 2014 from 45.7% in 2008. However, both the overall and female labour participation rates continue to lag behind the levels in several regional and advanced economies.

Issues and challenges

The Malaysian labour market faces several key challenges such as low labour productivity, inadequate quality workforce, slower creation of high-skilled jobs, a relatively high youth unemployment amid full employment, particularly among graduates, low female labour force participation, and continued dependency on low-skilled foreign workers.

TABLE 1

Labour Market Indicators (selected years)

	2004	2008	2012	2014	Target in 11MP
Labour Force Participation Rate (%)	64.4	62.6	65.5	67.5	70.1
Employment (person '000)	9,979.5	10,659.6	12,723.2	13,532.1	15,292.0
Unemployment rate (%)	3.5	3.3	3.0	2.9	2.8
Real GDP Growth (%)	6.8	4.8	5.5	6.0	5.0 – 6.0
Productivity Growth (%)	2.5	3.2	2.0	3.5	3.7

Source: Economic Planning Unit, Department of Statistics Malaysia and Malaysia Productivity Corporation.

Low labour productivity

Labour productivity levels in Malaysia continue to lag behind many developed economies and developing countries. In 2014, Malaysia recorded productivity growth of 3.5% compared with China (7%) and the Philippines (5.6%). The slower growth in productivity is attributed to low efficiency in utilising resources; insufficient innovative processes; and lack of skilled manpower. Malaysia should thus aim to sustain productivity growth of 3% – 4%, almost double the 2% achieved over the last 10 years. It is a challenging goal but raising productivity is critical to improve the quality of life for Malaysians. Raising skills and productivity is crucial to improve the real wages of workers and the best way to help the rakyat with low income. Malaysia has the potential to post productivity growth of 3.7% in the next five years as targeted under the Eleventh Malaysia Plan (11MP). These efforts need to be holistic, integrated and supported at the Government, industry and enterprise levels. Companies must compete by innovating, investing in their people, create high-value jobs and foster a culture of productivity among all Malaysians. It is imperative to raise productivity level to be on par with the leading economies at the high-productivity frontier.

Inadequate quality workforce and creation of quality jobs

While the employment trends in Malaysia showed that a large number of new jobs has been created during the Tenth Malaysia Plan (10MP), these jobs were mostly in the semi-skilled category. In 2014, the composition of high-skilled workers in the workforce such as managers, professionals, and technicians as well as associate professionals remained flat at 25.2%, while semi-skilled and low-skilled jobs accounted for 62.2% and 12.6%, respectively. Furthermore, about 553,000 workers employed in the semi-skilled category had diploma or higher qualification, indicating insufficient creation of skilled jobs. In addition, several studies on the labour market as well as feedback from industry often attest to the insufficient quantity and quality of workers to meet demands of the labour market. Workers are found to be lacking in technical skills and soft skills such as communication and English proficiency. With greater focus on high value-added and knowledge-intensive activities under the 11MP, the demand for a high-skilled workforce is expected to increase to 35% by 2020. This will involve the transformation of the types of jobs available in the labour market from 'traditional' to modern which are higher-productivity jobs thus justifying higher wages.

Youth unemployment

In 2013, despite the full employment situation, youth in the 15 – 24 age group made up 57.5% of the total unemployed. This was mainly due to their lack of qualification and experience. To address this issue, youth will be given industry-driven training opportunities before joining the job market. In particular, they will be encouraged to complete their schooling and pursue tertiary education including in Technical and Vocational Education and Training (TVET) before progressing to the labour market.

Low female labour force participation

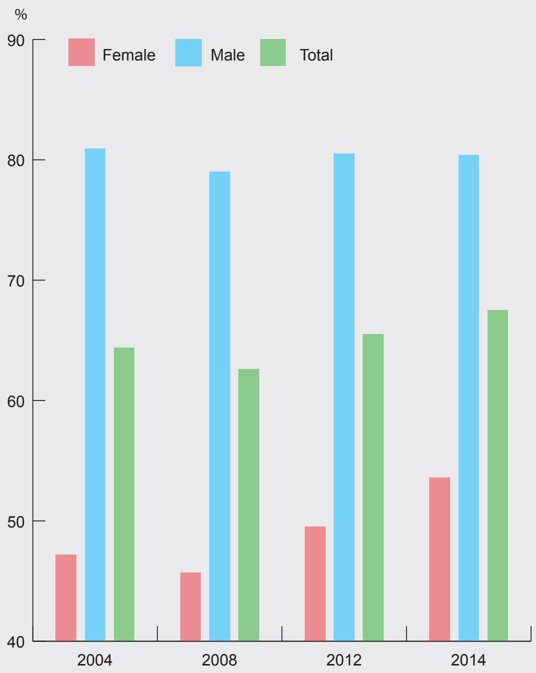
Women are a substantial untapped source of talent. However, women labour force participation remains low relative to Malaysia's level of development, despite higher female enrolment rates at secondary and tertiary education levels. Due to several initiatives taken to get more women to join the labour market, the female labour force participation rate (LFPR) has risen to 53.6% in 2014. The female LFPR is expected to reach 55% by 2015 and 57% by 2020. However, this level is still low compared to other countries like Hong Kong (54.6%) and Singapore (58.6%). Furthermore, gender inequality shows up in several dimensions in the Malaysian labour market, particularly at management and organisational decision-making levels. The Labour Force Survey 2014 reported that only 22% of Malaysian managers were women. This rate is low compared to Australia (36%) and the Philippines (48%). In addition, the employment rate for women is lower as a significant number of them are employed in the informal sector with many as unpaid family workers. Therefore, the transformation of Malaysia towards an inclusive high-income nation requires increasing women participation, including in areas related to Science, Technology, Engineering, Mathematics (STEM) and other technical skills as well as in management positions and at the board of directors level. Flexible working arrangements, adequate provision of childcare and elderly care can attract women to join the workforce.

Dependency on low-skilled foreign workers

Easy access to the relatively lower cost as well as the absence of a comprehensive policy has contributed to the rise in the number of low-skilled foreign workers[1]. As a result, the number of registered foreign workers recorded 2.1 million in 2014. Realising the adverse impact from over-reliance on low-skilled foreign workers, the Government has set the cap on foreign labour to 15% of the total workforce by 2020. However, it will be a challenge to achieve this target, particularly for dirty, dangerous and difficult jobs as well as for unskilled jobs in general industries such as manufacturing and agriculture.

CHART 1

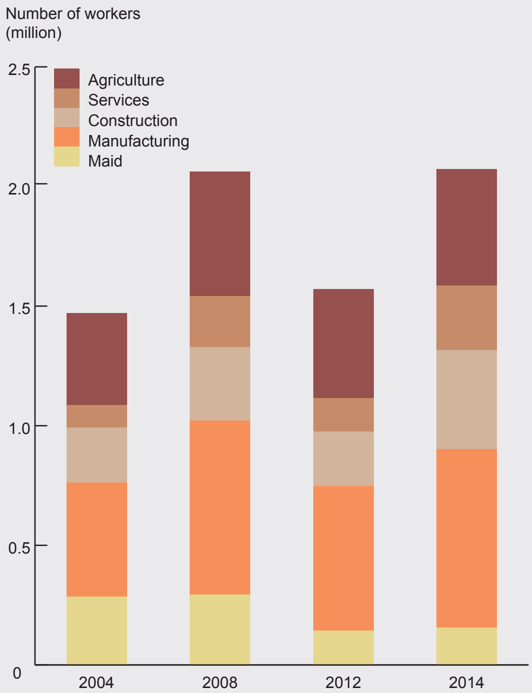
Labour Force Participation Rate by Gender (selected years)



Source: Department of Statistics, Malaysia.

CHART 2

Foreign Workers[1] by Sector (selected years)



[1] Not including illegal foreign workers and 6P Programme.
Source: Ministry of Home Affairs, Malaysia.

[1] The foreign workers are registered and issued with Visit Pass Temporary Employment by Immigration Department, Malaysia.

Exacerbating the situation is the low level of readiness to move up the value chain and reduce dependency on low-skilled foreign workers, particularly among small and medium enterprises (SMEs). This has hindered investment in mechanisation, automation and innovation. It also hampers the growth of skilled local workers and adds to the challenge of raising productivity levels and fostering wage growth.

Effect of demographic transition

Demographic transition will have a significant impact on overall human capital development as it influences the supply and demand of the workforce. The continued decline in fertility rates affects the young age population (0–14 years) which is expected to fall from 7.8 million in 2010 to 7.7 million in 2015. At the other end of the spectrum, the older population (65 years and above) grew at 4.5% per annum during 2010 – 2015 to reach 1.8 million (5% of total population) in 2015. By 2035, Malaysia is expected to reach an aging nation[2]. An aging population would require increased expenditure on pension funds and health-related costs. It also puts a strain on the working-age population to support them.

Way forward

The 11MP has outlined several measures to tap the potential of labour to drive the economy. The focus is to improve labour market efficiency to accelerate economic growth; transform TVET to meet industry demand; strengthen lifelong learning for skills enhancement; and improve the quality of education for better student outcomes and institutional excellence. On labour market efficiency, the strategies aim to increase labour productivity and wages through the shift to high-skilled occupations and wider adoption of the Productivity-Linked Wage System (PLWS). In addition, the Government will formulate a five-year Malaysia Productivity Blueprint, set up a National Productivity Council (NPC) and establish a National Wage Index. Meanwhile, an Industry Skills Committee (ISC) will be established together with an Industry Centre of Excellence (ICoE) and Academia-Industry Graduate Development Centres (AIGDC) to address the issue of talent mismatches.

To increase female participation, the Government will widen access to jobs through the 1Malaysia Support for Housewives and Flexiworklife programmes. In order to reduce reliance on low-skilled foreign workers, a better regulated levy system will be adopted as well as making it mandatory for employers of foreign workers to be fully responsible for the recruitment process and the welfare of these workers.

Improvements in TVET management include the move towards having a single qualification system adopted by both the Malaysian Qualifications Agency (MQA) and Department of Skills Development (DSD) to accredit TVET programmes offered by both public and private TVET institutions. Apart from that, the Myskills Competition and International Skills Competition for TVET students will be implemented as promotional efforts. To strengthen lifelong learning for skills enhancement, the Government will continue to improve industry-based upskilling and entrepreneurship-related training programmes. At the same time, the Future Workers Training (FWT) Scheme will be established to promote pre-employment training focusing on emerging technologies.

Recognising the importance of quality education system, the improvement measures will cover preschool, post-secondary and higher education. These include enhancing the quality of early childhood care and education; improving professional development; empowering Jabatan Pendidikan Negeri (JPN); strengthening the Parent-Teacher Associations' support for education; periodical curriculum revision by institutions of higher learning; and launch of Massive Open Online Courses (MOOCs) in niche areas of expertise.

Conclusion

While considerable progress has been achieved in labour market policies, critical challenges remain such as low labour productivity, inadequate quality workforce, low female participation rate and dependency on low-skilled foreign workers as well as the effects from demographic transition. Sustained economic growth leading to high income necessitates a functioning and efficient labour market which responds dynamically to adjustments in workforce supply and demand imbalances. The ongoing policy initiatives and measures will reform the labour market towards a high-skilled, innovation-led and globally competitive human capital resource base which is the prerequisite to achieve a high-income nation.

Reference

1. *Department of Statistics Malaysia – various years.*
2. *Economic Planning Unit – various years.*
3. *Institute for Labour Market Information and Analysis (ILMIA)*
4. *Malaysia Economic Monitor, World Bank – various years.*
5. *Malaysia Productivity Corporation 2014/2015.*

[2] Based on *Dasar Warga Emas Negara.* An aging nation status refers to the condition in which 15% of the population consists of those aged 60 years and above.

scholarships, higher education and TEVT. A critical skills list helps increase the return of public investments in human capital interventions by allocating resources according to labour market demand. In addition, TalentCorp will intensify efforts to narrow the skills gap through facilitating experienced Malaysians abroad to return and work in Malaysia; the establishment of the Ind-E-Zone and Industry Academia Collaboration for Malaysian students in local universities; as well as encouraging employers to invest in their employees through the Talent ProCertification programme.

During the first eight months of 2015, the total registered ***foreign workers***[12] in the country increased to 2.2 million (January – August 2014: 2 million). The employment of foreign workers was largely concentrated in the manufacturing (770,518), construction (437,803) and plantation (314,362) sectors. By country of origin, 38% or 840,811 of foreign workers were from Indonesia, followed by Nepal (24%; 536,747), Bangladesh (12%; 274,178) and Myanmar (6%; 142,759). Under the 11MP, the Government will improve the management of foreign workers through the establishment of an improved framework to take into consideration the relevant laws, rules, regulations, national policies and directives relating to recruitment, employment and repatriation of workers.

The total number of ***expatriates*** in Malaysia rose to 151,687 in the first eight months of 2015 (January – August 2014: 97,908). Expatriates from Bangladesh registered the highest number at 43,975 persons representing 28.9% of total expatriates in Malaysia, followed by India (24,600; 16.2%), China (14,953; 9.9%) and the Philippines (9,387; 6.2%). The expatriates were mainly employed in the services (67,063), ICT (25,978), manufacturing (22,922) and construction (20,815) sectors. Meanwhile, TalentCorp and the Immigration Department of Malaysia have jointly established the Malaysia Expatriate Talent Service Centre (MYXpats Centre). The centre, which was operational in June 2015, provides employers and expatriates with Employment Pass and related services expeditiously.

Prospects for 2016

Malaysian Economy

Growth driven by domestic demand

The projection for growth in 2016 takes into account concerns over the severity of growth slowdown in emerging markets, particularly China. Other downside risks include declining commodity prices, rising volatility in financial markets and depreciating currencies of emerging economies.

Against the backdrop of increased uncertainty in the global economy, growth in the Malaysian economy will be driven by domestic demand, with private expenditure as the main anchor, while public expenditure will increase moderately. Strong economic fundamentals such as benign inflation and stable employment supported by an accommodative monetary policy are expected to support growth. Thus, the Malaysian economy is expected to remain on a steady growth path, expanding between 4% – 5% in 2016. On the supply side, growth though moderating, is expected to be broad-based supported by expansion in all sectors of the economy, led by the services and manufacturing sectors. Thus, the nominal GNI per capita is expected to increase by 5.6% to RM38,438 in 2016 (2015: 4.2%; RM36,397).

In 2016, the impact of GST on prices is expected to wane, while the weakening ringgit may lead to higher prices in some imported goods. However, this will be mitigated by weak commodity prices and lower global inflation. Furthermore, the economy is expected to operate in line with its potential output without any significant upward pressure on domestic prices. Hence, inflation is expected to remain stable at 2% – 3% for 2016.

Sectoral Prospects

Broad-based growth

On the **supply side**, growth is expected to be broad-based with all economic sectors recording positive growth. Growth in the services sector will be underpinned by resilient private consumption and higher tourism activity. The manufacturing sector is expected to expand moderately on anticipation of slower growth in China. Improved external and domestic demand will support growth in the export and domestic-oriented industries. A strong performance is projected for the construction sector supported by large infrastructure projects and sustained construction activity in the property sector. Growth in the agriculture sector is projected to be supported by increased output of oil palm and rubber as well as food commodities. Meanwhile, higher crude oil (including condensates) and natural gas production is expected to drive growth in the mining sector.

The ***services sector*** is projected to grow by 5.4% in 2016 (2015: 5.7%), increasing its share to 54% of GDP (2015: 53.8%) with all subsectors continuing to expand. The wholesale and retail trade as well as food, beverage and accommodation subsectors are expected to increase by 6.5% and 6%, respectively in 2016 (2015: 7.6%; 6.2%). Growth will be supported by steady domestic consumption and stronger tourism activities spurred by measures to attract higher tourist arrivals as well as boosting domestic tourism. The expansion of the tourism sector will be driven by the implementation of the Malaysia Tourism Transformation Plan (MTTP). Meanwhile, the information and communication subsector is expected to increase by 9.6% (2015: 9.7%) on sustained demand for cellular and broadband services, on account of more affordable rates

[12] The foreign workers are registered and issued with Visit Pass Temporary Employment by the Immigration Department, Malaysia.

and promotions by industry players. The real estate and business services subsector is projected to grow by 7.1% (2015: 7.9%) driven by strong construction activities. The transport and storage subsector is projected to expand by 5% (2015: 5.4%) contributed by the expansion in port and rail services as well as improved bus services.

Value-added of the ***manufacturing sector*** is expected to grow by 4.3% (2015: 4.5%). Export-oriented industries are expected to benefit from higher demand as a result of improving growth in advanced economies, while domestic-oriented industries will be boosted by resilient domestic economic activities. The E&E industry is anticipated to expand driven by higher demand for consumer electronics as well as M&E. The resource-based industry is envisaged to grow steadily attributed to improved demand for chemical, petroleum, rubber, wood and plastic products. In addition, strong construction activities following the implementation of infrastructure projects under the 11MP will augur well for growth in iron and steel as well as cement segments.

Growth in the ***agriculture sector*** is expected to be sustained at 1.3% in 2016 (2015: 1.3%) supported by an improvement in the plantation subsector and stronger growth in the food commodity subsector. Production of CPO is envisaged to increase marginally by 1% to 20.1 million tonnes following improved yields and expansion in matured areas. Output of rubber is also expected to expand by 0.7% to 680,000 tonnes, partly on account of various ongoing measures undertaken to increase production amid stable rubber prices. Food commodities are projected to grow further on account of higher demand from households. The livestock subsector is expected to expand, led by higher output of poultry in tandem with stronger demand from poultry downstream activities.

The ***mining sector*** is expected to remain resilient with a growth of 4% in 2016 (2015: 3.5%), supported by higher output of natural gas and crude oil (including condensates). The production of natural gas is expected to increase by 5.1% to 6,750 mmscfd, particularly with the commencement of the floating liquefied natural gas project in Sarawak, which will produce 1.2 million tonnes of natural gas annually. In addition, the output of natural gas is expected to increase as the Train 9 LNG facility comes into full operation in early 2016. Meanwhile, production of crude oil (including condensates) is expected to expand by 1.6% to average 640,000 bpd in 2016. Meanwhile, crude oil prices are expected to remain subdued at about USD48 pb amid the over-supply situation.

The ***construction sector*** is projected to increase by 8.4% in 2016 (2015: 8.8%), largely driven by infrastructure projects. The sector is expected to benefit, particularly from civil-engineering activities such as Pan-Borneo Highway, MRT Line 2 and Pengerang Integrated Complex (PIC) project. Meanwhile, the non-residential subsector is expected to expand led by ongoing construction of commercial buildings. Growth in the residential subsector is expected to be supported by ongoing Government initiatives to provide affordable housing.

Domestic Demand

Domestic demand remains resilient

Domestic demand is expected to register a growth of 5.5% (2015: 5.9%) driven by private sector spending. The strong private sector performance, despite global uncertainties, will enable the Government to continue strengthening its fiscal position while reinforcing the private sector as the engine of growth. Private sector activity is anticipated to expand supported by broad-based growth across all sectors, benefiting from the ongoing implementation of initiatives under the Government Transformation Programme (GTP) and ETP. In addition, the rollout of programmes under the 11MP is expected to support growth.

Private investment is anticipated to increase by 6.7% (2015: 7.3%) with the bulk of investment in the manufacturing and services sectors. Investment in the manufacturing industries is expected to increase, particularly in higher value-added E&E, chemicals as well as M&E and high-growth industries such as medical devices and aerospace. In the services sector, capital spending is expected to accelerate in ICT, O&G services, private healthcare, private higher education, professional services, ecotourism and halal industry, following the Government's measures to revitalise and modernise the services sector. The Government will continue to promote domestic investment, particularly among the SMEs, through the ongoing initiatives under the SME Masterplan. These measures will enhance SMEs' competitiveness and encourage more investment, especially in knowledge-based industries with high value-added products and services. ***Private consumption*** is anticipated to expand by 6.4% (2015: 6.8%) benefiting from stable employment prospects and favourable wage growth. Easy access to credit, BR1M cash transfer, accommodative interest rates and benign inflation are also expected to support private consumption spending.

In the public sector, while the Government remains committed to fiscal consolidation, fiscal policy will remain supportive of growth. For 2016, public expenditure is expected to increase by 2.7% (2015: 2.8%). ***Public investment*** is expected to record a higher growth of 2.3% (2015: 1.6%) supported by new projects under the ETP and 11MP as well as ongoing projects under the 10MP. Federal Government DE will be focused on projects and programmes with higher value-added potential and larger spillover effects on the economy, such as upgrading infrastructure, improving public utilities, providing better quality healthcare, improving manpower skills as well as increasing R&D support. Meanwhile, capital spending by public corporations, particularly PETRONAS, TNB and MRT Corp is expected to remain strong. Capital expenditure of

PETRONAS include upstream and downstream activities such as the RAPID and FLNG 2 projects. TNB's investment will mainly be in the construction of new power plants to meet the growing demand for electricity. Meanwhile, MRT Corp's investment is mainly for construction of the MRT Line 1 which is expected to be completed by 2017 and work on the MRT Line 2 which will commence by end-2015. ***Public consumption*** is expected to increase by 3% (2015: 3.6%) on account of continued allocation for emoluments as well as supplies and services.

National Resource Position

Savings-investment gap remains in surplus

National income in current prices is expected to expand by 7% in 2016 (2015: 5.5%). **GNS** is projected to increase by 4.7% with the private sector accounting for 75.7% of total savings (2015: 0.9%; 79.6%). Total investment (including change in stock) is projected to increase to RM331.3 billion and contribute 27.5% to GNI (2015: RM303.7 billion; 26.9%). This will lead to a narrower surplus in the savings-investment gap at RM11.3 billion or in the range of 0.5% – 1.5% of GNI (2015: RM23.4 billion; 1.5% – 2.5%). The surplus is, however, sufficient to provide ample liquidity in financing domestic economic activity.

External Sector

Smaller current account surplus

In 2016, Malaysia's external position is expected to remain encouraging in line with better growth prospects for the regional and advanced economies, reinforced by steady expansion in the domestic economy. In addition, the outlook for world trade is also projected to improve.

Gross exports are expected to rebound by 1.4% (2015: -0.7%) led by higher demand for manufactured exports, in particular, E&E products. Commodity prices are, however, projected to remain soft. To further reinvigorate export performance, initiatives and programmes endorsed by the NEC will be expedited. Promotional activities undertaken at home and abroad will be more targeted and effectively coordinated to optimise resources and strengthen the Malaysian brand. Meanwhile, ***gross imports*** are also anticipated to turn around and grow at a faster pace of 3.3% (2015: -1.2%) supported by higher public investment and capital spending in the manufacturing and services sectors. In addition, import duty exemption given on 90 tariff lines in the manufacturing sector on 14 September 2015 by Special Economic Committee (SEC) is expected to provide relief to about 900 companies. The lines comprise spare parts, consumables as well as testing equipment for research and quality control mainly in the M&E and E&E subsectors. Demand for consumption goods is expected to be underpinned by stable wage growth and favourable labour market conditions. As import growth outpaces exports, the trade surplus is projected to be lower at RM73.2 billion or 5.9% of GDP (2015: RM85.3 billion; 7.3%).

In 2016, the *transport* and *other services accounts* are projected to remain in deficit following improved prospects for trade-related and investment activity. Meanwhile, the *travel account* is expected to post a larger surplus of RM33.9 billion (2015: +RM29.8 billion) driven by higher tourist arrivals. Spurred by concerted marketing and promotional activities; arrival of new airlines; and capacity expansion of facilities in airports, gross travel receipts are expected to increase to RM74.9 billion. Consequently, the deficit in the ***services account*** is expected to improve to RM11.4 billion (2015: -RM14.7 billion). However, given the higher import growth anticipated for the year, the ***goods and services account*** is envisaged to post a lower surplus of RM63.7 billion (2015: +RM75.1 billion).

Amid an improving external environment and steady growth prospects for the domestic economy, the outlook for corporate earnings is anticipated to remain firm. Thus, the ***primary income account*** is envisaged to register net outflows of RM33.7 billion in 2016 (2015: -RM33.2 billion) due to higher repatriation of profits, dividends and interests accruing to MNCs operating in Malaysia. In a bid to strengthen the ringgit and improve the current account balance, Malaysian companies have been urged to bring home their investment income to generate quality growth, foster innovation and create high-skilled jobs. Hence, the primary income account is also expected to experience higher gross inflows, though outweighed by the repatriation of earnings by MNCs. Meanwhile, the ***secondary income account*** will continue to post a deficit of RM18.7 billion (2015: -RM18.5 billion) mainly due to sustained demand for foreign labour. Nevertheless, the surplus in the goods and services account will be more than sufficient to offset the net outflows in the primary and secondary income accounts. For the year, the **current account** is expected to post a surplus, though lower, in the range of 0.5% – 1.5% of GNI (2015: 1.5% – 2.5%).