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3 ECONOMIC PERFORMANCE AND PROSPECTS

Overview

Domestic demand supports growth

In 2016 the Malaysian economy is expected to continue to expand amid a challenging external environment including slower growth in the advanced economies; prolonged low oil prices; and volatile international financial markets. As an open economy, Malaysia is not immune to these external uncertainties. Nevertheless, the economic, financial and fiscal reforms undertaken over the years have provided sufficient buffers to weather external shocks. The country's fundamentals remain strong, including a stable labour market with full employment; manageable inflation; healthy foreign reserves; and a sound financial system with efficient intermediation to support the economy. Although subdued prices weigh on commodity exports, the diversified products and markets continue to support Malaysia's trade performance.

Domestic demand is expected to remain resilient and continue to be the key engine of growth. Private consumption, contributing 53.3% to gross domestic product (GDP) is expected to expand steadily on account of stable growth in employment and income, additional disposable income from Government measures and accommodative financing conditions. Private investment activity is expected to remain firm supported by the ongoing and commencement of new projects in the services, manufacturing and construction sectors. Slower investment in the mining sector will be offset by higher capital spending in downstream activities such as manufacturing of petrochemical products and construction of storage facilities. In addition, private investment is expected to benefit from measures implemented to further improve business environment. Public sector spending will continue to support growth, while remaining committed to fiscal consolidation path.

On the supply side, the services and manufacturing sectors continue to be the main contributors to GDP growth. The services sector is anticipated to remain strong underpinned by consumption-related subsectors such as the wholesale and retail trade; information and communication; and food & beverages and accommodation. The manufacturing sector is envisaged to expand, driven largely by export-oriented industries, particularly electrical and electronics (E&E) products. Meanwhile, output of domestic-oriented industries such as food products and construction-related cluster are expected to continue to be strong in line with robust domestic consumption and implementation of infrastructure projects. The construction sector is expected to grow significantly on account of acceleration of civil engineering projects and building of residential properties. The performance of mining sector is anticipated to increase supported mainly by higher production of natural gas. However, agriculture sector is expected to decline due to lower palm oil yields caused by the El Niño weather phenomenon.

The external sector is expected to remain resilient despite uncertainties in the global environment. Current account will continue to be in surplus between 1% and 1.5% of gross national income (GNI) in 2016, mainly contributed by a surplus in the goods account despite higher deficit in the services and income accounts. In the financial account, foreign direct investment (FDI) inflows are expected to continue, reflecting investors' confidence and the Government's concerted efforts to provide a conducive business environment. Meanwhile, outward direct investment is expected to remain encouraging as Malaysian firms continue to diversify and expand their businesses abroad.

The Consumer Price Index (CPI) is expected to remain manageable ranging between 2% and 2.5% in 2016. The benign inflation is mainly attributed to low oil prices; low imported inflationary pressure arising from subdued global inflation; stable ringgit; and extension of Price Control and Anti-Profiteering Act 2011 until end-December 2016.

For the year, the economy is expected to remain on a steady growth path, expanding between 4% and 4.5%, with private sector contributing significantly to GDP growth. GNI is estimated to increase 6.4% to RM1.2 trillion (2015: 5.2%; RM1.1 trillion) with income per capita growing 4.8% to RM37,812 (2015: 3.6%; RM36,078).

Sectoral Performance

Services Sector

Services sector continues to drive growth

The **services** sector expanded 5.4% during the first six months of 2016 (January – June 2015: 5.7%), mainly driven by resilient domestic economic activities. In 2016, the sector is expected to record 5.6% growth, accounting for 54.2% of GDP (2015: 5.1%; 53.5%). The ***final services*** group is expected to increase 5.8% (2015: 6.1%) led by the wholesale and retail trade as well as food & beverages and accommodation subsectors. The ***intermediate services*** group is anticipated to grow 5.1% (2015: 4.6%) supported by the information and communication as well as real estate and business services subsectors. Meanwhile, ***government services*** subsector is expected to expand 6.5% (2015: 4%).

TABLE 3.1

GDP by Sector 2015 – 2017
(at constant 2010 prices)

	% GDP	% Change		
	2016[1]	2015	2016[1]	2017[2]
Agriculture	8.2	1.2	-3.3	1.5
Mining	8.7	4.7	1.1	1.4
Manufacturing	22.9	4.9	4.0	4.1
Construction	4.6	8.2	8.7	8.3
Services	54.2	5.1	5.6	5.7
GDP	**100.0**	**5.0**	**4.0 - 4.5**	**4.0 - 5.0**

[1] Estimate.
[2] Forecast.

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

The *wholesale and retail trade* subsector grew 5.9% during the first half of 2016 (January – June 2015: 7.8%) following continued household spending in the retail segment. The retail segment rose 6.3% (January – June 2015: 7.5%) with sales at specialised stores expanding 8.4% to RM129.6 billion (January – June 2015: 8.7%; RM119.6 billion) contributed by sales of household products as well as information and communication equipment. Meanwhile, sales at non-specialised stores increased 8.3% to RM66.1 billion (January – June 2015: 11.1%; RM61 billion). The strong growth of retail segment also benefited from sales campaigns such as Buy Malaysian Products Campaign, Price Reduction Campaign, and Kempen Jom Beli Barang Raya@Putrajaya. The wholesale segment expanded 8.4% supported by fee or contract basis; food, beverages and tobacco; and other specialised wholesale (January – June 2015: 9%). However, the motor vehicles segment declined 3.9% partly due to advance purchases made during the final quarter of 2015 in anticipation of higher car prices in 2016 (January – June 2015: 4.7%). For the year, the subsector is envisaged to grow 6.2% (2015: 6.9%).

The *food & beverages and accommodation* subsector expanded 6.6% during the first half of 2016 (January – June 2015: 6.9%). The food & beverages segment rose 7.4% driven by increased spending on restaurant dining, particularly during festivities (January – June 2015: 7.9%). Meanwhile, the accommodation segment registered a growth of 3.6% mainly supported by tourism-related activities (January – June 2015: 3.6%). In 2016, the subsector is expected to grow 6.1% (2015: 6.4%) supported by strong domestic consumption and tourism-related activity.

The Government has introduced various initiatives and programmes to spur the tourism sector. These include relaxing visa requirement, allowing extension of stay for tourists from selected countries as well as implementing electronic visa (e-Visa) for tourists from China in March 2016 and India beginning mid-April 2016. In addition, various campaigns were undertaken to promote tourism and business opportunities in Malaysia. These campaigns include promoting through digital marketing channels such as trulyasiatv.com, My Tourism Channel (MYTC), travel ports such as TripAdvisor and Lotour.com as well as mobile application Smart-i Travel Malaysia. Tourist arrivals rebounded 3.7% to 13 million during the first six months of 2016 (January – June 2015: -9.4%; 12.6 million) with arrivals from China and Thailand improving significantly by 32.1%, respectively, followed by Brunei (15.2%) and Republic of Korea (11.2%). In 2016, tourist arrivals are estimated to reach 30.5 million (2015: 25.7 million).

The *utilities* subsector recorded a stronger growth of 6.1% during the first six months of 2016 (January – June 2015: 3.8%). This was mainly due to higher usage of electricity during the El Niño weather phenomenon. Value-added of electricity and gas segment increased 5.8% (January – June 2015: 3.2%). During the first seven months of 2016, electricity consumption grew significantly by 9.5% to 80,430.2 million kilowatt-hours (kWh) (January – July 2015: 2.3%; 73,459.5 million kWh) with industrial, commercial and mining segment increased 8.7%, accounting for 77% of total usage (January – July 2015: 1.9%; 77.6%). Similarly, electricity consumption by domestic and public lighting sectors recorded a double-digit growth of 12.3%, amounting to 23% of total consumption (January – July 2015: 3.7%; 22.4%). Meanwhile, gas consumption increased 3.6% to 80.2 million MMBtu mainly driven by higher demand from the industrial segment (January – June 2015: 8.2%; 77.5 million MMBtu).

TABLE 3.2

Services Sector Performance 2015 – 2017
(at constant 2010 prices)

	% Share to GDP	% Change		
	2016[1]	2015	2016[1]	2017[2]
Final services				
Wholesale and retail trade	14.9	6.9	6.2	6.7
Food & beverages and accommodation	2.8	6.4	6.1	6.5
Utilities	2.6	3.5	5.9	5.0
Other services	4.4	4.7	4.6	5.3
Intermediate services				
Finance and insurance	6.7	-0.7	0.3	0.9
Real estate and business services	4.4	6.6	6.6	6.5
Information and communication	6.0	9.4	9.4	9.6
Transport and storage	3.6	5.7	5.7	5.8
Government services	**8.9**	**4.0**	**6.5**	**4.5**
Total	**54.2**	**5.1**	**5.6**	**5.7**

[1] Estimate.
[2] Forecast.

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

During the first half of 2016, the water, sewerage and waste management segment rose 7.1% (January – June 2015: 6.1%). Total water consumption[1] grew 3.5% to 9,368 million litres per day (mld) (January – June 2015: 4.2%; 9,052 mld). Consumption by households as well as industrial and commercial segments increased 2.2% and 5.6%, respectively (January – June 2015: 4.3%; 4%). As at end-June 2016, water supply coverage[2] in urban and rural areas were at 96.7% and 95.7% of population, respectively (end-June 2015: 96.7%; 95.6%). In 2016, the subsector is expected to record a higher growth of 5.9% (2015: 3.5%) mainly supported by higher electricity consumption by the industrial, commercial and mining segment.

The *information and communication* subsector continued to record a strong growth of 8.7% during the first six months of 2016 (January – June 2015: 9.4%). The communication segment remained as the major contributor to growth, sustaining its pace at 10.1% (January – June 2015: 10.1%) following new and expansion of internet-based applications as well as enhanced data plans. This was supported by growing number of information and communications technology (ICT) devices as well as continuous initiatives to enhance network coverage and communication access. Growth of the subsector was partly driven by infrastructure expansion to cater for the rising demand for reliable and high-speed internet, including 4G Long-Term Evolution (LTE) network and fibre optic. As at end-August 2016, 432 kilometre of fibre optic cables were installed in Peninsular Malaysia to transmit data at a faster rate, while 160,688 ports were installed in suburban and rural areas to further boost broadband penetration rate. The subsector is expected to sustain its strong growth momentum expanding 9.4% in 2016 (2015: 9.4%).

The *real estate and business services* subsector grew 6.6% during the first half of 2016 (January – June 2015: 6.8%). The steady performance of the subsector was mainly driven by business services activities, which increased 7.6% following higher demand for professional services (January – June 2015: 7.6%). This was reflected in the professional services index which recorded strong growth of 9.3% (January – June 2015: 10.1%). Meanwhile, the real estate segment continued to grow, albeit at a slower pace of 4.5% mainly due to lower residential and commercial properties transactions (January – June 2015: 5.4%). However, agricultural property transactions turned around sharply to record a growth of 7.3% (January – June 2015: -9%). In 2016, the subsector is expected to expand 6.6% (2015: 6.6%).

The *transport and storage* subsector grew 5.8% during the first six months of 2016 (January – June 2015: 5.5%). Growth was mainly supported by land transport segment, which rose 7% attributed to higher passenger volume on intercity train services (January – June 2015: 5.6%). This was also reflected by a double-digit growth in ridership on Keretapi Tanah Melayu Berhad (KTMB) Intercity and Electric Train Service (ETS) by 66.5% and 93%, respectively (January – June 2015: -31.1%; -2%). The strong growth of this segment was mainly due to introduction of new routes and higher frequency of train services. Furthermore, traffic volume on tolled highways grew 2.6% to 904.4 million vehicles, particularly at North-South Expressway (NSE) attributed to higher usage during the festive and holiday seasons (January – June 2015: 4.5%; 881.4 million vehicles). KTMB freight volume recorded a marginal contraction of 0.3% to 2.885 million tonnes (January – June 2015: -20.3%; 2.893 million tonnes). This was mainly attributed to higher freight volume of maritime containers (2.4%) which cushioned the decline in cement and clinkers (-12.9%).

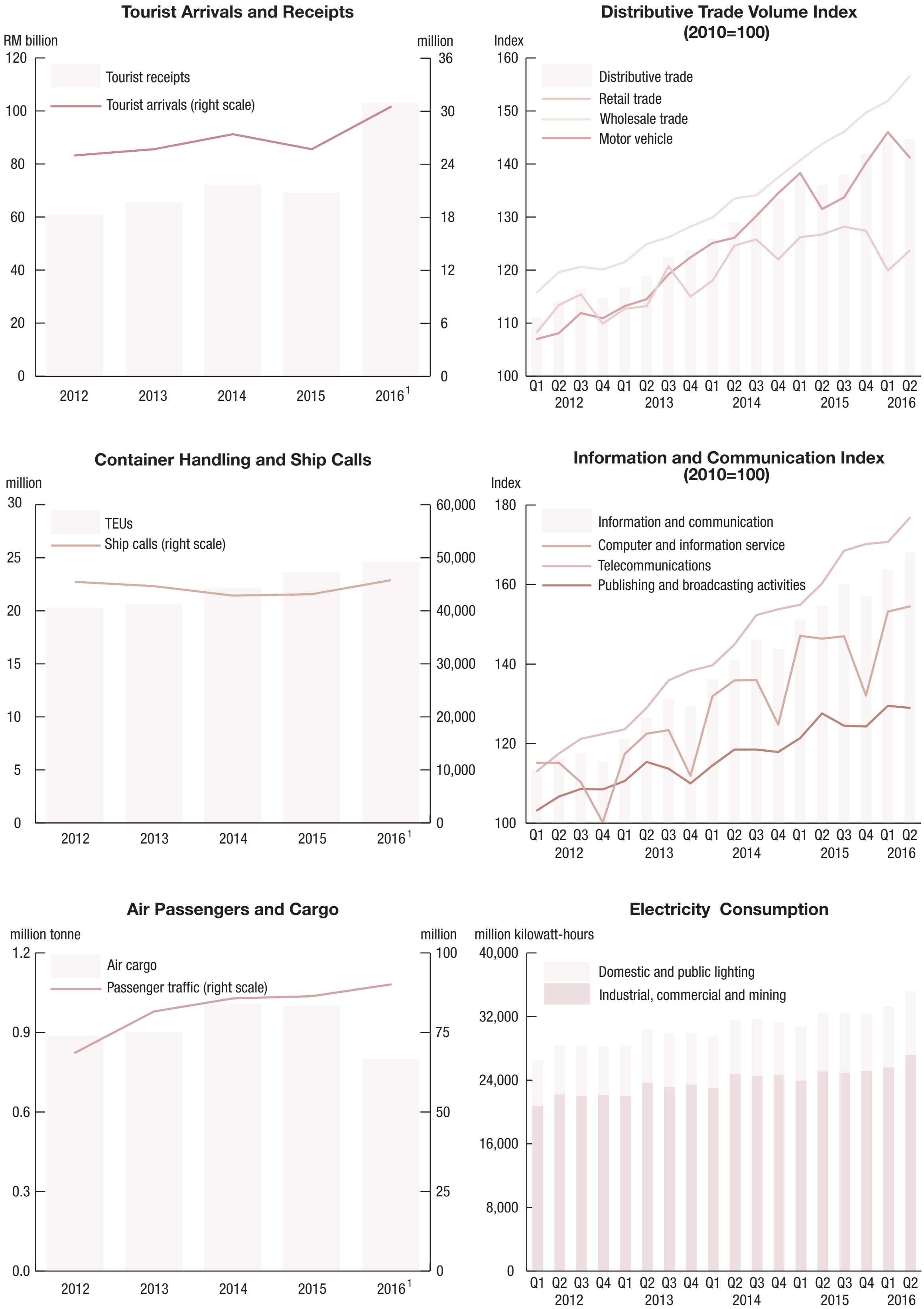
The water transport segment grew 1.7% (January – June 2015: 1.3%) with container throughput in major ports[3] increasing 5.7% to 12.2 million twenty-foot equivalent units (TEUs) (January – June 2015: 8.3%; 11.5 million TEUs). Port Klang remained the largest contributor to growth during the period, accounting for 53.1% of total container throughput (January – June 2015: 50%). Volume handled at Port Klang recorded a strong growth of 12.2% mainly due to higher transhipment activities (January – June 2015: 9.6%). Likewise, total container throughput at Bintulu, Pulau Pinang and Johor increased 9.9%, 8.9% and 1.6%, respectively (January – June 2015: -11.2%; 3.5%; 3.8%). Meanwhile, container throughput at ports of Tanjung Pelepas, Kuching and Kuantan contracted 2.8%, 0.8% and 0.6%, respectively (January – June 2015: 9%; -7.8%; 4.8%).

The air transport segment expanded 2.3% supported by higher international passenger movement (January – June 2015: 2.4%). During the first half of 2016, the air passenger volume increased 2.1% (January – June 2015: 0.4%) with international passenger traffic rebounding to 5% (January – June 2015: -1.7%). This was mainly supported by increased flight frequencies and the commencement of new routes, which includes the introduction of direct international flights to Langkawi resulting in passenger movement surging 39.3% (January – June 2015: -8.6%). Furthermore, increasing international passenger volume was spurred by higher growth from China and South Asia. However, domestic passenger movement declined slightly by 0.4% during the first half of 2016 mainly due to lower travel during the fasting month in June (January – June 2015: 2.2%). Likewise, air cargo contracted 15% attributed to subdued growth in global trade (January – June 2015: 2.7%). For the year, the transport and storage subsector is anticipated to grow 5.7% (2015: 5.7%). This is supported by land and air transport passenger activities as well as ongoing expansion and modernisation of port operations to boost cargo handling.

[1] Excluding Sabah, Sarawak and Labuan.
[2] Excluding Sabah and Sarawak.
[3] Port Klang, Port of Tanjung Pelepas, Pulau Pinang, Johor, Bintulu, Kuching and Kuantan.

CHART 3.1

Selected Indicators for the Services Sector



[1] Estimate.

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 and Senai International Airport.

During the first half of 2016, the *finance and insurance* subsector moderated to 0.8%, mainly supported by the insurance segment, which grew 3.5% (January – June 2015: 1%; -0.4%). Growth of the insurance segment was spurred by steady increase in premium income amid lower claims in motor segment. Meanwhile, the finance segment declined marginally by 0.03% (January – June 2015: 1.5%) mainly due to slower growth in interest-based income following a decline in loan approvals as well as lower fee-based income. During the first seven months of 2016, total loans approved declined sharply by 16% to RM192.6 billion (January – July 2015: 3.1%; RM229.4 billion), with loans to businesses and households contracting 10% and 20.9%, respectively (January – July 2015: 23.9%; -9.1%). This was partly due to macro prudential measures to contain rising household debt. Total outstanding loans recorded a growth of 5.1% to RM1,467.3 billion (January – July 2015: 9.6%; RM1,395.7 billion), particularly from the household sector which increased 5.7% to RM841.4 billion of total outstanding loans (January – July 2015: 8.6%; RM795.7 billion). In 2016, the finance and insurance subsector is expected to grow 0.3% (2015: -0.7%).

During the first half of 2016, the *other services* subsector grew 4.5% (January – June 2015: 4.7%) with the value-added of private education and health expanding 6.6% and 5.6%, respectively (January – June 2015: 7.2%; 5.4%). As at end-July 2016, there were 496 private higher education institutions nationwide (end-July 2015: 510), comprising 10 foreign university branch campuses; 53 private universities; 33 private university colleges; and 400 private colleges. The number of foreign students is expected to increase 31.1% to 160,000 in 2016 (2015: 13.2%; 122,061) attracted by various courses available, value for money and a safe environment. Meanwhile, the number of healthcare travellers in private hospitals recorded 422,094 during the first six months of 2016 (January – June 2015: 429,910) with patients from Indonesia constituting 57.5% of total healthcare travellers. The subsector is expected to grow 4.6% in 2016 (2015: 4.7%) mainly driven by strong demand for private education and quality healthcare as well as continuous effort to promote health tourism. The *government services* subsector increased 5.1% during the first half of 2016 on account of higher emoluments (January – June 2015: 3.9%). In 2016, the subsector is expected to expand 6.5% (2015: 4%).

Manufacturing Sector

Higher output of export-oriented industries

Value-added of the **manufacturing** sector grew 4.3% during the first six months of 2016 (January – June 2015: 4.9%), while output increased 4% mainly supported by export-oriented industries (January – July 2015: 4.8%). Higher production of E&E and resource-based products contributed significantly to the ***export-oriented industries,*** which grew 4.2% (January – July 2015: 5.3%). Meanwhile, growth of the ***domestic-oriented industries*** was sustained at 3.3% supported by steady construction activity and consumer spending. Average wage per employee continued to increase 4.1% to RM3,076, while

TABLE 3.3

Manufacturing Production Index
January – July
(2010 = 100)

	Index		% Change		% Share	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**
Export-oriented industries	**124.1**	**129.4**	***5.3***	***4.2***	***73.6***	***73.8***
Electrical and electronics products	138.6	147.8	*7.9*	*6.6*	*26.5*	*27.2*
Chemicals and chemical products	129.9	135.1	*6.6*	*4.0*	*14.7*	*14.8*
Refined petroleum products	110.6	114.0	*2.0*	*3.1*	*18.4*	*18.3*
Wood and wood products	111.1	119.7	*7.1*	*7.7*	*3.6*	*3.7*
Off-estate processing	103.8	90.0	*0.0*	*-13.3*	*3.7*	*3.1*
Rubber products	135.6	142.9	*3.4*	*5.4*	*2.7*	*2.7*
Paper products	114.0	120.2	*2.5*	*5.4*	*2.7*	*2.7*
Textiles, wearing apparel, leather products and footwear	122.4	131.3	*7.2*	*7.2*	*1.3*	*1.3*
Domestic-oriented industries	**132.4**	**136.7**	***3.3***	***3.3***	***26.4***	***26.2***
Non-metallic mineral and other related products	127.6	135.6	*7.2*	*6.3*	*4.2*	*4.3*
Fabricated metal products	166.9	176.2	*3.6*	*5.6*	*4.1*	*4.2*
Basic metals	104.8	107.0	*2.5*	*2.1*	*3.3*	*3.3*
Transport equipment	160.5	155.4	*7.6*	*-3.4*	*7.0*	*6.5*
Food products	116.6	124.0	*-5.2*	*6.3*	*5.4*	*5.5*
Beverages	130.5	141.8	*14.4*	*8.6*	*1.0*	*1.0*
Tobacco products	112.2	118.3	*8.6*	*5.4*	*0.5*	*0.5*
Others	103.2	113.4	*-3.1*	*9.9*	*0.8*	*0.9*
Total	**126.2**	**131.2**	***4.8***	***4.0***	***100.0***	***100.0***

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

the number of employees decreased 0.1% largely due to automation to replace unskilled workers (January – July 2015: 4.7%; RM2,897; 0.1%). Capacity utilisation rate remained high at 77.5% during the second quarter of 2016 (Q1 2016: 76.7%), indicating higher output of the sector. For the year, the manufacturing sector is expected to grow 4% (2015: 4.9%).

The production of *E&E* continued to expand 6.6% during the first seven months of 2016 (January – July 2015: 7.9%), while sales increased significantly by 10.2% to RM126.8 billion (January – July 2015: 5.4%; RM115.1 billion). This was in line with the book-to-bill ratio, which was hovering above 1 during the period. Consequently, the output of electronic products, in particular, printed circuit boards increased favourably by 12.3%, while semiconductor devices and peripheral equipment rebounded 5.3% and 2.2%, respectively (January – July 2015: 7.6%; -8.5%; -2.4%). However, the output of consumer electronics grew at a moderate pace of 6.1%, partly due to the frontloading of production during the first quarter of 2015 following the implementation of Goods and Services Tax (GST) in April (January – July 2015: 102%).

Output of *refined petroleum products* increased 3.1% following higher external demand (January – July 2015: 2%). Meanwhile, output of chemicals and chemical products grew at a slower pace of 4%, partly due to lower production of industrial and medical gases, which grew 5.7% (January – July 2015: 6.6%; 23.1%). The output of plastic products rebounded 2.8% mainly on account of higher demand for plastic articles for packing of goods and finished plastic products, which increased 5.7% and 14.5%, respectively (January – July 2015: -1.5%; -2.8%; 10.6%).

Production of *wood and wood products* increased further by 7.7% (January – July 2015: 7.1%), with sales expanding 8.7% to RM8.8 billion (January – July 2015: 2.8%; RM8.1 billion). The subsector was largely supported by higher output of sawmilling and planning of wood, which recorded a significant growth of 18.7% during the period (January – July 2015: 13.9%). Meanwhile, the output of wooden and cane furniture rose 10.5% on account of increased demand from major export destinations such as the United States (US), Australia and Japan (January – July 2015: 6.5%).

Output of *rubber products* continued to expand 5.4%, largely attributed to higher demand for rubber gloves (January – July 2015: 3.4%). Output of rubber gloves grew significantly by 6.4%, benefitting from lower average selling prices of natural rubber (January – July 2015: 3.1%). In addition, demand for rubber gloves grew as a result of increasing hygiene awareness in emerging markets, especially China, India and Latin America as well as the outbreak of infectious diseases such as Zika virus, Ebola virus disease and Avian Influenza A. Meanwhile, production of rubber tyres for vehicles increased 5.2% on account of growing demand from the automotive industry, particularly from the US, Australia and Thailand (January – July 2015: 5.9%).

TABLE 3.4

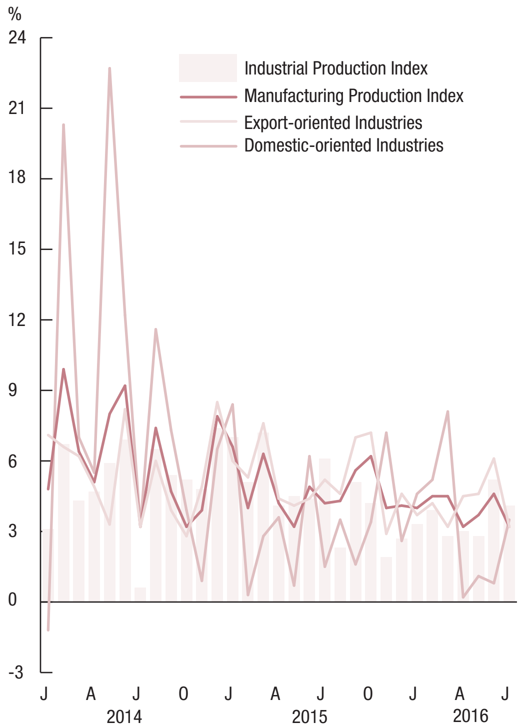
Manufacturing Output: E&E Subsector January – July
(2010 = 100)

	% Change		% Share	
	2015	**2016**	**2015**	**2016**
Electronic components and boards	*-3.2*	*8.8*	*13.9*	*14.5*
Computers and peripheral equipment	*-2.1*	*3.6*	*2.5*	*2.5*
Communication equipment	*-1.8*	*-0.3*	*1.5*	*1.4*
Consumer electronics	*102.0*	*6.1*	*4.6*	*4.6*
Electric motors, generators, transformers and electricity distribution and control apparatus	*6.6*	*3.9*	*0.6*	*0.6*
Wiring and wiring devices	*4.0*	*4.1*	*0.8*	*0.8*
Domestic appliances	*-4.2*	*9.2*	*0.3*	*0.4*
General-purpose machinery	*2.9*	*5.9*	*1.0*	*1.0*
Special-purpose machinery	*7.9*	*2.3*	*1.4*	*1.4*
Total E&E	**7.9**	**6.6**	**26.5**	**27.2**

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

CHART 3.2

Output of Manufacturing Sector
(% change)



Source: Department of Statistics, Malaysia.

Feature Article 1

Accelerating High-End Manufacturing

Introduction

Malaysia's remarkable growth performance over the past half-century was partly attributed to the manufacturing sector. The importance of the sector to the economy is evidenced in its contribution to the gross domestic product (GDP), exports and job creation. In 2015, it contributed 23% to GDP, 80.2% to total gross exports and employed 16.5% of the total workforce. However, the sector faces stiff competition from low-cost producers in the region, such as China and Viet Nam. Therefore, going forward, the Government has identified subsectors with potentials as high-end manufacturing such as electrical and electronics (E&E), aerospace, green technology and medical devices. These subsectors require moving up the value chain, which involves the process of shifting the manufacturing activity to generate higher income. It also needs more skill-intensive activities in which products meet global standard in terms of quality and technology.

Catalysts to High-End Manufacturing

Electrical and Electronics Industry

The E&E industry continues to be a key driver of the manufacturing sector, with a significant contribution to the output, employment, investment and exports. In 2015, the value-added of the E&E industry recorded RM64.6 billion, while approved investments amounted to RM8.9 billion, surpassing its target of RM5.1 billion. Value-added of E&E grew, mainly attributed to new applications for semiconductors in digitalisation, mobility, connectivity, energy efficiency and miniaturisation. Meanwhile, exports of E&E stood at RM277.9 billion, accounting for 36.5% of total exports. Recognising the importance of E&E industry to move up the value chain, the Electrical and Electronics Strategic Council was established on 25 June 2015, to uplift the industry's capabilities and competitiveness.

Aerospace Industry

The aerospace industry is a strategic sector with high growth potential in the industrialisation and technological development of the country. As at end-2015, investment in the industry amounted to RM5 billion, of which 98% was from domestic sources. Total exports of aerospace-related products increased 44.7% to RM4.2 billion in 2015, mainly attributed to exports of aircraft parts and components such as propellers and rotors. The industry comprises eight companies involving aircraft assembly, 28 companies in manufacturing of aircraft parts and components, including ground support equipment, while more than 50 companies in maintenance, repair and overhaul activities. The main export markets are the United Kingdom, Singapore, the United States, Japan and Thailand. Going forward, the Government has put in place key initiatives to make the country as the regional leader in the aerospace industry by 2030. These include the National Aerospace Blueprint (2015 – 2030) and a new Entry Point Project (EPP), namely Making Malaysia the Hub for Aerospace Original Equipment Manufacturers in Southeast Asia. The EPP is targeted to contribute RM1.1 billion to gross national income (GNI), creating RM1.9 billion investment and 3,368 highly-skilled jobs by 2020.

GreenTech Industry

GreenTech is a new growth area in the manufacturing sector. The industry is expected to generate RM22.4 billion to GDP, RM28 billion of investment and create 144,590 jobs by 2020. In developing the GreenTech industry, the Government has introduced National Green Technology Policy on 24 July 2009, which focuses on four pillars, namely, energy, environment, economy and social. The main objective of this policy is to reduce carbon emission up to 45% by 2030 from the 2005 level. In line with this, the Green Technology Financing Scheme has been extended to end-2017 with a total allocation of RM1.2 billion. This scheme enables eligible companies to obtain a 2% government subsidy on the loan interest and a 60% guarantee on the loan taken via Credit Guarantee Corporation.

Medical Devices Industry

The medical devices industry in Malaysia produces mostly export-oriented equipment and can be classified into three general categories, namely, rubber and latex products; general manufacturing of medical devices; and products manufactured by foreign multinational corporations (MNCs). As of 2015, the medical devices industry was made up of more than 190 companies, dominated by small and medium enterprises (SMEs). Most of these SMEs are manufacturers of medical gloves, while more than 20 MNCs produce medical devices. In 2015, the industry had 30 projects with total approved investment of RM1.8 billion that created 7,770 jobs. Malaysia remains the world's leading producer of catheters and medical rubber gloves accounting for 80% and 60% of the world market, respectively. The medical devices industry is expected to generate RM17.1 billion in revenue, RM11.4 billion in GNI and create 86,000 jobs by 2020.

Issues and Challenges

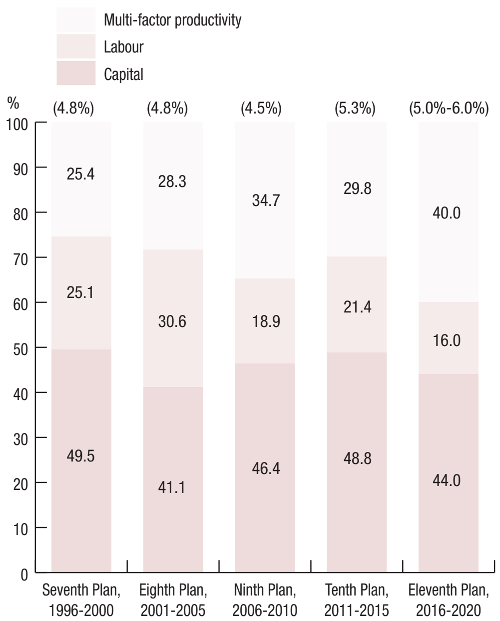
The manufacturing sector faces stiff competition from low-cost locations and inefficiencies associated with widely used cheap labour. The biggest challenge for the high-end manufacturing subsector is to strengthen innovation, enhance productivity, upgrade skills of the workforce and increase the domestic content in the Global Value Chains (GVCs).

Enhancing Total Factor Productivity

In order to transform from an input-driven to a knowledge-based economy, the level of productivity needs to be improved further as Malaysia still lags behind most of the developed economies. For the period of 2011-2014, Malaysia's Total Factor Productivity was at 0.7% compared with Republic of Korea (1%) and Taiwan (1.2%). The economy is still driven by traditional factors of production, namely, capital and labour, which contributed about 70% to GDP growth between 2010 and 2015. This calls for a shift from labour-intensive to technology- and innovation-driven manufacturing.

CHART 1

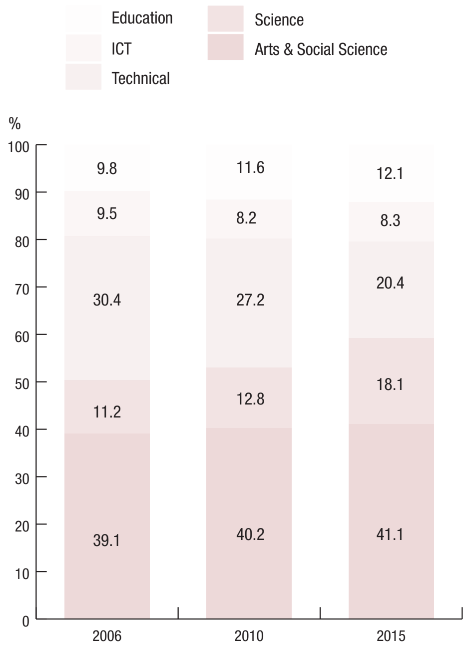
Factors of Production 1996 – 2020



Note: Based on GDP in 2010 prices.
Figures in parentheses: Real GDP growth (% per annum).
Source: Economic Planning Unit and Department of Statistics, Malaysia.

CHART 2

Graduates by Field of Study 2014



Source: Graduate Employability Tracer Study, Ministry of Higher Education, 2014.

Strengthening Innovation

Innovation is a prerequisite to enhance competitiveness and participation in the GVCs. It also improves the quality of product and processes. A shift towards innovation-led growth would help substantially in pursuing industrial upgrading. However, Malaysia's innovation remains low mainly due to inadequate funding, low involvement of the private sector in research and development (R&D) and lack of researchers.

The low level of innovation is also reflected by the number of patents, industrial designs and trademark applications, which is lagging behind other countries in the region. Apart from R&D investments, the availability of human resources in the Science and Technology (S&T) field is a crucial determinant of an innovative economy. Despite efforts undertaken by the Ministry of Education to promote S&T, Engineering and Mathematics, only 26.4% of the students graduated in Information and Communications Technology (ICT) and Science in 2014.

TABLE 1

Number of Patents, Trademark and Industrial Design Applied 2014

	Patent	Trademark	Industrial Design
Malaysia	**7,620**	**34,571**	**1,882**
Korea	210,292	208,921	68,441
India	42,854	222,653	9,309
China	928,177	2,222,680	564,555
Upper middle-income	1,033,100	2,773,472	656,300

Source: World Intellectual Property Organisation (WIPO), 2014.

Upgrading Skill Gaps

A nation with high productivity requires an educated workforce that possesses the skills, knowledge and talent to attract investment. In 2014, only 25% of the Malaysian jobs were in high skilled bracket as more than three quarters of the working population are educated only up to Malaysian Certificate of Education or equivalent level. Following skills deficiency such as lack of ICT knowledge and English language proficiency, about 25% of graduates were unemployed upon graduation. Meanwhile, Technical and Vocational Education and Training (TVET) faces several challenges such as uncoordinated governance, fragmented delivery, lack of recognition for TVET graduates and competency gaps of instructors. These challenges need to be addressed to ensure that TVET institutions produce quality graduates, which matches industry requirements.

Moving Up the Global Value Chain

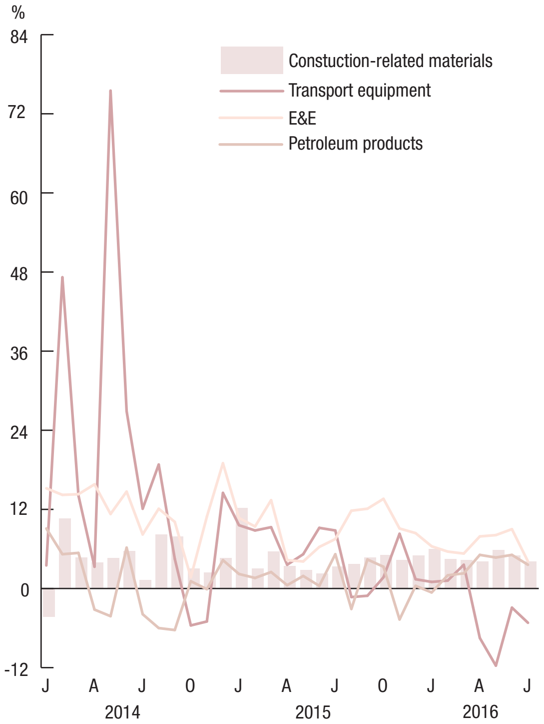
Malaysia's contribution to the GVCs has been relatively strong, consistent with its openness to trade and ease of doing business. This is evident in Malaysia's GVCs trade which accounted for 2.7% of global and 5.2% of Asia over the period 2009 – 2013. This ranks Malaysia the fourth most active Asian economy in GVCs trade after China, Japan and Republic of Korea. However, it is heavily concentrated in backward linkages with lower value-added contributions. As domestic value-added measures the extent to which trade contributes to the GDP of the country, it is important for Malaysia to increase the local content in the GVCs.

Conclusion

By 2020, the manufacturing sector is expected to grow by 5.1% per annum and contribute 22.5% to GDP as well as 18.2% to total employment. This growth will be mainly contributed by the high-end manufacturing subsectors. To achieve this target, Malaysia needs to accelerate the adoption of technology and innovation as well as increase investment in human capital and R&D to move up the value chain of the manufacturing sector.

CHART 3.3

Performance of Selected Industries
(% change)



Source: Department of Statistics, Malaysia.

TABLE 3.5

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

	% Change		% Share	
	2015	**2016**	**2015**	**2016**
Glass and glass products	*1.1*	*21.9*	*0.8*	*0.9*
Non-metallic mineral products n.e.c.	*8.7*	*2.8*	*3.4*	*3.4*
Structural metal products, tanks, reservoirs and steam generators	*-3.3*	*5.0*	*1.5*	*1.5*
Other fabricated metal products, metal working service activities	*7.7*	*5.9*	*2.7*	*2.7*
Basic iron and steel	*3.1*	*-2.0*	*2.3*	*2.2*
Basic precious and other non-ferrous metals	*1.2*	*11.1*	*1.0*	*1.1*
Total construction-related materials	***4.5***	***4.8***	***11.7***	***11.8***

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

Output of *construction-related materials* continued to increase 4.8% (January – July 2015: 4.5%) mainly supported by higher production of non-metallic mineral and basic metals as well as fabricated metal products, which grew 6.3%, 2.1% and 5.6%, respectively (January – July 2015: 7.2%; 2.5%; 3.6%). Production of glass products, pig iron and other structural metal products increased significantly by 21.9%, 24.7% and 8.3%, respectively (January – July 2015: 1.1%; 16.4%; 0.2%). Growth of the subsector was attributed to higher demand from civil engineering and residential subsectors.

Output of *transport equipment* contracted 3.4% during the first seven months of 2016 (January – July 2015: 7.6%). The sluggish performance of the subsector was due to lower production of motor vehicles (-22.2%), motorcycles (-8.3%) as well as building of ships and boats (-1.7%) (January – July 2015: -8.7%; 8.7%; 10.2%). Sales of vehicles declined 14.8% to 370,242 units (January – August 2015: -2.3%; 434,390), of which, 328,227 were passenger vehicles, while the remaining were commercial vehicles. In 2016, sales are expected to drop, with the total industry volume estimated at 580,000 units reflecting cautious market sentiment (2015: 666,674).

Manufacture of *food products* rebounded 6.3% (January – July 2015: -5.2%) mainly driven by higher output of grain mill products (9.8%), manufacture of bread and cake products (17.5%) and sugar (13%) (January – July 2015: -13.2%; -17.4%; -0.6%). However, manufacture of refined palm oil products declined 3.3% due to lower production of crude palm oil (CPO) (January – July 2015: -16%). Meanwhile, total sales of the subsector grew higher at 13.2% to RM23.6 billion (January – July 2015: 0.7%; RM20.8 billion). This was supported by strong demand from regional economies and festivities as well as events such as the Malaysian International Food and Beverages Trade Fair and the Euro Cup.

Agriculture Sector

Lower production of crude palm oil

The **agriculture** sector contracted 6% in the first half of 2016 due to lower output of CPO and rubber (January – June 2015: 0.3%). Nevertheless, production of food commodities such as livestock, fruits and vegetables grew supported by various programmes and initiatives by the Government to achieve self-sufficiency level. For the year, value-added of the agriculture sector is envisaged to decline 3.3% mainly weighed down by lower CPO production (2015: 1.2%).

Value-added of the *oil palm* subsector contracted further by 15.2% due to lower output of CPO, which was adversely affected by unfavourable weather condition (January – June 2015: -0.4%). During the first nine months of 2016, production of CPO declined sharply by 15.3% to 12.6 million tonnes (January – September 2015: 1.4%; 14.9 million tonnes). This was largely due to the decline in fresh fruit bunches yield to 11.6 tonnes per hectare and lower

TABLE 3.6

Value-added in the Agriculture Sector 2015 – 2016
(at constant 2010 prices)

	% Change		% Share	
	2015	2016[2]	2015	2016[2]
Oil palm	*1.3*	*-9.5*	*46.9*	*43.9*
Rubber	*8.1*	*-5.0*	*7.2*	*7.1*
Livestock	*2.4*	*3.6*	*10.7*	*11.4*
Other agriculture[1]	*2.6*	*5.7*	*17.7*	*19.3*
Forestry and logging	*-9.9*	*-2.9*	*6.9*	*6.9*
Fishing	*0.6*	*3.2*	*10.7*	*11.4*
Agriculture	***1.2***	***-3.3***	***100.0***	***100.0***

[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.

TABLE 3.7

Oil Palm: Areas, Yield and Production 2015 – 2016

			% Change	
	2015	2016[2]	2015	2016[2]
Planted areas ('000 hectares)	5,392	5,858	*3.1*	*8.6*
Matured areas ('000 hectares)	4,689	5,085	*3.6*	*8.4*
Yield[1] (tonnes/hectare)	18.5	17.5	*-0.8*	*-5.3*
Production				
Crude palm oil ('000 tonnes)	19,962	18,000	*1.5*	*-9.8*

[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.

oil extraction rate of 20.2% (January – September 2015: 13.7 tonnes per hectare; 20.3%). For the year, output of CPO is expected to be lower at 18 million tonnes (2015: 20 million tonnes).

During the first nine months of 2016, average CPO price increased to RM2,556 per tonne attributed to weather-related supply constraint (January – September 2015: RM2,151 per tonne). Meanwhile, the monthly closing stock decreased to 1.5 million tonnes as at end-September 2016 due to lower CPO production (end-September 2015: 2.6 million tonnes). In 2016, the price is expected to stabilise at around RM2,500 per tonne as production is expected to improve in tandem with the fading of El Niño effect during the second half of the year (2015: RM2,158 per tonne).

During the first half of 2016, value-added of the *rubber* subsector declined significantly by 9.7% following unfavourable weather conditions and low prices

TABLE 3.8

Rubber: Areas, Yield and Production 2015 – 2016

			% Change	
	2015	2016[1]	2015	2016[1]
Total areas ('000 hectares)	1,071	1,084	*0.4*	*1.2*
Smallholdings	993	1,000	*0.7*	*0.7*
Estates	78	84	*-2.2*	*7.7*
Yield (kg per hectare)				
Smallholdings	1,400	1,450	*3.7*	*3.6*
Estates	1,560	1,580	*-2.1*	*1.3*
Total production ('000 tonnes)	722	650	*8.0*	*-10.0*
Smallholdings	665	599	*8.5*	*-9.9*
Estates	57	51	*2.3*	*-11.1*
% of world production	*5.9*	*5.2*		

[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.

(January – June 2015: 1%). Production of rubber contracted significantly by 9.3% to 415,385 tonnes (January – August 2015: 0.8%; 457,954 tonnes). Meanwhile, for the year, production is anticipated to contract 10% to 650,000 tonnes as low prices discourage tapping activities (2015: 8%; 722,122 tonnes).

During the first nine months of 2016, price of natural rubber (SMR20) averaged at RM5.17 per kilogramme (kg), with the lowest price recorded at RM4.27 per kg on 11 February 2016 (January – September 2015: RM5.27 per kg). Lower rubber prices were attributed to weak demand, particularly from China following anti-dumping and countervailing duties by the US on certain auto-tyres. However, prices are expected to remain stable as Thailand, Indonesia and Malaysia are committed to reducing exports under the International Tripartite Rubber Council. As an effort to encourage smallholders to continue tapping amid the low market prices and to ease burden of smallholders, the Government has increased the activation rate of the Rubber Production Incentive Scheme to RM5.50 per kg (f.o.b) and RM2.20 per kg (farm-gate price) effective January 2016 (September 2015: RM5.10 per kg; RM2 per kg). Consequently, rubber prices are expected to stabilise at RM5 per kg in 2016 (2015: RM5.22 per kg).

Value-added of agro-food subsector grew 4.5% during the first half of 2016 in line with the Government's effort to enhance food security (January – June 2015: 3.7%). *Livestock* subsector increased 4.9% largely attributed to higher output of poultry (January – June 2015: 3.7%). Value-added of *other agriculture*

Info Box 1

Impact of El Niño on Oil Palm Subsector

Introduction

Malaysia is the second largest producer and exporter of palm oil. In 2015, Malaysia produced 20 million tonnes of crude palm oil (CPO), accounting for 32% of the world production. Palm oil also contributes 5.8% to the total export earnings. However, production of CPO was affected by the recent episode of El Niño (March 2015 – May 2016), which has intensified droughts and caused water shortages.

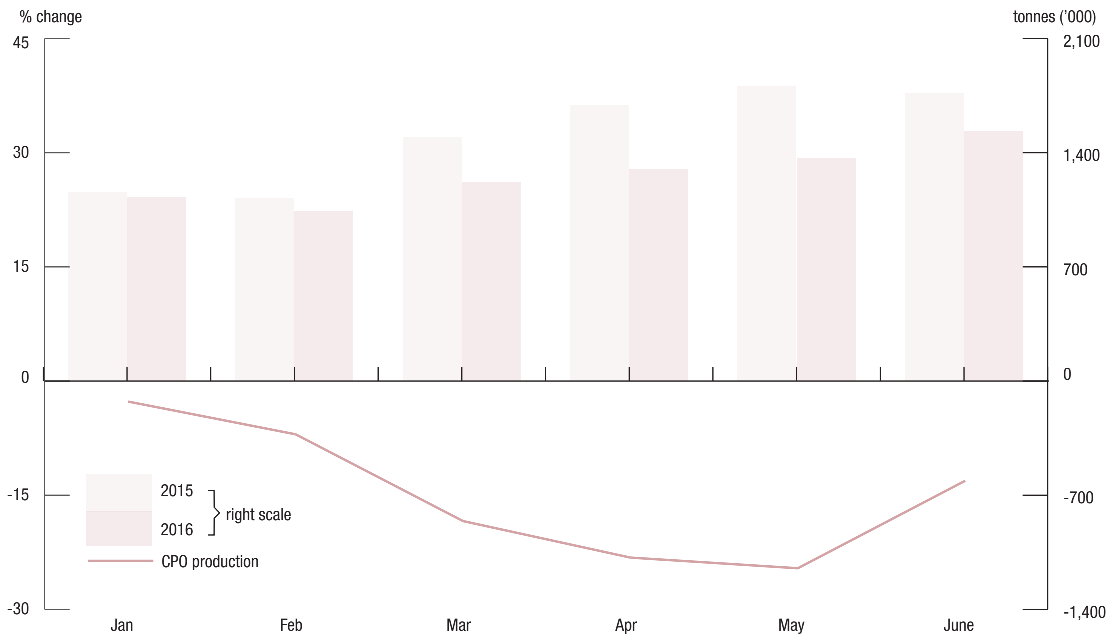
El Niño is a warming of sea surface temperatures in the eastern Pacific Ocean. During El Niño episodes, the normal patterns of tropical precipitation and atmospheric circulation is disrupted, triggering extreme climate events such as droughts, floods as well as affecting the intensity and frequency of hurricanes. Since the last 30 years, the episodes of strongest El Niño were between 1982 – 1983 and 1997 – 1998.

Impact on CPO Production

El Niño affects the maturation process of fresh fruit bunches (FFB) as it causes hot weather and less rainfall. Consequently, during the first six months of 2016, the FFB yield declined by 16.2% to 7 tonnes per hectare (January – June 2015: -1.8%; 8.4 tonnes per hectare), while CPO production contracted 16.1% to 7.6 million tonnes (January – June 2015: -0.2%; 9 million tonnes). This led to a decline in palm oil inventory to 1.8 million tonnes in June 2016 (June 2015: 2.1 million tonnes).

CHART 1

Crude Palm Oil Production



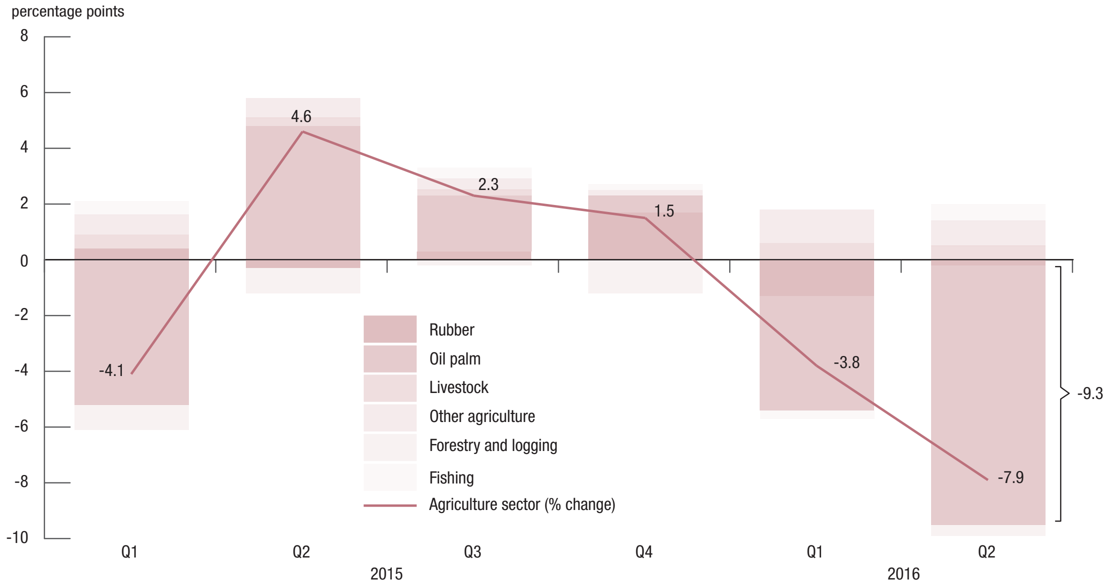
Source: Malaysian Palm Oil Board and Department of Statistics, Malaysia.

Impact on Agriculture Sector

As oil palm contributes about 40% to the agriculture sector, the fall in CPO production affected the overall performance of the sector significantly. During the second quarter of 2016, the agriculture sector contracted 7.9% (Q2 2015: 4.6%). This was mainly attributed to weak oil palm subsector following the drop in CPO production, causing a decline of 9.3 percentage points to the overall growth of the sector.

CHART 2

Contribution to Agriculture Sector



Source: Department of Statistics, Malaysia.

Impact on CPO Prices

As the supply of palm oil was affected by El Niño, CPO prices trended upwards. During the first half of 2016, the average price of CPO increased 13.4% to RM2,517 per tonne (January – June 2015: RM2,219 per tonne), recording the highest level at RM2,709 per tonne on 1 April 2016. For the year, the price of CPO is expected to average around RM2,500 per tonne, given the expected improvement in output and weather condition.

Impact on Export Revenue

An upward trend in the CPO prices following supply constraint had led to higher export price to RM2,560 per tonne during the first half of 2016 (January – June 2015: RM2,397 per tonne). However, the shipments fell to 7 million tonnes compared with the same period last year (7.7 million tonnes). Consequently, this has resulted in lower export receipts of RM18.1 billion (January – June 2015: RM18.5 billion).

Conclusion

During the first half of 2016, the production of CPO was severely affected by El Niño phenomenon. This has resulted in the overall sluggish performance of agriculture sector. However, the ending of the El Niño weather condition is expected to increase production of CPO for the remaining of the year.

TABLE 3.9

Production of Other Agriculture 2015 – 2016

	('000 tonnes)		% Change	
	2015	2016[3]	2015	2016[3]
Cocoa	**1.7**	**2.0**	***-35.1***	***15.7***
Paddy	**3,322**	**3,514**	***16.6***	***5.8***
Livestock				
Meat[1]	271	269	*-1.6*	*-0.6*
Poultry	1,614	1,671	*2.6*	*3.6*
Eggs (million)	12,918	13,779	*6.5*	*6.7*
Milk (million litre)	76	77	*1.0*	*0.7*
Miscellaneous agriculture				
Fruits[2]	1,188	1,242	*-0.7*	*4.5*
Pepper	28	30	*2.9*	*4.2*
Vegetables	1,373	1,505	*-5.5*	*9.6*
Coconut (million unit)	506	526	*-15.0*	*4.1*
Flowers (million cutting)	510	526	*2.3*	*3.1*

[1] Including beef, mutton and pork.
[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: Ministry of Plantation Industries and Commodities; and Ministry of Agriculture and Agro-Based Industry, Malaysia.

TABLE 3.10

Crude Oil and Natural Gas: Production and Reserves 2015 – 2016

			% Change	
	2015	2016[3]	2015	2016[3]
Crude oil				
Production[1] ('000 barrels per day)	662	648	*9.8*	*-2.1*
Reserves (billion barrels)	6.0	5.9	*2.8*	*-0.8*
Reserves / production (years)	27	24		
Natural gas				
Production[2] (million standard cubic feet per day)	6,218	6,798	*-1.8*	*9.3*
Reserves (trillion cubic feet)	103.9	100.4	*3.2*	*-3.4*
Reserves / production (years)	44	43		

[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.

subsector grew 5.5% on account of higher production of fruits and vegetables (January – June 2015: 3.6%). Meanwhile, value-added of *fishing* subsector grew 2% supported by higher marine fish landings (January – June 2015: 2.2%).

Mining Sector

Higher natural gas production

The **mining** sector grew at a moderate pace of 1.4% during the first six months of 2016 supported by the upturn in natural gas (January – June 2015: 7.8%). Value-added of *natural gas* subsector rebounded 1.9% attributed to higher output, particularly from Peninsular Malaysia and Sabah fields (January – June 2015: -1.8%). Meanwhile, value-added of *crude oil (including condensates)* subsector grew marginally by 0.2% due to lower output from Sarawak fields (January – June 2015: 17%). For the year, mining sector is expected to grow 1.1% (2015: 4.7%) on account of higher output of natural gas with the increase in capacity following resumption of Sabah-Sarawak Gas Pipeline as well as the commencement of the Sabah Ammonia Urea (SAMUR) and LNG Train 9 projects. However, output of crude oil (including condensates) is expected to decline 2.1% mainly due to prolonged low oil prices and rising number of matured oil fields (2015: 9.8%).

Following slower pace of global economic growth, high inventory and continued strong supply from Organisation of the Petroleum Exporting Countries (OPEC), Brent oil was traded lower at an average of USD42 per barrel (pb) during the first nine months of 2016 (January – September 2015: USD55.4 pb). Notwithstanding the potential OPEC deal to cut production, Brent oil is expected to trade around USD40 – USD45 pb in the second half of 2016, reflecting the current global uncertainties and continued oil glut.

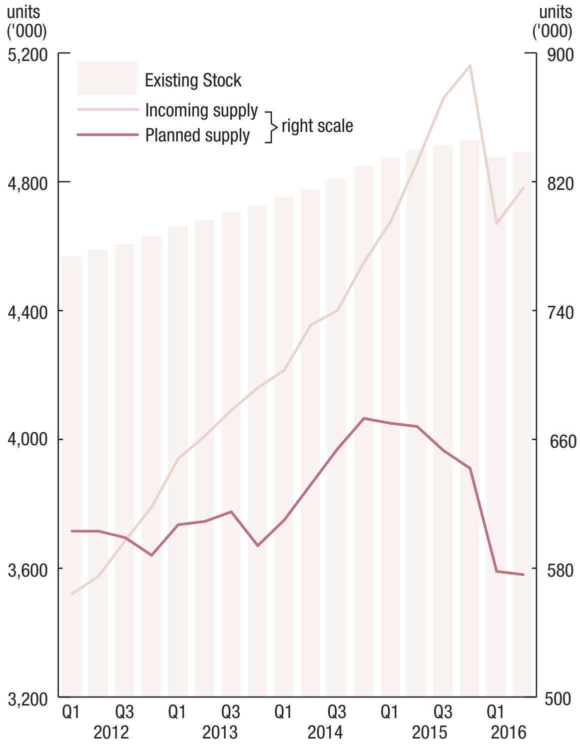
Construction Sector

Civil engineering underpins growth

Value-added of the **construction** sector recorded a strong growth of 8.4% during the first half of 2016 (January – June 2015: 7.6%). The acceleration of civil engineering works and sustained expansion in residential activities outweighed the tapering growth in the non-residential subsector. Overall, these three property subsectors contributed the highest share (more than 80%) of all construction activities. Total value of construction works completed during the first half of 2016 expanded 11.4% to RM62 billion with 11,881 projects (January – June 2015: 11.6%; RM56 billion; 12,158 projects). The civil engineering subsector contributed 33.2% to the total value of construction works, followed by non-residential (32.1%), residential (29.8%) and specialised construction

CHART 3.4

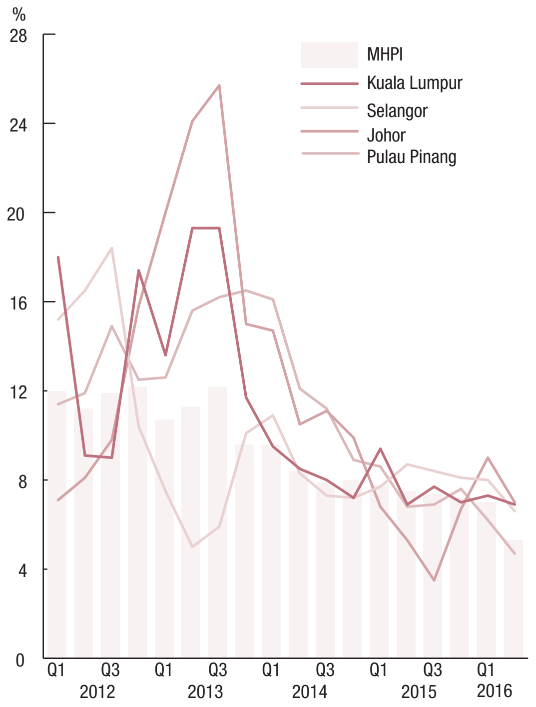
Supply Indicators of Residential Property



Source: National Property Information Centre.

CHART 3.5

Malaysian House Price Index
(% change)



Source: National Property Information Centre.

activities (4.9%) subsectors. The private sector continued to dominate construction activity with a share of 66.3% in the first half of 2016. For the year, the construction sector is expected to expand 8.7% (2015: 8.2%).

The *civil engineering* subsector recorded a double-digit growth of 21.4%, supported by investment in petrochemical industries and ongoing infrastructure works (January – June 2015: 2.9%). These include the construction of Refinery and Petrochemical Integrated Development (RAPID); Independent Deepwater Petroleum Terminal Phase 2 Pengerang; and Petronas LNG Complex Bintulu. The upgrading of Klang Valley Double Track Rawang – Salak Selatan Line; construction of new Deep Water Terminal at Kuantan Port, Pan Borneo Highway Phase 1 and Water Supply Scheme Kuala Terengganu North; as well as road upgrading works, especially in Selangor, Pahang and Johor are expected to further augment the growth of this subsector.

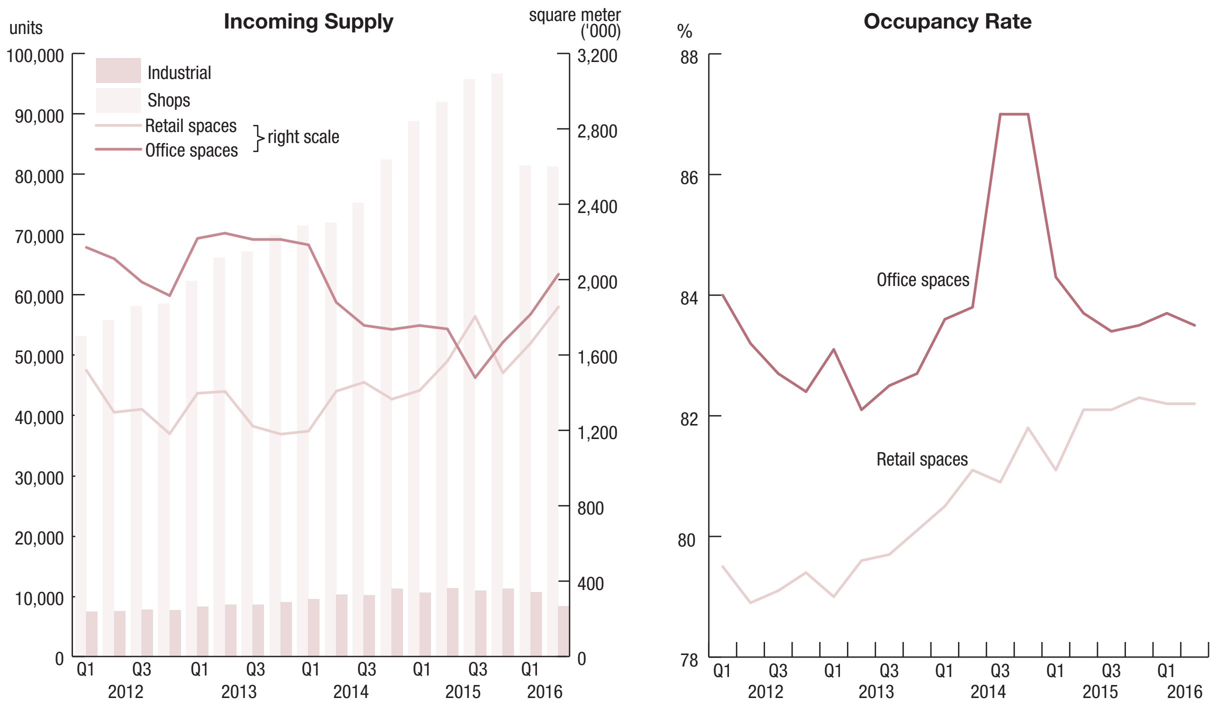
The *residential* subsector grew 10.4% supported by steady growth in incoming supply at 13.1% to 816,174 units (January – June 2015: 13.5%; 10.3%; 721,730 units). Klang Valley, accounting for 26.2%, continued to contribute the most of the incoming supply mainly due to increasing affordable housing schemes (January – June 2015: 25.6%). However, during the period, new approvals declined significantly by 32% to 44,389 units as developers are clearing unsold properties, while buyers are more cautious amid increasing uncertainties in the global environment (January – June 2015: -2.1%; 65,231 units). Likewise, housing starts declined 16.8% to 60,378 units (January – June 2015: 15%; 72,545 units). Of which, terrace houses and condominiums/apartments accounted for 43.6% (26,324 units) and 29.9% (18,070 units), respectively, while low-end houses 11% (6,617 units). The take-up rate for residential units was lower at 25.6% in the first half of 2016 largely reflecting softer demand for high-end units (January – June 2015: 29.8%).

During the first half of 2016, a total of 102,096 residential properties valued at RM32.7 billion were transacted, accounting for 62.4% of total property transactions (January – June 2015: 119,446 transactions; RM36.5 billion; 64.1%). Residential properties transacted in Kuala Lumpur recorded a marked contraction of 20.1%, followed by Selangor (-14.1%), Pulau Pinang (-13.5%), and Johor (-10.9%). The softening of the transaction was partly due to the buyers' cautious sentiment and measures to contain the accelerating house prices. The residential overhang increased 63.1% to 13,438 units with a total value of RM7.6 billion during the first half of 2016 (January – June 2015: -24.1%; 8,238 units; RM2.7 billion) with Johor accounting for the highest overhang units at 21.1% (2015: 23.3%).

Malaysia House Price Index (MHPI) continues to moderate reflecting implementation of various measures to contain spiralling prices. The MHPI stood at 235.4 points (at base year 2000) during the second quarter of 2016, increasing

CHART 3.6

Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

5.3%, the lowest since the fourth quarter of 2009 (Q2 2015: 223.5 points; 7.5%). All states recorded a positive growth except Kelantan (-0.2%) and Sabah (-0.6%). Johor registered the highest increase of 7%, followed by Kuala Lumpur (6.9%), Selangor (6.6%), Kedah (6.5%) and Negeri Sembilan (6.2%). The average all-house price increased to RM326,241 in the second quarter of 2016 relative to RM309,705 for the corresponding period in 2015, with detached houses recording the highest increase at 6.5%, followed by high rise units (6%) and terrace houses (5.7%).

Construction activity in the *non-residential* subsector grew at a moderate pace of 3% (January – June 2015: 19.8%). This was mainly due to a further decline in construction starts, particularly in the industrial (-77.1%), shopping complexes (-43.6%) and shops[3] (-36.5%) segments (January – June 2015: -21.5%; 618.7%; 156.7%). The Purpose-Built Office (PBO) segment improved with the incoming supply rebounding 28.4% to 2 million square metres (sm), while planned supply increased sharply by 56% to 1 million sm (January – June 2015: -15.9%; 1.6 million sm; 36.6%; 0.7 million sm).

Shop segment recorded 6,513 transactions worth RM4.7 billion during the first half of 2016, constituting 56% of total commercial property transactions (January – June 2015: 10,045 transactions; RM7.9 billion). Johor contributed the highest market volume of 17.5% followed by Selangor (16.1%). The shop overhang increased 22.6% to 5,024 units valued at RM2.5 billion during the period following a more cautious sentiment among businesses (January – June 2015: -14.8%; 4,097 units; RM1.7 billion). However, demand for commercial buildings remained favourable with the average occupancy rate of retail space at 82.2% and office (83.5%), reflecting sustained demand for commercial space in prime areas. As at end-June 2016, the existing stock of shopping complexes and industrial segment stood at 14.2 million sm and 106,453 units, respectively (end-June 2015: 13.4 million sm; 103,103 units). The Purpose-Built Office Rent Index Wilayah Persekutuan Kuala Lumpur increased 4% to 128.7 points in the second quarter of 2016 (Q2 2015: 3.5%; 123.7 points). Kuala Lumpur City Center recorded the highest rental increase of 4.2% to RM4.73 per square feet (psf), surpassing the average rate of RM4.62 psf in Wilayah Persekutuan Kuala Lumpur.

Domestic Demand Performance

Strong private sector activity leads growth

Domestic demand will remain as the key driver of growth in 2016, expanding steadily by 4.7% mainly attributed to ***private sector*** spending, which is expected to increase 5.9% (2015: 5.1%; 6.1%). Meanwhile, ***public sector*** expenditure is expected to increase marginally by 0.8%

[3] Including Small Office Home Office and serviced apartment.

TABLE 3.11

GDP by Aggregate Demand 2015 – 2017
(at constant 2010 prices)

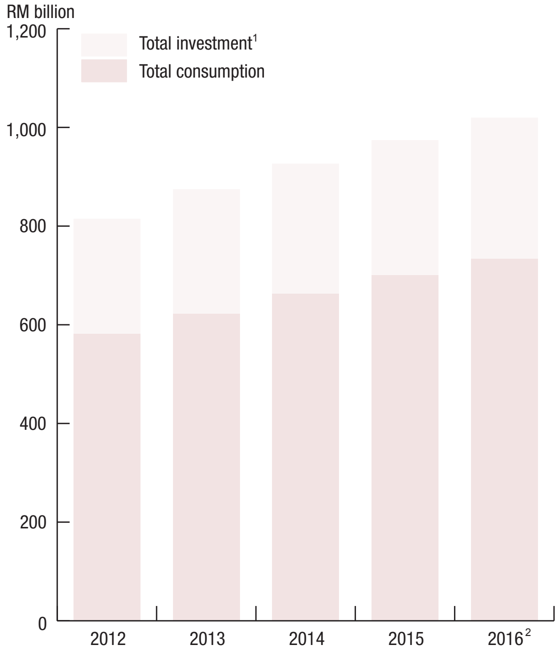
	% Share	% Change		
	2016[3]	2015	2016[3]	2017[4]
Domestic demand[1]	***92.0***	***5.1***	***4.7***	***4.9***
Private expenditure	***70.4***	***6.1***	***5.9***	***6.2***
Consumption	*53.3*	*6.0*	*6.1*	*6.3*
Investment	*17.0*	*6.4*	*5.3*	*5.8*
Public expenditure	***21.6***	***2.1***	***0.8***	***0.6***
Consumption	*13.0*	*4.4*	*0.2*	*0.4*
Investment	*8.7*	*-1.0*	*1.7*	*1.1*
External sector	***7.8***	***-3.8***	***-4.7***	***1.9***
Exports[2]	*70.4*	*0.6*	*0.7*	*2.5*
Imports[2]	*62.6*	*1.2*	*1.4*	*2.6*
GDP	***100.0***	***5.0***	***4.0 – 4.5***	***4.0 – 5.0***

[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 Aggregate Demand
(at constant 2010 prices)



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

(2015: 2.1%). With both household consumption and total investment remaining resilient, the GDP is estimated to expand between 4% and 4.5% in 2016 (2015: 5%).

Private investment will remain resilient, recording a growth of 5.3% in 2016 supported by favourable business climate and continuous pro-business initiatives by the Government (2015: 6.4%). The Business Condition Index by Malaysian Institute of Economic Research gained 13.6 points to 106.4 points during the second quarter of 2016, reflecting improved market sentiment (Q1 2016: 92.8 points). For the year, capital outlays will be mainly concentrated in the services, manufacturing and construction sectors. In the services sector, investment will be largely in the distributive trade and tourism subsectors. Information and communication subsector is expected to support investment following further enhancement in network and application services. Meanwhile, capital spending in the manufacturing sector will be supported by expansion in E&E and medical devices industries. Investment in construction sector will be mainly driven by infrastructure projects.

Malaysia continues to receive net FDI inflows totalling RM23.8 billion during the first half of 2016 (January – June 2015: RM26.7 billion). The main sources of FDI were Hong Kong (57.3%), Singapore (18.3%), the United Kingdom (UK) (6.7%) and Japan (6.6%). Bulk of the FDI inflows were in services and manufacturing sectors. Meanwhile, investment approved by Malaysian Investment Development Authority during the first six months of 2016 amounted to RM88.5 billion involving 2,499 projects (January – June 2015: RM126 billion; 2,730 projects). The approved investment was mainly in the real estate, financial services and E&E industries. Domestic investors contributed 68.1% of the total investment approved.

Private consumption contributing 53.3% to GDP is expected to expand 6.1% in 2016 supported by stable employment and income growth (2015: 52.4%; 6%). Various Government measures, including continuation of cash transfer; tax relief to middle-income group; reduction in employees' contribution to Employees Provident Fund (EPF); upward revision of minimum wage; as well as additional one annual increment and cash assistance to civil servants are expected to provide impetus to consumption activity. The gradual improvement in consumer sentiment was reflected by the increase in Consumer Sentiment Index which edged up to 78.5 points during the second quarter of 2016 (Q1 2016: 72.9 points). Other indicators, such as sales of food and imports of consumption goods also registered high growth of 29.9% and 12.5%, respectively, during the first eight month of 2016 (January – August 2015: 0.2%; 16.4%).

Public investment is envisaged to rebound 1.7% mainly due to higher development expenditure (DE) of Federal Government and continued capital outlays by public corporations (2015: -1%). The DE is projected to grow 10.4% (2015: 3.2%), with the bulk of it were in the economic sector (61.4%). Public corporations, in particular, Petroliam Nasional Berhad (PETRONAS), Tenaga Nasional Berhad (TNB) and Telekom Malaysia Berhad (TM) are

TABLE 3.12

Savings-Investment Gap 2015 – 2017
(at current prices)

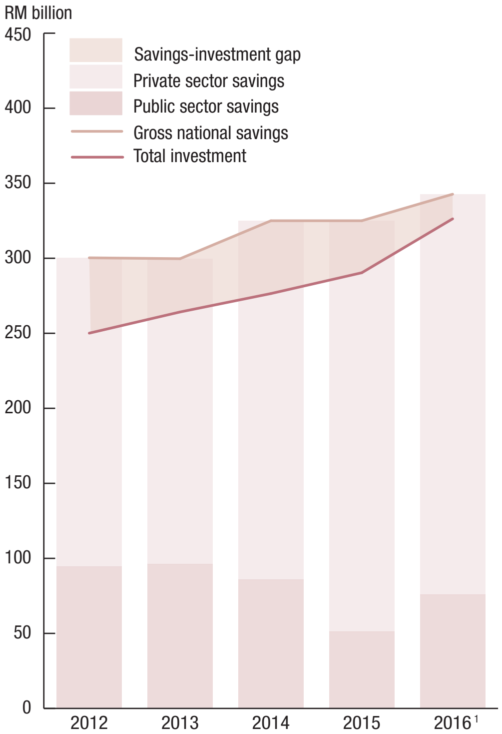
	RM million		
	2015	**2016[2]**	**2017[3]**
Public sector			
Savings	51,134	75,765	77,690
Gross capital formation[1]	104,126	107,706	110,515
Surplus/Deficit	**-52,992**	**-31,941**	**-32,825**
Private sector			
Savings	273,870	266,955	288,128
Gross capital formation[1]	186,221	218,586	240,532
Surplus/Deficit	**87,649**	**48,369**	**47,596**
Overall			
Gross national savings	325,005	342,720	365,818
% of GNI	*28.9*	*28.6*	*28.4*
Gross capital formation[1]	290,347	326,292	351,047
% of GNI	*25.8*	*27.3*	*27.3*
Surplus/Deficit	**34,657**	**16,428**	**14,771**
% of GNI	*3.1*	*1.0 – 1.5*	*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.

CHART 3.8

Gross National Savings and Savings-Investment Gap



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

expected to increase investment to expand capacity and upgrade services. Among the major projects by PETRONAS in the upstream activity include, the LNG Train 9, PETRONAS First Floating LNG (PFLNG 1), Dalak gas pipeline and Malikai marginal field. Meanwhile, investment in downstream activity includes RAPID, Pengerang Cogen Plant and SAMUR. TNB's capital expenditures were mainly in the construction of power plants including Jimah, Ulu Jelai and Manjung 5. Capital spending by TM aims to improve service quality and expansion of core network as well as increase accessibility to suburban and rural areas. *Public consumption* is estimated to grow marginally by 0.2%, reflecting Government's commitment towards a more prudent spending (2015: 4.4%).

GNI in current prices is expected to increase 6.4% in 2016 (2015: 5.2%). Meanwhile, **gross national savings (GNS)** is anticipated to grow 5.5% to RM342.7 billion or 28.6% of GNI (2015: -0.01%; RM325 billion; 28.9%). Total investment (including changes in stocks) is expected to increase significantly by 12.4% to RM326.3 billion (2015: 5%; RM290.3 billion). The savings-investment gap is envisaged to narrow to RM16.4 billion or in the range of 1% – 1.5% of GNI, reflecting stronger growth in investment activity amid a sustained level of savings (2015: RM34.7 billion; 3.1%).

External Sector

Trade Performance

Trade balance remains in surplus

During the first eight months of 2016, total trade rebounded 0.9% to RM948.4 billion (January – August 2015: -1.9%; RM940 billion) due to sustained global trade. Gross exports and imports rebounded 0.9%, respectively, resulting in a trade surplus of RM52.2 billion (January – August 2015: -1.9%; -1.9%; RM51.3 billion). Export growth was supported by higher demand for manufactured and agriculture goods despite weaker mining receipts. Growth in imports was mainly attributed to increasing demand for capital and consumption goods. For the year, gross exports and imports are expected to grow 1.1% and 1.3%, respectively, with trade surplus remaining sizeable at RM91.4 billion (2015: 1.6%; 0.4%; RM91.6 billion).

Exports of Manufactured Goods

Buoyed by E&E and chemical products

Manufactured goods comprising about 83% of total exports rose 3.8% to RM413.3 billion during the first eight months of 2016 (January – August 2015: 80.3%; 3%; RM398.1 billion), mainly led by the expansion in E&E as well as chemicals and chemical products. Major export markets were Singapore, the US, China, Japan and Hong Kong.

TABLE 3.13

External Trade 2015 – 2017

	RM million			% Change		
	2015	**2016[1]**	**2017[2]**	**2015**	**2016[1]**	**2017[2]**
Total trade	**1,463,134**	**1,480,062**	**1,524,744**	***1.0***	***1.2***	***3.0***
Gross exports	**777,355**	**785,709**	**806,532**	***1.6***	***1.1***	***2.7***
of which:						
Manufactured	625,429	648,602	667,244	*6.5*	*3.7*	*2.9*
Agriculture	67,247	68,042	69,120	*-2.8*	*1.2*	*1.6*
Mining	80,194	64,428	65,894	*-22.9*	*-19.7*	*2.3*
Gross imports	**685,778**	**694,353**	**718,212**	***0.4***	***1.3***	***3.4***
of which:						
Capital goods	95,551	97,209	101,627	*-0.3*	*1.7*	*4.5*
Intermediate goods	399,526	401,336	417,999	*-2.1*	*0.5*	*4.2*
Consumption goods	62,430	68,741	71,821	*24.1*	*10.1*	*4.5*
Trade balance	**91,577**	**91,355**	**88,320**	***11.0***	***-0.2***	***-3.3***

[1] Estimate.
[2] Forecast.

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

E&E exports grew 2.2% mainly supported by sustained demand for semiconductor devices (1.2%) and a sharp increase in telecommunication equipment (10.9%) (January – August 2015: 7.4%; 10.3%; 0.1%). Exports of semiconductors were primarily driven by photosensitive semiconductor devices, which increased significantly by 30.2%, particularly to the US. This was mainly due to the extension of investment tax credit for solar and renewable energy projects. Meanwhile, higher receipts from telecommunication equipment segment were mainly due to strong demand from the US, Mexico, Singapore and Germany. On the contrary, exports of electronic integrated circuits and automatic data processing machines declined 2.5% and 3.8%, respectively. Overall, demand for E&E products remained favourable mainly from the US, Singapore, Germany and Mexico.

Non-E&E exports rebounded 5.1% (January – August 2015: -0.2%) with expansion across major subsectors, particularly chemicals and chemical products; machinery, equipment and parts; manufactures of metal as well as optical and scientific equipment. However, negative growth was recorded in petroleum products; iron and steel; non-metallic mineral; and jewellery.

Exports of *chemicals and chemical products* increased 6.4% (January – August 2015: 5.6%), mainly contributed by higher receipts from organic chemicals (6.9%) and plastics in primary form (9.2%). Strong demand was recorded from major markets, notably China, Viet Nam, the Netherlands, Republic of Korea and Hong Kong. Similarly, *manufactures of plastics* grew 4.4% (January – August 2015: 4%) supported by finished plastic products (2.6%) as well as plastic plates, sheet, film, foil and strip products (6.1%) in tandem with the rising demand from food and pharmaceutical industries.

Growth in exports of *machinery, equipment and parts* expanded 12.5% (January – August 2015: 14.3%) spurred by higher receipts from civil engineering equipment (13.4%); heating and cooling equipment (23.9%); as well as specialised machinery for specific industries (14.3%). Higher exports were recorded, particularly to Singapore, Indonesia, Japan and Germany. Meanwhile, export earnings from *optical and scientific equipment* accelerated 14.5% (January – August 2015: 2.7%) largely led by higher demand for measuring and controlling instruments (18.7%) as well as medical instruments and apparatus (25.3%). Higher exports were to the US, Singapore, China and Taiwan.

In line with robust re-export activities during the first eight months of 2016, receipts from *manufactures of metal* increased 10.3% (January – August 2015: 15.6%). Growth was mainly attributed to non-ferrous metals, particularly aluminium (63.1%) and copper (5.9%). Major export destinations for manufactures of metal include Singapore, China, India, Japan and Viet Nam.

Exports of *processed food* expanded markedly by 12.6% (January – August 2015: 3.7%) mainly due to higher demand from key trading partners, particularly Singapore,

TABLE 3.14

Gross Exports
January – August

	RM million		% Change		% Share	
	2015	2016	2015	2016	2015	2016
Manufactured	398,067	413,259	*3.0*	*3.8*	*80.3*	*82.6*
Agriculture	43,273	43,953	*-5.3*	*1.6*	*8.7*	*8.8*
Mining	51,299	39,790	*-26.1*	*-22.4*	*10.4*	*8.0*
Others	2,984	3,325	*-16.0*	*11.4*	*0.6*	*0.7*
Gross exports	**495,624**	**500,327**	***-1.9***	***0.9***	***100.0***	***100.0***

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

TABLE 3.15

Exports of Manufactured Goods
January – August

	RM million		% Change		% Share	
	2015	2016	2015	2016	2015	2016
E&E	**177,666**	**181,642**	***7.4***	***2.2***	***44.6***	***44.0***
Non-E&E	**220,401**	**231,617**	***-0.2***	***5.1***	***55.4***	***56.0***
Petroleum products	34,947	33,696	*-27.5*	*-3.6*	*8.8*	*8.2*
Chemicals and chemical products	35,741	38,034	*5.6*	*6.4*	*9.0*	*9.2*
Machinery, equipment and parts	23,036	25,922	*14.3*	*12.5*	*5.8*	*6.3*
Manufactures of metal	20,260	22,342	*15.6*	*10.3*	*5.1*	*5.4*
Optical and scientific equipment	16,283	18,637	*2.7*	*14.5*	*4.1*	*4.5*
Rubber products	12,904	13,031	*8.7*	*1.0*	*3.2*	*3.2*
Processed food	11,249	12,670	*3.7*	*12.6*	*2.8*	*3.1*
Wood products	9,758	10,161	*0.7*	*4.1*	*2.5*	*2.5*
Textiles, clothings and footwear	8,622	9,238	*6.8*	*7.1*	*2.2*	*2.2*
Manufactures of plastics	8,169	8,526	*4.0*	*4.4*	*2.1*	*2.1*
Transport equipment	7,566	8,644	*5.7*	*14.2*	*1.9*	*2.1*
Iron and steel products	6,475	4,101	*-3.3*	*-36.7*	*1.6*	*1.0*
Jewellery	5,105	4,709	*13.0*	*-7.7*	*1.3*	*1.1*
Non-metallic mineral products	3,946	3,724	*4.4*	*-5.6*	*1.0*	*0.9*
Beverages and tobacco	2,864	3,026	*8.2*	*5.6*	*0.7*	*0.7*
Paper and pulp products	2,619	2,741	*5.9*	*4.7*	*0.7*	*0.7*
Other manufactured goods	10,857	12,413	*11.3*	*14.3*	*2.7*	*3.0*
Total	**398,067**	**413,259**	***3.0***	***3.8***	***100.0***	***100.0***

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

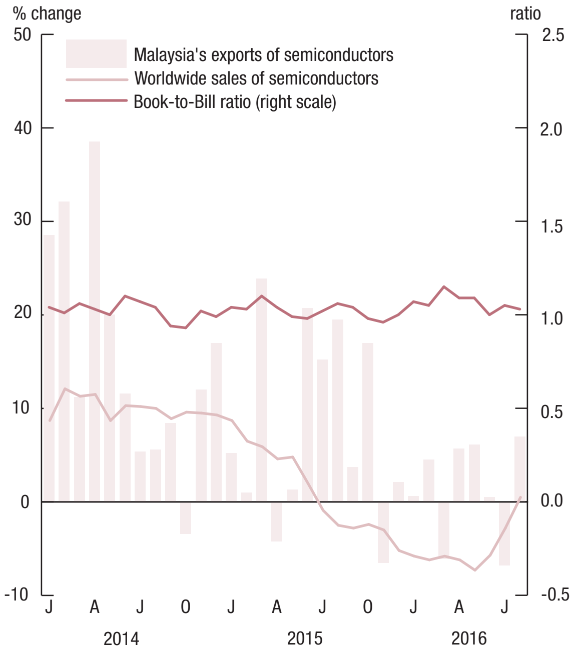
Indonesia, China, Australia and Thailand. This was partly attributed to aggressive overseas promotions and campaigns on local food products. Meanwhile, exports of *textile, clothing and footwear* continued to increase 7.1% (January – August 2015: 6.8%), particularly driven by a strong rebound of textile yarns (13.6%). Receipts increased mainly from Japan, Turkey, China and Singapore.

Exports of *wood products* rose 4.1% (January – August 2015: 0.7%) primarily on account of higher demand for wooden furniture segment. Of significance, bedroom furniture grew strongly by 15.7% following increasing demand from the US, Australia, the UK and Canada. Furthermore, the expansion in the US furniture industry and improving housing market provided opportunities to local furniture players to increase exports. Higher growth for overall wood products mainly emanated from the US, Australia, Singapore and Republic of Korea.

Export earnings from *rubber products* grew at a slower pace of 1% (January – August 2015: 8.7%) mainly due to significant contraction in materials of rubber (-55.2%). Nevertheless, growth was supported by rubber gloves, which grew 2.7%. The US, China, Germany and Japan were among the major export destinations of rubber products.

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.

Exports of *petroleum products* recorded a smaller contraction of 3.6% (January – August 2015: -27.5%) following a strong rebound in refined petroleum products, which rose 7.1%. Higher demand was recorded particularly from Viet Nam, Nigeria, Australia and Thailand. Meanwhile, exports of *iron and steel products* contracted significantly by 36.7% (January – August 2015: -3.3%) following lower demand from Singapore, India, Australia, Republic of Korea and the US.

Exports of Commodities

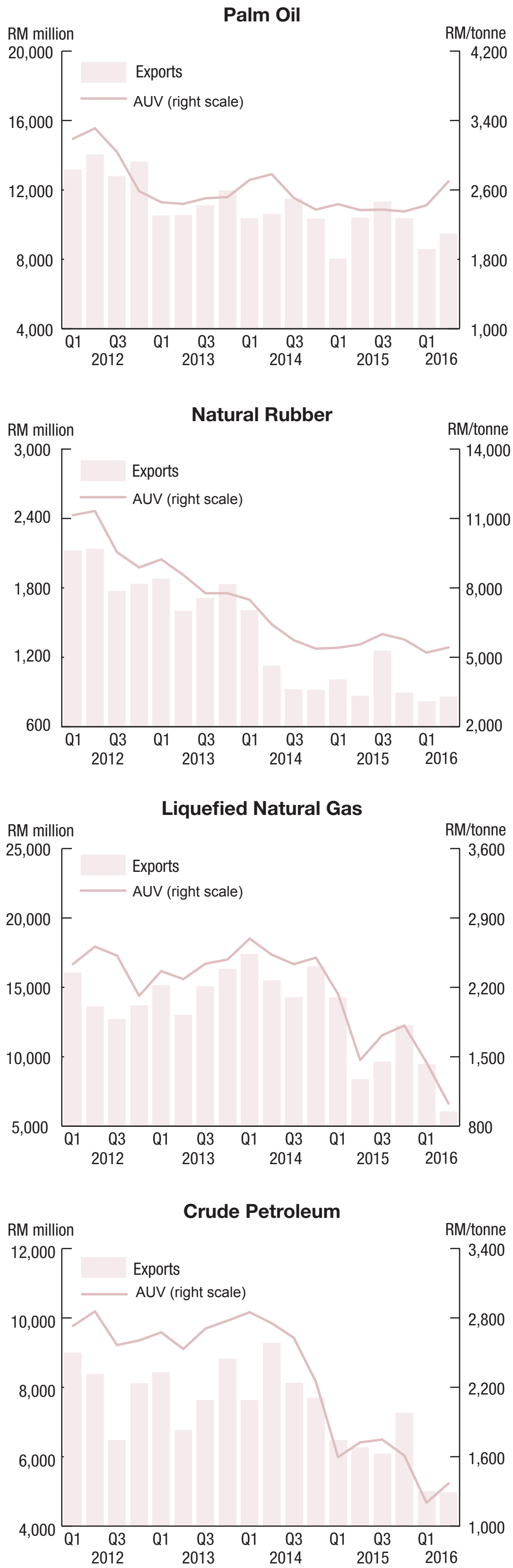
Improved agriculture receipts

During the first eight months of 2016, receipts from **commodities** declined 11.5% to RM83.7 billion (January – August 2015: -17.8%; RM94.6 billion). The sluggish performance was mainly due to low oil prices and weak external demand. ***Mining*** exports declined 22.4% (January – August 2015: -26.1%), weighed down mainly by lower receipts from liquefied natural gas (LNG) and crude petroleum. However, ***agriculture*** exports turned around to record a positive growth of 1.6% (January – August 2015: -5.3%) following higher demand for palm oil from Pakistan, the Philippines, Turkey, Bangladesh and Italy.

Export earnings of *LNG* contracted 31.9% mainly due to the fall in average unit value (AUV) by 31.6% to RM1,216 per tonne (January – August 2015: -31.3%; -31%; RM1,778 per tonne). Shipments of LNG to major markets, notably Japan, Republic of Korea, China and

CHART 3.10

Major Commodity Exports



Note: AUV refers to average unit value.
Source: Department of Statistics, Malaysia.

Info Box 2

Mid-Tier Companies Development Programme

Introduction

Mid-Tier Companies (MTCs) are defined as companies with annual revenue between RM50 million and RM500 million for the manufacturing sector, while between RM20 million and RM500 million for the services sector. Apart from being an exporting company, MTCs are also required to record cumulative average growth rate above 5% for 5 years and involve in high impact industries. In addition, the MTCs should be 60% Malaysian-owned and not a subsidiary of a company with revenue above RM500 million.

The Mid-Tier Companies Development Programme (MTCDP) established in 2014 aims to unlock export potential and offers customised support to MTCs. This programme provides various market intelligence and business solution tools to MTCs. About 50 high-performing MTCs are selected every year to participate in this 9-month programme.

The programme assists MTCs to:

- penetrate into new markets through networking with potential advisors; business partners and distributors;
- access to funding through potential international and local investors, venture capitalists and financial institutions;
- utilise new technology to accelerate innovation, growth and development; and
- obtain personalised business advice from international management consultants; and gather market intelligence.

Current Status

Over 100 companies have participated in the Wave 1 (2014) and Wave 2 (2015) of MTCDP. The MTCs have benefitted from customised international business consultation and a global network of industry experts. The programme has assisted 77 companies to venture into new markets such as China, Indonesia, United Arab Emirates, Saudi Arabia, Australia and Myanmar through business matching. Upon successful completion of the programme, exports of MTCs increased 36.7% from RM4.15 billion to RM5.67 billion in 2015.

Success Stories:

i. **A company in the automotive industry,** involved in production of parts and accessories for Japanese and Korean car models was connected to an insurance company in Indonesia with estimated sales of RM15 – RM30 million by end-2016.

ii. **A service provider** involved in maintenance, repair and overhaul of large diesel engine and power generators was assisted in concluding negotiation to supply power generators worth RM6.6 million to Myanmar in 2016.

Going forward

A total of 51 MTCs has been selected to participate in Wave 3 of the programme in 2016, which covers 16 major industries as follows:

TABLE 1

List of Industries

Manufacturing Sector		Services Sector
Food and Beverages (8)	Industrial Electrical & Electronic Products (3)	Oil & Gas (7)
Building, Construction Materials & Hardware (7)	Kitchen & Cookware (1)	Engineering (5)
Transport & Equipment (4)	Household Products (1)	ICT (4)
Furniture Products (4)	Plastic Packaging & Pallet (1)	Logistics (1)
Textile (3)	Oleo Chemical (1)	Film & 3D Animation (1)

Note: Figures in parentheses are number of companies.
Source: Malaysia External Trade Development Corporation.

Currently, more than 40 MTCs have completed the 3-month Diagnostic Phase, which consists of series of activities that include an online survey on export readiness, interviews with senior management and one-on-one clinics with industry experts.

Conclusion

MTCs play an important role in supporting Malaysian exports. The Government will continue to assist MTCs to strengthen their core business functions and accelerate export growth. It is expected that the MTCDP will generate about RM6 billion in gross national income and RM6 billion in exports by 2020.

TABLE 3.16

Commodity Exports
January – August

	2015	2016	% Change 2015	% Change 2016
Commodity exports (RM million)	**94,572**	**83,743**	***-17.8***	***-11.5***
Agriculture exports (RM million)	**43,273**	**43,953**	***-5.3***	***1.6***
Palm oil				
Volume ('000 tonnes)	10,777	10,005	*3.5*	*-7.2*
AUV (RM/tonne)	2,396	2,578	*-11.4*	*7.6*
Value (RM million)	25,819	25,793	*-8.4*	*-0.1*
Natural rubber				
Volume ('000 tonnes)	490	412	*-1.3*	*-16.1*
AUV (RM/tonne)	5,636	5,369	*-16.5*	*-4.7*
Value (RM million)	2,764	2,210	*-17.5*	*-20.1*
Sawn timber				
Volume ('000 cubic metres)	1,310	1,254	*3.8*	*-4.3*
AUV (RM/cubic metres)	1,516	1,723	*11.7*	*13.6*
Value (RM million)	1,987	2,161	*15.9*	*8.8*
Mining exports (RM million)	**51,299**	**39,790**	***-26.1***	***-22.4***
Liquefied natural gas				
Volume ('000 tonnes)	16,299	16,241	*-0.5*	*-0.4*
AUV (RM/tonne)	1,778	1,216	*-31.0*	*-31.6*
Value (RM million)	28,982	19,745	*-31.3*	*-31.9*
Crude petroleum				
Volume ('000 tonnes)	9,673	10,344	*20.6*	*6.9*
AUV (RM/tonne)	1,687	1,323	*-39.0*	*-21.6*
Value (RM million)	16,314	13,682	*-26.4*	*-16.1*

Note: AUV refers to average unit value.
Total may not add up due to rounding.
Source: Department of Statistics and Malaysia External Trade Development Corporation.

Taiwan declined significantly due to high inventory and slower economic activities.

Exports of *crude petroleum* decreased 16.1% mainly due to lower AUV, which declined 21.6% to RM1,323 per tonne (January – August 2015: -26.4%; -39%; RM1,687 per tonne). Exports to key markets such as Thailand, Singapore and Japan remained sluggish. Nevertheless, exports to China increased, partly due to restocking activities and higher fuel consumption in line with strong car sales.

Receipts from *palm oil* contracted marginally by 0.1% mainly due to lower export volume, which declined 7.2% (January – August 2015: -8.4%; 3.5%). However, AUV for palm oil increased 7.6% to RM2,578 per tonne (January – August 2015: -11.4%; RM2,396 per tonne). Shipments to major markets, particularly India, China and the Netherlands declined 3.4%, 36.7% and 28.4%, respectively.

Exports of *natural rubber* contracted 20.1% (January – August 2015: -17.5%), weighed down by lower volume and AUV. Export volume declined significantly by 16.1% and AUV fell 4.7% (January – August 2015: -1.3%; -16.5%). In addition, exports to major destinations such as China, Germany and the US contracted 34.5%, 8.6% and 31.4%, respectively.

Import Performance

Capital and consumption goods support growth

During the first eight months of 2016, **gross imports** grew 0.9% to RM448.1 billion (January – August 2015: -1.9%; RM444.3 billion) supported by higher demand for capital and consumption goods coupled with strong re-export activity. China, Singapore, the US, Japan and Thailand continued to be Malaysia's largest sources of imports, accounting for 53.3% of total imports (January – August 2015: 52.2%).

Imports of ***intermediate goods***, constituting 57.2% of gross imports, declined 2.4% to RM256.4 billion (January – August 2015: 59.1%; -1.7%; RM262.8 billion), weighed down by fuel and lubricants (-38.6%); food & beverages (-8.5%); and industrial supplies (-0.7%). Nevertheless, imports of parts and accessories expanded 6.4% mainly supported by higher demand for electronic integrated circuits.

Imports of ***capital goods*** rebounded 5.6% to RM64.9 billion (January – August 2015: -3.7%; RM61.4 billion) due to strong demand for domestic investment activity. Imports of capital goods (excluding transport equipment), comprising 88.8% of total capital goods, increased 5.6% mainly contributed by floating structure for the oil and gas (O&G) sector. Similarly, imports of transport equipment grew 6.2% attributed to higher demand for aircraft, locomotives and motor vehicles for industrial use.

Imports of ***consumption goods*** continued to expand 12.5% to RM43.7 billion (January – August 2015: 16.4%; RM38.8 billion) in line with increasing household income and preference for imported products. Imports of consumer goods increased 15.6% supported by higher demand for medicaments, footwear and orthopaedic appliances. Similarly, imports of food & beverages for household consumption such as bulb vegetables, rice, meat and fruits continued to expand 9.5%.

TABLE 3.17

Gross Imports by End Use January – August

	RM million		% Change		% Share	
	2015	2016	2015	2016	2015	2016
Capital goods	**61,437**	**64,907**	***-3.7***	***5.6***	***13.8***	***14.5***
Capital goods (except transport equipment)	54,594	57,639	*4.4*	*5.6*	*12.3*	*12.9*
Transport equipment (industrial)	6,842	7,268	*-40.5*	*6.2*	*1.5*	*1.6*
Intermediate goods	**262,822**	**256,426**	***-1.7***	***-2.4***	***59.1***	***57.2***
Food and beverages, primary and processed, mainly for industry	12,596	11,529	*7.4*	*-8.5*	*2.8*	*2.6*
Fuel and lubricants, primary, processed and others	29,917	18,363	*-24.8*	*-38.6*	*6.7*	*4.1*
Industrial supplies, n.e.s.[1] primary and processed	111,092	110,360	*-2.1*	*-0.7*	*25.0*	*24.6*
Parts and accessories of capital and transport equipment	109,217	116,173	*6.5*	*6.4*	*24.6*	*25.9*
Consumption goods	**38,824**	**43,677**	***16.4***	***12.5***	***8.7***	***9.7***
Food and beverages, primary and processed, mainly for household	15,946	17,467	*11.4*	*9.5*	*3.6*	*3.9*
Transport equipment (non-industrial)	724	608	*-2.7*	*-16.1*	*0.2*	*0.1*
Consumer goods	22,153	25,602	*21.0*	*15.6*	*5.0*	*5.7*
Durables	5,002	5,510	*2.2*	*10.2*	*1.1*	*1.2*
Semi-durables	7,834	9,530	*51.9*	*21.7*	*1.8*	*2.1*
Non-durables	9,317	10,561	*12.9*	*13.4*	*2.1*	*2.4*
Others	**16,718**	**12,733**	***-20.6***	***-23.8***	***3.8***	***2.8***
Re-exports	**64,539**	**70,378**	***-3.8***	***9.0***	***14.5***	***15.7***
Total	**444,339**	**448,120**	***-1.9***	***0.9***	***100.0***	***100.0***

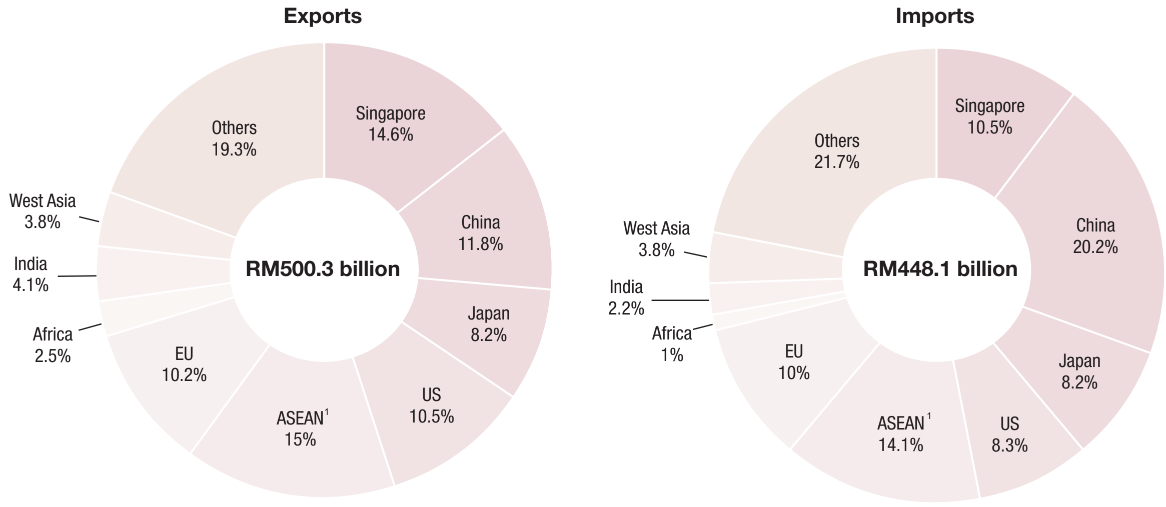
[1] Not elsewhere stated.

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

CHART 3.11

Direction of External Trade January – August 2016

(% share)



[1] Excluding Singapore.
Source: Department of Statistics and Malaysia External Trade Development Corporation.

Feature Article 2

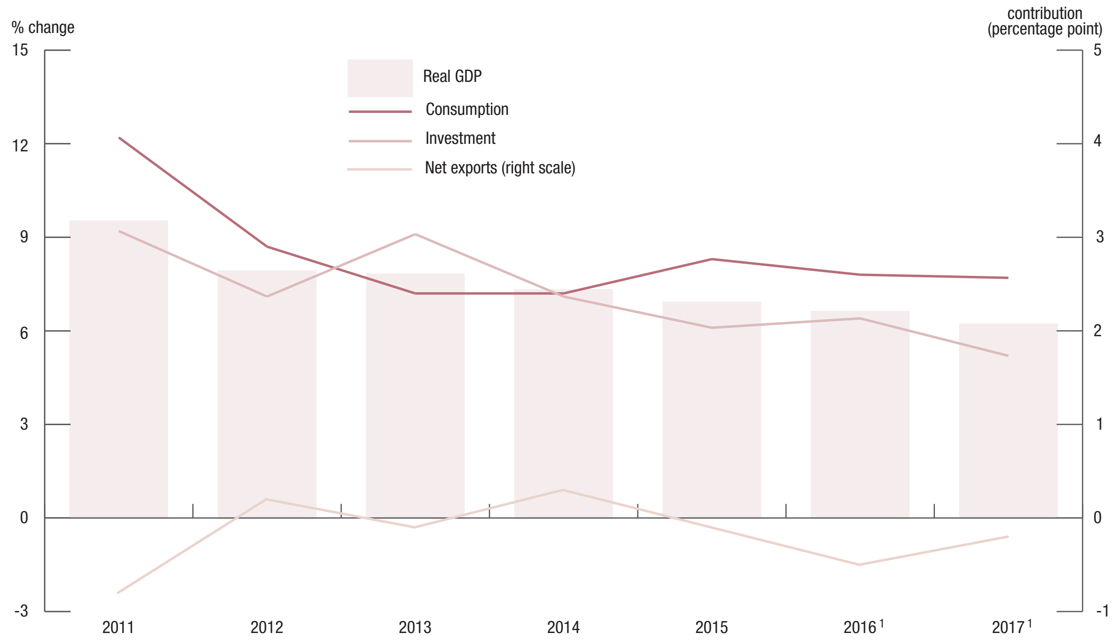
China's "New Normal"

Introduction

China is transitioning to a "new normal" moving away from an export, manufacturing and investment-driven economy to one led by domestic, services and consumption. This transition will result in lower growth rate compared with the double-digit expansions in previous decades. According to the World Economic Outlook (IMF, October 2016c), the Chinese economy is expected to record a slower growth of 6.6% in 2016 and 6.2% in 2017, the lowest in 25 years. As the second largest economy and largest manufacturing hub, the slowdown has affected and will continue to impact the economies of the world. The International Monetary Fund (IMF, 2016a) estimated that a one percentage point decline in the Chinese economy leads to 0.15 – 0.30 percentage points decline in growth across Asia. Closer to home, in Association of Southeast Asian Nations-5 (ASEAN-5[1]) countries, the decline could be as much as 0.23 – 0.35 percentage points (Cashin et al., 2016).

CHART 1

China's Main Economic Indicators



[1] Forecast.
Source: International Monetary Fund Article IV China, 2016.

As an open and integrated economy, Malaysia too is experiencing the effects from the slowdown through trade, financial and commodity channels. According to the IMF (2016b), a one percentage point reduction in China's gross domestic product (GDP) would likely impact Malaysia's growth by 0.3 percentage points. Further, internal estimates[2] indicate that in the short run a 10% drop in exports to China will result in 0.02% decline in real GDP. While China's rebalancing poses some downside risks in the near term, the shifting patterns of consumption and trade are expected to present significant opportunities for the Malaysian economy over the medium- and long-term.

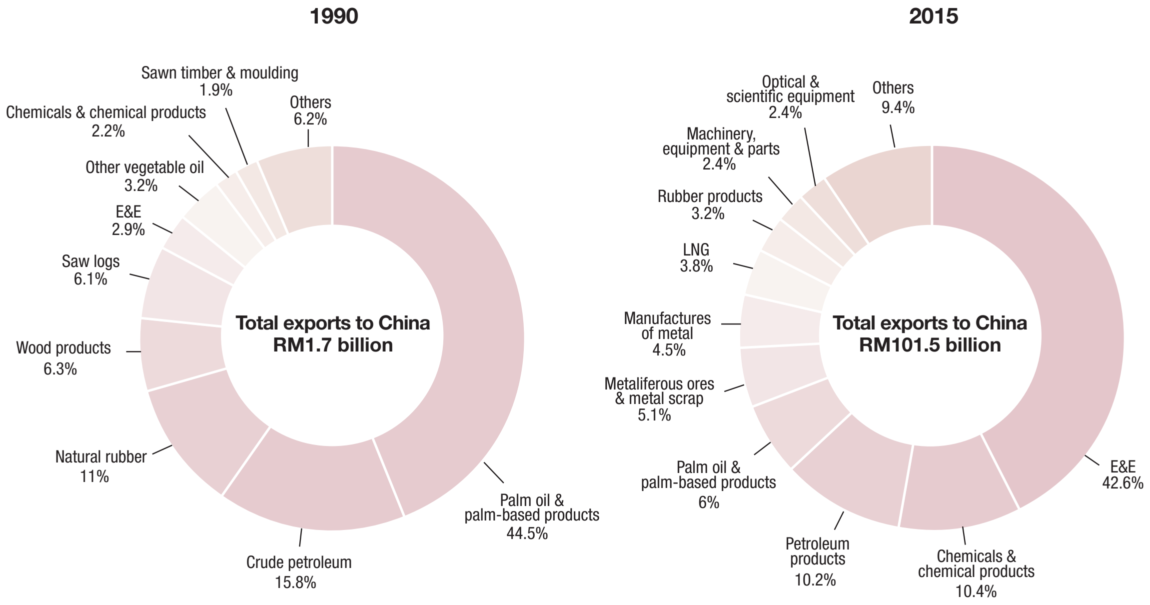
[1] ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Singapore and Thailand.
[2] Computable General Equilibrium Model (CGE), Ministry of Finance, Malaysia.

Malaysia's Current Trade and Investment Linkages with China

China continues to be Malaysia's largest trading partner since 2009. In 1990, China accounted for a mere 2% of Malaysia's total exports. However, by 2015 China accounted for 13.1% or RM101.5 billion of Malaysia's total exports comprising mainly manufactures, which include intermediate inputs and capital goods that are part of the regional supply chain. The rebalancing of the Chinese economy has impacted Malaysia's exports to China, which grew at a slower pace of 10% in 2015 compared with 19% in 2010.

CHART 2

Structural Shift in Malaysia's Exports to China



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

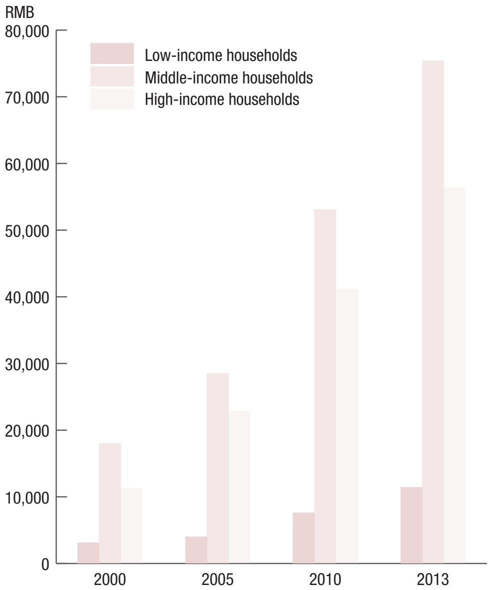
Rising income levels in China have led to more affordable overseas travel by Chinese tourists. Amid economic restructuring and slowdown, Chinese outbound travellers continue to grow rapidly by 10% to 128 million with a total expenditure of USD292 billion in 2015 (UNWTO, 2016). Tourists from China are the third largest in Malaysia comprising 1.7 million or 6.5% of total tourist arrivals in 2015, contributing RM5.7 billion in receipts. During the first half of 2016, tourist arrivals from China increased significantly by 32.1% to 992,463 (January – June 2015: -11.7%; 751,383). The main areas of interest include education, healthcare as well as leisure, entertainment and cultural activities. Higher imports of services and consumption goods by China will benefit exporters of consumer services such as tourism, health and other services, where Malaysia has competitive advantage. Moving forward, Malaysia expects a substantial increase in inbound Chinese tourists as a result of a more convenient visa policy, offering of attractive family entertainment holiday packages as well as operation of more international flights to second- and third-tier cities in China. This will bring new opportunities for local businesses and service providers.

In terms of capital flows, China had emphasised on foreign direct investment (FDI) rather than outward direct investment. However, following policy reforms the focus has been intensified towards outward direct investment. The Chinese investment abroad has been increasing and was ranked as the third largest investing country worldwide in 2015, after the United States (US) and Japan by the United Nations Conference on Trade and Development (UNCTAD, 2016).

As at end-June 2016, the accumulated Chinese investment in Malaysia stood at RM4.4 billion, mainly concentrated in financial and insurance as well as construction sectors. China's presence is evident in Malaysia, particularly in the financing and construction of the Second Penang Bridge; Gemas – Johor Bahru

CHART 3

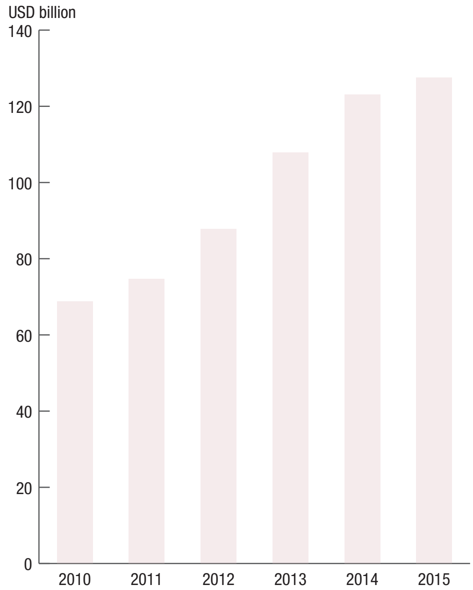
Per Capita Disposable Income of Urban Households in China



Source: National Bureau of Statistics of China.

CHART 4

FDI Outflows from China



Source: World Investment Report, United Nations Conference on Trade and Development (UNCTAD), 2016.

double-tracking rail project; Malaysia – China Kuantan Industrial Park; and development of Forest City in Iskandar Malaysia. These indicate that Malaysia is a big recipient of China's growing outward investment.

Seizing Opportunities in China's "New Normal"

The policy reforms initiated by China towards a more sustainable growth path provide business opportunities for Malaysians, given that China is Malaysia's largest trading partner. China also has a strong and affluent middle-class population. Hence, local manufacturers and service providers should look for opportunities to provide new product offerings that meet Chinese consumers and corporate demands.

Recognising the new developments in China, the Government through the National Export Council (NEC) has embarked on various initiatives to boost trade with China. These include, leveraging on the trade facilitation taskforce under Malaysia – China five-year plan (2013 – 2017) to smoothen market access; collaborating with China's state-owned enterprises to enhance opportunities for Malaysian companies to be part of their supply chain; intensifying promotion and branding in second- and third-tier cities in China; and exploring countertrade opportunities with China. In November 2016, a special Malaysia Promotion Programme will also be launched in Shanghai as a strategic platform to intensify the branding of Malaysian products and services. The NEC strategies also focuses on opportunities abound in the services sector and consumption-related activity, given China's booming and affluent middle-class. Among the potential areas for Malaysian exporters include healthcare; education and language training; environmental services; aerospace; robotics; automotive; halal ingredients; energy saving electrical and electronics (E&E) products; quality building materials and interior fittings; lifestyle products such as fashion apparels, cosmetics, toiletries, green and organic goods; as well as agriculture produce.

China's rapidly growing middle-class seeks for a more diversified investment options to channel their savings. Malaysia is expected to benefit from this development as it is an international Islamic financial hub as well as the third largest bond market in Asia after Republic of Korea and Japan; and possesses an active stock market in the region. As at end-June 2016, the Malaysian sukuk market accounts for 53.4% of global outstanding sukuk, the largest in the world. In product innovation, Malaysia introduced the first Islamic real estate investment trust, exchange-traded fund and commodity trading platform. These provide opportunities for Chinese investors to raise sukuk or bonds in Malaysia; list their companies in the local stock exchange; and diversify investment options. In this regard, local businesses need to intensify efforts to further introduce and promote more innovative investment-related financial products to attract Chinese investors.

China is continuously advancing the internationalisation of its currency, renminbi. Malaysia was the second country in Southeast Asia after Singapore to launch the renminbi cross-border trade settlement scheme in 2009. The ability to settle cross-border trade transactions in renminbi is a key pillar to facilitate local and foreign companies' international trade activities. In this regard, the Bank of China Malaysia was appointed as the renminbi clearing bank. Given the extent of trade, investment and financial flows between Malaysia and China, Malaysia is well-positioned to develop itself into an offshore renminbi centre and build competency in terms of trade financing, investment and other renminbi-denominated financial products.

Given the increasingly affluent ASEAN market, Malaysia stands to reap benefits through the ASEAN – China Free Trade Agreement (ACFTA). ASEAN has negotiated a free trade deal with China, which will reduce tariffs close to zero on over 90% of all products traded between ASEAN and China by 2020. Malaysian businesses should also take advantage of the ACFTA, particularly in the services-related industries such as professional services, management consulting, education, business and environmental services. In addition, the implementation of the ASEAN Economic Community (AEC) opens greater opportunity for China to market their products in ASEAN. Chinese investors could use Malaysia as the gateway to the AEC and explore mutual business opportunities. Furthermore, Malaysia will continue to benefit through the upgrading of ACFTA and implementation of Regional Comprehensive Economic Partnership (RCEP).

Malaysia could also benefit as Chinese investors relocate some of their production offshore to reduce costs and gain market share. Malaysia's investment-friendly policy continues to attract FDI as a source of job creation, technology acquisition, local content utilisation and skills upgrading. In this regard, Malaysian Investment Development Authority (MIDA) focuses on attracting more investments from major economies in North America and Europe as well as Asia, particularly China. In addition, the One Belt, One Road initiative launched in 2013 will boost trade and investment in countries that line the ancient "silk road" that stretches from Asia to Europe, including Malaysia.

Conclusion

Malaysia is set to benefit from China's "new normal" mainly through trade, investment and strategic co-operations. In this regard, local exporters have to be nimble and adapt to structural developments in the Chinese market to seize the opportunities. The Government, in complementing this, will continue to implement various strategies, programmes and initiatives to further promote a vibrant, competitive and resilient domestic economy.

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7. World Investment Report (2016), UNCTAD.

Imports for ***re-exports*** turned around to post a robust growth of 9% to RM70.4 billion (January – August 2015: -3.8%; RM64.5 billion) due to higher imports of petroleum and iron ores products. The strong growth was also supported by ongoing expansion in storage capacity.

In 2016, **gross imports** are expected to grow 1.3% to RM694.4 billion (2015: 0.4%; RM685.8 billion) driven by higher demand for intermediate inputs in line with improving manufacturing activities. In addition, imports of capital goods are expected to expand supported by increasing demand for machinery and equipment for new and ongoing infrastructure projects. Likewise, demand for consumption goods is anticipated to increase benefitting from stable employment and favourable wage growth.

Balance of Payments

Current account remains in surplus

During the first half of 2016, the current account recorded a smaller surplus of RM6.9 billion or 1.2% of GNI (July – December 2015: RM15.2 billion; 2.6%). This was attributed to the lower surplus in the goods account and continued deficit in the services and income accounts. The surplus in the goods account moderated to RM43.3 billion (July – December 2015: RM58.2 billion) mainly due to smaller export receipts from commodities. Meanwhile, the services account recorded a deficit of RM11.5 billion (July – December 2015: -RM12.5 billion) due to large net payments for transportation, insurance, construction and professional services. During the period, the income accounts recorded a lower deficit of RM24.9 billion (July – December 2015: -RM30.6 billion) attributed to lower investment income accrued to foreign companies in Malaysia and remittances by foreign workers.

For the year, the **current account** surplus is expected to narrow to RM16.4 billion or between 1% and 1.5% of GNI (2015: RM34.7 billion; 3.1%). The ***goods account*** is estimated to record a lower surplus of RM97.9 billion (2015: RM109.6 billion) following subdued global trade and prolonged low oil prices. The ***services account*** is expected to remain in deficit at RM22.1 billion (2015: -RM21 billion) largely attributed to higher payments for freight and other services. Nevertheless, the *travel account* is estimated to record a higher surplus of RM29.3 billion (2015: +RM27.2 billion) attributed to higher travel receipts. Travel receipts are expected to improve 3.4% to RM70.8 billion (2015: -7.4%; RM68.5 billion) spurred by relaxation of visa policy, offering of attractive holiday packages and more international flights to new markets. Meanwhile, gross outflows, which include payments for business, leisure, education and medical treatment is expected to increase to RM41.5 billion (2015: RM41.3 billion).

In 2016, the *transport account* is anticipated to remain in deficit at RM25.8 billion mainly due to higher gross payments of RM41.5 billion following greater reliance on foreign freight services (2015: -RM25.3 billion; RM40.9 billion). Nevertheless, gross receipts from various service charges such as passenger fare, aircraft and ship landing,

TABLE 3.18

Current Account of the Balance of Payments 2016 – 2017
(RM million)

	2016[1]			2017[2]		
	Receipts	**Payments**	**Net**	**Receipts**	**Payments**	**Net**
Balance on goods and services	**829,406**	**753,663**	**75,743**	**858,238**	**781,235**	**77,003**
Goods	687,897	590,039	97,859	710,564	610,444	100,120
Services	141,509	163,624	-22,116	147,674	170,791	-23,117
Transport	15,714	41,522	-25,808	16,937	43,811	-26,874
Travel	70,795	41,453	29,342	72,989	42,231	30,758
Other services	55,000	80,649	-25,650	57,748	84,749	-27,001
Primary income	**48,956**	**84,354**	**-35,398**	**51,618**	**89,058**	**-37,440**
Compensation of employees	6,679	13,191	-6,512	7,259	15,226	-7,967
Investment income	42,277	71,163	-28,886	44,359	73,832	-29,473
Secondary income	**13,673**	**37,590**	**-23,917**	**14,276**	**39,067**	**-24,792**
Balance on current account	**892,035**	**875,607**	**16,428**	**924,132**	**909,361**	**14,771**
% of GNI			***1.0 – 1.5***			***0.5 – 1.5***

[1] Estimate.
[2] Forecast.

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

parking, cargo handling as well as maintenance and repair provided by local companies are expected to be sustained at RM15.7 billion. Meanwhile, net outflows in the *other services account* are expected to be higher at RM25.7 billion (2015: -RM22.9 billion) attributable to higher gross payments for imported professional, management consulting, technical and trade-related services associated with large infrastructure projects.

The ***primary income account*** comprising investment income and compensation of employees is expected to record a higher deficit of RM35.4 billion (2015: -RM32 billion). This is largely led by higher payments of profits, dividends and interests by foreign investors in Malaysia, which is expected to increase 3.5% to RM71.2 billion (2015: -12.9%; RM68.7 billion). Investment income accrued to Malaysian companies investing abroad is expected to remain stable at RM42.3 billion mainly concentrated in the services and O&G sectors. Hence, the deficit in the *investment income* is expected to widen to RM28.9 billion (2015: -RM26.4 billion). Meanwhile, *compensation of employees* are expected to record a larger net outflows of RM6.5 billion following continued demand for foreign professional skills and technical expertise (2015: -RM5.6 billion).

Net outflows in the ***secondary income account*** is expected to increase to RM23.9 billion (2015: -RM21.9 billion) following higher remittances by foreign workers. Gross outflows are expected to increase 11.2% to RM37.6 billion (2015: 21%; RM33.8 billion), particularly due to the increase in minimum wage effective 1 July 2016. Meanwhile, gross inflows are expected to expand 14.8% to RM13.7 billion (2015: 13.5%; RM11.9 billion).

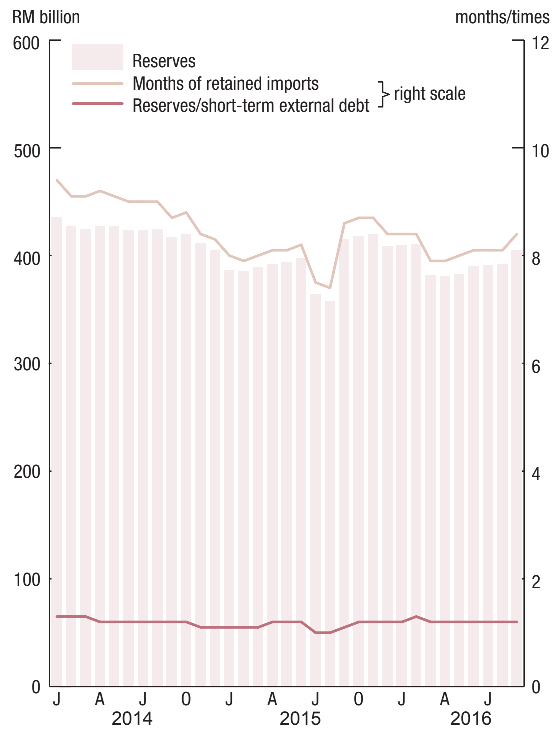
The **financial account** turned around to record net inflows of RM15.3 billion in the first half of 2016 (July – December 2015: -RM26.7 billion), mainly due to higher net inflows of direct and portfolio investment. ***Direct investment*** recorded a higher net inflow of RM9 billion (July – December 2015: +RM5.6 billion) as inward direct investment outpaced investment abroad. *Inward direct investment* recorded substantial net inflows of RM24.1 billion (July – December 2015: +RM15.2 billion) mainly driven by higher injection of equity capital by multinational corporations (MNCs) to their subsidiaries operating in Malaysia. FDI flows during the period were mainly in the services, manufacturing and mining sectors. *Outward direct investment* registered larger net outflows of RM15 billion (July – December 2015: -RM9.6 billion) following higher injection of equity capital to subsidiaries abroad and ample earnings retained for reinvestment purposes. Bulk of investments abroad was primarily in the O&G as well as financial and insurance subsectors.

During the first half of 2016, ***portfolio investment*** registered a higher net inflow of RM13.2 billion (July – December 2015: -RM8.5 billion), mainly attributed to acquisition of debt securities by foreign investors. Purchases of debt securities by non-residents increased markedly reflecting continued investors' confidence in domestic financial assets, particularly Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII) and Wakalah Global Sukuk. Meanwhile, portfolio investment by residents recorded higher net outflows of RM10.6 billion (July – December 2015: +RM6.3 billion) due to the continued acquisition of foreign financial assets by domestic financial institutions and corporates seeking higher yields. ***Other investment*** recorded lower net outflows of RM7.4 billion (July – December 2015: -RM23.6 billion). This was mainly attributed to higher placement of deposits by non-residents into the domestic banking system and lower extension of trade credits by Malaysian exporters.

Malaysia's **international reserves** amounted to RM405 billion or USD97.7 billion as at 30 September 2016, adequate to finance 8.4 months of retained imports and is 1.2 times the short-term external debt (end-December 2015: RM409.1 billion; USD95.3 billion; 8.4 months; 1.2 times).

CHART 3.12

International Reserves



Source: Bank Negara Malaysia.

Prices

Inflation remains manageable

The headline inflation rate, as measured by the annual change in the **Consumer Price Index (CPI),** averaged 2.3% for the first eight months of 2016 (January – August 2015: 1.9%). This was mainly due to higher CPI during the first quarter of 2016 following adjustments in the administered prices such as toll and railway charges during the fourth quarter of 2015; reduction in electricity tariff rebates in January 2016; and the low-base effect during the first quarter of 2015. The major groups that contributed

TABLE 3.19

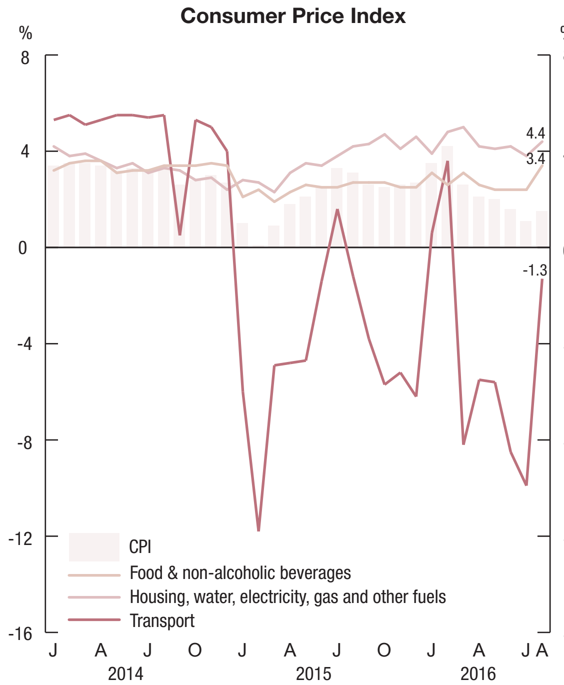
Consumer Price Index
January – August
(2010 = 100)

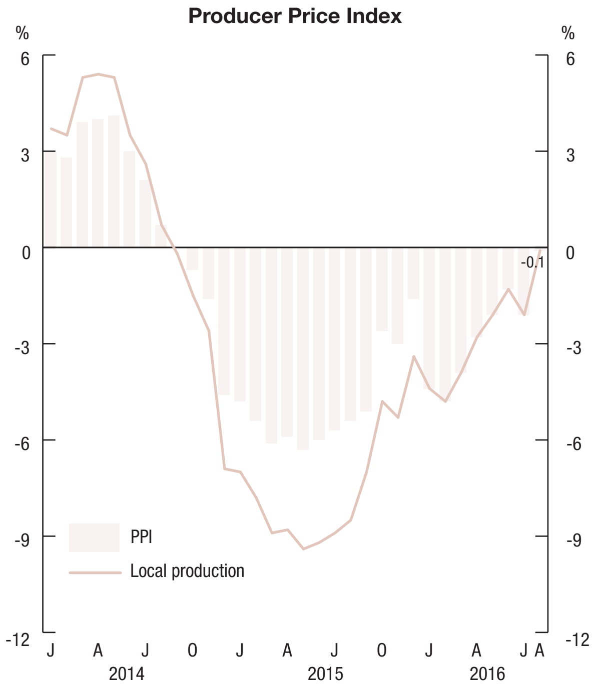
		% Change		% Contribution to CPI	
	Weights	**2015**	**2016**	**2015**	**2016**
Food and non-alcoholic beverage	30.2	*3.2*	*4.2*	*54.9*	*57.6*
Alcoholic beverage and tobacco	2.9	*11.8*	*21.4*	*15.1*	*32.5*
Clothing and footwear	3.3	*0.4*	*-0.3*	*0.4*	*-0.4*
Housing, water, electricity, gas and other fuels	23.8	*2.4*	*2.6*	*28.9*	*26.4*
Furnishings, household equipment and routine household maintenance	3.8	*2.1*	*2.8*	*4.4*	*4.5*
Health	1.7	*4.4*	*2.9*	*3.1*	*2.2*
Transport	13.7	*-4.1*	*-5.2*	*-33.3*	*-29.2*
Communication	5.2	*1.3*	*-1.1*	*3.4*	*-2.1*
Recreation services and culture	4.9	*1.3*	*2.1*	*3.1*	*4.3*
Education	1.1	*2.4*	*2.3*	*1.8*	*1.1*
Restaurants and hotels	2.9	*2.3*	*3.2*	*7.2*	*4.3*
Miscellaneous goods and services	6.5	*0.7*	*3.5*	*11.0*	*9.5*
Total	**100.0**	***1.9***	***2.3***	***100.0***	***100.0***

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

CHART 3.13

CPI and PPI Trends
(% change)





Source: Department of Statistics, Malaysia.

TABLE 3.20

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

	Weights	% Change 2015	% Change 2016	% Contribution to PPI 2015	% Contribution to PPI 2016
Total	**100.0**	***-8.6***	***-2.7***	***100.0***	***100.0***
Agriculture, forestry and fishing	8.2	*-6.5*	*11.1*	*5.5*	*-30.2*
Mining	9.7	*-38.1*	*-21.1*	*55.3*	*64.8*
Manufacturing	78.8	*-4.2*	*-2.1*	*37.8*	*61.9*
Electricity and gas	3.1	*-4.7*	*-2.5*	*1.8*	*3.2*
Water supply	0.3	*1.2*	*4.7*	*0.0*	*-0.5*
PPI by stage of processing	**100.0**	***-8.6***	***-2.7***	***100.0***	***100.0***
Crude materials for further processing	20.3	*-24.2*	*-1.9*	*61.7*	*12.3*
Intermediate materials, supplies and components	53.6	*-6.3*	*-4.6*	*40.2*	*93.8*
Finished goods	26.1	*0.4*	*0.8*	*-2.4*	*-7.5*

[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.

to the overall increase in the CPI during the first eight months were the ***food and non-alcoholic beverages; housing, water, electricity, gas and other fuels;*** *as well as* ***alcoholic beverages and tobacco*** groups, which together accounted for 2.7 percentage points to the CPI. However, the ***transport*** group declined 5.2%, offsetting the increase in CPI by 0.7 percentage points.

Prices in the food and non-alcoholic beverages group rose significantly by 4.2% and contributed 1.3 percentage points to the total CPI (January – August 2015: 3.2%; 1 percentage point). This was mainly due to a 4.5% price increase in the *food at home* category. Food prices, which registered the highest increase, were *vegetables* (8.8%); *fish and seafood* (7.1%); fruits (5.8%) and *food products not elsewhere classified* (5.9%) subgroups. This was partly due to strong demand during the festivities and school holidays.

Prices in the housing, water, electricity, gas and other fuels group, the second largest component of the CPI basket, increased 2.6% (January – August 2015: 2.4%). The increase was driven by higher prices in *maintenance and repair of dwelling* (4.7%) as well as the increase in *rental paid by tenants* (2.8%). Meanwhile, prices in the alcoholic beverages and tobacco group registered a significant increase of 21.4%, following the revision of the alcohol tax structure in March 2016 (January – August 2015: 11.8%).

The increase in CPI during the first eight months of 2016 was offset by lower prices in the transport group which declined 5.2% (January – August 2015: -4.1%) following lower pump prices. The drop was mainly due to the decline in *fuel and lubricants for personal transport equipment* (-11.5%) subgroup. Similarly, prices in the ***communication*** as well as ***clothing and footwear*** groups declined 1.1% and 0.3%, respectively, amid strong market competition (January – August 2015: 1.3%; 0.4%).

During the first eight months of 2016, the CPI for ***urban*** and ***rural*** areas increased 2.4% and 1.9%, respectively (January – August 2015: 2%; 1.5%). Meanwhile, on an income basis, the CPI for those in ***income groups of less than RM3,000, less than RM1,500*** and ***less than RM1,000*** recorded an increase of 2.6%, 2.8% and 2.8%, respectively (January – August 2015: 2.1%; 2.2%; 2.2%). The rise in CPI by strata and income group were mainly contributed by the increase in prices of food, beverages and tobacco; as well as housing, water, electricity and other fuels groups.

The **Producer Price Index (PPI)** measures the change in the prices of commodities charged by domestic producers in five sectors, namely, agriculture, forestry and fishing; mining; manufacturing; electricity and gas; and water supply. During the first eight months of 2016, the average ***PPI for local production*** declined 2.7% (January – August 2015: -8.6%). This was mainly due to the price decline in the *mining* (-21.1%), *electricity and gas* (-2.5%) and *manufacturing* (-2.1%) sectors. However, PPI in the *agriculture, forestry and fishing*; and *water supply* sectors increased 11.1% and 4.7%, respectively.

The ***PPI for stages of processing*** category recorded a decline of 1.9% for *crude materials*, followed by 4.6% drop in prices of *intermediate materials, supplies and components*. However, the price for *finished goods* increased 0.8%.

Labour Market

Labour market remains stable

Labour market conditions remained stable in the first half of 2016 in line with resilient domestic economic activity. During the period, ***unemployment rate*** stood at 3.4%, with ***labour force participation rate*** recording 67.5% (January – June 2015: 3.1%; 68%). Total ***employment*** expanded 0.2% to 14.12 million (January – June 2015: 1.8%; 14.08 million). The services sector remained the largest employer with 60.5% of employment, followed by manufacturing (16.6%) and agriculture (11.1%) sectors. In 2016, labour market is expected to remain stable with unemployment rate at 3.3% (2015: 3.1%).

In terms of employment opportunities, total job ***vacancies*** reported by JobsMalaysia decreased to 433,634 during the first eight months of 2016 (January – August 2015: 763,883). The manufacturing sector recorded the highest number of vacancies, accounting for 40.2%. In terms of occupational group, vacancies were mainly concentrated in elementary occupations (62.7%), followed by plant and machine operators and assemblers (15.2%) as well as service and sales workers (6.6%) (January – August 2015: 67.9%; 8.9%; 11%).

TABLE 3.21

Labour Market Indicators
January – June

	('000)		% Change	
	2015	**2016**	**2015**	**2016**
Labour force	14,526.4	14,617.0	*1.9*	*0.6*
Employment	14,082.4	14,115.4	*1.8*	*0.2*
Unemployment	443.9	501.6	*(3.1)*	*(3.4)*

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

The number of ***active jobseekers*** as at end-August 2016 declined 2.8% to 284,475, of which 22.1% were new registrants (January – August 2015: -27.2%; 292,550; 22%). Of the total active jobseekers, 66.8% were in the 20 – 24 age group, followed by the 25 – 29 age group (17%) and the 15 – 19 age group (11.7%). Most of the registered and active jobseekers were degree holders (40.5%), followed by diploma holders (23.8%) and Malaysian Certificate of Education or *Sijil Pelajaran Malaysia* school leavers (23.6%).

During the first eight months of 2016, the number of ***retrenched workers*** increased to 20,798 persons (January – August 2015: 16,988). The highest retrenchment was in the manufacturing sector, accounting for 36.9%,

TABLE 3.22

Employment by Industry
January – June

	('000)		% Share	
	2015	**2016**	**2015**	**2016**
Agriculture, forestry and fishing	1,813.7	1,567.2	*12.9*	*11.1*
Mining and quarrying	100.7	105.0	*0.7*	*0.7*
Manufacturing	2,265.9	2,346.2	*16.1*	*16.6*
Electricity, gas, steam and air conditioning supply	52.8	80.8	*0.4*	*0.6*
Water supply; sewerage, waste management and remediation activities	76.5	74.4	*0.5*	*0.5*
Construction	1,325.7	1,270.3	*9.4*	*9.0*
Services	8,307.3	8,541.9	*59.0*	*60.5*
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,369.7	2,467.7	*16.8*	*17.5*
Transportation and storage	633.0	632.9	*4.5*	*4.5*
Accommodation and food beverage service activities	1,136.8	1,295.9	*8.1*	*9.2*
Information and communication	223.9	203.1	*1.6*	*1.4*
Financial and insurance/takaful activities	360.7	333.6	*2.6*	*2.4*
Real estate activities	68.6	74.7	*0.5*	*0.5*
Professional, scientific and technical activities	369.6	355.2	*2.6*	*2.5*
Administrative and support service activities	635.9	631.0	*4.5*	*4.5*
Public administration and defence; compulsory social security	755.2	741.2	*5.4*	*5.3*
Education	911.3	903.6	*6.5*	*6.4*
Human health and social work activities	560.7	572.1	*4.0*	*4.1*
Arts, entertainment and recreation	79.1	98.6	*0.6*	*0.7*
Other service activities	202.8	232.3	*1.4*	*1.6*
Activities of households as employers	138.8	128.5	*1.0*	*0.9*
Total	**14,082.4**	**14,115.4**	***100.0***	***100.0***

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

followed by financial and insurance/takaful (21%); as well as wholesale and retail trade, repair of motor vehicles and motorcycles (18.6%) subsectors. By occupational category, the retrenchment were mainly in administration and management (26.1%) followed by professionals (22.1%); as well as plant and machine operators and assemblers (19.6%). Among the reasons for retrenchment include the low global oil prices and reorientation of business strategies by MNCs.

Labour productivity, as measured by real value-added per worker grew 3.3% in 2015 (2014: 3.6%), driven mainly by higher productivity in the manufacturing sector (7.1%) followed by construction (5.5%) and services (3.3%) sectors (2014: 3.7%; 13%; 2.3%). However, the productivity in mining and quarrying as well as agriculture sectors declined 14.9% and 2.4%, respectively (2014: 7.2%; 6%) mainly due to lower production. For the year, labour productivity is expected to increase 3%.

Average monthly ***salaries and wages*** in 2015 increased 5.3% to RM2,312 (2014: 8.1%; RM2,193). Mining and quarrying sector recorded the highest average wage of RM4,297, followed by electricity, gas, steam and air conditioning (RM2,877) and services (RM2,587) sectors. In contrast, the agriculture, forestry and fishing sector registered the lowest average salaries and wages of RM1,232. Average salaries and wages for employees with tertiary education stood at RM3,854, secondary (RM1,743), primary (RM1,224) and no formal education (RM988). In an effort to increase earnings of low-income households, the Government revised upwards the minimum wage rate effective 1 July 2016 from RM900 to RM1,000 in Peninsular Malaysia, while for Sabah, Sarawak and Labuan from RM800 to RM920.

As at end-August 2016, the total registered ***foreign workers*** decreased to 1.9 million (January – August 2015: 2.2 million). Most of the foreign workers were employed in manufacturing (34.7%), construction (19.6%) and plantation (15.7%) sectors. By nationality, the highest number was from Indonesia at 40.9%, followed by Nepal (21.9%), Bangladesh (12.9%) and Myanmar (7.3%). In an effort to improve the management of foreign workers, the Government embarked on the Rehiring Programme from 15 February 2016 to 31 December 2016. The programme is intended to provide an opportunity for illegal foreign workers to obtain work permits. Additionally, it is designed to fulfil the requirements of employers as well as to identify the total number of illegal foreign workers in the country for monitoring purposes.

The total number of ***expatriates*** in Malaysia registered through Expatriate Services Division online system, increased to 52,542 during the first eight months of 2016 (January – August 2015: 16,859). The highest number of expatriates was from China representing 23%, followed by India (14%), Japan (9%) and the Philippines (6%). The expatriates were mainly employed in the manufacturing (21%), construction (20%) and business services (13%) sectors.

Prospects for 2017

Growth anchored by domestic demand

The world economy is projected to expand 3.4% in 2017 supported by rising growth in emerging and developing economies as well as a modest pickup in the advanced economies (2016: 3.1%). Meanwhile, world trade is envisaged to accelerate 3.8% (2016: 2.3%). However, several downside risks remain, which include a further slowdown in the world growth and heigthening volatiliy in global financial markets.

The Malaysian economy is expected to expand between 4% and 5% in 2017 (2016: 4% – 4.5%) with nominal GNI per capita increasing 5% to RM39,699 (2016: 4.8%; RM37,812). Economic growth will be underpinned by strong domestic demand, especially private sector expenditure. Private sector activity will be supported by pro-growth fiscal and accommodative monetary policies in an environment of stable inflation, which is projected to range between 2% and 3% (2016: 2% – 2.5%). Meanwhile, public sector expenditure will be driven mainly by higher capital investment by public corporations.

Sectoral Prospects

All sectors continue to expand

On the supply side, growth is expected to be broad-based with all sectors recording positive growth. Value-added in the **services** sector is expected to increase 5.7% in 2017 driven by expansion across all subsectors (2016: 5.6%). The wholesale and retail trade as well as food & beverages and accommodation subsectors are expected to grow 6.7% and 6.5%, respectively supported by strong domestic consumption and tourism-related activities (2016: 6.2%; 6.1%). The information and communication subsector is anticipated to expand 9.6% driven by growing adoption of digital services and devices by small and medium enterprises as well as households (2016: 9.4%). Meanwhile, the value-added of real estate and business services subsector is expected to increase 6.5% (2016: 6.6%) in view of increased demand for professional services. The transport and storage subsector is projected to expand further by 5.8% (2016: 5.7%), largely driven by higher passenger volume following the commencement of Mass Rapid Transit (MRT) services.

The **manufacturing** sector is anticipated to grow 4.1% in 2017 (2016: 4%). Growth in export-oriented industries will be supported by sustained demand for E&E goods despite lower production of petroleum-related products. Meanwhile, growth in the consumer- and construction-related industries will continue to be supported by favourable domestic demand.

Growth in the **agriculture** sector is envisaged to turnaround to 1.5% in 2017 (2016: -3.3%). The projection is on account of improvement in the output of oil palm and rubber as well as a strong growth in the food commodity subsector. Production of CPO is envisaged to rebound 5.6% to 19 million tonnes following better yields and expansion in matured areas (2016: -9.8%; 18 million tonnes). Similarly, output of rubber is expected to expand 4.6% to 680,000 tonnes (2016: -10%; 650,000 tonnes). Output of food commodities is anticipated to grow further driven by higher demand from industries and households.

The **mining** sector is expected to expand 1.4% in 2017 attributed to higher output of natural gas (2016: 1.1%). Output of natural gas is projected to increase in line with the commencement of PFLNG 1, which is estimated to produce 1.2 million tonnes per year. However, production of crude oil (including condensates) is expected to decline due to increasing number of maturing oil fields. In 2017, crude oil price is expected to remain low with Brent oil trading at an average of USD45 pb amid global oil glut (2016: USD40 pb).

The **construction** sector is projected to grow 8.3% (2016: 8.7%) mainly supported by the commencement of large infrastructure projects such as MRT Sungai Buloh – Serdang – Putrajaya Line, Pan Borneo Highway, Sungai Besi – Ulu Klang Elevated Expressway and Damansara – Shah Alam Elevated Expressway. The upgrading road works from Klang Container Terminal – North Port and the construction of infrastructure in Malaysia Vision Valley are expected to further support the sector. The residential subsector is projected to expand driven by affordable housing programmes, particularly 1Malaysia Civil Servants Housing. Meanwhile, the non-residential subsector is expected to benefit from the mixed commercial development mainly in Klang Valley, Johor and Pahang.

Domestic Demand

Private sector to spearhead growth

Aggregate **domestic demand** is expected to expand 4.9% in 2017 underpinned largely by ***private sector*** expenditure, which is envisaged to grow 6.2% (2016: 4.7%; 5.9%). Meanwhile, ***public sector*** expenditure is expected to increase marginally by 0.6% (2016: 0.8%).

In tandem with favourable business sentiment, private investment is forecast to increase 5.8%, accounting for 17.2% of GDP (2016: 5.3%; 17%). Growth is expected to be supported by ongoing projects such as Pan Borneo Highway, RAPID and MRT. Investment in export-oriented industries, especially E&E is projected to increase on account of improvement in global demand for semiconductors. Private consumption is forecast to grow 6.3% (2016: 6.1%) on account of stable labour market, accommodative interest rates and manageable inflation. Cash transfers and lower EPF contributions are expected to increase household disposable income, which in turn will promote consumption activities. Thus, share of private consumption to GDP is projected to increase to 54.2% in 2017 (2016: 53.3%).

Public investment accounting for 8.4% of GDP, is envisaged to increase 1.1% in 2017, mainly on account of capital expenditure by public corporations (2016: 8.7%; 1.7%). Meanwhile capital expenditure by the Federal Government will continue to be focused on upgrading roads, rural infrastructure and urban public transport as well as enhancing the provision of public education and healthcare services. Public consumption is projected to increase marginally by 0.4% following Government measures to reprioritise spending and reduce non-critical items (2016: 0.2%).

GNS is forecast to expand 6.7% to RM365.8 billion or equivalent to 28.4% of GNI (2016: 5.5%; RM342.7 billion; 28.6%). The increase in GNS was offset by stronger investment spending by the private sector, resulting in lower savings-investment gap of RM14.8 billion or 0.5% – 1.5% of GNI (2016: RM16.4 billion; 1% – 1.5%).

External Sector

External position remains resilient

Malaysia's external position is expected to improve in 2017 mainly supported by strengthening global growth and trade. ***Gross exports*** are expected to grow at a faster pace of 2.7% (2016: 1.1%) spearheaded by a rebound in exports of commodities and continued demand for E&E products. ***Gross imports*** are anticipated to expand further by 3.4% (2016: 1.3%) driven by an acceleration in imports of capital goods following new and ongoing construction and infrastructure projects. Furthermore, imports of intermediate goods are expected to rise in tandem with higher manufacturing activities. Trade surplus is projected at RM88.3 billion (2016: RM91.4 billion).

The ***services account*** is projected to remain in deficit at RM23.1 billion in 2017 (2016: -RM22.1 billion) in line with better prospects for trade- and investment-related activity. Meanwhile, the surplus in the *travel account* is expected to increase to RM30.8 billion (2016: +RM29.3 billion) driven by higher tourist spending. Gross travel receipts are expected to expand to RM73 billion buoyed by easing of visa requirements; intensified promotional activities; increased air connectivity; and capacity expansion of facilities in airports.

The ***primary income account*** is envisaged to register a larger net outflow of RM37.4 billion (2016: -RM35.4 billion) due to higher profits, dividends and interests accruing to MNCs operating in Malaysia. Meanwhile, the ***secondary income account*** is expected to remain in deficit at RM24.8 billion (2016: -RM23.9 billion) mainly attributed to outward remittances by foreign workers. Nevertheless, the surplus in the goods and services account will be more than sufficient to offset the net outflows in income accounts. Hence, in 2017, the **current account** is expected to remain in surplus at RM14.8 billion or between 0.5% and 1.5% of GNI (2016: RM16.4 billion; 1% – 1.5%).