3 ECONOMIC PERFORMANCE AND PROSPECTS

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Overview

Robust economic growth

The Malaysian economy recorded a sterling growth of 5.7% during the first six months of 2017 underpinned by strong domestic demand and reinforced by improved external sector. Given the robust economic growth during the first half, real GDP for the year is expected to strengthen further between 5.2% and 5.7% (2016: 4.2%), surpassing the earlier estimates. Accordingly, gross national income (GNI) at current prices is estimated to expand 9.1% to RM1.3 trillion (2016: 6.2%; RM1.2 trillion), with income per capita increasing 7.7% to RM40,713 (2016: 4.7%; RM37,791).

Aggregate domestic demand is expected to remain resilient, primarily driven by private sector expenditure, while the public sector gradually consolidates. Of significance, private consumption will continue to support economic growth. The propensity to consume will be enhanced by stable labour market, higher export earnings and manageable inflation amid low interest rate environment. Meanwhile, private investment is projected to expand at a stronger pace supported by higher capital outlays, particularly in the services and manufacturing sectors. Investments will also be supported by steady inflows of foreign direct investment (FDI).

On the supply side, growth will be supported by stronger performance across all sectors with services and manufacturing remaining as the main drivers of growth. The services sector is projected to expand at a faster rate, reflecting stronger expansion across most subsectors, particularly wholesale and retail trade; information and communication; as well as food & beverages and accommodation. Within the manufacturing sector, the export-oriented industries are projected to expand significantly following higher global demand for semiconductors. Similarly, growth in the domestic-oriented industries will strengthen following improved demand for consumer products and construction-related materials. In the agriculture sector, growth is expected to be supported by the recovery in output of crude palm oil (CPO) and rubber. The construction sector will be led by higher civil engineering activities while the mining sector continues to expand, though at a slower pace supported by higher production of natural gas.

Malaysia's external position is estimated to remain resilient in line with the increase in global trade activities. The current account is forecast to improve mainly backed by sizeable surplus in the goods account. Impetus to export growth is expected to stem from strong demand for E&E and commodities. Meanwhile, imports will continue to increase in line with strong domestic investment activities.

Sectoral Performance

Services Sector

Services spearheads growth

Value added of **services** sector increased further by 6.1% during the first half of 2017 (January – June 2016: 5.4%) mainly driven by strong domestic consumption activities. In 2017, the sector is expected to record 5.9% growth, accounting for 54.5% of GDP (2016: 5.6%; 54.3%). The ***final services*** group is projected to sustain at 6% (2016: 6%) led by the wholesale and retail trade as well as the food & beverages and accommodation subsectors. The ***intermediate services*** group is anticipated to grow 6.4% (2016: 5.5%) supported by the information and communication as well as finance and insurance subsectors. Meanwhile, ***government services*** subsector is expected to increase 4.4% (2016: 4.9%).

Table 3.1. GDP by Sector 2016 – 2018
(At constant 2010 prices)

	Share of GDP (%)	Change (%)		
	2017[1]	2016	2017[1]	2018[2]
Agriculture	8.1	-5.1	5.6	2.4
Mining	8.4	2.2	0.5	0.9
Manufacturing	23.0	4.4	5.5	5.3
Construction	4.6	7.4	7.6	7.5
Services	54.5	5.6	5.9	5.8
GDP	100.0	4.2	5.2 – 5.7	5.0 – 5.5

[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.

Table 3.2. Services Sector Performance 2016 – 2018
(At constant 2010 prices)

	Share (%)	Change (%)		
	2017[1]	2016	2017[1]	2018[2]
Final services				
Wholesale and retail trade	*15.1*	*6.2*	*6.5*	*6.1*
Food & beverages and accommodation	*2.9*	*7.1*	*7.6*	*7.2*
Utilities	*2.5*	*5.4*	*2.5*	*2.6*
Other services	*4.4*	*4.8*	*5.3*	*5.3*
Intermediate services				
Finance and insurance	*6.7*	*2.5*	*4.2*	*4.4*
Real estate and business services	*4.5*	*6.9*	*7.2*	*7.4*
Information and communication	*6.1*	*8.1*	*8.5*	*8.8*
Transport and storage	*3.6*	*5.6*	*6.2*	*5.8*
Government services	***8.7***	***4.9***	***4.4***	***4.5***
Total	***54.5***	***5.6***	***5.9***	***5.8***

[1] Estimate.
[2] Forecast.
Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

The *wholesale and retail trade* subsector recorded a stronger growth of 7% (January – June 2016: 5.9%) supported by higher consumer spending. The retail segment increased 9.6% (January – June 2016: 6.3%) driven by sales in non-specialised stores and other goods in specialised stores which recorded double-digit growth of 12.5% and 13.3%, respectively (January – June 2016: 8.3%; 8.4%). The wholesale segment grew 5.8% (January – June 2016: 8.4%) led by other specialised wholesale (9.7%), household goods (5.2%) as well as food, beverages and tobacco which rose 9.2% (January – June 2016: 3.4%; 6.6%; 8.1%). Meanwhile, the motor vehicle segment rebounded 2.2% (January – June 2016: -3.9%) following the introduction of new car models and rebates on a wide range of earlier models. This was reflected in sales of motor vehicles which turned around 2.2% to RM39.6 billion, while parts and accessories increased 5.4% to RM16.9 billion (January – June 2016: -7.1%; RM38.8 billion; 2.2%; RM16 billion). In 2017, the subsector is expected to expand further by 6.5% (2016: 6.2%).

The *food & beverages and accommodation* subsector increased 7.2% (January – June 2016: 6.6%). The food & beverages segment expanded 7.9% (January – June 2016: 7.4%) driven by increased spending on dining at restaurants. Meanwhile, the accommodation segment grew 4.8% (January – June 2016: 4%) mainly supported by domestic tourism activities, opening of new budget hotels and aggressive online promotions. Tourist arrivals contracted 1.5% during the first eight months of 2017 (January – August 2016: 3.8%). Nevertheless, the introduction of new direct flights to the country as well as the hosting of the ASEAN Para Games, Formula 1 Petronas Malaysia Grand Prix and Shell Malaysia Motorcycle Grand Prix are expected to support growth of the segment. For the year, the subsector is projected to grow 7.6% (2016: 7.1%).

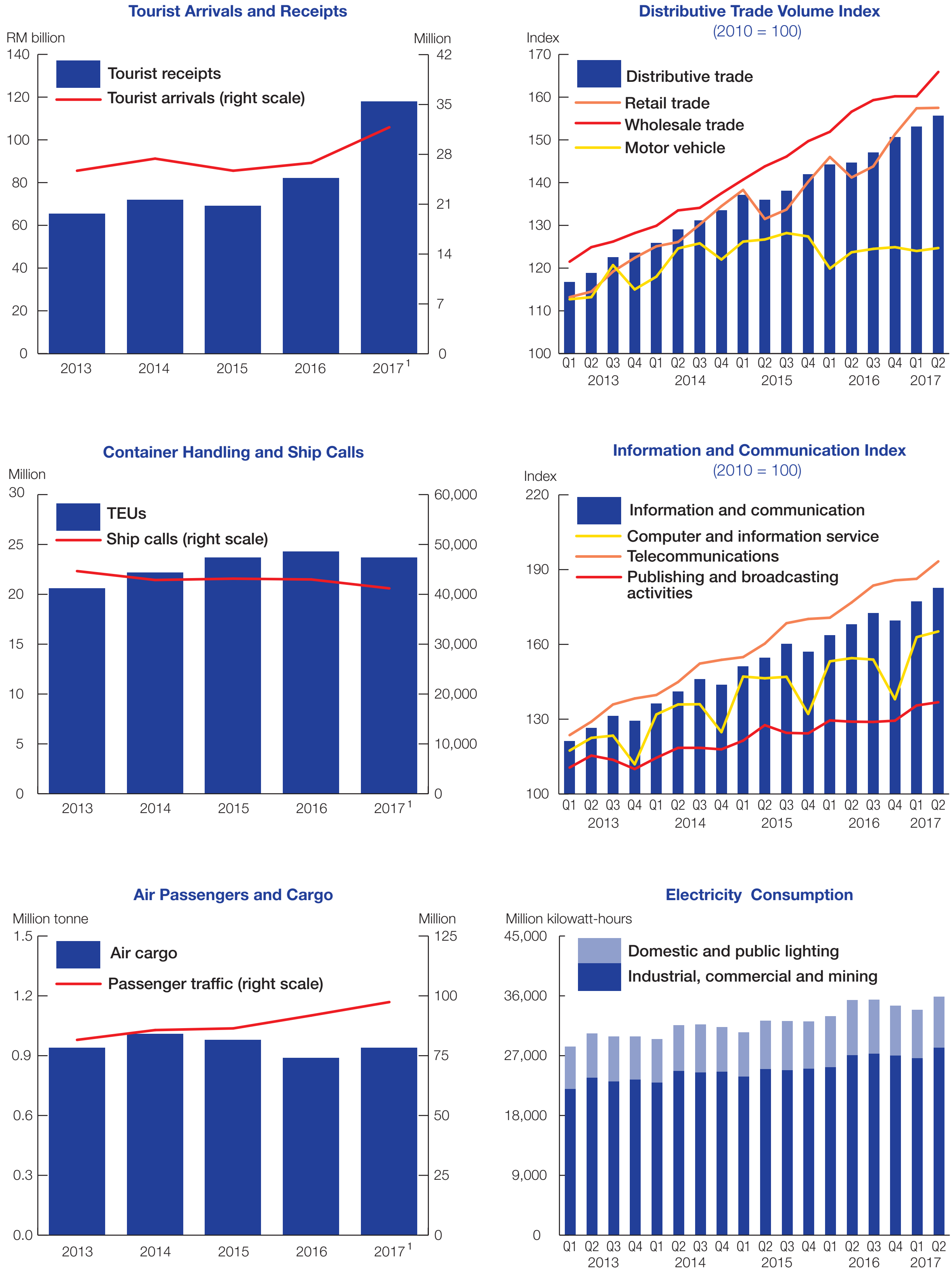
The *information and communication* subsector recorded a strong growth of 8.3% (January – June 2016: 8.6%). The communication segment remained as the major contributor to growth, sustaining its pace at 9.3% (January – June 2016: 9.8%) following aggressive promotional activities by telecommunication companies and introduction of new telephone models. Meanwhile, information segment grew 5.7% (January – June 2016: 3.6%) and computer services rose 6.4% (January – June 2016: 7%). The subsector is expected to sustain its strong growth momentum expanding 8.5% in 2017 (2016: 8.1%) supported by the launching of latest smartphone models, price reductions on earlier premium models and an increase in subscriptions to value added services offered by telecommunication companies.

The *finance and insurance* subsector expanded further by 4.3% (January – June 2016: 0.8%) led by financing activities. The finance segment increased strongly by 4.8% on account of higher growth in FISIM;[1] and interest and fee-based incomes (January – June 2016: 0.02%). The insurance segment grew at a slower pace of 2.8% (January – June 2016: 3.4%) following moderate premium income. In 2017, the subsector is expected to grow 4.2% (2016: 2.5%).

The *real estate and business services* subsector increased 7.3% (January – June 2016: 6.7%). The business services segment recorded a growth of 8.4% (January – June 2016: 7.7%). Growth was driven by sustained demand for professional services, particularly engineering services in the construction sector, and legal and accounting services. Meanwhile, the real estate segment expanded 4.9% (January – June 2016: 4.6%). Growth was partly due to strong performance in the construction sector, incentives and rebates offered by developers, increase in civil servants' housing loan eligibility and flexibility in purchasing homes under 1Malaysia Civil Servants Housing (PPA1M) scheme. For the whole year, the subsector is anticipated to increase 7.2% (2016: 6.9%).

[1] Financial Intermediation Services Indirectly Measured.

Figure 3.1. Selected Indicators for the Services Sector



[1] Estimate.

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

The *transport and storage* subsector grew 6.2% (January – June 2016: 5.9%). Growth was mainly supported by land transport segment, which rose 6.8% (January – June 2016: 7.2%). This was reflected by higher ridership on Electric Train Service (ETS) and intercity services by Keretapi Tanah Melayu Berhad (KTMB) which increased 29% to 1.7 million passengers and 8% to 1.5 million passengers, respectively (January – June 2016: 93%; 1.3 million; 66.5%; 1.4 million). Meanwhile, KTMB freight volume rebounded 5.3% to 3 million tonnes (January – June 2016: -0.3%; 2.9 million tonnes) supported by strong construction activities. Traffic volume on tolled highways turned around sharply by 11.5% to 903.2 million vehicles (January – June 2016: -8.1%; 810.2 million) in tandem with the opening of a new intra-city highway.

The air transport segment expanded 3.4% (January – June 2016: 2.5%) supported by higher international passenger movement. The air passenger volume surged 12.3% (January – June 2016: 2.1%) with international passenger traffic recording a growth of 15.4% (January – June 2016: 5%) largely spurred by higher tourist arrivals from China and competitive fares offered by airlines. Likewise, domestic passenger movement turned around sharply by 9.6% (January – June 2016: -0.4%) following higher travels during festivities and the fasting month. Similarly, air cargo rebounded 8.4% (January – June 2016: -14.7%) attributed to stronger trade activities.

The water transport segment recorded a moderate growth of 1.6% (January – June 2016: 1.7%). Total container throughput in major ports[2] declined 2.9% to 11.8 million twenty-foot equivalent units (TEUs) (January – June 2016: 5.7%; 12.2 million TEUs). This was due to adverse weather conditions in China, realignment of global shipping alliances, and changes in port facilities and equipment which affected berthing schedule. Total container throughput at Port Klang and Tanjung Pelepas which accounted for 52.6% and 35% (January – June 2016: 53.1%; 35.4%) of total container throughput, declined 3.8% and 4%, respectively (January – June 2016: 12.2%; -2.8%). However, positive growth was recorded at ports of Bintulu, Johor, Kuantan, Kuching and Pulau Pinang. For the year, the transport and storage subsector is anticipated to grow 6.2% (2016: 5.6%).

The *utilities* subsector increased at a slower pace of 2.2% (January – June 2016: 6.1%) due to lower demand from households following the waning effect of El Niño. The electricity and gas segment moderated 1.2% (January – June 2016: 5.8%). During the first seven months, electricity consumption increased 2.3% to 81,462 million kilowatt-hours (kWh) (January – July 2016: 8.4%; 79,626 million kWh) with the industrial, commercial and mining segment accounting for 78.4% of total electricity consumption, while domestic and public lighting segment 21.6% (January – July 2016: 76.8%; 23.2%). Electricity generation increased 1.5% with maximum distribution of 13,577 million kWh in July 2017 (January – July 2016: 8.5%; 13,212 million kWh; May). Similarly, gas consumption grew at a stronger pace of 10.2% to 88.4 million MMBtu (January – June 2016: 3.6%; 80.2 million MMBtu) with sales rising by 32.2% to RM2.5 billion (January – June 2016: 22.2%; RM1.9 billion). The stronger sales performance was driven by higher consumption in the industrial segment. The water, sewerage and waste management segment expanded 5.9% (January – June 2016: 7.1%). The growth was driven by higher demand for water from industrial, commercial and new residential areas which grew 4.1% to 11,671 million litres per day (mld) (January – June 2016: 2.3%; 11,212 mld). In 2017, the subsector is expected to grow 2.5% (2016: 5.4%).

The *other services* subsector increased 5.3% (January – June 2016: 4.6%) with private education and health expanding 6.5% and 5.4%, respectively (January – June 2016: 6.7%; 5.6%). As at end-July 2017, there were 495 private higher education institutions nationwide (end-July 2016: 496), comprising 10 foreign university branch campuses, 53 private universities and 35 university colleges as well as 397 private colleges. Meanwhile, the number of healthcare travellers in private hospitals recorded 494,326 (January – June 2016: 460,338) with patients from Indonesia constituting 55.5% or 274,244 of total healthcare travellers. For the year, the subsector is expected to expand 5.3% (2016: 4.8%) supported by strong demand for private education as well as high-quality and affordable healthcare services. Meanwhile, the *government services* subsector grew 4.8% (January – June 2016: 5.2%) supported by expenditure in emoluments. In 2017, the subsector is projected to increase 4.4% (2016: 4.9%).

Manufacturing Sector

Production continues to increase

Value added of the **manufacturing** sector expanded further by 5.8% during the first half of 2017 (January – June 2016: 4.4%) with expansion across a wide range of outputs in both the export- and domestic-oriented industries. During the first eight months, production increased 6.4%, while sales rebounded significantly by 15.6% to RM500.2 billion (January – August 2016: 4%; -0.7%; RM432.8 billion). Output of ***export-oriented industries*** rose

[2] Bintulu, Johor, Klang, Kuantan, Kuching, Pulau Pinang and Tanjung Pelepas.

Table 3.3. Manufacturing Production Index January – August
(2010 = 100)

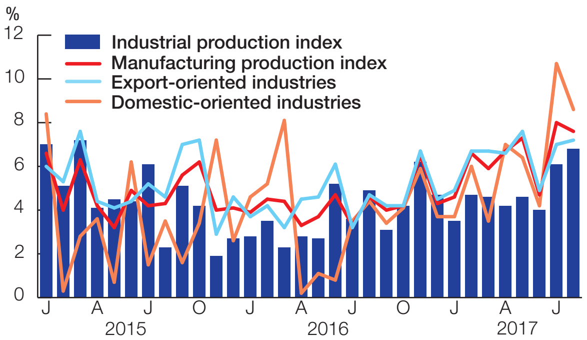
	Index		Change (%)		Share (%)	
	2016	2017	2016	2017	2016	2017
Export-oriented industries	129.9	138.3	4.3	6.5	73.8	73.9
Electrical and electronics products	148.9	162.8	6.8	9.3	27.3	28.1
Chemicals and chemical products	136.1	140.8	4.5	3.5	14.8	14.4
Refined petroleum products	113.1	116.7	3.0	3.2	18.1	17.5
Wood and wood products	120.2	129.0	7.8	7.3	3.7	3.7
Off-estate processing	93.1	105.5	-13.7	13.2	3.2	3.4
Rubber products	143.2	153.2	5.0	6.9	2.7	2.7
Paper products	120.8	127.8	5.4	5.8	2.7	2.7
Textiles, wearing apparel, leather products and footwear	134.5	144.4	7.5	7.4	1.3	1.4
Domestic-oriented industries	136.9	145.5	3.4	6.2	26.2	26.1
Non-metallic mineral and other related products	135.9	143.3	6.3	5.4	4.3	4.3
Fabricated metal products	175.5	183.5	5.6	4.6	4.2	4.1
Basic metals	106.9	111.3	1.9	4.2	3.3	3.2
Transport equipment	152.9	160.1	-3.1	4.7	6.4	6.3
Food products	126.9	141.1	6.3	11.2	5.6	5.9
Beverages	142.6	158.2	9.2	10.9	1.1	1.1
Tobacco products	120.0	122.2	4.9	1.8	0.5	0.5
Others	114.7	117.4	10.4	2.3	0.9	0.8
Total	131.6	140.1	4.0	6.4	100.0	100.0

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

6.5% (January – August 2016: 4.3%) led by an upturn in global electronics cycle and further enhanced by strong demand for resource-based products. Meanwhile, ***domestic-oriented industries*** expanded 6.2% (January – August 2016: 3.4%) benefiting from vibrant consumption and construction activities.

Against this backdrop, the capacity utilisation rate remained stable at 86.6% and 82.8% during the first and second quarter of 2017 (Q1 2016: 76.7%; Q2 2016: 77.5%) amid continuous expansion of the manufacturing sector. Likewise, Purchasing Managers' Index improved to 49.9 points in September 2017 (September 2016: 48.6 points) reflecting a more optimistic outlook. In consonant with higher production during the first eight months, number of employees turned around 2.3% with average wage per worker increasing 5.5%

Figure 3.2. Output of Manufacturing Sector
(% change)



Source: Department of Statistics, Malaysia.

to RM3,252 (January – August 2016: -0.3%; 6.4%; RM3,082). For the year, the manufacturing sector is projected to expand further by 5.5% (2016: 4.4%) mainly attributed to an upturn in global semiconductor sales as well as higher demand for consumer products and construction materials.

Within the export-oriented industries, *E&E* output expanded 9.3% while sales surged 16.3% to RM169.5 billion (January – August 2016: 6.8%; 9%; RM145.8 billion). Growth emanated mainly from the expansion in output of printed circuit boards, semiconductor devices and electronic integrated circuits which strengthened further by 24.4%, 11.9% and 16.9% (January – August 2016: 11.9%; 5.9%; 15%), respectively. This is in line with the trend in global semiconductor sales which is expected to expand 11.5% in 2017, the highest level since 2010. On the contrary, the output of computers and peripheral equipment contracted 7.7% (January – August 2016: 3.1%) as a result of lower demand for notebooks and personal computers following rising preferences for smartphones and tablets. Meanwhile, consumer electronics grew at a moderate pace of 2.6% (January – August 2016: 5.3%) partly due to lower demand for in-car entertainment, portable media players and digital cameras.

Output of *refined petroleum products* grew 3.2% (January – August 2016: 3%) supported by higher demand from Australia, Indonesia and Singapore. The growth was also supported by higher demand from

Table 3.4. Manufacturing Output: E&E Subsector January – August
(2010 = 100)

	Change (%)		Share (%)	
	2016	2017	2016	2017
Electronic components and boards	9.1	15.7	14.6	15.9
Computers and peripheral equipment	3.1	-7.7	2.5	2.2
Communication equipment	1.5	-1.3	1.4	1.3
Consumer electronics	5.3	2.6	4.6	4.5
Electric motors, generators, transformers and electricity distribution and control apparatus	4.2	9.4	0.6	0.6
Wiring and wiring devices	5.3	13.4	0.8	0.8
Domestic appliances	8.3	-0.2	0.4	0.3
General-purpose machinery	6.4	2.7	1.0	1.0
Special-purpose machinery	2.3	11.2	1.4	1.4
Total E&E	6.8	9.3	27.3	28.1

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

domestic energy-intensive and power generation industries. Meanwhile, output of *chemicals and chemical products* expanded 3.5% attributed to higher production of other chemicals (3.8%) as well as pharmaceuticals, medicinal chemical and botanical products which increased 4.4% (January – August 2016: 4.5%; 2.9%; 4%). Output of basic chemicals, fertiliser and nitrogen compounds grew 3.7% (January – August 2016: 5.9%) in line with higher production in the agriculture sector following firmer commodity prices. Likewise, plastic products expanded 2.7% (January – August 2016: 3.1%) attributed to higher demand from food packaging industry.

Output of *wood and wood products* grew 7.3% (January – August 2016: 7.8%). The growth was primarily supported by output of sawmilling and planning of wood which expanded 14.7% (January – August 2016: 16.8%) in response to strong demand from Australia, Japan and the US. Meanwhile, production of wooden and cane furniture remained steady at 10.9% (January – August 2016: 10.9%), benefiting from greater adoption of technology and diversification of export markets.

Production *off-estate processing* turned around to record a double-digit growth of 13.2% (January – August 2016: -13.7%). The performance of the industry was supported mainly by higher activity in palm oil and palm kernel oil processing which rebounded 13.6% and 14.5%, respectively (January – August 2016: -15.8%; -15.2%). The significant growth was attributed to recovery in CPO production following the waning effect of El Niño.

Output of *rubber products* remained strong at 6.9% (January – August 2016: 5%). Growth was led by production of rubber gloves which rose 8.1% (January – August 2016: 5.7%) following greater manufacturing efficiency as well as strong demand from the medical and healthcare industries, especially in Germany, Japan and the US. However, production of rubber tyres for vehicles declined 3% (January – August 2016: 5.2%) due to higher input prices following flood in major rubber producing countries.

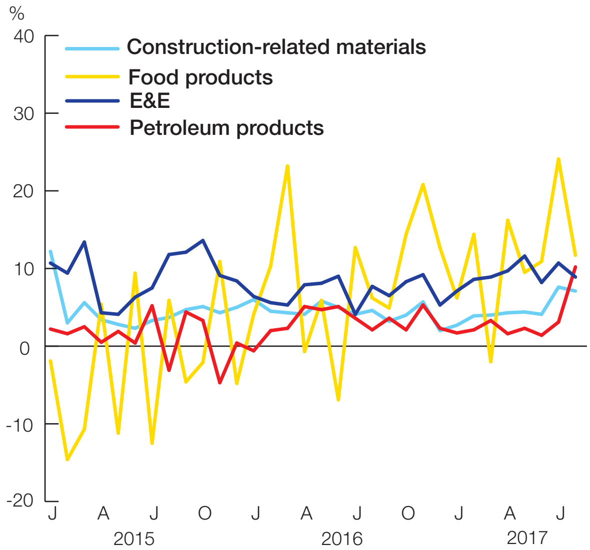
Within the domestic-oriented industries, output of *construction-related materials* recorded a sustained growth of 4.8% (January – August 2016: 4.8%). Growth was led by higher production of basic metal (4.2%), particularly basic iron and steel which rebounded 6.2% (January – August 2016: 1.9%; -1.4%). Likewise, both non-metallic mineral

Table 3.5. Manufacturing Output: Construction-related Materials January – August
(2010 = 100)

	Change (%)		Share (%)	
	2016	2017	2016	2017
Glass and glass products	19.9	7.2	0.9	0.9
Non-metallic mineral products n.e.c.[1]	3.2	5.0	3.4	3.4
Structural metal products, tanks, reservoirs and steam generators	5.5	3.0	1.5	1.4
Other fabricated metal products; metal working service activities	5.7	5.4	2.7	2.7
Basic iron and steel	-1.4	6.2	2.1	2.1
Basic precious and other non-ferrous metals	9.0	0.3	1.1	1.1
Total construction-related materials	4.8	4.8	11.7	11.6

[1] Not elsewhere classified.
Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

Figure 3.3. Performance of Selected Industries
(% change)



Source: Department of Statistics, Malaysia.

and fabricated metal products grew 5.4% and 4.6%, respectively (January – August 2016: 6.3%; 5.6%) supported by increased demand for fabricated construction materials and concrete, cement and plaster following vibrant construction activities.

Output of *transport equipment* turned around 4.7%, largely underpinned by higher production of parts and accessories for motor vehicles (13.1%) as well as repair and maintenance of transport equipment which grew 9.7% (January – August 2016: -3.1%; 12.8%; 8.1%). Likewise, a rebound of 5.2% in air and spacecraft and related machinery supported the growth of the industry (January – August 2016: -1.1%). Meanwhile, output of motor vehicles improved with a smaller decline of 2.4% (January – August 2016: -22.2%). Accordingly, sales volume of vehicles turned around 3.9% to 384,730 units (January – August 2016: -14.8%; 370,152 units) boosted by festive promotions and the launching of new models.

Manufacture of *food products* rose 11.2%, largely attributed to a significant increase in refined palm oil at 26.1% (January – August 2016: 6.3%; -3.3%), following higher production of CPO. Meanwhile, output of other food products grew 7% supported by production of bread, cakes and other bakery (15.6%) as well as biscuits and cookies (12%) to meet the rising demand from households (January – August 2016: 11.1%; 19.2%; 19.1%).

Agriculture Sector

Agriculture sector rebounds

The **agriculture** sector turned around 7.1% during the first half of 2017 (January – June 2016: -5.9%) underpinned mainly by a strong recovery in the oil palm and rubber subsectors following favourable weather conditions. Meanwhile, food-related subsectors such as livestock, fruits and vegetables performed well driven by stronger domestic demand. In addition, various Government measures to increase food production supported growth of the subsector. These include development of agriculture infrastructure projects and continuation of high impact programmes, namely paddy estate, integrated aquaculture zones and cage fish farms. For the year, the agriculture sector is expected to rebound 5.6% (2016: -5.1%) mainly driven by oil palm and rubber subsectors which accounts for 53.1% of the agriculture sector. Meanwhile, the food-related subsector is also expected to provide further impetus to growth with the utilisation of modern farming techniques and stronger demand from the food processing industries.

The *oil palm* subsector rebounded with a strong growth of 14.6% (January – June 2016: -15.2%) attributed to higher production of CPO. During the first nine months of 2017, production of CPO turned around 12.2% to 14.1 million tonnes contributed by higher fresh fruit bunches (FFB) yield at 12.7 tonnes per hectare (January – September 2016: -15.3%; 12.6 million tonnes; 11.6 tonnes per hectare). However, the oil extraction rate fell to 19.7% (January – September 2016: 20.2%) mainly attributed to heavy rainfalls in several major CPO producing states. In tandem with seasonal trends and waning effect of El Niño, production of CPO is expected to reach 20 million tonnes in 2017 (2016: 17.3 million tonnes). Despite recording an increase in stock at 2 million tonnes as of end-September 2017 (end-September 2016: 1.5 million tonnes), the average price of CPO strengthened to RM2,848 per tonne (January – September 2016: RM2,556 per tonne). In 2017, CPO price is expected to average at RM2,700 per tonne (2016: RM2,653 per tonne) backed by strong demand, particularly from China and India. For the year, the oil palm subsector is expected to rebound significantly by 11.8% (2016: -12.7%).

Value added of the *rubber* subsector turned around 20.8% during the first half of the year (January – June 2016: -9.7%). The growth was supported

Table 3.6. Value Added in the Agriculture Sector 2016 – 2017
(At constant 2010 prices)

	Change (%)		Share (%)	
	2016	2017[2]	2016	2017[2]
Agriculture	***-5.1***	***5.6***	***100.0***	***100.0***
Oil palm	*-12.7*	*11.8*	*43.1*	*45.6*
Rubber	*-6.3*	*10.8*	*7.1*	*7.5*
Livestock	*3.7*	*3.1*	*11.6*	*11.4*
Other agriculture[1]	*5.1*	*2.4*	*19.5*	*18.9*
Forestry and logging	*-3.0*	*-15.0*	*7.2*	*5.8*
Fishing	*2.2*	*0.2*	*11.5*	*10.9*

[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 2016 – 2017

			Change (%)	
	2016	2017[2]	2016	2017[2]
Planted areas ('000 hectares)	5,738	5,822	*1.7*	*1.5*
Matured areas ('000 hectares)	5,001	5,118	*2.9*	*2.3*
Production Crude palm oil ('000 tonnes)	17,319	20,000	*-13.2*	*15.5*
Yield[1] (tonnes/hectare)	15.9	19.0	*-13.9*	*19.4*

[1] Fresh fruit bunch yields.
[2] Estimate.
Note: Total may not add up due to rounding.
Source: Malaysian Palm Oil Board.

Table 3.8. Rubber: Areas, Yield and Production 2016 – 2017

	2016	2017[1]	Change (%) 2016	Change (%) 2017[1]
Total areas ('000 hectares)	1,073	1,078	*0.2*	*0.5*
Smallholdings	996	999	*0.3*	*0.4*
Estates	77	78	*-0.8*	*1.3*
Yield (kg per hectare)				
Smallholdings	1,380	1,410	*-1.4*	*2.2*
Estates	1,550	1,560	*-0.6*	*0.6*
Total production ('000 tonnes)	674	700	*-6.7*	*3.9*
Smallholdings	620	645	*-6.7*	*4.0*
Estates	53	55	*-7.0*	*3.7*
% of world production	*5.4*	*5.4*		

[1] Estimate.
Note: Total may not add up due to rounding.
Source: Malaysian Rubber Board.

Table 3.9. Production of Other Agriculture 2016 – 2017

	('000 tonnes) 2016	('000 tonnes) 2017[3]	Change (%) 2016	Change (%) 2017[3]
Cocoa	1.8	2.5	*1.6*	*42.3*
Paddy	3,492	3,693	*28.2*	*5.7*
Livestock				
Meat[1]	277	276	*-0.3*	*-0.3*
Poultry	1,671	1,694	*2.3*	*1.4*
Eggs (million)	13,842	14,174	*4.7*	*2.4*
Milk (million litre)	37	38	*0.8*	*3.1*
Miscellaneous agriculture				
Fruits[2]	1,665	1,730	*-5.9*	*3.9*
Pepper	29	31	*3.3*	*6.0*
Vegetables	1,399	1,543	*1.9*	*10.3*
Coconut (million unit)	505	525	*-0.2*	*4.0*
Flowers (million cutting)	500	515	*-2.0*	*3.1*

[1] Including beef, mutton and swine.
[2] Consists of star fruit, papaya, durian, guava, mango, mangosteen, banana, rambutan and pineapple.
[3] Estimate.
Note: Total may not add up due to rounding.
Source: Ministry of Agriculture and Agro-Based Industry; and Ministry of Plantation Industries and Commodities, Malaysia.

by higher prices coupled with increased yields following favourable weather conditions. During the first eight months of 2017, production of rubber rebounded 19.1% to 495,049 tonnes (January – August 2016: -9.3%; 415,502 tonnes). For the year, rubber production is expected to expand 3.9% to 700,000 tonnes (2016: -6.7%; 673,513 tonnes). The average rubber prices (SMR20) increased to RM7.44 per kg during the first nine months of the year (January – September 2016: RM5.17 per kg) largely due to supply disruption following flood in Thailand coupled with higher demand from expansion in the global vehicle fleet. In 2017, the subsector is expected to record a strong growth momentum of 10.8% with prices averaging at RM7.30 per kg (2016: -6.3%; RM5.68 per kg).

The *livestock* subsector grew 3.9% during the first half of 2017 (January – June 2016: 5%) supported by higher output of poultry, egg and cattle. The increase in the number of producers and farming capacity contributed to the higher production of livestock. In addition, the Government's marketing assistance such as MyFarmOutlets and Agrobazaar Rakyat 1Malaysia, and development of corn plantation for animal feed are expected to provide further impetus to the subsector. The subsector is expected to expand 3.1% in 2017 (2016: 3.7%), supported by ongoing Government programmes and rising demand from households.

Other agriculture subsector grew 2.4% (January – June 2016: 5.6%) backed by higher output of fruits and vegetables. For the year, the subsector is expected to increase 2.4% (2016: 5.1%) mainly supported by expansion in the Permanent Food Production Parks (TKPM), and stronger demand for tropical fruits, especially from China and Middle East. As of August 2017, there were 74 TKPM established in Malaysia with an area of 10,914 hectares. Meanwhile, upgrading of drainage, irrigation and farm roads coupled with usage of quality seeds and fertilisers, and adoption of modern agronomic practices are expected to increase production of paddy.

Meanwhile, the *fishing* subsector declined 2.5% with production recording 936,575 tonnes during the first half of the year (January – June 2016: 2%; 979,042 tonnes). Production of marine fish landing contracted 8% (January – June 2016: 5.3%) mainly affected by the monsoon season. However, the decline was cushioned by a rebound in aquaculture output which grew 8.9% (January – June 2016: -18.3%). Various Government programmes such as aquaculture integrated zones and cage fish farms are anticipated to further strengthen the subsector. For the year, the fishing subsector is expected to grow 0.2% (2016: 2.2%), albeit moderately, supported by aquaculture produce.

Mining Sector

Natural gas supports growth

Value added of the **mining** sector continued to expand at a moderate pace of 0.9% during the first half of 2017 (January – June 2016: 0.4%). The growth was supported by higher production of *natural gas* which strengthened 4.7% (January – June 2016: 1.9%) in line with higher exports to China, Japan and Republic of Korea coupled with stronger demand from domestic petrochemical industry. However, *crude oil and condensates* subsector contracted further by 3.7% (January – June 2016: -1.2%) following Malaysia's commitment to cut oil production by up to 20,000 barrels per day (bpd) since January 2017. This is in line with the agreement between Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC members to curtail oil output by 1.8 million bpd from January 2017 to March 2018 to address the global oil glut. As a result, Brent oil traded higher at an average of USD52.05 per barrel (pb) during the first nine months of 2017 (January – September 2016: USD42.04 pb). For the year, the Brent is expected to trade around USD50 pb (2016: USD44.05 pb). In 2017, the mining sector is expected to expand 0.5% (2016: 2.2%) backed by higher production of natural gas, offsetting lower production of crude oil. The natural gas subsector is expected to benefit from commercialisation of LNG Train 9 at the PETRONAS LNG Complex in Bintulu and PETRONAS' Floating Liquefied Natural Gas 1.

Construction Sector

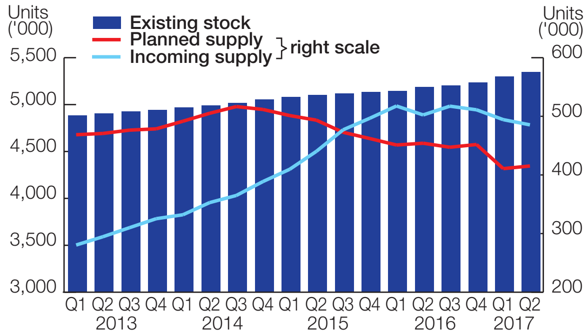
Civil engineering reinforces growth

Value added of the **construction** sector recorded a robust growth of 7.4% during the first half of 2017 (January – June 2016: 8.5%), primarily attributed to strong civil engineering activities. Accordingly, total value of completed construction works increased 10.4% to RM68.9 billion involving 18,977 projects (January – June 2016: 11.4%; RM62.4 billion; 20,026 projects). The private sector contributed 63.6% of the total value of construction works. The civil engineering subsector was the major contributor to the total value of construction works constituting 35.3%, followed by non-residential (31%), residential (28.8%) and specialised construction activities (4.8%) subsectors. In 2017, construction sector is expected to expand 7.6% (2016: 7.4%) mainly underpinned by new and existing civil engineering projects, particularly in utilities, transportation and petrochemical segments.

The *civil engineering* subsector continued to record a double-digit growth of 13.7% (January – June 2016: 17.7%) supported by major infrastructure projects under the Eleventh Malaysia Plan. Among the rail projects were Mass Rapid Transit (MRT) Sungai Buloh – Serdang – Putrajaya (SSP) line and Electrified Double Track Gemas – Johor Bahru. In addition, growth of the subsector was further supported by construction and upgrading of roads such as Setiawangsa – Pantai Expressway (SPE) and Pan Borneo Highway. The subsector also benefited from the construction of combined cycle gas turbine power plant in Melaka.

The *residential* subsector continued to expand 4.7% (January – June 2016: 6.7%) supported by firm demand for affordable housing in choice locations with easy access. Housing starts rebounded significantly by 12.1% to 67,662 units (January – June 2016: -40%; 60,378 units). Condominiums and apartments accounted for 42.9% of total housing starts in line with the increasing demand, especially for high-rise units in major cities. However, the increase was

Figure 3.4. Supply Indicators of Residential Property



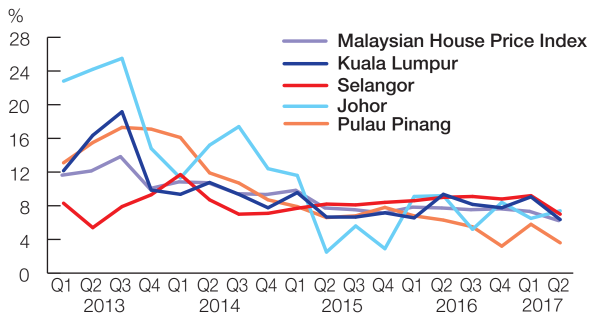
Source: National Property Information Centre.

offset by a decline in incoming supply at 3.4% to 485,433 units (January – June 2016: 14.1%; 502,345 units) as developers were cautious in launching new projects to prevent accumulation of unsold properties. Likewise, new approvals declined 2.8% to 43,133 units (January – June 2016: -33.5%; 44,389 units) as developers reviewed their future plans in response to market situation.

In terms of demand, the take-up rate for residential units grew 23.9% with 6,775 units during the period (January – June 2016: 22.7%; 3,289 units) amid continued access to housing loans, especially for first-time house buyers. Accordingly, transaction value improved with smaller contraction of 0.3% to RM32.9 billion (January – June 2016: -9.6%; RM33 billion). However, total properties transacted declined 6.9% to 95,010 (January – June 2016: -14.5%; 102,096 transactions) mainly due to the adoption of macroprudential measures to deter market speculation and ensure only those who are credit-worthy eligible for financing. The residential overhang increased 55.4% to 20,876 units with a total value of RM12.3 billion during the period (January – June 2016: 28.3%; 13,438 units; RM7.6 billion) with Kedah accounting for the highest overhang at 20.9%, followed by Johor (18.2%) and Selangor (17.6%). However, the property market is expected to adjust accordingly in the long-run given the robust economic growth prospects.

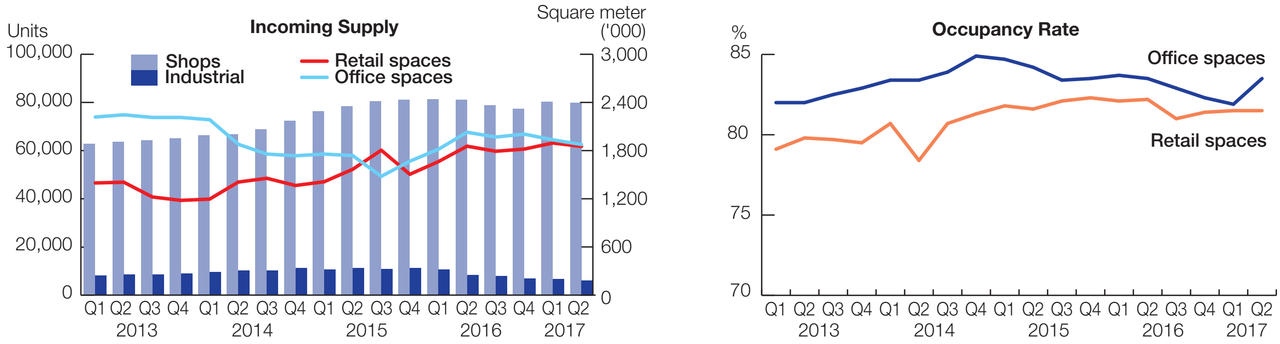
Malaysian House Price Index (MHPI) grew at a moderate pace, reflecting various cooling measures adopted by the Government to contain spiralling

Figure 3.5. Malaysian House Price Index
(% change)



Source: National Property Information Centre.

Figure 3.6. Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

prices. The MHPI stood at 184.1 points (at base year 2010) during the second quarter of 2017 (Q2 2016: 174.4 points). Meanwhile, the average house price grew 5.6% to RM397,190 during the period (Q2 2016: 7.1%; RM376,247) with terrace recording the highest increase at 6.8%, followed by high-rise units (5.8%), semi-detached (4.1%) and detached (2.4%) houses.

The *non-residential* subsector grew 4.9% to RM6.4 billion (January – June 2016: RM6.1 billion). The growth was mainly supported by starts for shops and service apartments which rebounded 29.3% and 14% (January – June 2016: -46.7%; -35%), respectively. However, construction starts in the industrial and Small Office Home Office (SOHO) declined 9.7% and 16.1%, respectively (January – June 2016: -76.7%; -24.9%) mainly due to moderation in the oil & gas (O&G)-related industries. Similarly, planned supply of Purpose-Built Office (PBO) contracted 6.1% to 972,995 square metres (sm) (January – June 2016: 60.1%; 1,036,671 sm). Meanwhile, construction starts for PBO remained unchanged at 277,776 sm.

The shop overhang increased 54.3% to 7,754 units valued at RM5.1 billion (January – June 2016: 2.2%; 5,024 units; RM2.5 billion). Nevertheless, demand for commercial buildings remained favourable with the average occupancy rate of office and retail space at 83.5% and 81.5%, respectively indicating sustained demand for commercial space, especially in prime areas. As of June 2017, the existing stock for shopping complexes and industrial buildings stood at 15.1 million sm and 111,792 units (end-June 2016: 14.2 million sm; 106,453 units), respectively. Meanwhile, shop segment recorded 5,829 transactions worth RM4.6 billion (January – June 2016: 6,452; RM4.7 billion), constituting 56.2% of total transactions in commercial property. Johor and Selangor contributed the highest market volume with 18.4% and 16.8%, respectively.

The PBO Rental Index for Klang Valley, Johor Bahru and George Town showed a positive trend during the second quarter of 2017. The Kuala Lumpur rental index expanded 3.7% to 133.5 points (Q2 2016: 4%; 128.7 points) with City Centre recording 4% while Outside City Centre (2.5%). Meanwhile, the rental index in Selangor, Johor Bahru and George Town increased 3.8%, 4.2% and 5.2% to record 120.3 points, 126.2 points and 122.6 points, respectively.

Domestic Demand Performance

Vibrant private sector activity

Domestic demand accelerated 6.7% during the first half of 2017 (January – June 2016: 4.7%) anchored by resilient household consumption and strong private investment. The growth momentum is expected to be sustained in the second half of the year, thus expanding 6.4% in 2017 (2016: 4.3%). ***Private sector expenditure*** is projected to record a firm growth of 7.4% (2016: 5.6%), underpinned by strong expansion in both consumption and investment activities. Meanwhile, ***public sector expenditure*** is anticipated to grow 3.1% (2016: 0.4%) as the Government continues to invest in rakyat-centric projects.

Accounting for 53.9% of GDP, *private consumption* is projected to expand 6.9% in 2017 (2016: 53.2%; 6%). Household consumption will be supported by improvement in wages amid continued stable employment conditions, higher export earnings and low interest rate environment. Furthermore, 1Malaysia People's Aid; cash assistance to civil servants; higher dividend paid out by major unit trusts; reduction in Employees Provident Fund contribution; and hosting of major sports events are expected to provide further impetus to household spending. In addition, firmer primary commodity prices will support incomes of rubber and oil palm smallholders, which are expected to increase 37.8% and 2.9%, respectively. In line with the robust private consumption activities, the Consumer Sentiment Index by Malaysian Institute of Economic Research (MIER) improved to 80.7 points during the second quarter of 2017 (Q2 2016: 78.5 points).

Table 3.10. GDP by Aggregate Demand 2016 – 2018
(At constant 2010 prices)

	Share of GDP (%)	Change (%)		
	2017[3]	2016	2017[3]	2018[4]
GDP	*100.0*	*4.2*	*5.2 – 5.7*	*5.0 – 5.5*
Domestic demand[1]	*92.5*	*4.3*	*6.4*	*5.5*
Private expenditure	*71.4*	*5.6*	*7.4*	*7.3*
Consumption	*53.9*	*6.0*	*6.9*	*6.8*
Investment	*17.5*	*4.3*	*9.3*	*8.9*
Public expenditure	*21.1*	*0.4*	*3.1*	*-0.4*
Consumption	*12.7*	*0.9*	*2.7*	*1.3*
Investment	*8.4*	*-0.5*	*3.7*	*-3.1*
External sector	*7.4*	*1.5*	*-6.3*	*1.0*
Exports[2]	*72.2*	*1.1*	*8.0*	*2.3*
Imports[2]	*64.7*	*1.1*	*9.9*	*2.5*

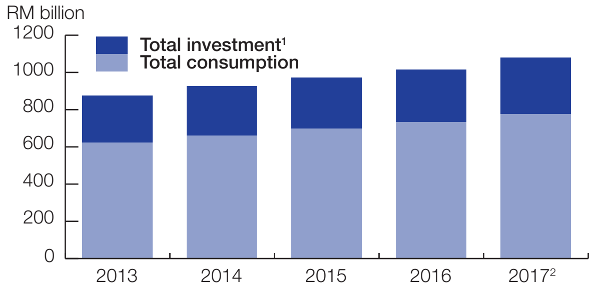
[1] Excluding change in stocks.
[2] Goods and non-factor services.
[3] Estimate.
[4] Forecast.
Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Likewise, major consumption indicators such as sales of motorcycles expanded 11.7%, food (11.1%) and passenger cars (5.2%), respectively during the first eight months of 2017 (January – August 2016: 2.3%; 11.5%; -15.1%), signalling stronger consumer spending.

Private investment accounting for 17.5% of GDP, is expected to increase 9.3% (2016: 16.9%; 4.3%) supported by implementation of new and ongoing projects. The Business Conditions Index by MIER improved further to 114.1 points during the second quarter of 2017 (Q2 2016: 106.4 points) reflecting rising business optimism. Capital outlays by the private sector will be mainly concentrated in services and manufacturing sectors. In the services sector, investment is expected to be channelled into real estate; financial services; utilities; and distributive trade subsectors. Meanwhile, investment in the manufacturing sector will be focused in industries such as E&E, petroleum products, non-metallic mineral products and transport equipment. At the same time, FDI recorded a net inflow of RM25.2 billion in the first half of 2017 (January – June 2016: RM26.1 billion). Bulk of the FDI was from China, Japan and Hong Kong amounting to RM10.9 billion. Apart from East Asian countries, Malaysia also attracted huge amount of FDI from the UK worth RM4.2 billion. Total net inflows were mainly channelled into the services sector, in particular, information and communication, finance and insurance subsectors as well as manufacturing and mining sectors.

Public consumption is estimated to grow 2.7% (2016: 0.9%) due to higher spending on emolument. Meanwhile, *public investment* is expected to rebound

Figure 3.7. Composition of Aggregate Demand
(At constant 2010 prices)



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

3.7% (2016: -0.5%) largely supported by Federal Government's development expenditure (DE) mainly in economic and social sectors. Expenditure in economic sector focuses on developing transportation infrastructure and improving public facilities. These include construction of roads and bridges, particularly in Sabah and Sarawak as well as provision of public amenities, especially in rural areas. Meanwhile, expenditure in the social sector is channelled into education and training as well as healthcare services.

Capital spending by the public corporations is expected to continue mainly in transportation, utilities and O&G-related subsectors. The Government will continue to emphasise on rakyat-centric projects such as MRT SSP line and the Light Rail Transit Line 3 (LRT3). Meanwhile, Tenaga Nasional Berhad's capital expenditure will meet the nation's energy capacity requirement and to maintain the overall system efficiency, security and reliability. Among the major projects are Manjung 5 and Jimah coal fired plants, and Tekai and Nenggiri hydroelectric plants. Meanwhile, PETRONAS investment focuses on both downstream and upstream projects such as Refinery and Petrochemical Integrated Development (RAPID); Pengerang Cogeneration Plant; Regasification Terminal 2 (RGT2); and Baram Delta Gas Gathering phase two on the Baronia field offshore Miri, Sarawak.

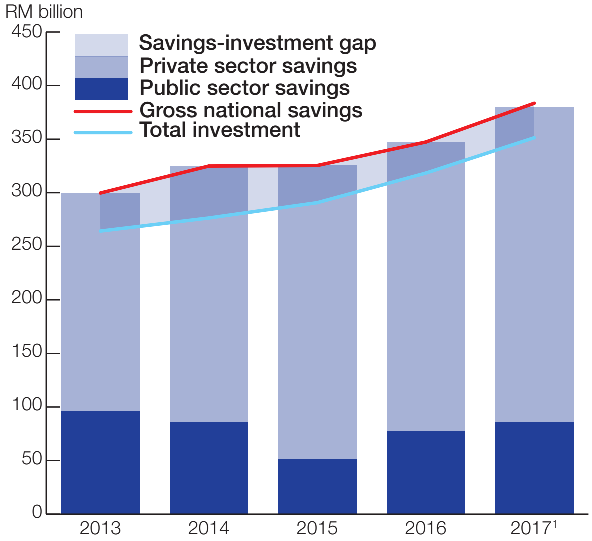
In line with strong domestic economic activities and improved external sector, national income in current prices is expected to record higher growth of 9.1% in 2017 (2016: 6.2%). **Gross national savings (GNS)** is anticipated to increase strongly by 9.5% with bulk of GNS emanating from the private sector, accounting for 77.4% of total savings (2016: 6.8%; 77.6%). Total investment (including change in stocks) is expected to expand 9.3% to RM347.9 billion (2016: 9.5%; RM318.3 billion). Thus, the savings-investment gap is expected to record a wider surplus of RM32.3 billion or 2.5% of GNI in 2017 (2016: RM29 billion; 2.4%), enabling financing from domestic sources.

Table 3.11. Savings-Investment Gap 2016 – 2018
(At current prices)

	RM million		
	2016	2017[2]	2018[3]
Public Sector			
Savings	77,802	86,024	94,135
Gross capital formation[1]	105,504	111,349	109,465
Surplus/Deficit	**-27,702**	**-25,325**	**-15,330**
Private sector			
Savings	269,506	294,185	309,482
Gross capital formation[1]	212,781	236,547	261,212
Surplus/Deficit	**56,725**	**57,638**	**48,270**
Overall			
Gross national savings	347,308	380,209	403,617
% of GNI	*29.1*	*29.1*	*28.7*
Gross capital formation[1]	318,285	347,896	370,677
% of GNI	*26.6*	*26.7*	*26.4*
Surplus/Deficit	**29,023**	**32,313**	**32,940**
% of GNI	*2.4*	*2.5*	*2.3*

[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.

Figure 3.8. Gross National Savings and Savings-Investment Gap



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

Information Box 3.1

Private Investment in Malaysia

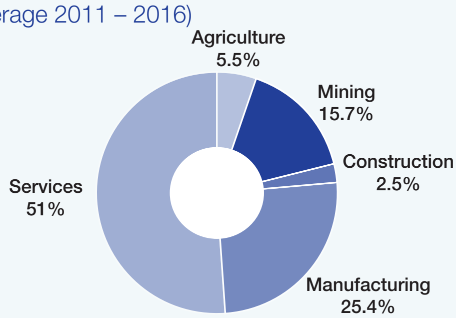
Introduction

Private investment has been one of the key sources of growth in Malaysia. With the implementation of Economic Transformation Programme (ETP) in 2010, private investment accelerated with the resumption of capital spending evident across all sectors. This was reflected by higher share of private investment to GDP which increased to 15.6% between 2011 and 2016 (2005 – 2010: 12.1%).

Trends in Private Investment

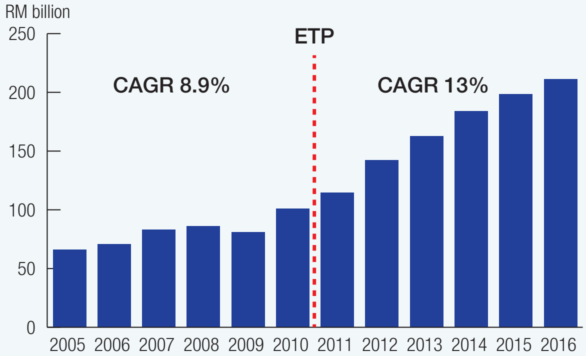
Private investment grew on average by 13% to RM168.9 billion between 2011 and 2016 (2005 – 2010: 8.9%; RM81.5 billion). In terms of share, investment in the services sector increased significantly to chart more than half of total private investment, especially with further liberalisation in the sector. The investment was mainly channelled into the distributive trade; information and communication; transport and storage; and tourism-related subsectors. On the contrary, share of investment in manufacturing sector shrank to 25.4%, compared with 31.6% during the period between 2005 and 2010.

Figure 3.1.1. Composition of Private Investment by Sector
(Average 2011 – 2016)



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

Figure 3.1.2. Private Investment Performance



Source: Department of Statistics, Malaysia.

The lower contribution of the manufacturing sector was partly due to the change in Government's focus to attract quality investment.[1] With this strategy, shares of catalytic and high potential industries have risen in terms of total approved investment, which stood at 31% in 2016. These industries include E&E (51%); chemicals and chemical products (17%); medical devices (16%); aerospace (8%); and machinery & equipment (8%).

In terms of foreign direct investment (FDI), Malaysia attracted a moderate net inflows, constituting 22.9% of total private investment between 2011 and 2016 (2005 – 2010: 25.5%), mainly due to the changing profile of investment. With the implementation of ETP, more investments have been channelled into higher value added activity with less labour-intensive. Furthermore, intense competition for FDI from emerging economies, particularly low labour cost countries such as China and Viet Nam have also contributed to the marginal net inflows. In terms of sectoral, net FDI inflows during the period were channelled mainly into the services (35.5%), manufacturing (35.3%) and mining (25.8%) sectors. The largest inflows were from Singapore (17.7%), Japan (17.7%), Hong Kong (10.1%), the Netherlands (10.1%) and the US (4.2%).

Contribution of Private Investment to the Malaysian Economy

Company's profitability is the most important determinant of private investment.[2] Internal estimates indicate that a 1% increase in the rate of return (ROR)[3] will boost private investment by an additional 6%, contributing to higher employment by 0.4%. This stimulates wages, which in turn increases private consumption. Overall, there will be an increase in real GDP by 0.3%.

Table 3.1.1. Macroeconomic Impact of an Increase in Rate of Return

	Percentage increase from the baseline (2017)
Real GDP	0.3%
Employment	0.4%
Wages	0.2%
Private investment	6.0%
Private consumption	0.4%

Source: Ministry of Finance, Malaysia estimates.

In terms of sectoral performance, non-residential and civil engineering industries will benefit directly from the improved investment activities. Other industries such as concrete & other non-metallic mineral products; stone, clay and sand quarrying; ICT & computer services; and research and development will gain as these industries supply most of their products to investment-related industries. Likewise, rental and leasing; and highway, bridge and tunnel operation services industries will benefit from intersectoral linkages. Meanwhile, industries that produce output mostly for household sector such as residential; and wholesale & retail trade and motor vehicles will benefit from an increase in employment and wages.

Conclusion

Private investment is one of the crucial factors to accelerate economic growth. Various initiatives implemented by the Government, particularly under the ETP, have accelerated private investment activities. Recognising the importance of private investment, the Government strives to improve business condition to attract and boost capital outlays by the private sector. This will steer Malaysia to become an advanced and high-income economy by 2020 as well as doubling the economy by 2025.

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[1] Defined as investment with high value added; knowledge-skill-and capital-intensive; high technology; strong linkages with domestic industries; high-GNI impact; and high-income jobs.
[2] Annual Report (2012). Bank Negara Malaysia.
[3] ROR is used as a proxy to estimate the impact of profit margin on private investment.

External Sector

Trade Performance

Higher trade surplus

Malaysia's total trade surged 22.6% during the first eight months of 2017 (January – August 2016: 0.9%) largely driven by improved global demand and robust domestic activities. Both gross exports and imports recorded double-digit growth of 22.2% and 23%, respectively, while trade surplus stood at RM60.8 billion (January – August 2016: 1%; 0.9%; RM52.5 billion). For the year, **gross exports** are expected to accelerate 16.6% to RM917.5 billion (2016: 1.2%; RM787 billion) supported by strong demand for manufactured goods and commodities. Meanwhile, **gross imports** are estimated to expand at a faster pace of 17.8% to RM822.9 billion (2016: 1.9%; RM698.8 billion) driven by strong demand for intermediate and capital goods, despite the moderation in consumption goods. **Trade surplus** is expected to be higher at RM94.6 billion (2016: RM88.1 billion).

Exports of Manufactured Goods

Robust expansion in E&E

Exports of **manufactured goods**, which account for 81.3% of total exports, are estimated to expand 15.5% in 2017 (2016: 82.1%; 3.3%) mainly attributed to higher demand for E&E products. During the first eight months of 2017, exports of manufactured goods surged 21.1% to RM500.4 billion (January – August 2016: 3.8%; RM413.2 billion) boosted by strong demand for E&E, petroleum products, chemicals and chemical products as well as rubber products. Export earnings of **E&E** rose sharply by 21.4% (January – August 2016: 2.3%) supported by the favourable performance of semiconductors (22.8%), automatic data processing machines (28.5%), electronic machines apparatus (35.1%) and office machines (57.5%). Growth was driven mainly by demand for consumer electronic products such as smartphones and tablets, and energy saving devices, particularly light emitting diodes (LEDs) and photovoltaic solar panels. Growth was also in line with global semiconductor sales, which surged 20.5%

Table 3.12. External Trade 2016 – 2018

	RM million			Change (%)		
	2016	2017[1]	2018[2]	2016	2017[1]	2018[2]
Total trade	1,485,783	1,740,356	1,800,356	*1.5*	*17.1*	*3.4*
Gross exports	786,964	917,474	948,674	*1.2*	*16.6*	*3.4*
of which:						
Manufactured	645,768	745,906	769,375	*3.3*	*15.5*	*3.1*
Agriculture	70,424	87,160	89,650	*4.7*	*23.8*	*2.9*
Mining	65,056	80,279	86,329	*-18.9*	*23.4*	*7.5*
Gross imports	698,819	822,881	851,681	*1.9*	*17.8*	*3.5*
of which:						
Capital goods	100,245	117,672	121,790	*4.9*	*17.4*	*3.5*
Intermediate goods	399,033	481,797	499,085	*-0.1*	*20.7*	*3.6*
Consumption goods	66,977	69,122	71,541	*7.3*	*3.2*	*3.5*
Trade balance	88,145	94,593	96,993	*-3.7*	*7.3*	*2.5*

[1] Estimate.
[2] Forecast.
Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Table 3.13. Gross Exports January – August

	RM million		Change (%)		Share (%)	
	2016	2017	2016	2017	2016	2017
Manufactured	413,231	500,447	*3.8*	*21.1*	*82.5*	*81.8*
Agriculture	43,949	52,095	*1.6*	*18.5*	*8.8*	*8.5*
Mining	40,055	53,137	*-21.9*	*32.7*	*8.0*	*8.7*
Others	3,440	6,237	*15.3*	*81.3*	*0.7*	*1.0*
Gross exports	500,675	611,916	*1.0*	*22.2*	*100.0*	*100.0*

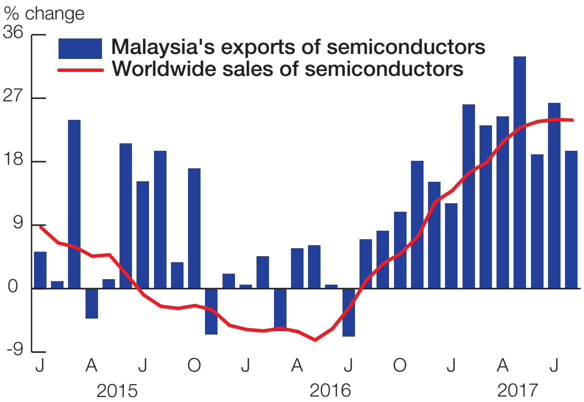
Note: Total may not add up due to rounding.
Source: Department of Statistics and Malaysia External Trade Development Corporation, Malaysia.

Table 3.14. Exports of Manufactured Goods January – August

	RM million		Change (%)		Share (%)	
	2016	2017	2016	2017	2016	2017
E&E	**181,733**	**220,564**	*2.3*	*21.4*	*44.0*	*44.1*
Non-E&E	**231,498**	**279,882**	*5.0*	*20.9*	*56.0*	*55.9*
Petroleum products	33,694	48,384	-3.6	43.6	8.2	9.7
Chemicals and chemical products	38,114	45,080	6.6	18.3	9.2	9.0
Machinery, equipment and parts	25,735	27,521	11.7	6.9	6.2	5.5
Manufactures of metal	22,341	24,263	10.3	8.6	5.4	4.8
Optical and scientific equipment	18,639	20,919	14.5	12.2	4.5	4.2
Rubber products	13,031	17,671	1.0	35.6	3.2	3.5
Processed food	12,670	14,070	12.6	11.0	3.1	2.8
Wood products	10,162	10,858	4.1	6.8	2.5	2.2
Textiles, apparels and footwear	9,238	10,371	7.1	12.3	2.2	2.1
Manufactures of plastics	8,526	9,644	4.4	13.1	2.1	1.9
Transport equipment	8,647	10,577	14.3	22.3	2.1	2.1
Iron and steel products	4,100	8,281	-36.7	102.0	1.0	1.7
Jewellery	4,709	4,518	-7.7	-4.1	1.1	0.9
Non-metallic mineral products	3,724	3,800	-5.6	2.1	0.9	0.8
Beverage and tobacco	3,025	2,826	5.6	-6.6	0.7	0.6
Paper and pulp products	2,741	3,120	4.7	13.8	0.7	0.6
Other manufactured goods	12,401	17,979	14.3	45.0	3.0	3.6
Total	**413,231**	**500,447**	*3.8*	*21.1*	*100.0*	*100.0*

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

Figure 3.9. Malaysia's Exports of Semiconductors and Worldwide Sales of Semiconductors



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

during the period. Exports of E&E products were notably higher to Singapore (35.4%), Japan (28.6%), China (24.3%), Hong Kong (13.3%) and the US (7.8%).

Non-E&E exports posted a stronger growth of 20.9% (January – August 2016: 5%) with almost all subsectors exhibiting positive performance. Export receipts from *petroleum products* rebounded significantly by 43.6% (January – August 2016: -3.6%) following increased demand, particularly from Indonesia (135.2%), China (96.4%), Australia (73.7%) and Singapore (24.5%). Strong performance was recorded in refined petroleum products (34.7%) as well as petroleum gases and gaseous hydrocarbon (41%). Exports of *chemicals and chemical products* rose sharply by 18.3% (January – August 2016: 6.6%) led by organic chemicals and plastics in primary form, which expanded 25.9% and 13.3%, respectively. Demand was notably higher from China, Indonesia, Japan, Singapore and Thailand.

Export earnings from *rubber products* grew strongly by 35.6% (January – August 2016: 1%) mainly driven by rubber gloves and rubber tyres, which increased 24% and 20.8%, respectively. Robust demand for rubber gloves was on account of rising standards of health-related procedures and hygiene awareness globally. Meanwhile, receipts from rubber tyres were supported by growing demand from the automotive industry. During the period, higher exports of rubber products were recorded to China, Germany, Japan and the US. In addition, exports of *optical and scientific equipment* grew 12.2% (January – August 2016: 14.5%) led by higher demand for measuring, controlling and medical instruments.

Exports of *machinery, equipment and parts* grew 6.9% (January – August 2016: 11.7%) backed by strong demand for specialised machinery in specific industries (7.1%) as well as power generating machinery and equipment (38.2%). Higher exports were recorded to Singapore, Thailand and the US. Receipts from *iron and steel products* rebounded significantly by 102% (January – August 2016: -36.7%) following increased construction-related activities in the region. Among major export markets for iron and steel products include India, Indonesia, Mexico, Singapore and Thailand.

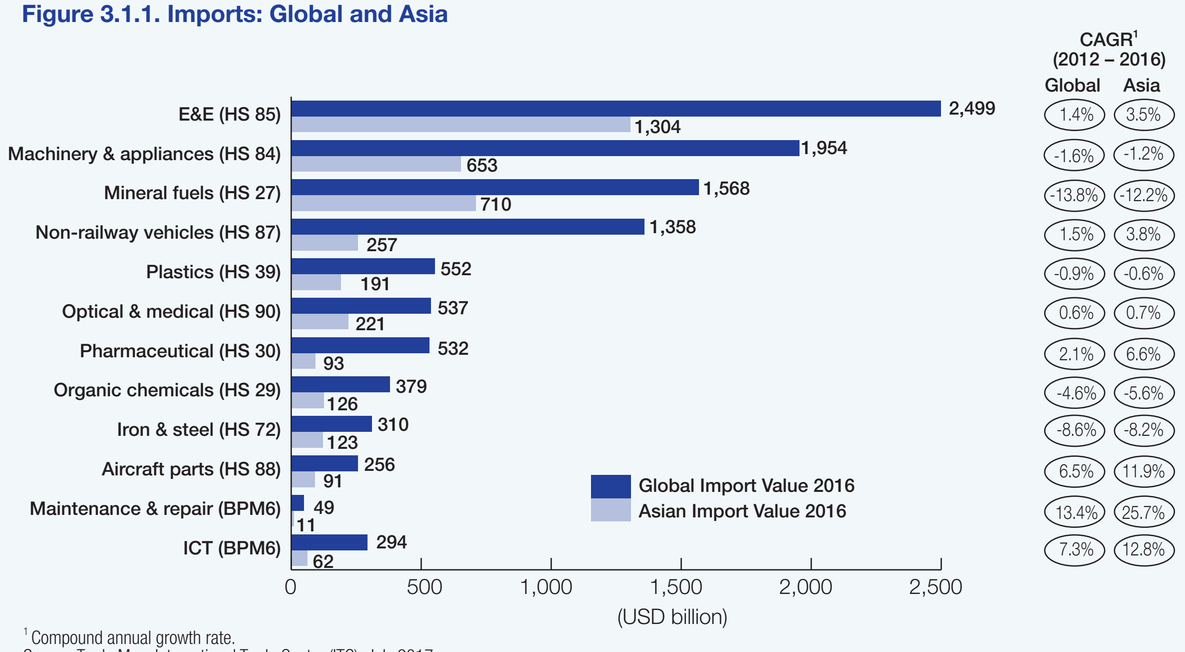
Feature Article 3.1

Enhancing Malaysia's Export Potential

Introduction

Exports play an integral role in the Malaysian economy in terms of income generation; employment creation; and technology and skills enhancement. As a highly open economy with trade accounting for 156% of GDP,[1] Malaysia continued to be ranked among the world's top 25 exporting nations in 2016.[2] Malaysia has successfully diversified its export products and expanded its trading partners in line with the underlying structural changes in the economy. The composition of exports has gradually shifted from commodities in 1970s to manufactured goods. Meanwhile, export destinations have become more diversified over the years, with exports increasing steadily to East Asia,[3] apart from traditional markets like the EU, Japan and the US. Moving forward, in efforts to further boost export performance, the Government has identified several potential sectors[4] for Malaysian exporters to penetrate new markets and enhance product offerings. This article focusses on four catalytic export subsectors, namely E&E, pharmaceutical, aerospace and ICT including creative content.

Figure 3.1.1. Imports: Global and Asia



[1] Compound annual growth rate.
Source: Trade Map, International Trade Centre (ITC), July 2017.

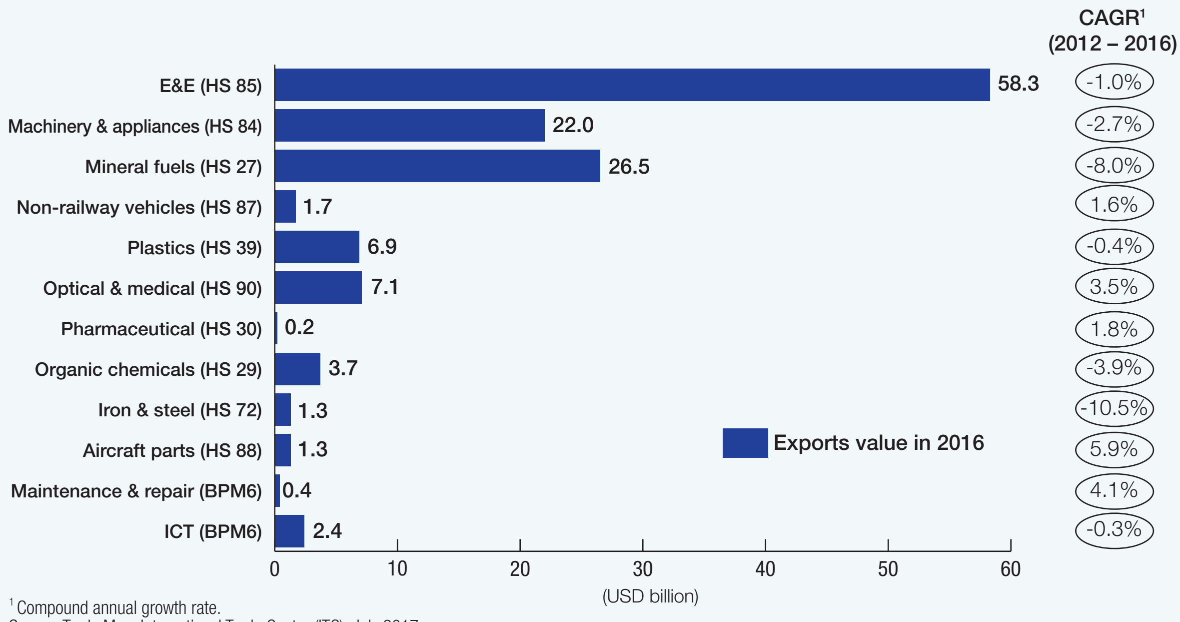
Potential Areas for Exports

Electrical and Electronics

The global demand for E&E products is substantial. In terms of global import value, the E&E subsector continues to grow at a compounded annual growth rate (CAGR) of 1.4% between 2012 and 2016. In Asia, the growth was even higher at 3.5%. The E&E products continued to account for a significant proportion of Malaysia's total exports at 36.6% in 2016. Main exports of E&E products include semiconductors, automatic data processing machines and telecommunication equipment. The E&E subsector has benefited from the global demand for Internet of Things (IoT) such as mobile devices (smartphones, tablets), storage devices (cloud computing, data centres), optoelectronics (fibre optics, LEDs) and embedded technology (integrated circuits, printed circuit

[1] Average 1990 – 2016.
[2] World Trade Organisation (2017). *Trade Profiles.*
[3] ASEAN, China, Hong Kong, Republic of Korea and Taiwan.
[4] Agro-business, automotive, business and financial services, construction, creative industries, education, E&E, halal, healthcare, ICT, machinery and equipment, palm oil, petrochemical and tourism.

Figure 3.1.2. Exports by Malaysia



[1] Compound annual growth rate.
Source: Trade Map, International Trade Centre (ITC), July 2017.

boards, LEDs). According to the National IoT Strategic Roadmap 2015, Malaysia's IoT market is expected to reach RM42.5 billion by 2025. Moving forward, efforts will be intensified to further develop the E&E subsector, particularly in high-end segments such as system integration, advanced energy storage, electric vehicle and big data. Given the growing demand for E&E products, particularly in Asia, it is imperative for Malaysian exporters to further capitalise on the opportunities to remain relevant in these strategic segments.

Pharmaceutical

Malaysia is the 14th largest exporter of pharmaceutical products in Asia amounting to USD174 million in 2016.[5] Local pharmaceutical manufacturers have complied with the Good Manufacturing Practices and Good Laboratory Practice requirements, in accordance with domestic and international standards. Malaysia is one of the few countries in the region that has been accepted into the Pharmaceutical Inspection Cooperation/Scheme since January 2002, thus enabling greater market access to member countries such as Australia, Canada and the EU. Currently, the industry is producing medicines in all dosage forms such as tablets (coated and non-coated), capsules (hard and soft gelatine), liquids, creams, ointments, sterile eye drops and small volume injectable (ampoules and vials). In addition, Malaysian pharmaceutical manufacturers are also moving into the production of biologic drugs, oncology and high value added generic compounds in line with the growing demand in this region. Malaysia is also fast-gaining recognition in halal pharmaceuticals in line with increasing global demand. Given the vast opportunities in pharmaceutical industry, it is crucial for local manufacturers to establish strategic partnerships and enhance research, development, commercialisation and innovation capabilities to diversify product offerings and further widen market access abroad.

Information and Communication Technology

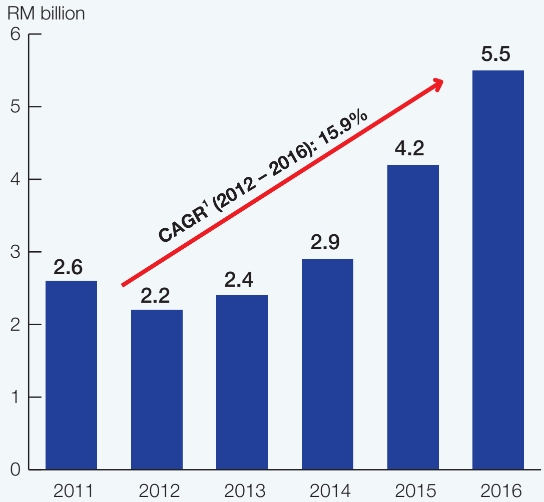
ICT is one of the fastest growing subsectors in Asia, registering a growth of 12.8% between 2012 and 2016. Over the same period, MSC Malaysia registered a strong export growth of 13.5%. Of this, creative content and technologies[6] was the fastest growing segment expanding 26.3%. As at end-August 2017, a total of 367 companies were involved in the creative content and technologies cluster of MSC Malaysia specialising in animation; game development; e-learning; and mobile and interactive content. Malaysian ICT exporters are gaining momentum and

[5] International Trade Centre (July 2017). *Trade Map.*
[6] Includes computer animation; digital archiving, games and publishing; edutainment; film; interactive television; mobile applications; and visual effects.

Figure 3.1.3. Exports by MSC Malaysia Companies

[1]Compound annual growth rate.
Source: Malaysia Digital Economy Corporation.

Figure 3.1.4. Malaysia's Exports of Aircraft Parts and Components



[1] Compound annual growth rate.
Source: Malaysia External Trade Development Corporation and National Aerospace Industry Coordinating Office.

capabilities, particularly in supplying digital content, software development and testing. Other services gaining traction include IoT; data centres and cloud services; cyber security; and big data analytics. The increasing uptake of mobile computing is expected to boost demand for new and improved content applications, providing a broad range of opportunities for local content designers, engineers and developers to further enhance exports of creative content.

Aerospace

In terms of the aerospace industry, exports of Malaysia's aircraft parts and components have increased 15.9% between 2012 and 2016 to RM5.5 billion. Malaysia is at the forefront of several segments, including design and manufacturing of composites; aircraft components, avionics and systems; and maintenance, repair and overhaul (MRO). As of end-2016, there were about 200 companies involved in aircraft assembly; MRO; and manufacture of aircraft parts and components including ground support equipment.[7] The Malaysian Aerospace Industry Blueprint has set a new target for Malaysia to become the regional aerospace hub by 2030. The aerospace industry is targeted to generate annual revenue of RM55.2 billion and create more than 32,000 high income jobs by 2030. Due to the strategic and high growth potential of the industry, it is crucial to further develop Malaysia's aerospace ecosystem towards enhancing exports.

Conclusion

Malaysia stands to gain from greater globalisation, particularly from higher demand for goods and services. The identification of strategic high growth areas is critical to ensure resources are focussed on sectors that will yield high export earnings for the country. Therefore, it is important to continue to leverage the world economy and increase global market share. In this regard, Malaysian exporters have to actively embrace higher value added activities to remain relevant and competitive. In complementing this, the Government will continue to support the business ecosystem through various programmes and initiatives.

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[7] National Aerospace Industry Coordinating Office (NAICO).

Exports of Commodities

Firm prices support exports

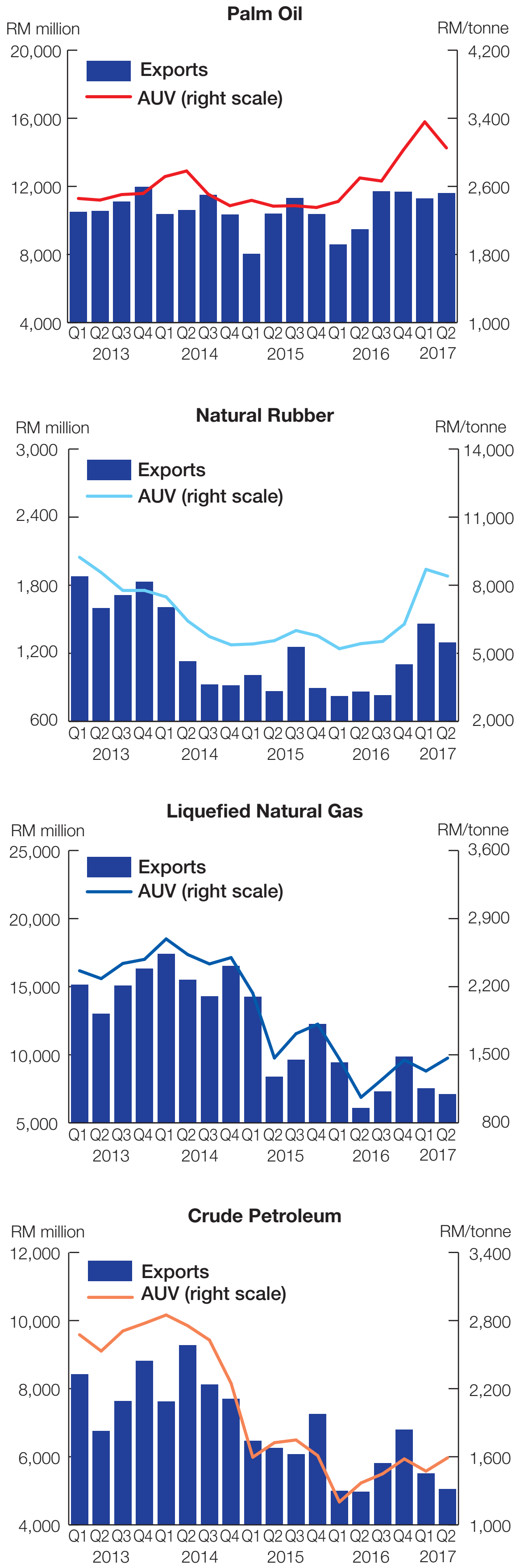
Export earnings from **agriculture** goods are expected to increase 23.8% to RM87.2 billion in 2017 (2016: 4.7%; RM70.4 billion) mainly supported by higher shipment of palm oil and natural rubber. During the first eight months of 2017, receipts from agriculture products rose significantly by 18.5% to RM52.1 billion (January – August 2016: 1.6%; RM43.9 billion). ***Palm oil*** exports rebounded sharply by 18.8% to RM30.6 billion (January – August 2016: -0.1%; RM25.8 billion) following higher average unit value (AUV), which grew 20.9% to RM3,118 per tonne. Shipments of ***natural rubber*** rebounded 56.3% to RM3.5 billion (January – August 2016: -20.1%; RM2.2 billion) on account of higher AUV (51.7%) and volume (3.1%). Higher demand from China, Germany, Iran and the US provided further impetus to growth in export receipts of natural rubber.

Table 3.15. Major Commodity Exports January – August

			Change (%)	
	2016	2017	2016	2017
Commodity exports (RM million)	84,005	105,232	*-11.2*	*25.3*
Agriculture exports (RM million)	43,949	52,095	*1.6*	*18.5*
Palm oil				
Volume ('000 tonnes)	10,005	9,824	*-7.2*	*-1.8*
AUV (RM/tonne)	2,578	3,118	*7.6*	*20.9*
Value (RM million)	25,793	30,633	*-0.1*	*18.8*
Natural rubber				
Volume ('000 tonnes)	412	424	*-16.1*	*3.1*
AUV (RM/tonne)	5,369	8,144	*-4.7*	*51.7*
Value (RM million)	2,209	3,454	*-20.1*	*56.3*
Sawn timber				
Volume ('000 cubic metres)	1,254	1,452	*-4.3*	*15.8*
AUV (RM/cubic metre)	1,723	1,781	*13.6*	*3.3*
Value (RM million)	2,160	2,586	*8.7*	*19.7*
Mining exports (RM million)	40,055	53,137	*-21.9*	*32.7*
Liquefied natural gas				
Volume ('000 tonnes)	15,992	17,688	*-1.9*	*10.6*
AUV (RM/tonne)	1,252	1,523	*-29.6*	*21.7*
Value (RM million)	20,015	26,930	*-30.9*	*34.6*
Crude petroleum				
Volume ('000 tonnes)	10,344	10,324	*6.9*	*-0.2*
AUV (RM/tonne)	1,323	1,765	*-21.6*	*33.5*
Value (RM million)	13,682	18,226	*-16.1*	*33.2*

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, Malaysia.

Figure 3.10. Major Commodity Exports



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

Receipts from **mining** goods are expected to surge 23.4% to RM80.3 billion in 2017 (2016: -18.9%; RM65.1 billion) supported by improved prices of crude petroleum and higher demand for LNG. During the first eight months of 2017, exports of mining goods rebounded strongly by 32.7% to RM53.1 billion (January – August 2016: -21.9%; RM40.1 billion). Higher earnings were recorded for ***crude petroleum***, with impressive growth of 33.2% to RM18.2 billion (January – August 2016: -16.1%; RM13.7 billion). This was attributed to higher AUV which turned around sharply by 33.5% (January – August 2016: -21.6%). Earnings from ***LNG*** rose significantly by 34.6% to RM26.9 billion (January – August 2016: -30.9%; RM20 billion) on account of higher AUV and volume, which increased 21.7% and 10.6%, respectively. Main export markets of LNG were China, Japan, Republic of Korea and Taiwan.

Import Performance

Led by intermediate and capital goods

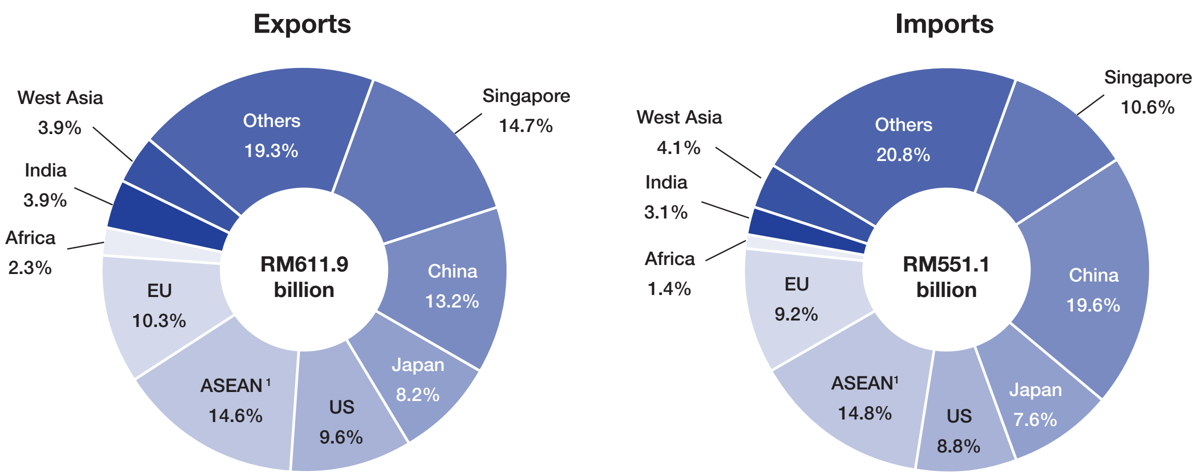
For 2017, **gross imports** are expected to grow 17.8%, supported by continuous demand for business expansion and development of infrastructure projects. During the first eight months of 2017, imports accelerated 23% to RM551.1 billion (January – August 2016: 0.9%; RM448.2 billion). Growth was mainly driven by intermediate and capital goods, which bodes well for manufacturing and exports activities.

Imports of ***intermediate goods***, comprising 58.4% of total gross imports, rebounded 25.6% to RM321.9 billion (January – August 2016: 57.2%; -2.4%; RM256.4 billion) in line with continued expansion in domestic economic activity. Growth was supported by higher imports of parts and accessories (24%), industrial supplies (19.4%) as well as fuel and lubricants (76.2%). Imports of ***capital goods*** surged 15.3% to RM74.9 billion (January – August 2016: 5.7%; RM64.9 billion), primarily boosted by a 16.3% increase in the non-transport equipment segment, mainly telephone sets and automated data processing machines. Industrial transport equipment segment which grew 7.7% also contributed to the higher import growth. Of significance, imports of lumpy items such as aircraft and vessels were higher during the period.

Imports of ***consumption goods*** constituting 8.5% of total gross imports, increased at a slower pace of 6.7% to RM46.6 billion (January – August 2016: 9.7%; 12.5%; RM43.7 billion). This was attributed to imports of consumer durables which moderated 5.5% (January – August 2016: 15.6%), particularly medicaments and article of plastics. Likewise, imports of food and beverage eased to 8.3% (January – August 2016: 9.5%) partly due to lower imports of meat products.

Imports for ***re-exports*** continued to grow strongly by 29.2% to RM90.9 billion (January – August 2016: 9.1%; RM70.4 billion). This was led by higher imports of petroleum products and automatic data processing machines. In addition, expansion of storage terminals particularly for O&G also supported growth of the segment.

Figure 3.11. Direction of External Trade
January – August 2017
(% share)



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

Table 3.16. Gross Imports by End Use
January – August

	RM million		Change (%)		Share (%)	
	2016	2017	2016	2017	2016	2017
Capital goods	**64,938**	**74,876**	***5.7***	***15.3***	***14.5***	***13.6***
Capital goods (except transport equipment)	57,670	67,047	*5.6*	*16.3*	*12.9*	*12.2*
Transport equipment (industrial)	7,268	7,829	*6.2*	*7.7*	*1.6*	*1.4*
Intermediate goods	**256,390**	**321,918**	***-2.4***	***25.6***	***57.2***	***58.4***
Food and beverage, primary and processed, mainly for industry	11,529	13,766	*-8.5*	*19.4*	*2.6*	*2.5*
Fuel and lubricants, primary, processed and others	18,367	32,365	*-38.6*	*76.2*	*4.1*	*5.9*
Industrial supplies, primary, processed and n.e.s.[1]	110,299	131,703	*-0.7*	*19.4*	*24.6*	*23.9*
Parts and accessories of capital goods and transport equipment	116,195	144,084	*6.4*	*24.0*	*25.9*	*26.1*
Consumption goods	**43,677**	**46,585**	***12.5***	***6.7***	***9.7***	***8.5***
Food and beverage, primary and processed, mainly for household	17,468	18,912	*9.5*	*8.3*	*3.9*	*3.4*
Transport equipment (non-industrial)	608	670	*-16.1*	*10.2*	*0.1*	*0.1*
Other consumer goods	25,601	27,003	*15.6*	*5.5*	*5.7*	*4.9*
Durables	5,512	5,928	*10.2*	*7.6*	*1.2*	*1.1*
Semi-durables	9,529	9,862	*21.6*	*3.5*	*2.1*	*1.8*
Non-durables	10,560	11,213	*13.3*	*6.2*	*2.4*	*2.0*
Others	**12,824**	**16,797**	***-23.3***	***31.0***	***2.9***	***3.0***
Re-exports	**70,380**	**90,897**	***9.1***	***29.2***	***15.7***	***16.5***
Total	**448,209**	**551,074**	***0.9***	***23.0***	***100.0***	***100.0***

[1] Not elsewhere stated.
Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

Balance of Payments

Wider current account surplus

Given the firmer external demand and commodity prices, overall balance of payments (BOP) position is expected to remain favourable in 2017 supported by wider current account surplus and improved financial account. During the first half of 2017, the current account surplus widened further to RM14.9 billion or 2.3% of GNI (January – June 2016: +RM9.3 billion; 1.6%) largely attributed to higher goods surplus despite deficits in the services and income accounts. For the year, the **current account** surplus is expected to remain large at RM32.3 billion or 2.5% of GNI (2016: +RM29 billion; 2.4%). The larger surplus in the current account is underpinned by strong exports of manufactured goods and commodities. The current account surplus is further augmented by narrower deficit in the services account due to higher travel receipts.

In 2017, the ***goods account*** is expected to record a higher surplus of RM109.1 billion (2016: +RM101.4 billion) in line with strong expansion in global trade and firmer commodity prices. The ***services account*** is estimated to post a lower deficit of RM18.8 billion (2016: -RM19.1 billion) following higher travel receipts despite large net payments for freight and other services. Travel receipts, remains the largest contributor to services earnings, accounting for 50.7%. Travel receipts are expected to grow 7.6% to RM80.6 billion (2016: 9.2%; +RM75 billion), particularly with the hosting of the SEA Games, ASEAN Para Games and Formula 1 PETRONAS Malaysia Grand Prix. Travel outflows are expected to increase to RM44.8 billion (2016: -RM43.4 billion) attributed mainly to Malaysian residents travelling abroad for business, leisure, education and pilgrimage. The surplus in the *travel account* is estimated to be higher at RM35.8 billion (2016: +RM31.5 billion).

The strong expansion in trade is expected to widen the deficit in the *transport account* to RM24.6 billion (2016: -RM23.5 billion). Gross payments for transport services are forecast to increase 5.5% to RM42.5 billion (2016: -1.5%; -RM40.3 billion) due to continued reliance on foreign shipping companies and rising transportation costs following higher fuel and freight charges. Gross receipts are anticipated to rise 6.5% to RM17.9 billion (2016: 2.6%; +RM16.8 billion) supported by improved earnings from air travel following wider connectivity and competitive air fares. In addition, charges for cargo handling and shipping services provided by domestic companies will also contribute to transport account receipts. The *other services account* is estimated to register higher net outflows of RM30 billion (2016: -RM27.1 billion) due to higher net payments for construction activity. In tandem with ongoing investment-related activity, payments for professional, technical and trade-

Table 3.17. Current Account of the Balance of Payments 2017 – 2018
(RM million)

	2017[1]			2018[2]		
	Receipts	Payments	Net	Receipts	Payments	Net
Balance on goods and services	**952,295**	**862,009**	**90,286**	**990,971**	**899,285**	**91,686**
Goods	793,205	684,078	109,127	828,463	714,089	114,374
Services	159,090	177,931	-18,841	162,508	185,196	-22,689
Transport	17,891	42,526	-24,635	18,025	44,287	-26,263
Travel	80,646	44,847	35,799	81,871	45,521	36,350
Other services	60,553	90,558	-30,005	62,612	95,388	-32,776
Primary income	**55,048**	**95,117**	**-40,068**	**56,920**	**97,943**	**-41,023**
Compensation of employees	7,340	13,734	-6,394	7,589	13,627	-6,038
Investment income	47,709	81,383	-33,674	49,331	84,316	-34,985
Secondary income	**17,891**	**35,795**	**-17,905**	**18,973**	**36,696**	**-17,723**
Balance on current account	**1,025,234**	**992,921**	**32,313**	**1,066,865**	**1,033,925**	**32,940**
% of GNI			*2.5*			*2.3*

[1] Estimate.
[2] Forecast.
Note: Total may not add up due to rounding.
Source: Ministry of Finance, Malaysia.

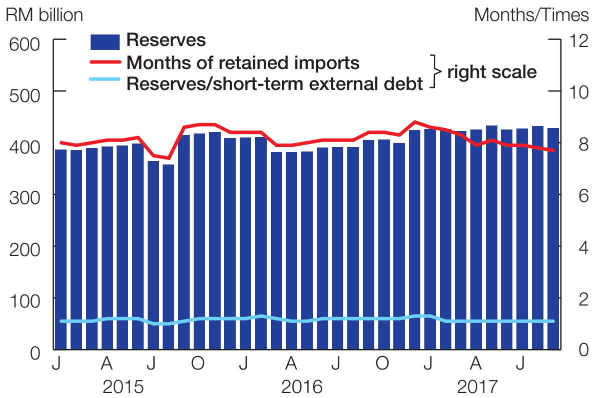
related services are also expected to contribute to the higher net outflows. In addition, payments are anticipated to increase for insurance services following larger trade activity.

The ***primary income account*** is estimated to record a higher deficit of RM40.1 billion (2016: -RM34.6 billion) following larger repatriation of profits and dividends by foreign investors, reflecting increasing investment income of multinational corporations (MNCs) operating in Malaysia. Thus, gross payments of *investment income* are expected to expand 16.7% to RM81.4 billion (2016: 1.4%; -RM69.8 billion). However, a significant portion of earnings is anticipated to be retained in Malaysia for reinvestment and capacity expansion. Meanwhile, gross receipts of investment income are projected to rebound 17.1% to RM47.7 billion (2016: -3.6%; +RM40.8 billion), as a result of higher profits and dividends accruing to Malaysian companies investing abroad. Bulk of the earnings is from the O&G and financial subsectors; and manufacturing sector. *Compensation of employees* which include salaries and other benefits earned by residents working abroad and non-residents working in Malaysia, are expected to register a net outflow of RM6.4 billion (2016: -RM5.6 billion).

Net outflows in the ***secondary income account*** are expected to narrow to RM17.9 billion (2016: -RM18.6 billion). Gross outflows, which mainly comprise remittances by foreign workers, are expected to increase 3.4% to RM35.8 billion (2016: 4.1%; -RM34.6 billion). Similarly, gross inflows are anticipated to grow 11.9% to RM17.9 billion (2016: 34.1%; +RM16 billion).

The **financial account** recorded a net outflow of RM1.5 billion in the first half of 2017 (January – June 2016: +RM18.9 billion), mainly due to net outflows of portfolio investment, which more than offset the higher net inflows of other investment. ***Portfolio investment*** registered a net outflow of RM15.8 billion (January – June 2016: +RM14.2 billion), mainly attributed to higher net sales of domestic debt securities by foreign investors. Nevertheless, equity securities purchased by non-residents resumed as the bond market stabilised. Meanwhile, portfolio investment by residents recorded a higher net outflow of RM11.8 billion (January – June 2016: -RM10.7 billion) attributed to net acquisition of foreign equities.

Figure 3.12. International Reserves



As at 29 September 2017, Malaysia's international reserves amounted to RM427.7 billion or USD101.2 billion adequate to finance 7.6 months of retained imports and is 1.1 times the short-term external debt (end-December 2016: RM424.2 billion; USD94.6 billion; 8.8 months; 1.3 times).

Source: Bank Negara Malaysia.

Direct investment[3] recorded a smaller net inflow of RM1.1 billion (January – June 2016: +RM10.4 billion) due to lower inward direct investment amid continued accumulation of outward direct investment. *Inward direct investment* recorded a net inflow of RM19.4 billion (January – June 2016: +RM25.8 billion) mainly driven by lower injection of equity capital by MNCs to subsidiaries in Malaysia. *Outward direct investment* continued to expand to RM18.2 billion (January – June 2016: -RM15.4 billion) following continued injection of equity capital to subsidiaries abroad and retained earnings for reinvestment purposes. O&G as well as financial and insurance subsectors were the main focus of the direct investment abroad. The ***other investment account*** recorded net inflows of RM12.9 billion (January – June 2016: -RM6.2 billion) due to repatriation of earnings following the maturity of deposits and currency placed overseas by Malaysian banks. The overall balance of payments registered a surplus of RM0.9 billion (January – June 2016: -RM18.8 billion).

Prices

Manageable inflation

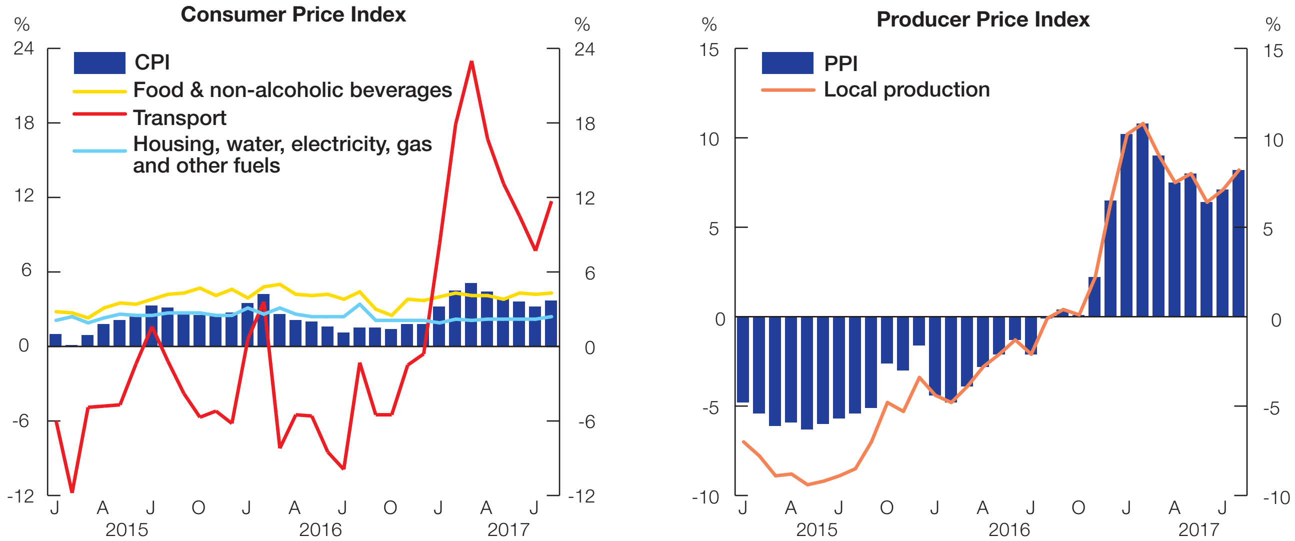
Headline inflation as measured by the annual change in the **Consumer Price Index (CPI)** stood 3.9% in the first eight months of 2017 (January – August 2016: 2.3%). The increase was mainly attributed to higher retail fuel prices and supply constraints. ***Transport; food and non-alcoholic beverages;*** as well as ***housing, water, electricity, gas and other fuels*** groups, contributed 3.49 percentage points to the CPI. However, price decline in the ***clothing and footwear*** as well as ***communication*** groups softened the inflationary pressure.

Prices in the **transport** group rose significantly by 13.5%, contributing 1.63 percentage points to the CPI increase (January – August 2016: -5.2%; -0.68 percentage points). The increase was mainly attributed to higher prices in the *operation of personal transport equipment* subgroup (16.7%), particularly *fuels and lubricants* (23.2%). Higher prices in fuels and lubricants were due to the pass-through effect from firmer global crude oil prices.

Inflation in the **food and non-alcoholic beverages** group rose 4.2%, contributing 1.35 percentage points (January – August 2016: 4.2%; 1.32 percentage points). This was mainly due to a 4.3% price increase in the *food at home* category, caused by supply constraints amid stronger demand during the festivities and school holidays. Within the group, *oils and fat* subgroups which recorded the highest increase of 38.9%, followed by *fish and seafood* (6.5%); *vegetables* (4.1%); and *meat* (3.3%).

The **housing, water, electricity, gas and other fuels** group, grew at 2.2% (January – August 2016: 2.6%). This was led by higher prices in *actual rental paid by tenants* subgroup by 2.8%. Overall the group contributed 0.51 percentage points to the CPI increase (January – August 2016: 0.58 percentage points).

Figure 3.13. CPI and PPI Trends
(% change)



Source: Department of Statistics, Malaysia.

[3] According to assets and liabilities basis.

Table 3.18. Consumer Price Index
January – August
(2010 = 100)[1]

	Weights	Change (%)		Contribution to CPI growth (percentage points)	
		2016	2017	2016	2017
Food and non-alcoholic beverages	30.2	*4.2*	*4.2*	*1.32*	*1.35*
Alcoholic beverages and tobacco	2.9	*21.4*	*0.1*	*0.70*	*0.01*
Clothing and footwear	3.3	*-0.3*	*-0.3*	*-0.01*	*-0.01*
Housing, water, electricity, gas and other fuels	23.8	*2.6*	*2.2*	*0.58*	*0.51*
Furnishings, household equipment and routine household maintenance	3.8	*2.8*	*2.0*	*0.08*	*0.07*
Health	1.7	*2.9*	*2.6*	*0.05*	*0.05*
Transport	13.7	*-5.2*	*13.5*	*-0.68*	*1.63*
Communication	5.2	*-1.1*	*-0.3*	*-0.05*	*-0.01*
Recreation services and culture	4.9	*2.1*	*2.7*	*0.08*	*0.12*
Education	1.1	*2.3*	*1.7*	*0.02*	*0.02*
Restaurants and hotels	2.9	*3.2*	*2.4*	*0.08*	*0.08*
Miscellaneous goods and services	6.5	*3.5*	*1.3*	*0.18*	*0.08*
Total	**100.0**	***2.3***	***3.9***	***2.3***	***3.9***

[1] Effective January 2011, the CPI base year was revised from 2005 to 2010.
Source: Department of Statistics, Malaysia.

Table 3.19. Producer Price Index
January – August
(2010 = 100)[1]

	Weights	Change (%)		Contribution to PPI growth (percentage points)	
		2016	2017	2016	2017
Total	**100.0**	***-2.7***	***8.2***	***-2.7***	***8.2***
Agriculture, forestry and fishing	8.2	*11.1*	*12.5*	*0.82*	*1.05*
Mining	9.7	*-21.1*	*26.3*	*-1.77*	*1.78*
Manufacturing	78.8	*-2.1*	*6.5*	*-1.70*	*5.29*
Electricity and gas	3.0	*-2.5*	*2.6*	*-0.09*	*0.09*
Water supply	0.3	*4.7*	*0.1*	*0.02*	*0.00*
PPI by stage of processing	**100.0**	***-2.7***	***8.2***	***-2.7***	***8.2***
Crude materials for further processing	20.3	*12.6*	*18.6*	*2.00*	*3.41*
Intermediate materials, supplies and components	53.6	*-4.6*	*8.1*	*-4.87*	*4.45*
Finished goods	26.1	*0.7*	*1.1*	*0.18*	*0.30*

[1] Effective January 2015, the PPI base year was revised from 2005 to 2010.
Source: Department of Statistics, Malaysia.

In terms of stratum, CPI for both **urban** and **rural areas** increased 3.9% (January – August 2016: 2.4%; 1.9%), mainly contributed by the transport; food and non-alcoholic beverages; and housing, water, electricity, gas and other fuels groups. Meanwhile, in terms of income, households earning **less than RM1,000** experienced an inflation of 3.2%. This was lower compared with households earning between **RM1,001 and RM1,500** (3.3%) and households earning between **RM1,501 and RM3,000** (3.8%).

In the first eight month of 2017, **Producer Price Index (PPI)** for local production rebounded significantly by 8.2% (January – August 2016: -2.7%). This was due to the increase in prices of commodities charged by domestic producers in *mining* (26.3%); *agriculture, forestry and fishing* (12.5%); *manufacturing* (6.5%); *electricity and gas supply* (2.6%); and *water supply* (0.1%) sectors. In terms of **PPI by stages of processing,** all stages recorded higher prices with *crude materials for further processing* increasing 18.6%, followed by *intermediate materials, supplies and components* (8.1%) as well as *finished goods* (1.1%).

Labour Market

Labour market remains stable

Labour market remained favourable in the first half of 2017 with the ***unemployment rate*** at 3.4% (January – June 2016: 3.4%). Total ***labour force*** increased 1.9% to 14.9 million (January – June 2016: 0.6%; 14.6 million). Meanwhile, total employed persons increased 1.9% to 14.4 million (January – June 2016: 0.2%; 14.1 million). The largest number of employed persons was in the services sector at 8.9 million or 62% of total employment mainly in the wholesale and retail trade subsector, followed by the manufacturing (17.5%) and agriculture (11.2%) sectors. In 2017, the labour market is expected to remain favourable with unemployment rate at 3.4% (2016: 3.4%).

Total job **vacancies**, reported via JobsMalaysia, increased to 926,359 during the first eight months of 2017 (January – August 2016: 433,634). The manufacturing sector registered the highest vacancies of 40.8% followed by the services (22.7%), construction (18.5%) and agriculture (17.7%) sectors. In terms of occupational group, elementary occupations continued to record the highest vacancies of 74% followed by plant and machine operators and assemblers (11.2%) as well as service and sales workers at 4.8% (January – August 2016: 62.7%; 15.2%; 6.7%). Meanwhile, a total of 3.3% vacancies was recorded for professionals, 1.3% for technicians and associate professionals and 0.9% for managers (January – August 2016: 6%; 2%; 1%).

As at end-August 2017, the number of **active jobseekers** decreased 2.8% to 276,635 of which 21.1% were new registrants (end-August 2016: -2.8%; 284,475; 22.1%). The 20 – 24 age group were the highest active jobseekers (67.2%) followed by the 25 – 29 age group (17.2%) and the 15 – 19 age group (10.3%). Majority of the active jobseekers were degree holders (45.6%), followed by diploma holders (23.9%) and school leavers with *Sijil Pelajaran Malaysia* (19.3%). In terms of placement, 3.3% was recruited in the manufacturing sector followed by services (2%) and agriculture (0.4%) sectors.

During the first eight months of 2017, the number of **retrenched workers** as reported by the Ministry of Human Resources increased to 26,638 persons (January – August 2016: 26,367). The highest retrenchment was in the manufacturing (75.8%) followed by services (20.7%) and mining (2.5%) sectors. By occupational category, the plant and machine operators and assemblers recorded the highest retrenchment of 33.6% followed by professionals (20.5%) as well as technicians and associate professionals (18.6%). The retrenchments were mainly due to downsizing, business closures and production reduction.

Table 3.20. Labour Market Indicators January – June

	('000)		Change (%)	
	2016	2017	2016	2017
Labour force	14,617.0	14,892.3	*0.6*	*1.9*
Employment	14,115.4	14,380.8	*0.2*	*1.9*
Unemployment	501.6	511.5	*(3.4)*	*(3.4)*

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

Table 3.21. Employment by Industry January – June

	('000)		Share (%)	
	2016	2017	2016	2017
Agriculture, forestry and fishing	1,567.2	1,607.0	*11.1*	*11.2*
Mining and quarrying	105.0	105.8	*0.7*	*0.7*
Manufacturing	2,346.2	2,516.1	*16.6*	*17.5*
Construction	1,270.3	1,232.3	*9.0*	*8.6*
Services	8,825.6	8,917.9	*62.5*	*62.0*
Electricity, gas, steam and air conditioning supply	80.8	65.4	*0.6*	*0.5*
Water supply; sewerage, waste management and remediation activities	74.4	75.3	*0.5*	*0.5*
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,467.7	2,492.1	*17.5*	*17.3*
Transportation and storage	632.9	645.5	*4.5*	*4.5*
Accommodation and food beverage service activities	1,295.9	1,303.6	*9.2*	*9.1*
Information and communication	203.1	212.5	*1.4*	*1.5*
Financial and insurance/takaful activities	333.6	361.3	*2.4*	*2.5*
Real estate activities	74.7	81.9	*0.5*	*0.6*
Professional, scientific and technical activities	355.2	367.5	*2.5*	*2.6*
Administrative and support service activities	631.0	634.4	*4.5*	*4.4*
Public administration and defence; compulsory social security	741.2	744.2	*5.3*	*5.2*
Education	903.6	869.9	*6.4*	*6.0*
Human health and social work activities	572.1	575.8	*4.1*	*4.0*
Arts, entertainment and recreation	98.6	97.9	*0.7*	*0.7*
Others service activities	232.3	268.4	*1.6*	*1.9*
Activities of households as employers	128.5	122.2	*0.9*	*0.8*
Total[1]	**14,115.4**	**14,380.8**	***100.0***	***100.0***

[1] Total includes 'Activities of extraterritorial organisations and bodies'.
Note: Industry is classified according to the 'Malaysia Standard Industrial Classification (MSIC) 2008 Ver. 1.0'.
Source: Department of Statistics, Malaysia.

Feature Article 3.2

Promoting Economic Growth through Productivity

Introduction

The Malaysian economy has made significant strides, with real GDP expanding on an average of 6.3% per annum between 1970 and 2016, while income per capita has reached USD9,110 in 2016 (1970: USD347). Moving forward, to ensure sustainable economic growth, the country needs to boost productivity[1] gains instead of sheer accumulation of capital and labour inputs. The Eleventh Malaysia Plan (11MP) between 2016 and 2020 has identified productivity as a game changer to propel Malaysia to become an advanced and high-income economy. Towards this, the 11MP sets productivity growth target of 3.7% per year to achieve the level of RM92,300 in 2020 (10MP: 1.8%; RM75,549).

Trends in Labour Productivity Growth

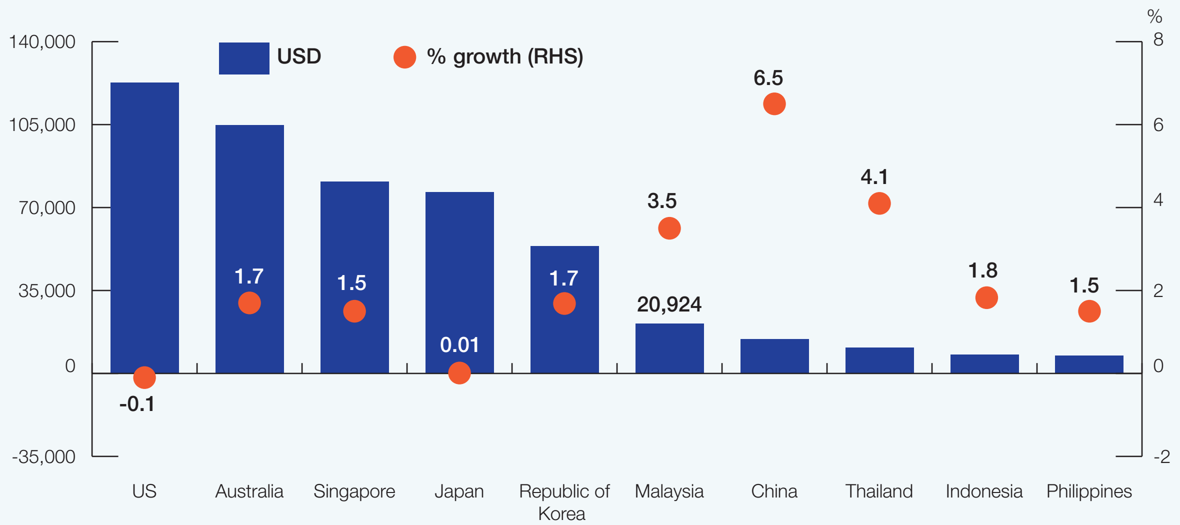
In 2016, Malaysia's productivity grew 3.5% to RM78,218 with higher growth stemming from construction (12.4%) and mining (11.3%) sectors. While Malaysia managed to register higher productivity growth, it is still lagging behind several advanced economies such as the US, Australia, Singapore, Japan and Republic of Korea. However, the overall productivity level in Malaysia is better compared with China, Thailand, Indonesia and the Philippines. While Malaysia's productivity level is higher compared with its peers, the growth is at a slower pace.

Table 3.2.1. Productivity Performance in 10MP and Target for 11MP

	Growth 2011 – 2015 (% p.a)	Growth 2016 (%)	2016 (RM)	Target 2016 – 2020 (% p.a)	Target 2020 (RM)
Agriculture	*0.9*	*3.4*	55,485	*3.6*	68,800
Mining and quarrying	*-10.3*	*11.3*	1,014,216	*1.1*	1,210,000
Manufacturing	*2.9*	*1.4*	106,647	*2.6*	112,100
Construction	*6.4*	*12.4*	40,018	*9.6*	61,900
Services	*2.1*	*2.8*	68,166	*4.1*	83,400
Total productivity	***1.8***	***3.5***	**78,218**	***3.7***	**92,300**

Source: Malaysia Productivity Corporation and Economic Planning Unit, Prime Minister's Department.

Figure 3.2.1. Labour Productivity Level and Growth of Selected Countries, 2016



Source: IMD World Competitiveness Report, 2017.

[1] Labour productivity is measured as a ratio of value added to total employment.

Contribution of Labour Productivity to Economic Growth

Economic growth in Malaysia has been largely driven by traditional inputs. Hence, Malaysia needs to enhance labour productivity. This is in line with the Global Employment Trend Report which suggests that gains in labour productivity are the major driver of sectoral growth.[2] The report also projected that growth in GDP per capita for most regions is largely driven by improvements in labour productivity, particularly in the services sector.

Table 3.2.2. Macroeconomic Impact of Productivity Improvement, 2017 – 2020

	Average additional increase (2017 – 2020)
Real GDP	0.64%
Employment	0.03%
Wages	0.07%
Total investment	1.35%
Private consumption	0.44%
Exports	0.66%
Imports	0.63%

Source: Ministry of Finance, Malaysia estimates.

Internal estimate indicates that a 1% increase in labour productivity will result in an additional GDP growth of 0.64% per annum between 2017 and 2020. The cost of effective labour will be reduced, which in turn increases profitability and encourages investment and trade activities. In consonant with higher productivity, wages are expected to rise by 0.07% per annum during the same period, resulting in an increase in private consumption by 0.44% per annum.

In general, all industries are expected to benefit from the improvement in productivity. Of significance, labour-intensive industries such as professional, business services as well as ICT & computer services are expected to benefit from the improvement. Non-residential industry is expected to gain from higher investment activities while electrical machinery & apparatus; and rubber industries will benefit from higher exports. Industries that sell the most to households such as accommodation, restaurants and motor vehicles also stand to benefit due to increase in private consumption. Industries such as rental and leasing; stone, clay and sand quarrying; and concrete & other non-metallic minerals products are expected to expand attributed to intersectoral linkages.

Issues and Challenges

Skill shortages and mismatches in the workforce are among the major challenges in boosting productivity. While the number of high-skilled workforce[3] in Malaysia stood at 25.5%, it is lower compared with advanced countries such as Singapore (56.2%), Australia (45.2%) and the US (42.2%).[4] The country also faces mismatch between supply and demand of graduates, especially in the ICT industry. For example, in 2017 there is a shortfall of graduates by 7,600 in the field of IT and Computer Science while 1,100 in Creative Multimedia Cluster.[5] In the meantime, employers face difficulties in finding talent primarily due to lack of required soft and interpersonal skills.[6] Unlike developed countries, Malaysia lacks structured channels of information for employers, skills providers and job seekers. This has led to a build-up of skills deficits and mismatches.

The low adoption of technology is another drag on productivity growth. Despite ranking high in the Digital Adoption Index, technology usage by businesses is lower at 0.42 compared with people 0.80 and government 0.85.[7] This was attributed to low adoption of technology among SMEs which accounted for 98.5% of total establishments in the country in 2015. Of which, only

[2] International Labour Organisation (ILO) (2013).
[3] Number of persons, employed in occupations (managers, professionals and technicians aged 25 – 54) with tertiary education requirements as a percentage of the total number of employed people.
[4] Global Human Capital Report (2017). World Economic Forum.
[5] MSC Malaysia Talent Supply-Demand Study, 2013 – 2017. Malaysia Digital Economic Corporation (MDEC).
[6] Boosting Trade Competitiveness, Malaysia Economic Monitor (MEM) (June 2014). The World Bank.
[7] The World Bank (2017). Retrieved October 1, 2017 from http://wbgfiles.worldbank.org/documents/dec/digital-adoption-index.html.

7.4% utilises eCommerce while 27% offers products online mainly due to lack of skills and awareness.[8] As a result, SMEs' labour productivity grew 0.2% compared with 2.7% by large firms. This has widened the productivity gap between large firms and SMEs to 3.3 times in 2016 (2011: 2.7 times). The productivity gap was primarily attributed to high reliance on labour input and low value added activities, particularly in the wholesale and retail trade; and food & beverages and accommodation subsectors. Furthermore, Malaysia was ranked 46th out of 137 economies in 2017 in terms of efficiency in adopting technologies to enhance productivity of industries.[9]

The low adoption of technology is also partly due to large pool of low-skilled foreign workers. This was reflected by the higher share of foreign workers from 14.1% in 2010 to 15.1% in 2015. Of significance, agriculture sector recorded the highest share of 36.9%, causing productivity in the sector to grow moderately by 0.9% compared with the national average level of 1.8% per annum between 2011 and 2015.[10] Availability of low cost foreign workers discourages employers to move towards mechanisation and automation which will become an obstacle to the country's aspirations to shift towards a knowledge-based economy powered by skilled labour.

Strategies and Initiatives

Recognising the importance of productivity in promoting economic growth, the Malaysia Productivity Blueprint (MPB) was launched in May 2017. The implementation of the Blueprint will be monitored by the National Productivity Council to provide strategic direction at national, sectoral and industrial levels. As a new approach, the Blueprint will see the private sector playing a leading role with the support of the public sector in raising labour productivity. In this regard, the Productivity Nexus was established under the MPB as an industry-driven platform to enhance productivity, innovation and new growth opportunities. Currently, the Productivity Nexus is led by nine subsectors namely, retail and food & beverages; chemicals & chemical products; E&E; machinery & equipment; professional services; private healthcare; agro-food; tourism; and ICT. These subsectors collectively account for 30% of Malaysia's GDP and 40% of total employment. Productivity Nexus through a tripartite engagement involving industries, Government and universities empowers enterprises via knowledge sharing, sector-specific expertise and assistance to support the implementation of productivity solutions in these nine subsectors. Furthermore, focus will be given on building the workforce of the future, and driving digitalisation and innovation. Simultaneously, emphasis will be on forging a robust ecosystem, securing a strong implementation mechanism and encouraging industries to be accountable for productivity.

Conclusion

The MPB will pave the way to boost labour productivity for Malaysia to remain resilient and competitive in the fast changing global economic environment. Key implementation issues will be addressed through best practices to ensure high industrial collaboration, more transparent communication and commitment towards long-term success. With these measures in place, productivity is expected to drive Malaysia to become an advanced and high-income economy by 2020.

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[8] Quarterly Surveys (2017). SME Corporation Malaysia.
[9] Global Competitiveness Report 2017/2018, Technological Readiness Index. World Economic Forum.
[10] Malaysia Productivity Blueprint (2017). Economic Planning Unit, Prime Minister's Department.

Information Box 3.2

Malaysian Labour Market Reforms: An Update

Introduction

The Government has implemented several initiatives to enhance the efficiency of the labour market. These include review of the Employment Act 1955 [Act 265], implementation of national minimum wages, introduction of the private sector retirement scheme and the extension of the retirement age in the private sector. However, some issues that need to be addressed include high dependency on foreign workers, low productivity of the workforce as well as the mismatch between supply and demand in the labour market. Fragmented data as well as lack of timely and accurate labour market information also contribute to the mismatch in demand and supply. In this regard, several measures were introduced to further improve labour market conditions, including the management of foreign workers, setting up a centralised labour market database through the Malaysian Bureau of Labour Statistics (MBLS), introducing the National Wage Index (NWI) and establishing the Employment Insurance System (EIS).

Foreign Workers Management

Employers Undertaking

The Government has introduced the Employers Undertaking beginning 1 January 2017. The Employers Undertaking ensures that employers are fully responsible on their foreign workers from the time of application, recruitment and until the end of their employment term in accordance with Malaysian laws, regulations, rules, national policies and directives. This will enhance the employer's commitment and compliance on foreign workers wellbeing, indirectly reducing reliance on foreign workers.

There are several undertakings to be complied by employers before recruiting foreign workers including payment of levy. Levies currently borne by the workers will be passed on to employers beginning January 2018. The levy rates for Peninsular Malaysia were revised upward beginning 18 March 2016 while there are no changes for Sabah and Sarawak. Other undertakings include payments of wages and salaries as well as the provision of proper accommodation and basic needs.

Table 3.2.1. Levy Rates for Peninsular Malaysia, Sabah and Sarawak

	Sectors	Levy rates	Revised levy rates (effective 18 March 2016)
Peninsular Malaysia	Manufacturing	RM1,250	RM1,850
	Services	RM1,850	RM1,850
	Construction	RM1,250	RM1,850
	Plantation	RM590	RM640
	Agriculture	RM410	RM640
Sabah and Sarawak	Manufacturing	RM1,010	No changes
	Services	RM1,490	
	Construction	RM1,010	
	Plantation	RM590	
	Agriculture	RM410	

Source: Ministry of Human Resources.

One Stop Centre for Foreign Workers

The Government has undertaken measures to streamline the recruitment of foreign workers by placing it under a single administration at the One Stop Centre (OSC) coordinated by the Ministry of Home Affairs. The streamlining efforts were aimed to eliminate the role of outsourcing companies and other intermediaries in the recruitment of foreign workers. This minimises recruitment cost and curbs human trafficking. The OSC is responsible for:

- Determining the requirement of foreign workers by sector;
- Verifying and approving applications for recruitment of foreign workers;
- Monitoring all matters related to the welfare of foreign workers; and
- Ensuring that foreign workers are employed in approved sectors and firms.

Beginning April 2017, applications for foreign workers in the manufacturing, construction, services as well as plantation and agriculture sectors excluding domestic helpers must be made through online systems as follows:

- Foreign Workers Integrated Management System (ePPAx) for the intake of foreign workers from source countries except Bangladesh; and
- Foreign Workers Application System (SPPA) for the intake of workers from Bangladesh.

Centralised Labour Market Statistics

The fragmented labour market data across agencies has been identified as a constraint for comprehensive policy formulation. Hence, in the 2017 Budget, the Government announced the establishment of MBLS to facilitate policy decisions. The main objective of MBLS is to support the integration and data-sharing of labour market statistics among agencies. In particular, MBLS will be the focal point for coordinated labour data collection. This will enable an effective use of labour market statistics by stakeholders as well as promote research collaboration on labour issues. Currently, MBLS is monitored by the Labour Statistics Planning Group (LSPG). The LSPG is chaired by the Economic Planning Unit while the Secretariat is Bank Negara Malaysia. Other key members include the Ministry of Finance, the Ministry of Human Resources and the Department of Statistics Malaysia.[1]

National Wage Index

As outlined in the Eleventh Malaysia Plan, the NWI was introduced to guide employers in determining the wage level of employees in accordance with their qualifications, skills and productivity. The NWI tracks both basic wage and total wage which include cash incentives, allowances and overtime payments. The approach for data collection for the private sector is through surveys while the public sector data was obtained from the Accountant General's Department of Malaysia. The Index tracks the movement of basic wage and total wage by economic sectors,[2] occupations[3] and regions.[4] The first NWI survey was conducted for September 2016 while the second survey was for December 2016.

The NWI surveys indicate that the basic wage in Malaysia increased marginally at 0.3% over the period of September to December 2016. On sectoral basis, the mining sector recorded the highest increase in basic wages at 1.6% followed by the plantation sector at 1.4%. The construction sector posted the lowest basic wage increase of 0.1% over the same period. By occupational category, the basic wage increased between 0.1% and 0.5% across major occupational categories except skilled agricultural, forestry, livestock and fishery workers, and service and sales workers.

Employment Insurance System

The Government approved the implementation of EIS in March 2017. The EIS is another form of social protection for employees through the provision of certain benefits and re-employment placement programmes for insured persons due to loss of employment. The EIS will be administered by the Social Security Organisation. Currently, the Government is engaging all stakeholders, particularly the unions of employees and employers to mutually agree on the terms and conditions of the EIS. These include the rate of contributions by employers and employees as well as the governance structure of the EIS.

Conclusion

In tandem with the Government's objective of enhancing the wellbeing of the rakyat, several labour market reforms were introduced. These initiatives aspire to provide conducive working environment for workers. Moving forward, the Government will continue its efforts in promoting greater efficiency and flexibility in the labour market. Concurrently, active labour market policy will be intensified to enhance the employability of youth and unemployed graduates, while employees will be encouraged to improve their competencies through upskilling and reskilling. These measures are expected to further improve the productivity of the workforce resulting in higher compensation for employees.

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[1] Other than key members, there are also satellite members include Attorney General Chambers, Public Service Department, Ministry of Higher Education, Ministry of Education, Employees Provident Fund, Inland Revenue Board of Malaysia, Department of Labour, Social Security Organisation, and Institute of Labour Market Information and Analysis.
[2] Based on the Malaysia Standard Industry Classification (MSIC) 2008 Ver. 1.0.
[3] Based on the Malaysia Standard Classification of Occupations (MASCO) 2013.
[4] Covering Peninsular Malaysia as well as major urban areas in Sabah and Sarawak.

Labour productivity increased 3.5% in 2016 (2015: 3.4%) with construction sector recording the highest growth at 12.4% while mining and quarrying as well as agriculture sectors rebounded 11.3% and 3.4%, respectively (2015: 5.5%; -15%; -2.3%). Productivity in manufacturing and services sectors grew at a moderate pace of 1.4% and 2.8%, respectively (2015: 7.2%; 3.2%). In 2017, labour productivity growth is expected to remain steady at 3.4%.[4]

The average monthly **salaries and wages** of employees based on the 2016 Salaries and Wages Survey Report by the Department of Statistics, Malaysia increased 6.5% to RM2,463 (2015: 5.4%; RM2,312). Mining and quarrying sector recorded the highest average wage growth of 14% followed by agriculture, forestry and fishing (8.9%) as well as construction (8%) sectors (2015: -11.8%; 11.1%; 3.6%). In contrast, the manufacturing and services registered the lowest average wage growth of 4.5% and 4.8%, respectively (2015: 1.2%; 7.4%). Meanwhile, average monthly salaries of employees according to educational attainment showed an increase. Average monthly salaries for employees with tertiary education increased 4.9%, secondary education (5.9%), primary education (8.4%) and no formal education at 16.7% (2015: 4.8%; 2.7%; 5.5%; 10.6%).

As at end-August 2017, total registered **foreign workers** decreased to 1.8 million (end-August 2016: 1.9 million). The manufacturing sector employed the highest number of foreign workers (35.8%) followed by construction (19.5%) and plantation (14.7%) sectors. Registered foreign workers were mainly from Indonesia (40.8%), Nepal (22.5%), Bangladesh (12.7%) and Myanmar (7%).

Meanwhile, total number of **expatriates** decreased 10.3% to 147,868 as at end-August 2017 (end-August 2016: 8.7%; 164,937). The highest number of expatriates were from Bangladesh (32.8%) followed by India (16.8%), China (8.9%) and the Philippines (5.5%). The expatriates were mainly employed in the services (47.6%), construction (15.6%) and manufacturing (11.8%) sectors.

Prospects for 2018

Strong growth momentum

The Malaysian economy is projected to continue its strong growth momentum with real GDP expanding between 5% and 5.5% in 2018 (2017: 5.2% and 5.7%). Growth will be mainly driven by resilient domestic demand amid favourable external sector. Given the robust economic development, GNI per capita is estimated to increase 5.1% to RM42,777 (2017: 7.7%; RM40,713). Despite the strong growth momentum, Malaysia as an open economy is not immune to external headwinds. These include rising protectionism; policy uncertainties in the advanced countries; and volatility in the financial markets. Nevertheless, structural reforms undertaken over the years to diversify the economy and strengthen the financial system have provided sufficient buffer to weather these external challenges.

On the demand side, household spending will remain as the key source of growth, benefiting from higher income following stable employment conditions and firmer commodity prices. Private investment is forecast to remain resilient primarily attributed to capital outlays in the services and manufacturing sectors. Private sector continues to spearhead growth, while public sector remains committed towards its fiscal consolidation path. The external sector is expected to remain resilient supported by sustained demand from major trading partners. Inflation will remain benign between 2.5% and 3.5% while the economy continues to operate under full employment.

On the supply side, growth is expected to be broad-based with positive contribution from all sectors in the economy. Growth in services sector is expected to remain strong, largely led by the final services group in line with the trends in private consumption. Likewise, the manufacturing sector is anticipated to expand in line with sustained external demand and consumption activities. The agriculture sector is forecast to increase supported by higher output and firmer commodity prices. Growth in the construction sector will be driven by major civil engineering projects while the mining sector is projected to continue expanding at a moderate pace supported by natural gas production.

Sectoral Prospects

Broad-based growth

The **services** sector is projected to grow 5.8%, increasing its share to 54.8% of GDP (2017: 5.9%; 54.5%) with all subsectors continuing to expand. The wholesale and retail trade; and food & beverages and accommodation are anticipated to increase 6.1% and 7.2%, respectively (2017: 6.5%; 7.6%). Growth will be supported by steady domestic consumption and higher tourist arrivals. The information and communication subsector is expected to expand 8.8% (2017: 8.5%) on account of promotional campaigns and more offerings of digital products. Meanwhile, the transport and storage

[4] Economic Planning Unit, Prime Minister's Department.

subsector is projected to grow 5.8% (2017: 6.2%). This is mainly driven by high ridership on rail services, particularly on MRT as well as the commencement of new passenger aircraft services and improved port facilities. Likewise, the finance and insurance subsector is anticipated to increase 4.4% (2017: 4.2%) driven by strong financing activities.

The **manufacturing** sector is forecast to increase 5.3% (2017: 5.5%). Output of export-oriented industries is projected to expand on account of sustained demand for E&E, refined petroleum and woods products. Likewise, growth in the domestic-oriented industries is anticipated to remain resilient supported by ongoing construction of infrastructure projects as well as strong demand for consumer products, especially food and transport equipment.

Growth in the **agriculture** sector is projected to grow 2.4% (2017: 5.6%) contributed by both the commodity and non-commodity subsectors. Production of CPO is estimated to increase 2.5% to 20.5 million tonnes (2017: 15.5%; 20 million tonnes) following expansion in matured areas. Palm oil price is expected to increase to an average of RM2,750 per tonne (2017: RM2,700 per tonne) bolstered by higher demand, particularly from China, the EU and India. Likewise, rubber production is anticipated to expand 2.9% to 720,000 tonnes (2017: 3.9%; 700,000 tonnes) while price is expected to remain favourable at RM7.50 per kg (2017: RM7.30 per kg). The food commodities, mainly livestock, fruits and vegetables as well as fish are expected to record a favourable growth supported largely by strong domestic demand.

The **mining** sector is projected to expand 0.9% (2017: 0.5%) contributed mainly by higher production of natural gas. Output of natural gas is expected to increase further on account of higher global demand, particularly from China, Japan, Republic of Korea and Taiwan. In addition, the completion of O&G projects such as North Malay Basin Full Field Development Phase 1 and RGT2 in Pengerang are expected to further boost production of natural gas. On the contrary, production of crude oil is projected to decline due to Malaysia's commitment to cut production until the first quarter of 2018. For the year, Brent is anticipated to trade at an average of USD52 pb (2017: USD50 pb).

The **construction** sector is projected to grow 7.5% (2017: 7.6%), primarily supported by the ongoing civil engineering infrastructure projects such as East Coast Rail Link, MRT SSP line, Electrified Double Track Gemas – Johor Bahru, SPE, Pan Borneo Highway and Bokor Central Processing Platform. Meanwhile, the residential subsector is expected to expand further with several new planned townships by private developers. In addition, the subsector will also benefit from various affordable housing programmes by the Government such as PPA1M, MyBeautiful New Home and 1Malaysia People-Friendly Houses. On the contrary, the non-residential subsector is forecast to grow moderately following property overhang, particularly in the shops segment.

Domestic Demand

Strong private sector activity

The positive outlook for 2018 is premised on resilient **domestic demand**, which is forecast to expand 5.5% (2017: 6.4%). Growth will be driven, particularly by private sector spending, contributing 72.9% to GDP (2017: 71.4%). The strong performance of private sector amid favourable external environment will enable public sector to progressively consolidate its financial position.

Private sector expenditure is projected to remain vibrant, expanding by 7.3% (2017: 7.4%). This is in line with the anticipation of sustained spending in private consumption and investment activities. *Private consumption* is expected to grow 6.8% (2017: 6.9%) supported by higher income with stable labour market conditions, higher exports earnings and firmer commodity prices. In addition, various measures by the Government such as the continuation of cash transfers, and implementation of eUsahawan and eRezeki programmes are expected to increase household disposable income, thus providing additional impetus to consumer spending.

Private investment is anticipated to expand 8.9%, accounting for 18.1% of GDP (2017: 9.3%; 17.5%). Strong capital spending is expected in the services sector, particularly in transport and storage; information and communication; and tourism-related industries. Investment in the manufacturing sector will be focused on catalytic and high value added industries such as E&E, aerospace; and machinery and equipment. Furthermore, various Government measures such as the National eCommerce Strategic Roadmap and participation in the Belt and Road Initiative are projected to further boost private investment activities in 2018.

Public sector expenditure is forecast to decline 0.4%, following lower *public investment* which is projected to contract 3.1% (2017: 3.1%; 3.7%) largely due to lower capital outlays by public corporations. However, Federal Government DE is expected to remain stable, amounting RM46 billion. Most of the DE will be channelled into rakyat-centric projects and programmes with higher value added and strong intersectoral linkages. These include constructing and upgrading infrastructure facilities in the rural areas, and enhancing human capital development through upskilling and reskilling of the workforce. Meanwhile, *public consumption* is anticipated to grow marginally by 1.3% (2017: 2.7%) in line with the Government's efforts to reprioritise and rationalise non-critical expenditure.

GNS is anticipated to grow 6.2% to RM403.6 billion with the share of GNS to GNI remaining high at 28.7% (2017: 9.5%; RM380.2 billion; 29.1%). Of the total GNS, private sector's share is expected to reach 76.7% (2017: 77.4%). The savings-investment surplus will remain substantial at RM32.9 billion (2017: RM32.3 billion), providing ample liquidity to finance capital spending.

External Sector

Current account remains in surplus

The external position is expected to remain resilient in 2018 on account of strong world economic and trade performance. ***Gross exports*** are projected to expand 3.4% to RM948.7 billion (2017: 16.6%; RM917.5 billion) led by continued demand for E&E products and commodities. Meanwhile, ***gross imports*** are forecast to grow 3.5% to RM851.7 billion (2017: 17.8%; RM822.9 billion) reflecting steady investment activity.

The deficit in the ***services account*** is forecast to widen to RM22.7 billion (2017: -RM18.8 billion). The *transport* and *other services accounts* are projected to remain in deficit following favourable growth prospects in trade- and investment-related activities. Meanwhile, the *travel account* is estimated to post a larger surplus of RM36.4 billion (2017: +RM35.8 billion) driven by higher tourist receipts. Gross travel receipts are expected to increase to RM81.9 billion (2017: +RM80.6 billion) spurred by concerted marketing and promotional activities, and increased connectivity.

The deficit in the ***primary income account*** is projected to sustain at RM41 billion (2017: -RM40.1 billion) attributed to higher earnings accruing to foreign companies investing in Malaysia. Meanwhile, receipts from Malaysian companies operating abroad are anticipated to remain at a substantial level. Net outflows in the ***secondary income account***, which largely consists of remittances by foreign workers are anticipated at RM17.7 billion (2017: -RM17.9 billion). Overall, the **current account** balance is forecast to register a surplus of RM32.9 billion or 2.3% of GNI in 2018 (2017: +RM32.3 billion; 2.5%).