

# 3

## MACROECONOMIC OUTLOOK

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# 3 | MACROECONOMIC OUTLOOK

## Overview

Prospects for the Malaysian economy remain favourable largely supported by sound domestic demand. In addition, steady global growth and trade, continuous expansion in E&E as well as higher oil prices are expected to support export growth. Consequently, real GDP is expected to expand 4.8% in 2018 after recording a growth rate of 4.9% during the first half of the year. In 2019, growth is forecast to increase further to 4.9%. Despite the resilient economic performance, risks to growth are tilted downside emanating from heightening uncertainties in the global environment, including rising trade conflict, volatility in global financial markets and oil prices as well as geopolitical tension.

Private sector expenditure will remain as the key driver of growth, cushioning the effects of lower public sector spending in 2018 and 2019. Stable employment and wage growth, conducive financing condition and benign inflation will continue to support private consumption which accounts for about 55% of GDP. Meanwhile, private investment is anticipated to expand with capital outlays mainly channelled into the services and manufacturing sectors. On the contrary, public expenditure is projected to record a slower growth following initiatives taken by the Government to review and reprioritise expenditure without jeopardising the economic growth as well as lower capital spending by public corporations.

On the supply side, growth is expected to be driven by the services and manufacturing sectors. The services sector is projected to remain firm supported by consumption and domestic tourism activities as well as strong demand for ICT, transport and finance. The manufacturing sector is estimated to record a steady growth in tandem with developments in the global semiconductor industry. Though the growth in agriculture and mining sectors are expected to decline marginally in 2018, it is projected to rebound in 2019 following an uptick

in the production of crude palm oil (CPO) and liquefied natural gas (LNG). The construction sector is anticipated to expand, albeit at a moderate pace largely due to near completion of several mega projects as well as property overhang, particularly in the non-residential subsector. In 2019, the sector is expected to improve marginally following an increase in new planned supply in the affordable homes and industrial segments.

The external sector is expected to remain resilient in 2018 supported by steady global economic and trade performances. Nevertheless, in 2019, exports are anticipated to expand moderately in line with slower global trade activities. Meanwhile, current account surplus is estimated to narrow with widening deficits in the services and income accounts.

## Sectoral

### Services Sector

Services sector grew 6.5% (y-o-y) during the first half of 2018 led by the wholesale and retail trade; finance and insurance; information and communication; as well as food & beverages

**Table 3.1. GDP by Sector  
2017 – 2019**

(At constant 2010 prices)

|               | Share<br>(%)      | Change<br>(%) |                   |                   |
|---------------|-------------------|---------------|-------------------|-------------------|
|               | 2018 <sup>1</sup> | 2017          | 2018 <sup>1</sup> | 2019 <sup>2</sup> |
| Services      | 55.3              | 6.2           | 6.3               | 5.9               |
| Manufacturing | 23.0              | 6.0           | 4.9               | 4.7               |
| Mining        | 8.0               | 1.0           | -0.6              | 0.7               |
| Agriculture   | 7.8               | 7.2           | -0.2              | 3.1               |
| Construction  | 4.5               | 6.7           | 4.5               | 4.7               |
| <b>GDP</b>    | <b>100.0</b>      | <b>5.9</b>    | <b>4.8</b>        | <b>4.9</b>        |

<sup>1</sup> Estimate.

<sup>2</sup> 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.

and accommodation subsectors. Accounting for about 55% of GDP, the growth in the services sector is projected to grow 6.3% and 5.9% in 2018 and 2019, respectively, reflecting expansion across all subsectors as the sector has diversified over the years.

The wholesale and retail trade subsector is expected to remain resilient at 7% and 6.3% in 2018 and 2019, respectively. This is in line with higher consumption activities, especially with the 3-months zero-rated Goods and Services Tax (GST) and upward revision of minimum wage rate. In addition, growth of the subsector will be supported by higher sales via e-commerce platforms. As of September 2018, about 3,800 SMEs joined the Digital Free Trade Zone (DFTZ) platform.

In 2018, the finance and insurance subsector is expected to increase 5.5% supported by insurance activities following higher premium income amid lower claims. However, the finance segment is projected to grow at a slower pace on account of lower fee-based income. In 2019, the subsector is anticipated to expand 5.3% underpinned by sustained bank lending backed by steady economic activities.

The growth in the information and communication subsector is projected to increase 8.1% in 2018 and 8% in 2019 mainly due to higher usage of broadband services and smart applications. Furthermore, increased digitalisation activities in the economy are expected to bode well for the subsector. The implementation of the Mandatory Standard on Access Pricing is expected to reduce broadband prices and improve service quality, benefitting consumers and boosting growth of the subsector.

The real estate and business services subsector is expected to increase 7.3% in 2018 driven by sustained demand for professional services, particularly legal and accounting. However, the real estate segment is expected to moderate in line with slower growth in the property market. In 2019, the subsector is forecast to increase 6.6% mainly supported by business services segment following greater efficiency with expansion in ICT-related services.

The transport and storage subsector is anticipated to expand 5.8% in 2018 before recording 5.5% in 2019 led by the land transport segment.

The growth of the segment is mainly supported by higher passenger movement driven by festive seasons, school holidays and general election. In addition, the increase will be contributed by additional capacity of Electric Train Service (ETS) with the procurement of new train units. Meanwhile, the air transport segment is expected to grow mainly attributed to introduction of new routes and aircraft; competitive fares; and expedited visa approvals. However, overall international tourist arrivals and receipts is expected to moderate following strong competition within the region and high congestion at the entrance gateway in Johor Bahru. The water transport segment is forecast to expand supported by port-related activities in line with steady trade performance as well as improvement and expansion of several major ports. Nevertheless, the segment faces issues of realignment of global shipping alliances primarily due to cost competitiveness.

The food & beverages and accommodation subsector is expected to record a strong growth of 8.1% in 2018 mainly supported by domestic tourism activities and increased patronage of restaurants. The subsector is projected to expand 6.9% in 2019 in tandem with aggressive

**Table 3.2. Services Sector Performance  
2017 – 2019**  
(At constant 2010 prices)

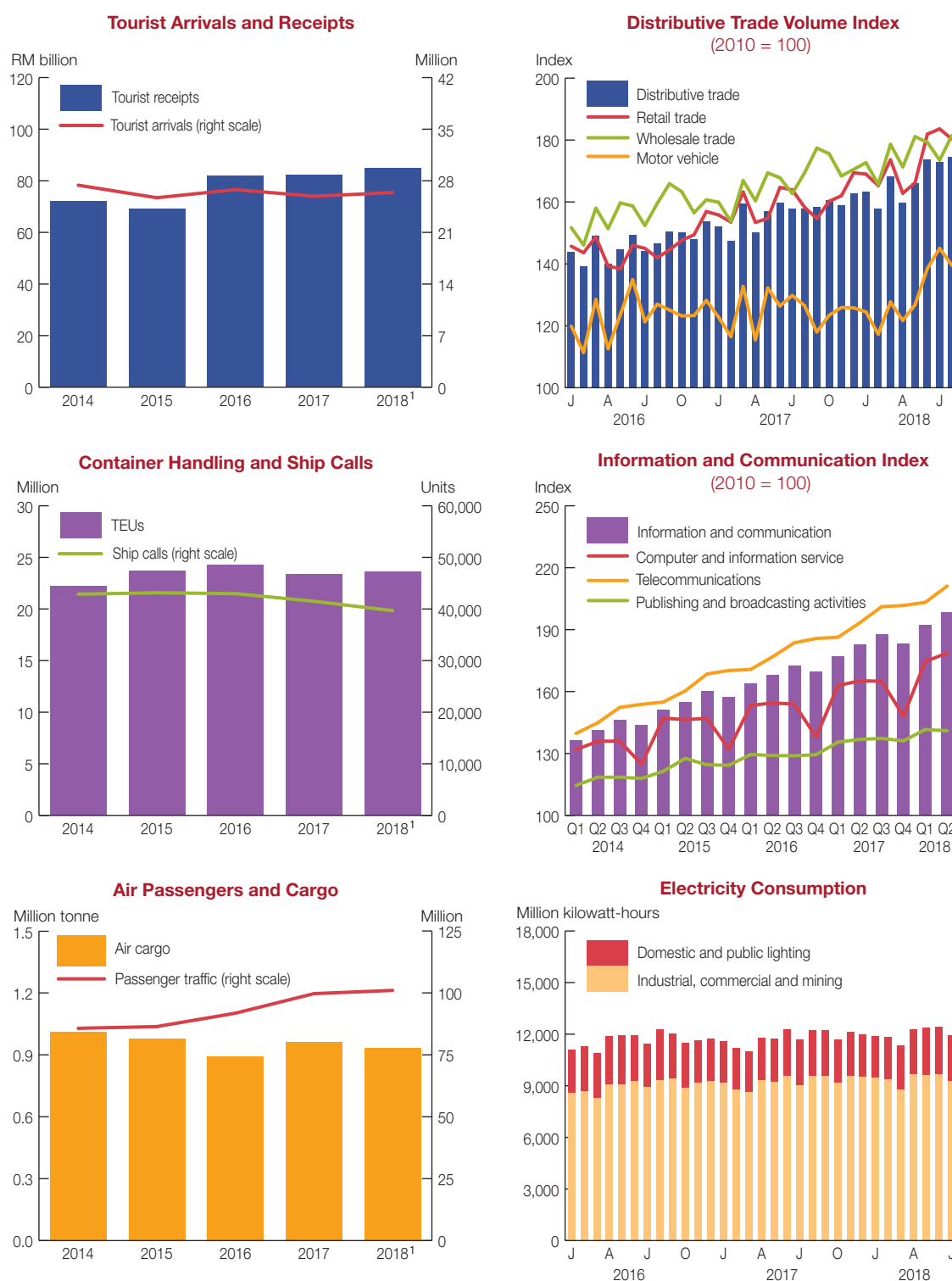
|                                    | Share<br>(%)      | Change<br>(%) |                   |                   |
|------------------------------------|-------------------|---------------|-------------------|-------------------|
|                                    | 2018 <sup>1</sup> | 2017          | 2018 <sup>1</sup> | 2019 <sup>2</sup> |
| Wholesale and retail trade         | 15.4              | 7.1           | 7.0               | 6.3               |
| Finance and insurance              | 6.8               | 4.6           | 5.5               | 5.3               |
| Information and communication      | 6.2               | 8.4           | 8.1               | 8.0               |
| Real estate and business services  | 4.6               | 7.4           | 7.3               | 6.6               |
| Transport and storage              | 3.6               | 6.2           | 5.8               | 5.5               |
| Food & beverages and accommodation | 3.0               | 7.4           | 8.1               | 6.9               |
| Utilities                          | 2.5               | 2.9           | 4.7               | 4.6               |
| Other services                     | 4.4               | 5.1           | 5.3               | 5.1               |
| Government services                | 8.7               | 4.9           | 4.4               | 4.2               |
| <b>Services</b>                    | <b>55.3</b>       | <b>6.2</b>    | <b>6.3</b>        | <b>5.9</b>        |

<sup>1</sup> Estimate.

<sup>2</sup> Forecast.

Note: Total may not add up due to rounding.

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

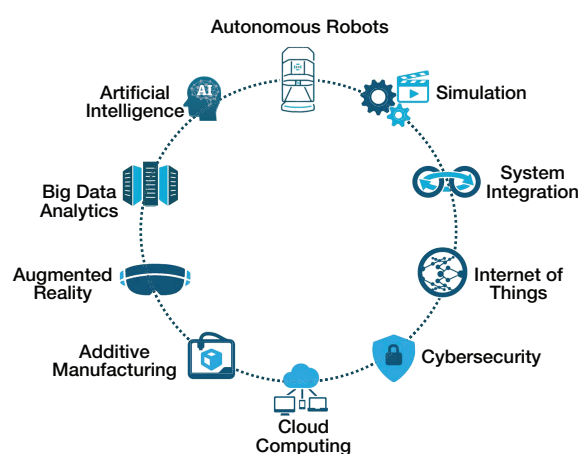
**Figure 3.1. Selected Indicators for the Services Sector**<sup>1</sup> Estimate.

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

**Feature Article 3.1****Disruptive Technology: Opportunities and Challenges****Introduction**

Technological innovations have advanced rapidly transforming the world at an incredible speed, enabling businesses to be more prominent and efficient. New technologies have displaced many traditional machines and equipment such as typewriters, floppy disks, dot matrix printers and fixed line telephones. Disruptive technology redefines boundaries through improved connectivity and replacing traditional market operations.

Digitalisation is both an enabler and a disruptor of businesses (IMF, 2018). Digital technology such as Big Data analytics (BDA), artificial intelligence (AI), Internet of Things (IoT) and cloud computing assists businesses and individuals in enhancing their capabilities. Disruptive technology will change the way society live, work and play. Adopters of these technologies are transforming their industries, by providing more flexible, precise, higher quality and customised goods and services. As a result, many products including driverless cars, buses and trains; autonomous robots; drones; smart cities and streaming virtual reality are innovations in the market.

**Figure 3.1.1. Advanced Digital Technology**

Source: SME Corp. Malaysia.

**Opportunities in Disruptive Technology**

Disruptive technology multiplies growth in the digital economy and optimises the digital investment. In line with this, many firms have benefitted from digital advancement to improve their operations and business models further. Various initiatives were embarked by leading global firms such as Airbnb and Trivago in the hotel industry; LAZADA and Alibaba in retail; as well as UBER and GRAB in the transport sector. Many software companies are mushrooming leveraging the advancement of digital technology, to develop applications for the smart factory, smart camera, transportation, smart home and other online businesses.

**Smart Factory**

There are many software applications available for firms to transform operational data into business insights known as smart factory, a new manufacturing concept that will enhance competitiveness. The factory of the future operates autonomously to identify and repair any malfunctions through combined technologies such as a smart sensor, AI, BDA and IoT. These technologies enable all relevant information to be flashed for real-time monitoring without disrupting factory operations and production lines.

### Sensor Technology

Smart cameras featuring a range of megapixel resolutions, camera dimensions, advanced technologies and value added analytic functions are already taking place. These developments satisfy the needs of a diverse range of applications to achieve unobstructed monitoring of wide and open areas such as airport terminals, shopping malls, train stations and offices. With this technology, it provides high accuracy of counting people and objects analysis, while optimising security management and able to enhance in-store management through traffic data and visual analytics.

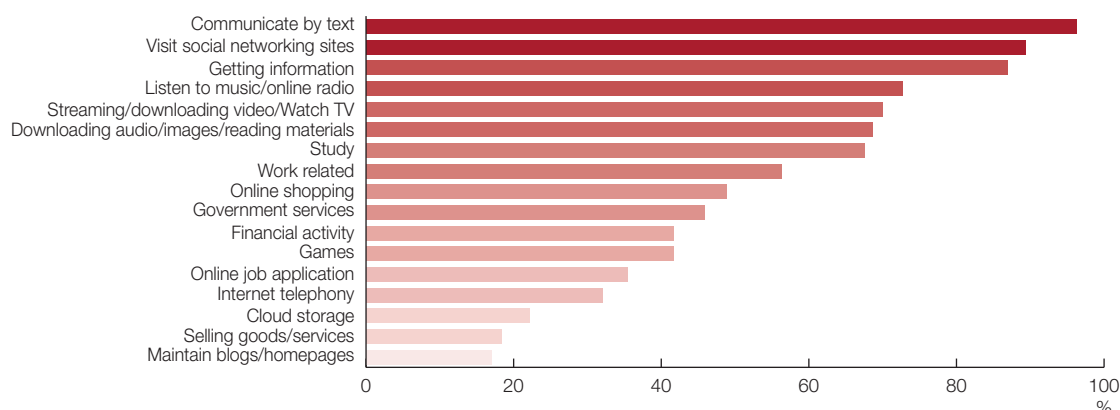
### Transportation

Meanwhile, e-hailing app companies focus on strengthening their registration system to improve the safety of its drivers and passengers. Through IoT for example, Moovit promotes a platform for car rental application and CatchThatBus app to book bus tickets in Malaysia. In addition, the Smart Selangor Parking app was developed to address the traffic problems and parking payment difficulty. Utilising the IoT and BDA, this app allows enforcement officers to check if the parking fees have been paid by scanning the car registration number. At the same time, enforcement officers can issue compounds and enable offenders to make immediate payment through the app.

### Social and Commerce Activities

In Malaysia, smartphones remain the most popular means for users to access the internet enabling the country to attain a mobile-oriented society.<sup>1</sup> In 2017, there were 35.3 million mobile broadband subscriptions as compared to 2.6 million fixed broadband subscriptions. The majority of internet users subscribe internet for communication, social networking, obtaining information and entertainment, study, work-related, online shopping, Government services and financial activity (MCMC, 2017).

**Figure 3.1.2. Internet Users by Online Activities**



Source: 2017 Internet Users Survey, Malaysian Communication and Multimedia Commission.

The survey reflects the rising popularity of digital platforms and more broadly the role of technology in driving social and economic activity. In this regard, technology has certainly transformed our daily activities for social networking, online commerce and information seeking. This development is expected to drive e-commerce's contribution to GDP to surpass RM170 billion by 2020 and further projected to reach RM400 billion by 2025 (MDEC, 2017).

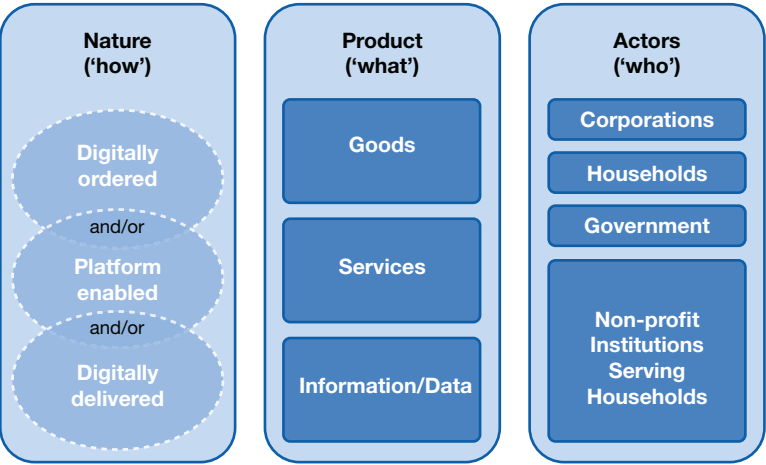
### Challenges

Rapidly changing technologies and its low adoption remain a challenge for Malaysia, especially for the businesses. The low-speed and high-price of broadband is a barrier to the development and adoption of digital technology. At the moment Malaysia is ranked fifth after Singapore,

<sup>1</sup> About 90% of users access the internet using smartphones (DOSM, 2017).

Viet Nam, Brunei and Myanmar in average 4G speeds in Southeast Asia (OpenSignal, 2018). Moreover, the adoption index by SMEs is below other peer countries in this region (World Bank, 2018).

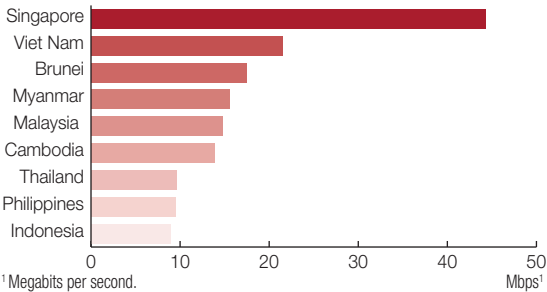
Figure 3.1.3. Dimensions of Digital Transactions



Source: Measuring Digital Trade, OECD.

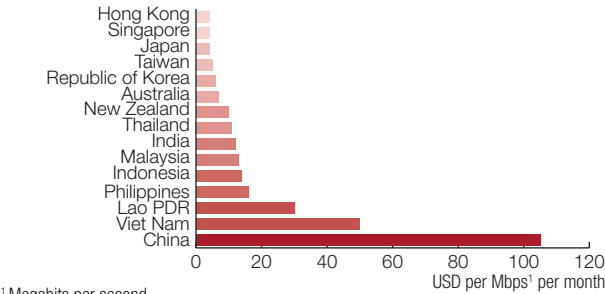
Accordingly, the improvement of broadband services to accelerate Malaysia’s development in the digital economy is vital. Also, there is a need to have a comprehensive regulatory framework in cybersecurity (World Bank, 2018). There are rooms for improvement, especially in developing best practices and guidelines to manage security as well as cloud security services in Malaysia. The Government also needs to address the issue of a critical talent gap in areas such as digital forensic, security administration and security analyst. A safe and sound ecosystem is crucial to establish the trust of customers and users to enhance e-commerce and e-payment platforms further. In this regard, the value of Malaysia’s overall cybersecurity services which is expected to reach USD632.6 million by 2021 (MDEC, 2018) is a new potential growth area to be explored further.

Figure 3.1.4. Average 4G Speed in Southeast Asia



<sup>1</sup> Megabits per second.  
Source: 2018 The State of LTE, OpenSignal.

Figure 3.1.5. Price for 10GigE IP Transit



<sup>1</sup> Megabits per second.  
Source: 2017 IP Transit Pricing Data, TeleGeography.

Conclusion

Digital era has brought enormous changes to the social economic and security landscape. Advancement in digital technology is expected to create more disruptions in the future. Thus, it is imperative for Malaysia to transform itself at an accelerated pace and embrace advanced digital technologies, especially by businesses. Some of the top challenges that hinder the digital readiness of Malaysian key industries are the lack of a structured approach and digitally skilled workforce as well as a perception that digital transformation is too fast and complex. Despite these challenges, the digital economy offers tremendous opportunities in investment, technology convergence and megatrends. Hence, with concerted efforts, the daily operations could be further improved by investing in the conducive ecosystem as well as soft and hard infrastructures.

promotional activities for Visit Malaysia 2020 and attractive tour packages offered via online travel fairs. In addition, the operationalisation of several new shopping centres and supporting retail components in Klang Valley, Pulau Pinang and Johor are anticipated to provide additional impetus to the growth of the subsector.

The other services subsector is projected to expand 5.3% in 2018 and 5.1% in 2019. This is due to strong demand for private education and healthcare services. Meanwhile, the government services subsector is anticipated to record growth of 4.4% in 2018 and 4.2% in 2019.

### Manufacturing Sector

The manufacturing sector increased 5.1% (y-o-y) during the first half of 2018 and for the year is expected to grow 4.9% largely driven by export-oriented industries. This is in line with the increase in Manufacturing Production Index which grew 4.9% (y-o-y) and sales at 7.3% (y-o-y) during the first eight months of 2018. Continuous expansion in the electronics cycle and favourable global industrial activities are expected to translate into firm demand for Malaysian manufactured exports, hence

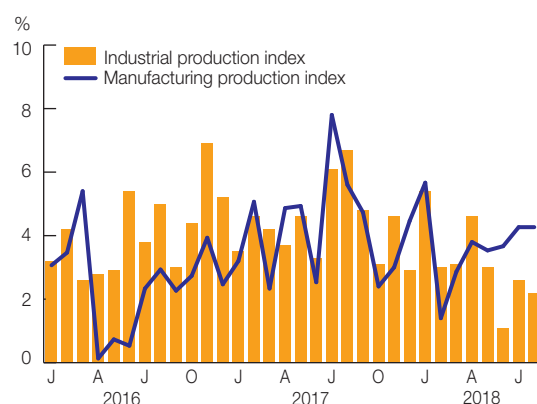
strong growth in the production of export-oriented manufactured goods. These include E&E, petroleum, chemical, rubber and plastic products. Meanwhile, the domestic-oriented industries will remain steady supported by sustained demand for consumer- and construction-related products.

Steady performance in the E&E subsector is supported by strong demand for electronic integrated circuits and semiconductors; telecommunications equipment; and consumer electronics. Output of petroleum, chemical, rubber and plastic products subsector will be mainly supported by rising demand in the healthcare industry, particularly for rubber gloves, plastic medical appliances and pharmaceutical products. Meanwhile, production of chemical will be driven by expansion in petrochemicals and oleochemicals industries. Production in the transport equipment and other manufactures subsector will be supported by manufacture of motor vehicles, trailers and semi-trailers; manufacture of other transport equipment; as well as repair and installation of machinery and equipment (M&E). This is in tandem with the higher sales of vehicles following the

**Table 3.3. Manufacturing Production Index  
January – August  
(2015 = 100)**

|                                                                          | Index        |              | Change (%) |            | Share (%)    |              |
|--------------------------------------------------------------------------|--------------|--------------|------------|------------|--------------|--------------|
|                                                                          | 2017         | 2018         | 2017       | 2018       | 2017         | 2018         |
| <b>Export-oriented industries</b>                                        |              |              |            |            |              |              |
| Petroleum, chemical, rubber and plastic products                         | 106.9        | 111.4        | 3.7        | 4.1        | 29.6         | 29.4         |
| Electrical and electronics products                                      | 113.0        | 119.6        | 8.1        | 5.8        | 27.7         | 27.9         |
| Wood products, furniture, paper products and printing                    | 109.2        | 114.1        | 6.4        | 4.4        | 6.7          | 6.7          |
| Textiles, wearing apparel, leather products and footwear                 | 112.2        | 117.5        | 7.7        | 4.8        | 2.0          | 2.0          |
| <b>Domestic-oriented industries</b>                                      |              |              |            |            |              |              |
| Non-metallic mineral products, basic metal and fabricated metal products | 108.4        | 114.1        | 5.0        | 5.2        | 13.3         | 13.3         |
| Food, beverages and tobacco                                              | 109.4        | 113.9        | 11.5       | 4.1        | 12.6         | 12.5         |
| Transport equipment and other manufactures                               | 103.2        | 108.9        | 6.0        | 5.6        | 8.1          | 8.2          |
| <b>Manufacturing production index</b>                                    | <b>109.0</b> | <b>114.3</b> | <b>6.5</b> | <b>4.9</b> | <b>100.0</b> | <b>100.0</b> |

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

**Figure 3.2. Output of Manufacturing Sector**  
(% change)

Source: Department of Statistics, Malaysia.

zero-rated GST. In addition, the aerospace industry including design and manufacturing of aircraft components; system integration; as well as maintenance, repair and overhaul activities; is expected to benefit from rising orders for aircraft in the Asia Pacific region. Meanwhile, growth in the domestic-oriented industries will be driven by continued demand for food-related products as well as sustained production of construction-related materials amid new and ongoing infrastructure projects.

In 2019, the manufacturing sector is forecast to expand 4.7% supported by export-oriented industries following continuous expansion in E&E as well as chemicals and chemical product subsectors. Growth in E&E output will continue to surge driven by the increasing use of wearable gadgets and smart home applications. This is in line with the convergence towards digital technology and electronic integrated circuit design innovation in embracing IR 4.0. In the chemical industry, production of petrochemicals and oleochemicals are expected to benefit from the abundance of feedstock in the form of O&G as well as palm oil coupled with sustained demand from China, Indonesia and Thailand. The domestic-oriented industries are expected to be driven by robust growth of the food subsector following strong household demand while the construction-related subsector will be supported by continuous expansion in the construction activities.

## Agriculture Sector

The agriculture sector moderated 0.1% (y-o-y) during the first half of 2018 following lower growth in the oil palm subsector coupled with a contraction in the rubber subsector. These two subsectors accounted for 50.3% to the overall agriculture sector. In 2018, the agriculture sector is expected to decline 0.2% mainly due to lower production and prices for both CPO and rubber. Nevertheless, in 2019, the sector is projected to rebound 3.1% driven by improvement in all subsectors, except forestry and logging.

In 2018, value added of the oil palm subsector is projected to decline 0.1% weighed down by a decrease in CPO production following lower fresh fruit bunches (FFB) yield. This is mainly caused by prolonged dry season in Sabah and Sarawak. The reduction in CPO is also partly contributed by the base-effect following post-recovery of El Niño phenomenon in 2017. In addition, the performance of the subsector is expected to be affected by lower demand from China following substitution to other vegetable oils. Exports to India are also expected to be lower on account of higher import tariffs on CPO and refined palm oil. Meanwhile, the oil extraction rate (OER) is expected to improve mainly contributed by better quality of FFB processed in several major CPO producing states. Palm oil closing stock is expected to record 2.9 million tonnes as compared to 2.7

**Table 3.4. Value Added in the Agriculture Sector 2017 – 2019**  
(At constant 2010 prices)

|                                | Share (%)         | Change (%) |                   |                   |
|--------------------------------|-------------------|------------|-------------------|-------------------|
|                                | 2018 <sup>2</sup> | 2017       | 2018 <sup>2</sup> | 2019 <sup>3</sup> |
| Oil palm                       | 46.7              | 16.0       | -0.1              | 4.1               |
| Rubber                         | 6.0               | 9.3        | -18.0             | 5.0               |
| Livestock                      | 12.2              | 5.3        | 6.7               | 4.6               |
| Other agriculture <sup>1</sup> | 19.5              | 2.1        | 4.6               | 4.0               |
| Fishing                        | 10.4              | -2.1       | -0.6              | 0.1               |
| Forestry and logging           | 5.2               | -15.7      | -7.8              | -8.9              |
| <b>Agriculture</b>             | <b>100.0</b>      | <b>7.2</b> | <b>-0.2</b>       | <b>3.1</b>        |

<sup>1</sup> Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple.

<sup>2</sup> Estimate.

<sup>3</sup> Forecast.

Note: Total may not add up due to rounding.

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

**Table 3.5. Oil Palm: Areas, Yield and Production 2017 – 2019**

|                                     | 2017   | 2018 <sup>2</sup> | 2019 <sup>3</sup> | Change (%) |                   |                   |
|-------------------------------------|--------|-------------------|-------------------|------------|-------------------|-------------------|
|                                     |        |                   |                   | 2017       | 2018 <sup>2</sup> | 2019 <sup>3</sup> |
| Planted areas ('000 hectares)       | 5,811  | 6,000             | 6,159             | 1.3        | 3.3               | 2.6               |
| Matured areas ('000 hectares)       | 5,111  | 5,250             | 5,450             | 2.2        | 2.7               | 3.8               |
| Production                          |        |                   |                   |            |                   |                   |
| Crude palm oil ('000 tonnes)        | 19,919 | 19,800            | 20,500            | 15.0       | -0.6              | 3.5               |
| Yield <sup>1</sup> (tonnes/hectare) | 17.9   | 17.0              | 17.5              | 12.4       | -5.0              | 2.9               |

<sup>1</sup> Fresh fruit bunches yield.<sup>2</sup> Estimate.<sup>3</sup> Forecast.

Note: Total may not add up due to rounding.

Source: Malaysian Palm Oil Board and Ministry of Finance, Malaysia.

million tonnes last year following weaker exports. In 2018, the price of CPO is expected to average at RM2,300 per tonne following weaker soybean oil price in the global market.

In 2019, the subsector is forecast to turnaround 4.1% with higher output of palm oil backed by improvement in prices at RM2,400 per tonne coupled with an increase in matured areas which is expected to reach 5.5 million hectares. Palm oil closing stock is expected to decline to 2.2 million tonnes on account of higher exports to major trading partners. FFB yield per hectare is estimated to improve, while OER is projected to remain steady through enhancement in crops grading procedure. Efforts to improve harvesting and transporting FFB with the continuous implementation of Oil Palm Industry Mechanisation Incentive Scheme (OPIMIS) are expected to enhance palm oil production and reduce dependency on foreign labour. Furthermore, initiatives to replace low yield and old trees with new and high-yield seedlings are expected to increase OER and FFB yield per hectare by 2020 to meet the rising demand from domestic downstream activities. In addition, further market diversification, particularly to ASEAN, parts of the African continent as well as Central and Eastern Europe is expected to augur well for the oil palm subsector.

<sup>1</sup> Consists of Indonesia, Malaysia and Thailand.

The rubber subsector is projected to decline 18% in 2018 following unfavourable weather conditions coupled with lower prices, which in turn discourages tapping activities. Price of Standard Malaysian Rubber 20 (SMR20) is estimated to hover low at around RM5.50 per kilogramme (kg). This is due to weak global demand amid higher output following expansion of more than 1.2 million hectares of new planted areas between 2010 and 2012 backed by higher prices during the period. Total rubber production is expected to decrease as smallholders shift to other profitable activities. In addition, increase in production costs in estates due to higher expenditure on administrative, maintenance, upkeep and cultivation is expected to weigh down the production. Average annual yield per hectare for smallholders is expected to decline to 1,420 kg while estate owners to remain at 1,560 kg due to price factor.

In 2019, value added of the rubber subsector is expected to rebound 5% following increase in matured areas, mainly in Peninsular Malaysia and Sabah with smallholders accounting for about 90% of overall rubber plantations. Total rubber plantation area is expected to increase to 1,085 hectares due to expansion in matured areas. In Sabah and Sarawak, a total of 6,000 hectares of new crop areas have been targeted per year, while additional 40,000 hectares is targeted for replanting in Malaysia to support future demand. The price of SMR20 is projected to be sustained at RM5.50 per kg due to anticipation of excess global supply by 0.4 million tonnes and lower demand from automotive sector, particularly in China. Nevertheless, the Rubber Production Incentive provided by the Government is expected to increase tapping activities by smallholders despite low prices.

The Government will continuously work with other countries under the framework of the International Tripartite Rubber Council<sup>1</sup> through its mechanism namely, Supply Management Scheme (SMS), Agreed Exports Tonnage Scheme (AETS) and Demand Promotion Scheme (DPS) to stabilise rubber prices and ensure smallholders obtain fairer prices. SMS is a long-term measure to ensure the member countries do not exceed

**Table 3.6. Rubber: Areas, Yield and Production 2017 – 2019**

|                                |       |                   |                   | Change (%) |                   |                   |
|--------------------------------|-------|-------------------|-------------------|------------|-------------------|-------------------|
|                                | 2017  | 2018 <sup>1</sup> | 2019 <sup>2</sup> | 2017       | 2018 <sup>1</sup> | 2019 <sup>2</sup> |
| Total areas ('000 hectares)    | 1,082 | 1,083             | 1,085             | 0.4        | 0.1               | 0.2               |
| Smallholdings                  | 1,007 | 1,009             | 1,012             | 0.6        | 0.3               | 0.3               |
| Estates                        | 75    | 74                | 73                | -2.2       | -1.3              | -1.3              |
| Yield (kg per hectare)         |       |                   |                   |            |                   |                   |
| Smallholdings                  | 1,440 | 1,420             | 1,450             | 4.3        | -1.4              | 2.1               |
| Estates                        | 1,560 | 1,560             | 1,580             | 0.6        | 0.0               | 1.3               |
| Total production ('000 tonnes) | 740   | 600               | 650               | 9.8        | -18.9             | 8.3               |
| Smallholdings                  | 691   | 550               | 595               | 11.3       | -20.4             | 8.2               |
| Estates                        | 49    | 50                | 55                | -7.5       | 2.0               | 10.0              |
| % of world production          | 5.5   | 4.3               | 4.5               |            |                   |                   |

<sup>1</sup> Estimate.<sup>2</sup> Forecast.

Note: Total may not add up due to rounding.

Source: Malaysian Rubber Board.

the target set for allowable planted areas for the period from 2015 to 2020. AETS, on the other hand, is a short-term measure aimed to restrict exports through quota, to address the imbalances between supply and demand. Meanwhile, the DPS is aimed to enhance domestic consumption of natural rubber by development and commercialisation of new rubber products.

Output of food commodities is projected to support the agriculture sector, contributing about 42% in 2018 and 2019 on account of higher demand following increasing household income. The livestock subsector is anticipated to increase 6.7% and 4.6% in 2018 and 2019, respectively backed by higher output of poultry and eggs segments. In addition, ongoing efforts to achieve self-sufficiency level and sustained demand from households will benefit the subsector. Meanwhile, other agriculture subsector is projected to grow 4.6% in 2018 and 4% in the following year supported by higher output of vegetables and fruits. Farmers are anticipated to continue with Good Agricultural Practices, utilising agricultural inputs to increase productivity, encouraged by strong demand and favourable prices. The fishing subsector is projected to decline 0.6% in 2018 and improve marginally to 0.1% in 2019. Aquaculture produce is expected to be supported by various

programmes such as aquaculture integrated zones and cage fish farming. However, marine fish landing is estimated to decline in both years mainly affected by monsoon season.

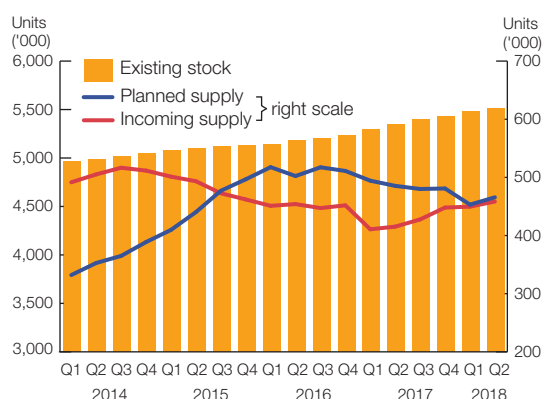
## Mining Sector

The mining sector decreased 1% (y-o-y) during the first half of 2018 on account of lower output of LNG following unplanned supply outages. For 2018, the sector is expected to decline 0.6% following lower production of natural gas due to supply disruptions in Kebabangan and Kinabalu fields in Sabah. Nevertheless, the crude oil and condensates subsector is projected to grow in line with stable global demand. Though the US sanction has reduced Iran's exports, the recovery in Libya's production and anticipation of higher supply from Saudi Arabia are expected to stabilise crude oil prices in 2018.

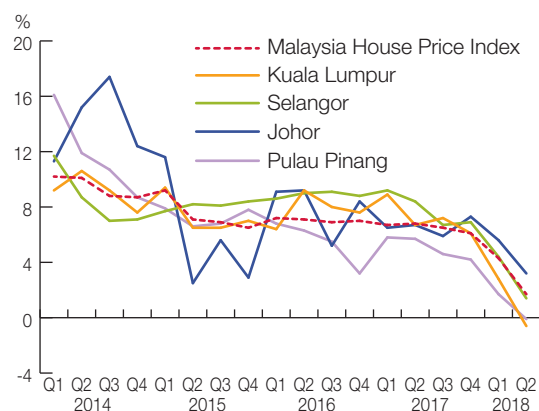
Value added of the mining sector is expected to rebound 0.7% in 2019 driven by recovery in the production of natural gas following resumption of operation in Kebabangan and Kinabalu fields as well as expectation of new production from Bakong and Larak fields in the second half of 2019. In addition, stronger demand from domestic petrochemical industry and new contracts secured including from Japan for electricity generation is expected to support the growth of this sector. Furthermore, innovative and flexible operational solutions such as LNG break bulk services via ship-to-ship by PETRONAS have increased demand from Asian region. Meanwhile, crude oil and condensates subsector is forecast to decline due to production constraints in Sabah Gumusut Kakap and Malikai fields.

## Construction Sector

Value added of the construction sector grew 4.8% (y-o-y) during the first half of 2018 supported by civil engineering subsector. For the year, the sector is expected to expand, albeit moderately at 4.5% following near completion of several mega projects and overhang, particularly in the non-residential subsector. The growth momentum is expected to improve slightly in 2019, with the sector expanding 4.7%, following an increase in new planned supply in the affordable homes and industrial segments. However, review of several infrastructure

**Figure 3.3. Supply Indicators of Residential Property**

Source: National Property Information Centre.

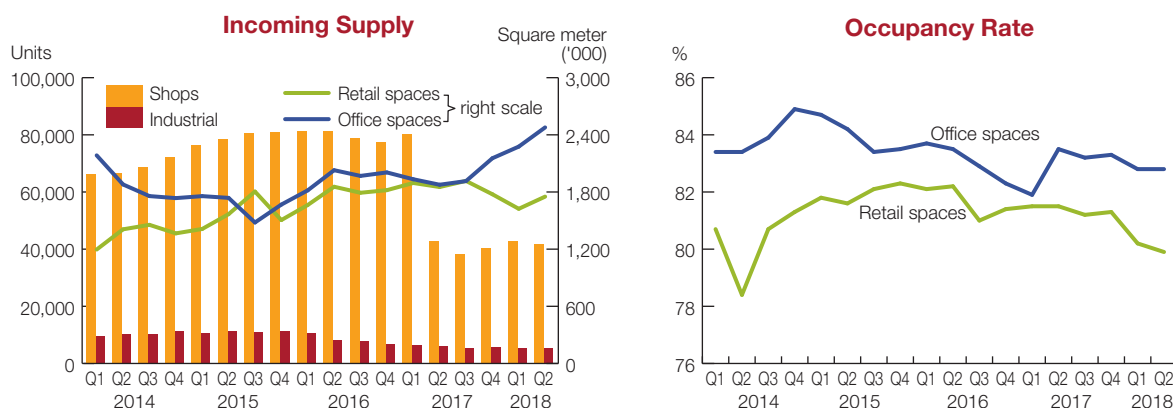
**Figure 3.4. Malaysia House Price Index (% change)**

Source: National Property Information Centre.

projects as well as subdued activities in non-residential subsector is expected to weigh down the sector's performance.

The civil engineering subsector is expected to remain as the driver of the construction sector in 2018 and 2019 largely supported by ongoing projects. Among the infrastructure projects include the Pan Borneo Highway in Sabah and Sarawak; Central Spine Road in East Coast; as well as Mass Rapid Transit (MRT) Sungai Buloh – Serdang – Putrajaya (SSP) Line and Light Rail Transit Line 3 (LRT3) in Klang Valley. Meanwhile, in the petrochemical and power plant segment, ongoing projects are the Deepwater Petroleum Terminal 2 at the Refinery and Petrochemical Integrated Development (RAPID) Complex in Pengerang, Johor; Floating LNG 2 in Sabah; and the Central Processing Platform in Bokor, Sarawak. In addition, mixed-development projects such as the Tun Razak Exchange and Bukit Bintang City Centre in Kuala Lumpur are expected to support the growth of the subsector.

The residential subsector is expected to grow at a marginal pace following the mismatch between supply and demand. Towards this end, the Government suspended the development of residential properties, serviced apartments and luxury condominiums priced over RM1 million in prime areas, effective November 2017. In addition, the developers are focusing on sales of existing projects to address the overhang issues. Meanwhile, the Government will continue to provide affordable housing for the low- and middle-income groups through various programmes.

**Figure 3.5. Supply Indicators of Non-Residential Property**

Source: National Property Information Centre.

The non-residential subsector is projected to decline following oversupply and overhang of high-end shops and shopping complexes as well as downward trend in the incoming supply of commercial buildings. However, the demand for commercial buildings in prime areas is anticipated to remain stable supported by residential development projects in Klang Valley suburbs, particularly in areas along MRT and LRT routes; as well as in major cities such as Johor Bahru, Melaka and Pulau Pinang.

## Domestic Demand

Domestic demand growth is expected to remain resilient at 5% and 4.8% in 2018 and 2019, respectively. Growth will be steered by sustained private sector expenditure at 6.5% in 2018 and 6.4% in 2019, constituting about 72% of GDP. Meanwhile, public sector expenditure is anticipated to further decline to 0.9% in 2019 after recording a marginal growth of 0.1% in 2018 mainly due to lower investment by public corporations.

In 2018, private consumption will remain as the major growth determinant, expanding by 7.2%. Growth in private consumption will be

supported by stable labour market, benign inflation and conducive financing condition. Other factors such as zerorisation of GST; subsidised pump prices; general election; FIFA World Cup season; and termination of toll collection in two highways provide further impetus to household spending. In 2019, private consumption is forecast to expand 6.8% on account of higher household earnings arising from better employment outlook; implementation of higher minimum wage rate; steady commodity prices; and accommodative financing condition. Furthermore, major events such as the Langkawi International Maritime and Aerospace Exhibition 2019 (LIMA'19) coupled with promotional activities for Visit Malaysia 2020 are expected to spur consumer spending.

Private investment is expected to grow 4.5% in 2018, accounting for 17.3% of GDP with capital outlays concentrating in the services and manufacturing sectors. In the services sector, investment will be largely in the consumer- and tourism-related activities such as wholesale and retail trade; as well as food & beverages and accommodation subsectors. Investment will be also channelled into the information and communication subsector in line with the expansion in e-commerce activities. The high global demand for E&E and chemical products are expected to boost investment spending in the manufacturing sector. Continuous expansion in private investment is expected in the second half of the year as reflected by the business performance survey which increased steadily at 11.6% (DOSM, 2018).

In 2019, private investment is expected to post a higher growth of 5% attributed to capital spending in technology-intensive manufacturing and services sectors. As Malaysia moves towards digital technologies and the IR 4.0, investment will focus in catalytic industries. These include Internet of Things (IoT), software, advanced electronics, smart machinery, automation and robotics, automated guided vehicle, aerospace and medical devices.

Public consumption is anticipated to expand marginally by 1% in 2018. This is in line with the continuous efforts by the Government

**Table 3.7. GDP by Aggregate Demand  
2017 – 2019**  
(At constant 2010 prices)

|                                    | Share<br>(%)      | Change<br>(%) |                   |                   |
|------------------------------------|-------------------|---------------|-------------------|-------------------|
|                                    | 2018 <sup>2</sup> | 2017          | 2018 <sup>2</sup> | 2019 <sup>3</sup> |
| <b>Domestic demand</b>             | <b>92.4</b>       | <b>6.5</b>    | <b>5.0</b>        | <b>4.8</b>        |
| <b>Private expenditure</b>         | <b>72.3</b>       | <b>7.5</b>    | <b>6.5</b>        | <b>6.4</b>        |
| Consumption                        | 55.0              | 7.0           | 7.2               | 6.8               |
| Investment                         | 17.3              | 9.3           | 4.5               | 5.0               |
| <b>Public expenditure</b>          | <b>20.1</b>       | <b>3.3</b>    | <b>0.1</b>        | <b>-0.9</b>       |
| Consumption                        | 12.5              | 5.4           | 1.0               | 1.8               |
| Investment                         | 7.5               | 0.1           | -1.5              | -5.4              |
| <b>External sector<sup>1</sup></b> | <b>8.0</b>        | <b>-1.9</b>   | <b>7.7</b>        | <b>0.7</b>        |
| Exports                            | 70.9              | 9.4           | 2.0               | 1.6               |
| Imports                            | 63.0              | 10.9          | 1.4               | 1.8               |
| <b>GDP</b>                         | <b>100.0</b>      | <b>5.9</b>    | <b>4.8</b>        | <b>4.9</b>        |

<sup>1</sup> Goods and non-factor services.

<sup>2</sup> Estimate.

<sup>3</sup> Forecast.

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

to rationalise and optimise expenditure without compromising the quality of public service delivery. Furthermore, the Government continues to enhance value for money in the procurement of goods and services, reflecting prudent spending. In 2019, public consumption is expected to expand 1.8% on account of higher spending on emoluments as well as supplies and services.

Public investment is expected to decline 1.5% and 5.4% in 2018 and 2019, respectively, mainly weighed down by public corporations' lower capital spending. Nevertheless, sustained Federal Government's capital formation is expected to continue to support overall growth of public investment. Despite lower capital spending by public corporations, some of the ongoing projects are expected to continue in the O&G industry. These include RAPID, Floating LNG 2, Pengerang Cogeneration Plant, Diesel EURO-5, Integrated Bokor & Betty and North Malay Basin Full Field Development. Furthermore, capital spending in the utilities and transport segments is projected to continue to expand capacity and upgrade services. The projects include Pan Borneo Highway; MRT SSP Line and Electrified Double Track Gemas – Johor Bahru; Langkawi submarine power cable; High Speed Broadband Phase 2 and Sub-Urban Broadband; as well as Jimah coal-fired and Pasir Gudang combined-cycle gas turbine power plants. Meanwhile, Federal Government's development expenditure will be channelled mainly to upgrade and improve transport, infrastructure and public amenities as well as enhance the quality of education and training.

In line with steady economic growth, GNI in current prices is expected to grow 5.6% in 2018 to RM1.4 trillion. Meanwhile, gross national savings (GNS) is anticipated to increase marginally by 0.4% to RM387.8 billion with private sector accounting for 82% of total savings. With the level of GNS continuing to exceed total investment, the savings-investment gap is expected to record a surplus between 2.5% and 3% of GNI, enabling Malaysia to continue to finance its growth primarily from domestic sources.

**Table 3.8. Savings-Investment Gap  
2017 – 2019**  
(At current prices)

|                                      | RM million     |                   |                   |
|--------------------------------------|----------------|-------------------|-------------------|
|                                      | 2017           | 2018 <sup>2</sup> | 2019 <sup>3</sup> |
| <b>Public Sector</b>                 |                |                   |                   |
| Savings                              | 97,387         | 69,617            | 52,428            |
| Gross capital formation <sup>1</sup> | 107,395        | 106,696           | 101,941           |
| <b>Surplus/Deficit</b>               | <b>-10,008</b> | <b>-37,079</b>    | <b>-49,513</b>    |
| <b>Private sector</b>                |                |                   |                   |
| Savings                              | 288,790        | 318,142           | 348,346           |
| Gross capital formation <sup>1</sup> | 238,507        | 242,472           | 264,837           |
| <b>Surplus/Deficit</b>               | <b>50,283</b>  | <b>75,671</b>     | <b>83,508</b>     |
| <b>Overall</b>                       |                |                   |                   |
| Gross national savings               | 386,177        | 387,759           | 400,774           |
| % of GNI                             | 29.3           | 27.9              | 26.9              |
| Gross capital formation <sup>1</sup> | 345,902        | 349,168           | 366,778           |
| % of GNI                             | 26.3           | 25.1              | 24.6              |
| <b>Surplus/Deficit</b>               | <b>40,275</b>  | <b>38,591</b>     | <b>33,995</b>     |
| % of GNI                             | 3.1            | 2.5 – 3.0         | 2.0 – 3.0         |

<sup>1</sup> Including change in stocks.

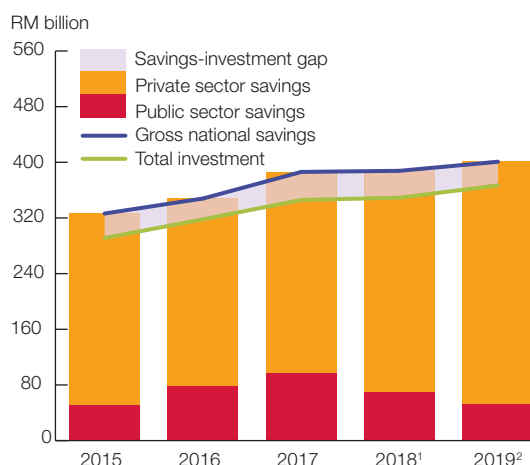
<sup>2</sup> Estimate.

<sup>3</sup> Forecast.

Note: Total may not add up due to rounding.

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

**Figure 3.6. Gross National Savings and Savings-Investment Gap**



<sup>1</sup> Estimate.

<sup>2</sup> Forecast.

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

Growth momentum in GNI is expected to continue in 2019, expanding 7.1% to RM1.5 trillion. At the same time, with the private sector accounting for 86.9% of total savings, GNS is anticipated to expand 3.4%. Total investment is projected to increase 5% to RM366.8 billion, leading to lower savings-investment surplus, ranging between 2% and 3% of GNI.

## External Sector

### Exports

Gross exports are projected to expand 4.4% in 2018 led by continued demand for manufactured goods. Exports of manufactured goods, which account for about 84% of total exports, are estimated to expand 6.6% mainly attributed to continuous expansion in electronics cycle and favourable global industrial activities. Receipts from E&E products are estimated to grow 7.3% in line with global semiconductor sales, which is expected to expand 15.7% in 2018. Growth will be supported by favourable performance of semiconductors, automatic

data processing equipment and electronic machines apparatus. Demand for E&E products from major trading partners are expected to remain favourable. Meanwhile, exports of non-E&E are anticipated to increase 6.1% in 2018, mainly driven by chemicals and chemical products; manufactures of metal; petroleum products; as well as optical and scientific equipment.

Export earnings from agriculture goods are expected to decline 11.2% in 2018 weighed down by lower receipts from palm oil and natural rubber. Receipts from palm oil are anticipated to decrease significantly by 13.1% in tandem with lower export prices. Similarly, shipment

**Table 3.9. External Trade  
2017 – 2019**

|                      | RM million       |                   |                   | Change (%)  |                   |                   |
|----------------------|------------------|-------------------|-------------------|-------------|-------------------|-------------------|
|                      | 2017             | 2018 <sup>1</sup> | 2019 <sup>2</sup> | 2017        | 2018 <sup>1</sup> | 2019 <sup>2</sup> |
| <b>Total trade</b>   | <b>1,771,349</b> | <b>1,846,338</b>  | <b>1,919,631</b>  | <b>19.2</b> | <b>4.2</b>        | <b>4.0</b>        |
| <b>Gross exports</b> | <b>934,927</b>   | <b>976,453</b>    | <b>1,014,506</b>  | <b>18.8</b> | <b>4.4</b>        | <b>3.9</b>        |
| <i>of which:</i>     |                  |                   |                   |             |                   |                   |
| Manufactured         | 765,858          | 816,510           | 849,142           | 18.6        | 6.6               | 4.0               |
| Agriculture          | 78,072           | 69,328            | 73,044            | 10.9        | -11.2             | 5.4               |
| Mining               | 81,836           | 82,999            | 86,233            | 25.8        | 1.4               | 3.9               |
| <b>Gross imports</b> | <b>836,422</b>   | <b>869,885</b>    | <b>905,125</b>    | <b>19.7</b> | <b>4.0</b>        | <b>4.1</b>        |
| <i>of which:</i>     |                  |                   |                   |             |                   |                   |
| Capital goods        | 115,567          | 117,435           | 120,834           | 15.3        | 1.6               | 2.9               |
| Intermediate goods   | 478,932          | 456,690           | 476,096           | 20.0        | -4.6              | 4.2               |
| Consumption goods    | 71,036           | 72,635            | 74,854            | 6.1         | 2.3               | 3.1               |
| <b>Trade balance</b> | <b>98,505</b>    | <b>106,568</b>    | <b>109,381</b>    | <b>11.8</b> | <b>8.2</b>        | <b>2.6</b>        |

<sup>1</sup> Estimate.

<sup>2</sup> Forecast.

Note: Total may not add up due to rounding.

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

**Table 3.10. Gross Exports  
January – August**

|                      | RM million     |                | Change (%)  |            | Share (%)    |              |
|----------------------|----------------|----------------|-------------|------------|--------------|--------------|
|                      | 2017           | 2018           | 2017        | 2018       | 2017         | 2018         |
| Manufactured         | 499,813        | 544,207        | 21.0        | 8.9        | 81.6         | 83.7         |
| Agriculture          | 52,142         | 44,920         | 18.6        | -13.9      | 8.5          | 6.9          |
| Mining               | 54,046         | 55,867         | 34.9        | 3.4        | 8.8          | 8.6          |
| Others <sup>1</sup>  | 6,234          | 5,567          | 81.2        | -10.7      | 1.0          | 0.9          |
| <b>Gross exports</b> | <b>612,235</b> | <b>650,562</b> | <b>22.3</b> | <b>6.3</b> | <b>100.0</b> | <b>100.0</b> |

<sup>1</sup> Including gold scrap and waste; worn clothing; and special transaction not classified.

Note: Total may not add up due to rounding.

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

**Table 3.11. Exports of Manufactured Goods  
January – August**

|                                      | RM million     |                | Change (%)  |             | Share (%)    |              |
|--------------------------------------|----------------|----------------|-------------|-------------|--------------|--------------|
|                                      | 2017           | 2018           | 2017        | 2018        | 2017         | 2018         |
| <b>E&amp;E</b>                       | <b>220,615</b> | <b>245,576</b> | <b>21.4</b> | <b>11.3</b> | <b>44.1</b>  | <b>45.1</b>  |
| <b>Non-E&amp;E</b>                   | <b>279,198</b> | <b>298,631</b> | <b>20.6</b> | <b>7.0</b>  | <b>55.9</b>  | <b>54.9</b>  |
| Petroleum products                   | 48,196         | 49,459         | 43.0        | 2.6         | 9.6          | 9.1          |
| Chemicals and chemical products      | 30,974         | 36,769         | 15.1        | 18.7        | 6.2          | 6.8          |
| Machinery, equipment and parts       | 27,444         | 27,533         | 6.6         | 0.3         | 5.5          | 5.1          |
| Manufactures of metal                | 24,198         | 30,335         | 8.3         | 25.4        | 4.8          | 5.6          |
| Optical and scientific equipment     | 20,923         | 23,366         | 12.3        | 11.7        | 4.2          | 4.3          |
| Rubber products                      | 17,671         | 17,409         | 35.6        | -1.5        | 3.5          | 3.2          |
| Processed food                       | 13,129         | 12,516         | 9.0         | -4.7        | 2.6          | 2.3          |
| Wood products                        | 10,854         | 10,377         | 6.8         | -4.4        | 2.2          | 1.9          |
| Textiles, apparels and footwear      | 10,371         | 9,912          | 12.3        | -4.4        | 2.1          | 1.8          |
| Manufactures of plastics             | 9,644          | 9,527          | 13.1        | -1.2        | 1.9          | 1.8          |
| Transport equipment                  | 10,235         | 12,240         | 18.4        | 19.6        | 2.0          | 2.2          |
| Iron and steel products              | 8,285          | 9,802          | 102.1       | 18.3        | 1.7          | 1.8          |
| Jewellery                            | 4,518          | 4,141          | -4.1        | -8.3        | 0.9          | 0.8          |
| Non-metallic mineral products        | 3,800          | 4,696          | 2.1         | 23.6        | 0.8          | 0.9          |
| Beverages and tobacco                | 2,826          | 2,156          | -6.6        | -23.7       | 0.6          | 0.4          |
| Paper and pulp products              | 3,115          | 3,153          | 13.6        | 1.2         | 0.6          | 0.6          |
| Palm oil-based manufactured products | 15,607         | 15,254         | 26.1        | -2.3        | 3.1          | 2.8          |
| Other manufactures                   | 17,406         | 19,986         | 46.7        | 14.8        | 3.5          | 3.7          |
| <b>Total</b>                         | <b>499,813</b> | <b>544,207</b> | <b>21.0</b> | <b>8.9</b>  | <b>100.0</b> | <b>100.0</b> |

Note: Total may not add up due to rounding.

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

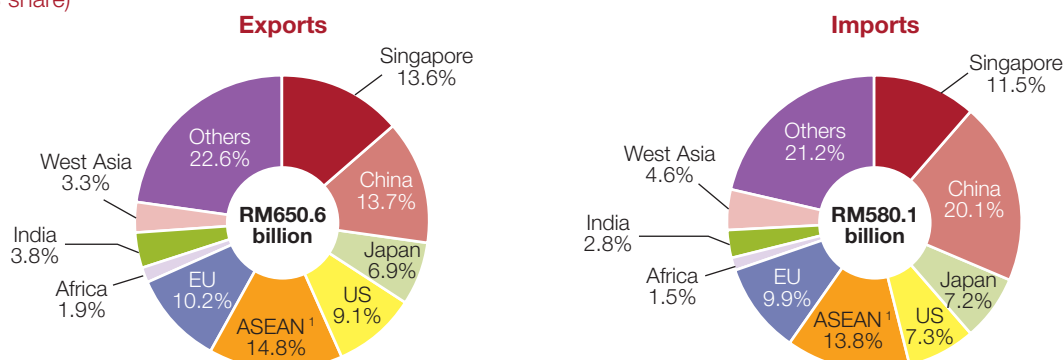
of natural rubber is expected to contract 18.4% mainly on account of lower prices and weak demand. Exports of mining goods are projected to increase 1.4% primarily driven by steady demand for crude petroleum despite the contraction in LNG. Shipments of crude petroleum are expected to grow 23.4% contributed by improved export prices and higher volume. Meanwhile, receipts from LNG are anticipated to decline 9.8% attributed to lower export volume.

In 2019, gross exports are estimated to grow 3.9% supported by continuous demand for manufactured goods coupled with a rebound in commodity exports. The manufactured exports are projected to grow 4% attributed to higher demand, particularly for E&E; chemicals and chemical products; petroleum products; manufactures of metal; machinery, equipment and parts; as well as optical and scientific equipment. The E&E subsector is forecast to expand 4.4% benefitting from the extensive use of semiconductors in automotive industry and consumer electronics such as connected devices and smart appliances.

Meanwhile, exports of non-E&E products are anticipated to grow 3.7% in line with favourable manufacturing activities in the region. Demand is expected to remain steady for organic chemicals and plastics in primary form as well as machinery and parts. As for petroleum products, steady oil prices is anticipated to support exports of refined petroleum, while favourable demand for industrial metals continues to spur exports of aluminium, copper and nickel. In addition, high demand for advanced technology products bodes well for exports of optical and scientific equipment, particularly measuring, controlling and medical instruments.

Agriculture exports are forecast to rebound 5.4% supported by recovery in prices and higher demand for CPO and natural rubber. Increased shipment of CPO and natural rubber to major trading partners is expected to provide further impetus for growth in the sector. Meanwhile, the anticipated pickup in LNG production from existing and newly commenced facilities as well as stable prices will boost growth of mining exports in 2019, estimated at 3.9%.

**Figure 3.7. Direction of External Trade**  
**January – August 2018**  
 (% share)



<sup>1</sup> Excluding Singapore.

Note: Total may not add up due to rounding.

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

## Imports

Gross imports are forecast to expand at a moderate pace of 4% in 2018 weighed down by a contraction in imports of intermediate goods at 4.6%. Meanwhile, imports of capital goods are anticipated to expand 1.6% supported by deliveries of lumpy items such as aircraft and vessels. Imports of consumption goods

are expected to expand 2.3% underpinned by higher demand following stable labour market conditions. In addition, the zerorisation of GST and festivities also support import growth.

For 2019, imports are anticipated to grow 4.1% supported by continued imports of intermediate goods and steady re-export activity. Imports of intermediate goods are expected to rebound

**Table 3.12. Gross Imports by End Use**  
**January – August**

|                                                                 | RM million     |                | Change (%)  |             | Share (%)    |              |
|-----------------------------------------------------------------|----------------|----------------|-------------|-------------|--------------|--------------|
|                                                                 | 2017           | 2018           | 2017        | 2018        | 2017         | 2018         |
| <b>Capital goods</b>                                            | <b>73,699</b>  | <b>75,410</b>  | <b>13.5</b> | <b>2.3</b>  | <b>13.4</b>  | <b>13.0</b>  |
| Capital goods (except transport equipment)                      | 67,086         | 62,809         | 16.3        | -6.4        | 12.2         | 10.8         |
| Transport equipment (industrial)                                | 6,613          | 12,602         | -9.0        | 90.6        | 1.2          | 2.2          |
| <b>Intermediate goods</b>                                       | <b>321,808</b> | <b>305,478</b> | <b>25.5</b> | <b>-5.1</b> | <b>58.6</b>  | <b>52.7</b>  |
| Food and beverage, primary and processed, mainly for industry   | 13,766         | 11,761         | 19.4        | -14.6       | 2.5          | 2.0          |
| Fuel and lubricants, primary, processed and others              | 32,364         | 36,698         | 76.2        | 13.4        | 5.9          | 6.3          |
| Industrial supplies, primary, processed and n.e.s. <sup>1</sup> | 131,697        | 140,549        | 19.4        | 6.7         | 24.0         | 24.2         |
| Parts and accessories of capital and transport equipment        | 143,982        | 116,471        | 23.9        | -19.1       | 26.2         | 20.1         |
| <b>Consumption goods</b>                                        | <b>46,586</b>  | <b>48,020</b>  | <b>6.7</b>  | <b>3.1</b>  | <b>8.5</b>   | <b>8.3</b>   |
| Food and beverage, primary and processed, mainly for household  | 18,910         | 19,079         | 8.3         | 0.9         | 3.4          | 3.3          |
| Transport equipment (non-industrial)                            | 670            | 522            | 10.2        | -22.2       | 0.1          | 0.1          |
| Other consumer goods                                            | 27,006         | 28,419         | 5.5         | 5.2         | 4.9          | 4.9          |
| Durables                                                        | 5,931          | 6,659          | 7.6         | 12.3        | 1.1          | 1.1          |
| Semi-durables                                                   | 9,863          | 10,147         | 3.5         | 2.9         | 1.8          | 1.7          |
| Non-durables                                                    | 11,212         | 11,614         | 6.2         | 3.6         | 2.0          | 2.0          |
| <b>Others</b>                                                   | <b>16,797</b>  | <b>18,933</b>  | <b>31.0</b> | <b>12.7</b> | <b>3.1</b>   | <b>3.3</b>   |
| <b>Re-exports</b>                                               | <b>90,362</b>  | <b>132,270</b> | <b>28.4</b> | <b>46.4</b> | <b>16.5</b>  | <b>22.8</b>  |
| <b>Total</b>                                                    | <b>549,253</b> | <b>580,111</b> | <b>22.5</b> | <b>5.6</b>  | <b>100.0</b> | <b>100.0</b> |

<sup>1</sup> Not elsewhere stated.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

4.2% and continue to support manufacturing activities. Imports for re-exports are expected to continue to grow strongly driven by the relocation of distribution hubs by MNCs into Malaysia. This includes companies in the semiconductor and automotive parts industry as well as the e-fulfilment hub in DFTZ. Imports of capital goods are forecast to expand 2.9% in line with increasing private investment activity. Imports of consumption goods are expected to expand further by 3.1% in line with optimistic consumer sentiments following better prospects of employment and wages.

### Balance of Payments

The current account surplus is expected to range between 2.5% and 3% of GNI in 2018 largely attributed to higher goods surplus despite deficits in the services and income accounts. The goods account is expected to record a higher surplus of RM128.7 billion underpinned by favourable exports of manufactured goods. The services account is estimated to post a wider deficit of RM30 billion following lower travel receipts as well as large net payments for freight and other services.

Travel receipts are expected to decline 5.3% to RM74.6 billion, particularly due to intense competition from regional countries. Travel outflows are expected to increase to RM46.5 billion

attributed mainly to residents travelling abroad for business, leisure, education, medical treatment and pilgrimage. Hence, the surplus in the travel account is estimated to be lower at RM28.1 billion.

The transport account is projected to remain in deficit at RM30 billion following continued reliance on foreign freight services. Gross payments for transport services are forecast to increase 2.3% to RM50 billion due to higher fuel and freight costs. Gross receipts are anticipated to be broadly sustained at RM20 billion supported by continued earnings from passenger fares, airport and port charges such as aircraft landing and parking, ship docking, cargo handling as well as maintenance and repair works provided by domestic companies.

Net outflows in the other services account are anticipated to be higher at RM28.1 billion. The outflows are mainly attributed to higher gross payments for imported professional, construction, ICT as well as finance and insurance services. Other payments include charges for use of intellectual property rights, particularly during the 2018 Winter Olympics, FIFA World Cup and Asian Games.

The deficit in the primary income account is expected to widen to RM40.9 billion following higher repatriation of profits and dividends

**Table 3.13. Current Account of the Balance of Payments  
2017 – 2019**  
(RM million)

|                               | 2017      |          |         | 2018 <sup>1</sup> |           |           | 2019 <sup>2</sup> |           |           |
|-------------------------------|-----------|----------|---------|-------------------|-----------|-----------|-------------------|-----------|-----------|
|                               | Receipts  | Payments | Net     | Receipts          | Payments  | Net       | Receipts          | Payments  | Net       |
| Balance on goods and services | 966,174   | 872,223  | 93,951  | 998,101           | 899,461   | 98,640    | 1,028,202         | 933,098   | 95,104    |
| Goods                         | 807,012   | 690,246  | 116,766 | 841,966           | 713,306   | 128,660   | 868,924           | 740,759   | 128,166   |
| Services                      | 159,162   | 181,977  | -22,815 | 156,135           | 186,155   | -30,021   | 159,277           | 192,339   | -33,062   |
| Transport                     | 19,336    | 48,896   | -29,561 | 20,017            | 50,018    | -30,001   | 20,696            | 51,592    | -30,896   |
| Travel                        | 78,797    | 45,915   | 32,882  | 74,601            | 46,539    | 28,062    | 76,189            | 47,972    | 28,218    |
| Other services                | 61,029    | 87,166   | -26,137 | 61,517            | 89,598    | -28,082   | 62,392            | 92,775    | -30,383   |
| Primary income                | 53,455    | 89,809   | -36,354 | 54,193            | 95,078    | -40,885   | 56,609            | 97,754    | -41,144   |
| Compensation of employees     | 7,077     | 11,850   | -4,773  | 7,323             | 13,744    | -6,421    | 7,913             | 14,482    | -6,569    |
| Investment income             | 46,378    | 77,959   | -31,581 | 46,870            | 81,334    | -34,465   | 48,696            | 83,272    | -34,575   |
| Secondary income              | 16,696    | 34,018   | -17,322 | 16,502            | 35,665    | -19,163   | 17,145            | 37,110    | -19,965   |
| Balance on current account    | 1,036,325 | 996,050  | 40,275  | 1,068,796         | 1,030,205 | 38,591    | 1,101,956         | 1,067,962 | 33,995    |
| % of GNI                      |           |          | 3.1     |                   |           | 2.5 – 3.0 |                   |           | 2.0 – 3.0 |

<sup>1</sup> Estimate.

<sup>2</sup> Forecast.

Note: Total may not add up due to rounding.

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

by foreign investors in Malaysia. Investment income accruing to foreign investors is expected to increase 4.3% to RM81.3 billion. Most of the investments are in manufacturing and mining sectors as well as finance and insurance; and wholesale and retail trade subsectors. Meanwhile, repatriation of investment income accruing to Malaysian companies investing abroad, particularly in the mining and services sectors are expected to record RM46.9 billion.

Net outflows in the secondary income account are expected to be larger at RM19.2 billion due to higher remittances by foreign workers to Bangladesh, India, Indonesia, Myanmar and Nepal. Gross outflows, primarily remittances by foreign workers are expected to rise 4.8% to RM35.7 billion in line with higher requirement for labour in manufacturing, construction and plantation sectors. Meanwhile, remittances by Malaysians working abroad are expected to remain low.

The financial account recorded a large net inflow of RM24.4 billion in the first half of 2018 mainly due to higher placement of currency and deposits with domestic financial institutions, offsetting outflows of non-resident portfolio investments. The direct investment account registered a net inflow of RM10 billion supported by continued inward direct investment which more than offset outward flows. Inward direct investment registered a net inflow of RM16.3 billion

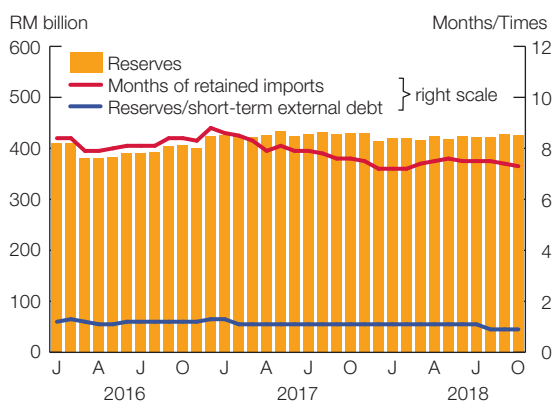
following injections of equity capital by MNCs to subsidiaries in Malaysia. Meanwhile, direct investments abroad are mainly channelled into the O&G industry as well as finance and insurance subsector.

Portfolio investment recorded a large net outflow of RM40.9 billion mainly attributed to higher net sales of domestic debt securities by foreign investors. Non-resident portfolio outflows were driven primarily by external factors, including expectations of a faster pace of US interest rate normalisation and further escalation of trade tensions. During the same period, resident investors continued to acquire portfolio assets abroad in equity fund shares and debt securities. Other investments, however, recorded a significant net inflow of RM54.8 billion mainly due to higher placement of currencies and deposits with domestic banking system and higher net settlement of external loans by non-residents.

In 2019, the current account is expected to remain in surplus, albeit narrowing between 2% and 3% of GNI attributed to lower goods surplus as well as widening services and income deficits. The goods surplus is expected to narrow to RM128.2 billion as import growth is anticipated to outpace exports, following continued demand for capital and intermediate goods. The services account deficit is expected to widen to RM33.1 billion following continued reliance on foreign transport as well as technical and trade-related services. Meanwhile, the surplus in the travel account is expected to be higher at RM28.2 billion driven by continued tourist arrivals and per capita spending which more than offset residents' spending abroad for leisure, business and pilgrimage.

Primary income account is anticipated to register a higher deficit at RM41.1 billion. This is mainly due to higher profits expected by locally-incorporated MNCs together with a larger net outflow of compensation to foreign professional skills and expertise. Meanwhile, net outflows in the secondary income account are expected to widen to RM20 billion following outward remittances by foreign workers, which are expected to remain substantial, reinforced by the upward revision of minimum wage rate.

**Figure 3.8. International Reserves**



As at 15 October 2018, Malaysia's international reserves amounted to RM426.1 billion or USD102.8 billion adequate to finance 7.3 months of retained imports and 0.9 times the short-term external debt (end-December 2017: RM414.7 billion; USD102.4 billion; 7.2 months; 1.1 times).

Source: Bank Negara Malaysia.

## Feature Article 3.2

## Impact of Trade War on the Malaysian Economy

## Background

Globalisation and free trade have gained prominence over the past decades. Despite some limitations, this development has contributed to economic growth, poverty reduction and enhanced integration among countries (Dollar et al., 2001). Recently, the rise of trade war between the US and its leading trade partners, especially China has limited the progress of globalisation. The negativity stemming from the trade war could increase the cost of doing business, dampen investors' confidence and heighten financial market volatility.

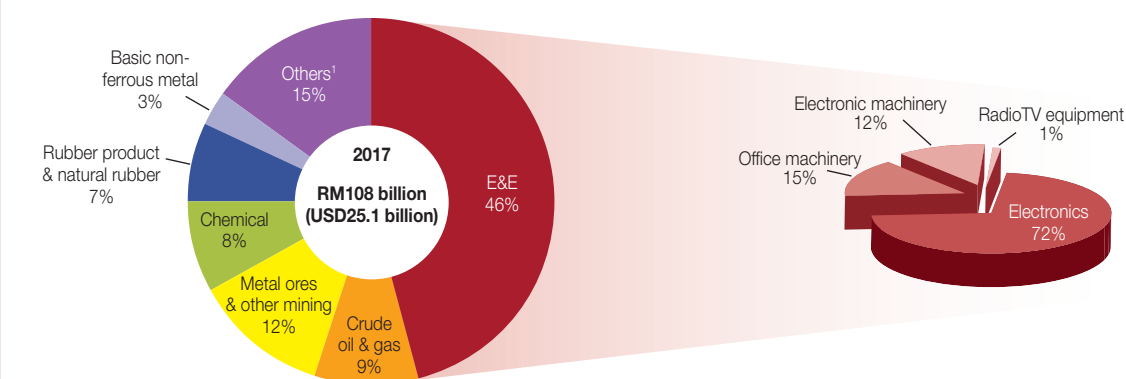
The series of trade actions initially rose in January 2018, when the US announced a steep tariff on solar panels and washing machines followed by steel and aluminium in March on all trading partners. The trade conflict became more intense when the US imposed tariffs on Chinese imports worth USD50 billion in two tranches in July and August on more than 1,000 products. Further, the US imposed a 10% tariff on Chinese imports worth USD200 billion in September comprising almost 6,000 items. This brings the total amount subjected to higher tariffs to USD250 billion in Chinese goods, on top of duties on solar panels, washing machines, steel and aluminium imposed on all trading partners.<sup>1</sup> Subsequent retaliation by trading partners may further escalate risks to trade, investment and global growth.

China has remained as Malaysia's largest trading partner for nine consecutive years constituting 13.5% or RM126 billion of total exports in 2017. Meanwhile, the US was the third largest export destination accounting for 9.5% or RM88.7 billion of Malaysia's total exports. Hence, any development that takes place in these major trading partners will have both direct and indirect impact on the nation's economic growth. This article assesses the potential impact on Malaysia, following the US tariffs on solar panels, washing machines, aluminium and steel products as well as the indirect effect of tariffs levied on USD250 billion worth of Chinese products.

## Impact on the Malaysian Economy

The impact of tariffs directly imposed on Malaysia's exports to the US, namely solar panels, washing machines, steel and aluminium is relatively minimal. Export of these products to the US only accounted for 0.8% of total exports or RM7.3 billion in 2017. Meanwhile, exports which will be indirectly implicated following the USD250 billion worth of Chinese products subjected to higher tariffs accounted for about 12% of Malaysia's total exports or RM108 billion (USD25.1 billion) in 2017. The bulk of the products encompasses E&E, in particular, electronics,

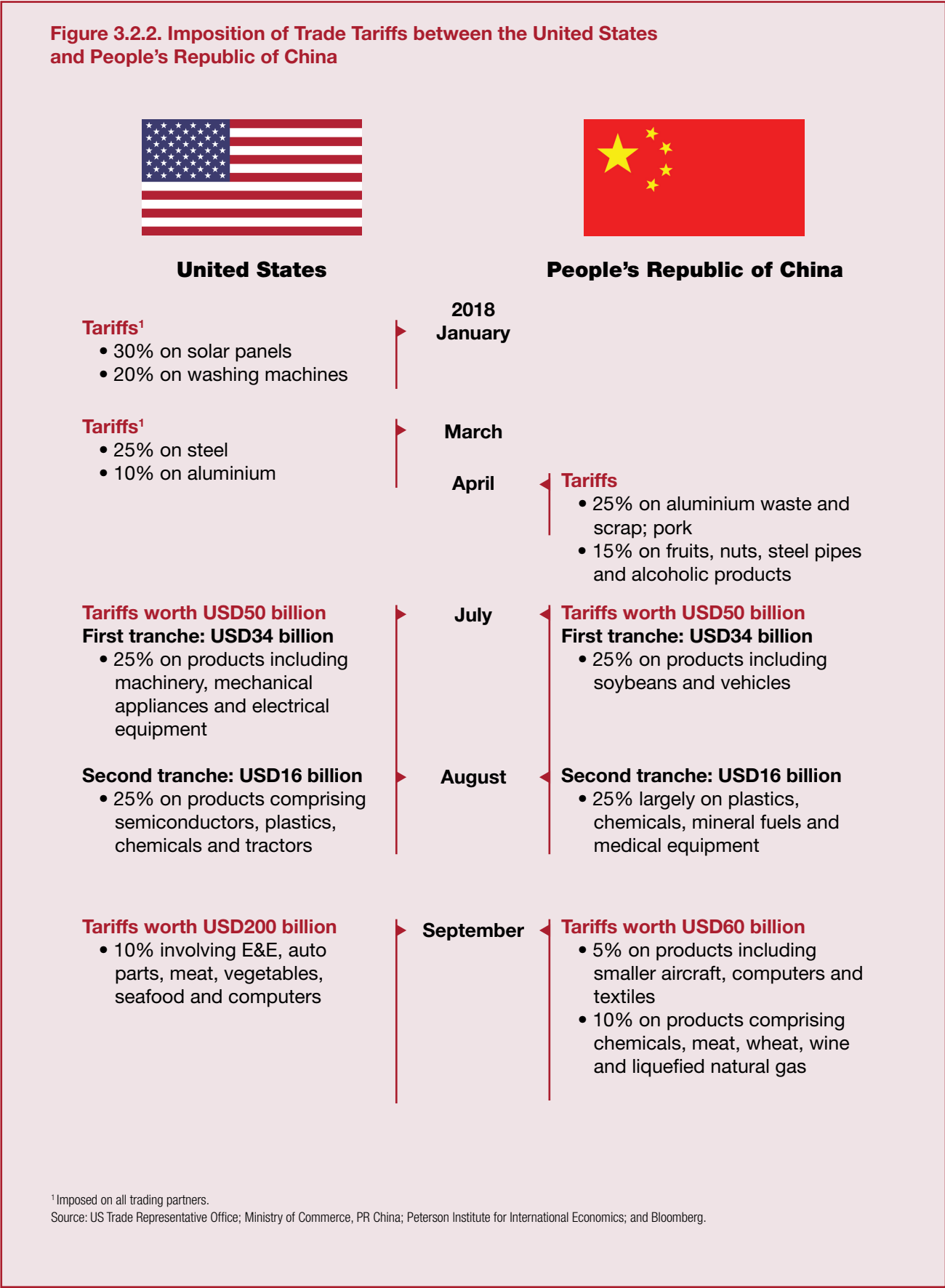
Figure 3.2.1. Malaysia's Exports to China Encompassing Products under the USD250 billion Tariffs by the US



<sup>1</sup> Include transport equipment, optical and scientific instrument, special machinery, fruits, vegetables, plastics, glass, yarn and wood products.  
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation.

<sup>1</sup> Information as of September 2018.

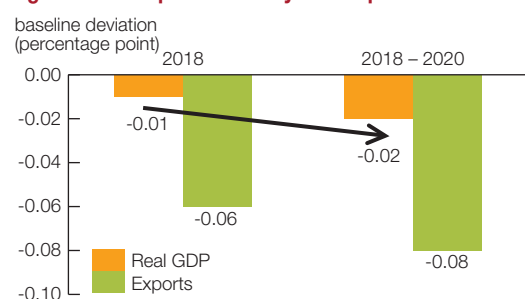
Figure 3.2.2. Imposition of Trade Tariffs between the United States and People's Republic of China



office machines and automatic data processing equipment as well as electrical machinery and appliances. Other products include crude oil and gas; metal ores and other mining goods; as well as chemicals, plastics and rubber products.

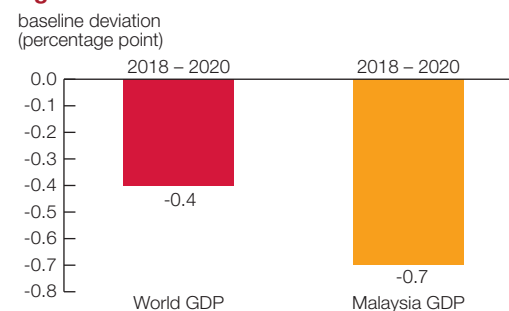
Almost 50% of Malaysia's exports are incorporated into China's final products, which are then exported to the US (OECD, 2014). Based on this assumption, Malaysia's exports will likely decline by 0.08 percentage points, while the GDP by 0.02 percentage points over the period of 2018 – 2020. Nevertheless, if the trade war escalates and drags down global output by 0.4 percentage points by 2020, the Malaysian economy could lose up to 0.7 percentage points. This is based on an econometric analysis that indicates a 10% drop in global growth will reduce Malaysia's GDP by 14%.<sup>2</sup>

**Figure 3.2.3. Impact on Malaysia's Exports and GDP**



Source: Ministry of Finance, Malaysia estimates.

**Figure 3.2.4. Worst-case Scenario**



Source: Ministry of Finance, Malaysia estimates.

The trade conflict between the US and China will have global repercussions, not only will it inhibit global trade and growth but there will also be disruptions to supply chains, impacting businesses, jobs and consumers. Moreover, greater-than-expected inflationary pressure may also spur faster-than-anticipated monetary tightening by the US Federal Reserve, which may further hurt investment and global restocking demand. Nevertheless, large trade gains could be derived as both the US and China substitutes its demand for imports to other emerging markets as well as relocation by MNCs seeking to bypass these trade tariffs. However, the latter will take time to materialise as firms will require greater certainty over the duration and significance of the trade war.

### Conclusion

Malaysia has developed strong trading networks and diversified sectors over the years, which will enable domestic companies to navigate the disruptions and seek new opportunities and alternative markets. Furthermore, Malaysia is committed to engage and pursue trade initiatives, including through bilateral and multilateral agreements that will benefit Malaysian companies and entrepreneurs. Among the free trade agreements (FTAs) in the pipeline include, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ASEAN – Hong Kong FTA, Regional Comprehensive Economic Partnership Agreement (RCEP), Malaysia – European Free Trade Association Economic Partnership Agreement (MEEPA) and Malaysia – Iran Preferential Trade Agreement (MIPTA).

<sup>2</sup> Estimates by Ministry of Finance, Malaysia.

## Prices

The Consumer Price Index (CPI) grew 1.3% (y-o-y) during January to August 2018. The slower expansion was attributed to lower commodity prices and better ringgit performance which eased the food and non-alcoholic beverages prices at 2%. Similarly, prices of housing, water, electricity, gas and other fuels increased 2%.

Given the high base-effect in 2017, the transport group grew at a slower pace of 2.7%. In 2018, inflation is expected to grow at a moderate pace between 1.5% and 2.5%. This is mainly due to fixed RON95 petrol and diesel prices at RM2.20 and RM2.18 per litre, respectively as well as implementation of zero-rated GST from June to August 2018. Meanwhile, inflation in 2019 is projected to increase between 2.5%

**Table 3.14. Consumer Price Index**  
**January – August**  
(2010 = 100)

|                                                                    | Weights <sup>1</sup> | Change (%) |            | Contribution to CPI growth (percentage points) |             |
|--------------------------------------------------------------------|----------------------|------------|------------|------------------------------------------------|-------------|
|                                                                    |                      | 2017       | 2018       | 2017                                           | 2018        |
| Food and non-alcoholic beverages                                   | 29.5                 | 3.8        | 2.0        | 1.16                                           | 0.64        |
| Alcoholic beverages and tobacco                                    | 2.4                  | 0.1        | -0.2       | 0.00                                           | -0.01       |
| Clothing and footwear                                              | 3.2                  | -0.3       | -1.5       | -0.01                                          | -0.04       |
| Housing, water, electricity, gas and other fuels                   | 23.8                 | 2.2        | 2.0        | 0.49                                           | 0.45        |
| Furnishings, household equipment and routine household maintenance | 4.1                  | 2.0        | 0.7        | 0.08                                           | 0.03        |
| Health                                                             | 1.9                  | 2.7        | 1.3        | 0.05                                           | 0.03        |
| Transport                                                          | 14.6                 | 13.5       | 2.7        | 1.66                                           | 0.38        |
| Communication                                                      | 4.8                  | -0.3       | -1.8       | -0.01                                          | -0.07       |
| Recreation services and culture                                    | 4.8                  | 2.7        | -0.6       | 0.12                                           | -0.03       |
| Education                                                          | 1.3                  | 1.6        | 1.1        | 0.02                                           | 0.01        |
| Restaurants and hotels                                             | 2.9                  | 2.4        | 1.6        | 0.07                                           | 0.05        |
| Miscellaneous goods and services                                   | 6.7                  | 1.3        | -0.8       | 0.08                                           | -0.05       |
| <b>CPI</b>                                                         | <b>100.0</b>         | <b>3.9</b> | <b>1.3</b> | <b>3.88</b>                                    | <b>1.26</b> |

<sup>1</sup> Weights based on Household Expenditure Survey 2016.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

**Table 3.15. Producer Price Index**  
**January – August**  
(2010 = 100)

|                                                 | Weights <sup>1</sup> | Change (%) |             | Contribution to PPI growth (percentage points) |              |
|-------------------------------------------------|----------------------|------------|-------------|------------------------------------------------|--------------|
|                                                 |                      | 2017       | 2018        | 2017                                           | 2018         |
| <b>PPI</b>                                      | <b>100.0</b>         | <b>8.2</b> | <b>-0.9</b> | <b>8.22</b>                                    | <b>-0.90</b> |
| Agriculture, forestry and fishing               | 6.7                  | 12.5       | -11.6       | 0.87                                           | -0.82        |
| Mining                                          | 7.9                  | 26.3       | 19.0        | 1.46                                           | 1.20         |
| Manufacturing                                   | 81.6                 | 6.5        | -1.9        | 5.48                                           | -1.54        |
| Electricity and gas supply                      | 3.4                  | 2.6        | 1.0         | 0.10                                           | 0.04         |
| Water supply                                    | 0.3                  | 0.1        | 0.4         | 0.00                                           | 0.00         |
| <b>PPI by stage of processing</b>               | <b>100.0</b>         | <b>8.2</b> | <b>-0.9</b> | <b>8.22</b>                                    | <b>-0.90</b> |
| Crude materials for further processing          | 16.4                 | 4.5        | 4.3         | 0.76                                           | 0.68         |
| Intermediate materials, supplies and components | 56.1                 | 7.8        | -2.1        | 4.47                                           | -1.16        |
| Finished goods                                  | 27.5                 | 3.9        | -2.5        | 1.07                                           | -0.64        |

<sup>1</sup> Weights based on Economic Census 2016.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

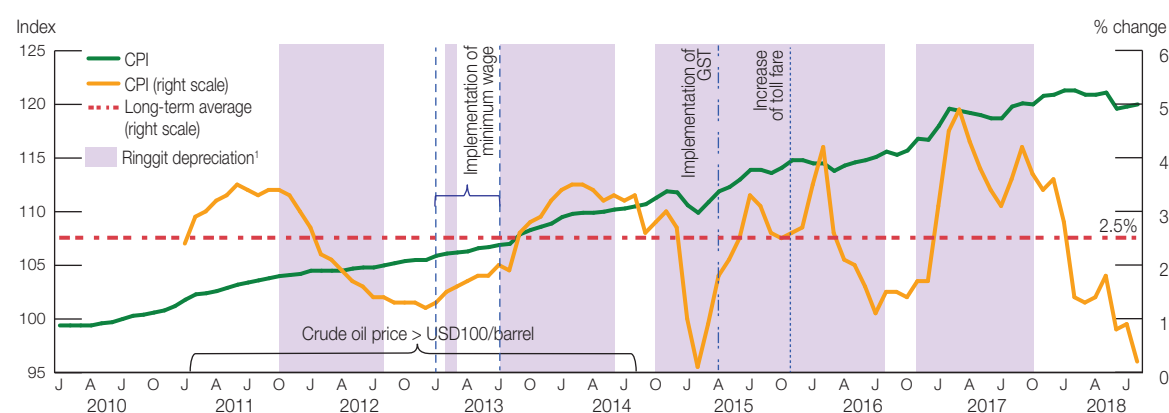
## Feature Article 3.3

## Determinants of Inflation in Malaysia

## Introduction

Malaysia's inflation rate as measured by the Consumer Price Index (CPI) has been on an increasing trend since 2010. The inflation recorded its lowest increase in February 2015 (0.1%) and highest in March 2017 (4.9%). Meanwhile, the long-term average inflation rate has been hovering around 2.5% between 2010 and 2018. The CPI is weighed up mainly by three out of 12 groups (67.9%), namely, food & non-alcoholic beverages; housing, water, electricity, gas & other fuels; and transport.

**Figure 3.3.1. Consumer Price Index (2010 = 100)**



<sup>1</sup> Period refers to ringgit depreciation against USD.

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

## Determinants of Consumer Price Index

There are various factors which influence the fluctuations in CPI. These factors include changes in interest rate, exchange rate, wage level, energy prices, fiscal position, economic growth as well as demand and cost-related issues (Hassan et al., 2016). Interest rate can be used as a policy instrument to control inflation. A central element of monetary policy is short-term interest rates where inflation and future output can be influenced by increasing its rates (Alvarez et al., 2001). Meanwhile, in an open economy, the exchange rate affects local prices to a certain extent, whereby when a country's exchange rate depreciates, it will increase aggregate demand. A fall in exchange rate makes a country's products relatively cheaper, resulting in higher exports (Zakaria et al., 2012). However, a large and persistent exchange rate depreciation would entail higher domestic inflation as imports become more expensive (BNM, 2015) compared to an appreciation.

Another influencing factor is wage where the wage-price spiral begins when firms start bidding against each other for labour, leading to higher wages, which in turn escalates prices further. This situation becomes a vicious cycle, where wages will continue to increase (Layard et al., 1994). A rise in energy prices, including crude oil, also causes prices of other goods and services to increase as it affects the cost of production (Murdipi et al., 2016) resulting in cost-push inflation as producers mark up prices to maintain a profit margin (Shaari et al., 2013). A country's fiscal position also influences inflation. Fiscal deficits could increase the money supply in an economy resulting in higher prices (Olasunkanmi et al., 2016). Demand-driven growth also leads to demand-pull inflation as the economy uses up scarce resources amid inelastic short-run aggregate supply (Munyeka, 2014).

### Analysis of Inflation in Malaysia

This article evaluates how exchange rate, crude oil price, external debt/export ratio and indirect tax per capita influences inflation rate in Malaysia. Towards this end, the Autoregressive Distributed Lag (ARDL) method used by Hassan et al., (2016) was adopted to estimate factors influencing inflation in Malaysia. The variables selected in this article are:

- Exchange rate

The Ringgit depreciated through 2010 – 2018 mainly due to external factors such as trade war as well as the outflow of foreign funds due to interest rate normalisation in the advanced economies. The depreciation affects mainly through imported inflation, especially for food items which cost about RM25 billion per year.

- Crude oil price

Household Expenditure Survey (2016) reveals that energy accounts for 38.4% of total monthly household spending. The Brent oil price fluctuated significantly between USD124.93 per barrel in March 2012 and USD30.80 per barrel in January 2016, affecting the transport group which accounts for about 15% of the CPI weight.

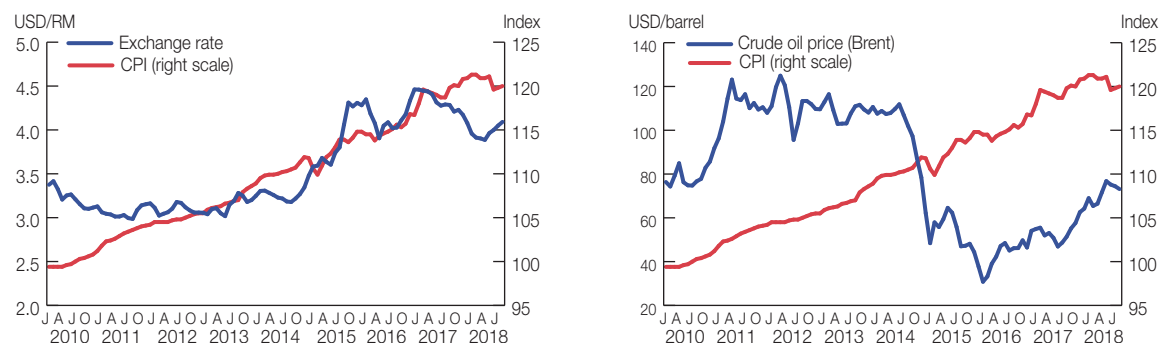
- External debt/export ratio

The external debt/export ratio provides a quick indicator of an economy's capability to repay its external debt through export earnings. A ratio below one suggests that debt can be repaid in less than a year. Malaysia's external debt/export ratio increased from 7.7 in 2010 to 11.3 in 2018.

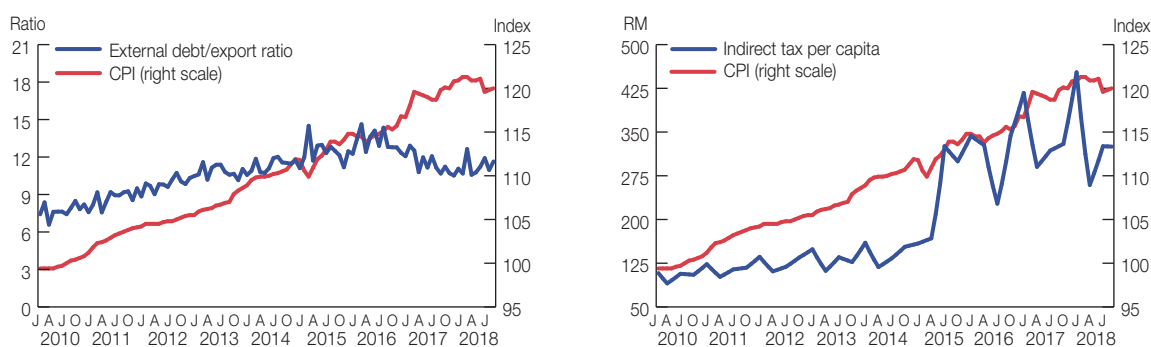
- Indirect tax per capita

The Goods and Services Tax (GST) was introduced in April 2015 at 6%, which was then zero-rated between June and August 2018. Meanwhile, Sales Tax (5% and 10%) and Service Tax (SST) at 6% were reintroduced in September 2018. On average, SST and GST per capita recorded RM127 and RM328, respectively.

**Figure 3.3.2. Trend in Consumer Price Index, Exchange Rate and Crude Oil Price**



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

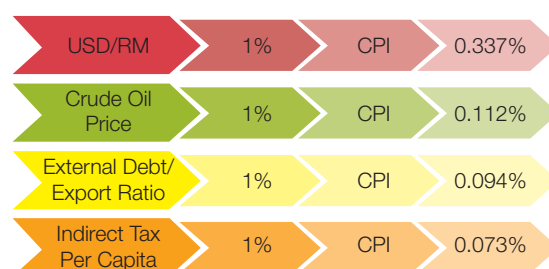
**Figure 3.3.3. Trend in Consumer Price Index, External Debt/Export Ratio and Indirect Tax Per Capita**

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

Following the methodology, monthly data for the periods of 2010 to 2018 were used for the estimation. ARDL was deemed a suitable method to deal with the nature of the data which has high frequency and influenced by lag effects. All these data were transformed into logarithmic form.

### Findings

The results revealed that exchange rate, crude oil price, external debt/export ratio as well as indirect tax per capita have significant impact on CPI. The interpretation of the results are as follows: a 1% change in exchange rate, crude oil price, external debt/export ratio and indirect tax per capita will increase the overall CPI by 0.337%, 0.112%, 0.094% and 0.073%, respectively.

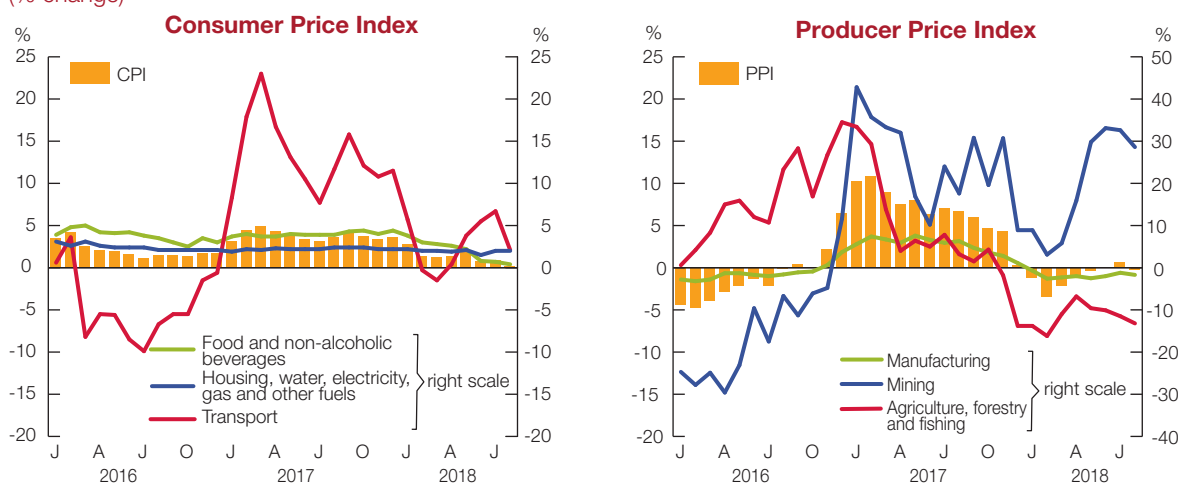
**Figure 3.3.4. Determinants of Consumer Price Index**

Source: Ministry of Finance, Malaysia estimates.

### Conclusion

In summary, exchange rate has the highest impact on CPI followed by crude oil price, external debt/export ratio and indirect tax per capita. In this regard, it is crucial to implement policies to strengthen the nation's economic fundamentals, promote renewable energy, improve public transportation, facilitate high value added products and enhance the efficacy and efficiency of tax collection. In addition, the Local Currency Settlement Framework<sup>1</sup> which promotes wider use of local currencies for trade and investment could be explored further to mitigate the impact of exchange rate volatility.

<sup>1</sup> Bank Indonesia, Bank Negara Malaysia and Bank of Thailand.

**Figure 3.9. CPI and PPI Trends**  
(% change)

Source: Department of Statistics, Malaysia.

and 3.5% partly attributed to the base-effect following the zerorisation of GST as well as the implementation of SST. The inflation outlook will also be subjected to uncertainties in global oil prices, geopolitical tensions, trade war and foreign exchange rate movements.

The Producer Price Index (PPI) decreased 0.9% (y-o-y) between January and August 2018 mainly weighed down by contraction of 1.9% in the manufacturing sector due to reduction in the production cost following stronger ringgit as compared to last year. In addition, the PPI in agriculture, forestry and fishing sector declined 11.6% attributed to lower commodity prices. On the contrary, higher crude oil prices increased the index of the mining sector which recorded a double-digit growth of 19%. In 2018, the PPI is projected to grow marginally on account of lower global input cost. Nevertheless, PPI is expected to trend upwards in 2019 amid higher commodity prices.

## Labour Market

During the first half of 2018, the unemployment rate remained 3.4%. Total labour force increased 1.6% to 15.1 million. Meanwhile, total employed persons increased 1.7% to 14.6 million with

the largest number in the services sector at 9.1 million or 62.2% of total employment, followed by manufacturing (17.3%) and agriculture (11%) sectors. Job vacancies decreased to 550,449, while the number of active job seekers declined 22.3% to 241,046, of which 1.7% was new registrants. Amid favourable labour market conditions, the number of retrenched workers remained low at 9,249 persons.

In 2018 and 2019, the labour market is expected to remain favourable. The unemployment rate is expected to be sustained at 3.3% with more new jobs in the economy. Total employed persons are projected to increase to 14.8 million and 15.1 million in 2018 and 2019, respectively. In 2019, about 9.3 million persons will be recruited

**Table 3.16. Labour Market Indicators**

|              | ('000)          |                   |                   | Change (%)      |                   |                   |
|--------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|
|              | H1 <sup>1</sup> | 2018 <sup>2</sup> | 2019 <sup>3</sup> | H1 <sup>1</sup> | 2018 <sup>2</sup> | 2019 <sup>3</sup> |
| Labour force | 15,137          | 15,278            | 15,576            | 1.6             | 2.2               | 1.9               |
| Employment   | 14,629          | 14,767            | 15,062            | 1.7             | 2.2               | 2.0               |
| Unemployment | 508             | 511               | 514               | (3.4)           | (3.3)             | (3.3)             |

<sup>1</sup> January to June 2018.<sup>2</sup> Estimate.<sup>3</sup> Forecast.

Note: Figures in parentheses refer to unemployment rate.

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

**Table 3.17. Employment by Sector**

|                                   | ('000)          |                   |                   | Share (%)       |                   |                   |
|-----------------------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|
|                                   | H1 <sup>2</sup> | 2018 <sup>3</sup> | 2019 <sup>4</sup> | H1 <sup>2</sup> | 2018 <sup>3</sup> | 2019 <sup>4</sup> |
| Agriculture, forestry and fishing | 1,608.3         | 1,855.7           | 1,868.5           | 11.0            | 12.6              | 12.4              |
| Mining and quarrying              | 95.2            | 81.2              | 81.3              | 0.7             | 0.6               | 0.5               |
| Manufacturing                     | 2,535.6         | 2,461.6           | 2,478.7           | 17.3            | 16.7              | 16.5              |
| Construction                      | 1,290.0         | 1,347.0           | 1,362.7           | 8.8             | 9.1               | 9.0               |
| Services                          | 9,099.9         | 9,021.5           | 9,270.9           | 62.2            | 61.1              | 61.6              |
| <b>Total<sup>1</sup></b>          | <b>14,628.9</b> | <b>14,767.0</b>   | <b>15,062.1</b>   | <b>100.0</b>    | <b>100.0</b>      | <b>100.0</b>      |

<sup>1</sup> Total includes 'Activities of extraterritorial organisations and bodies'.

<sup>2</sup> January to June 2018.

<sup>3</sup> Estimate.

<sup>4</sup> Forecast.

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

in the services sector as compared to 9 million in 2018. Meanwhile, total employed persons in the manufacturing and agriculture sectors are projected to be sustained at 2.5 million and 1.9 million in 2018 and 2019, respectively.

As at end-August 2018, the number of registered foreign workers decreased to 1.7 million. The current share of foreign workers remained relatively low at 12% of total employment following the Government's effort to reduce dependency on low-skilled foreign workers of not more than 15% of total employment by 2020. Foreign workers were mainly from Indonesia (39%), Nepal (20.9%) and Bangladesh (18%). The manufacturing sector employed the highest number of foreign workers (37.1%), followed by construction (17.8%) and plantation (15.8%) sectors. Meanwhile, the number of expatriates decreased 26.3% to 108,994. The majority of expatriates were from India (21.2%), followed by China (15.4%) and Bangladesh (12.2%). The expatriates were mainly employed in the services (54.1%), information technology (25.4%) and manufacturing (7.3%) sectors.

Labour productivity increased in the second quarter of 2018 to RM81,285 or 2% (DOSM, 2018). For the year, labour productivity is expected to increase to RM83,300 or 2.5%. The manufacturing sector is projected to record the highest increase of 3.8%, followed by construction (3.3%) and services (3.2%) sectors. In 2019, labour productivity is projected to reach

RM85,600 or 2.9% on account of productivity improvement in the manufacturing (3.9%) and construction (3.4%) sectors, while services sector declines 3%.

## Conclusion

Malaysia's near-term growth outlook remains resilient with sound macroeconomic fundamentals, stable financial conditions as well as broad-based and diversified economic structure. Domestic demand continues to drive the economy while the external sector benefitting from steady global growth and trade activities. Nevertheless, as a highly open economy, Malaysia faces several risks relating to uncertainties in the external environment. Heightening financial market volatility as well as escalating protectionism and trade tensions, which could have a dampening effect on global trade and investment flows are expected to have an adverse impact on Malaysia's economic growth. Moving forward, the Government through various measures will continue to strengthen structural reforms and accelerate the country's convergence with developed economies. These include addressing mismatch in the labour market; improving quality of education and training; further diversifying export products and markets; enhancing innovation and adoption of technology; as well as unlocking the potential of the digital economy as a future driver of growth.

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