

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Sustained growth in the first quarter

The Malaysian economy registered a growth of 4.6% in the first quarter of 2011, driven by firm domestic demand and a stronger expansion in external demand. The strong expansion in domestic demand was supported mainly by private sector spending. External demand registered an improved performance during the quarter supported by regional demand for commodities and non-E&E products. On the supply side, all major economic sectors, except for the primary sectors, continued to expand during the quarter, but at a more moderate pace.

Domestic demand continued to expand

Domestic demand expanded by 6.6% in the first quarter (4Q 10: 5.9%), supported mainly by the expansion in private sector spending and public consumption.

Private consumption expanded by 6.7% in the first quarter (4Q 10: 6.4%), supported by sustained labour market conditions, positive consumer sentiments and continued income expansion. Consumer spending was also boosted by the sales promotions held in the early part of the quarter due to festive celebrations. Major consumption indicators such as sales of passenger cars, credit card spending and bank lending for consumption continued to show strong positive trend, reflecting robust consumption activity during the quarter. Although the first quarter MIER Consumer Sentiments Index was lower at 108.2 points (4Q 10: 117.2 points), it remained above the 100-point benchmark, reflecting sustained positive consumer confidence.

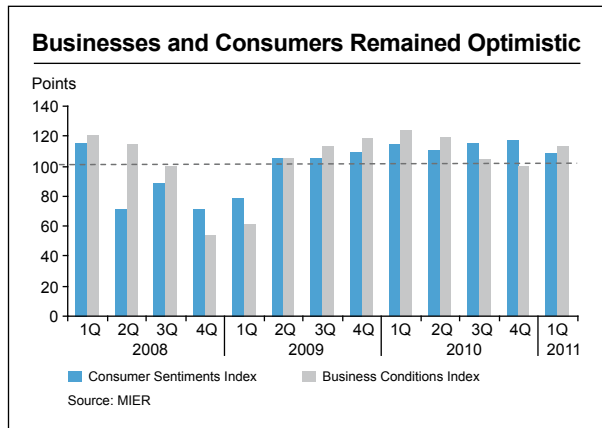
GDP by Expenditure Components (at constant 2000 prices)

	2010			2011
	1Q	4Q	Year	1Q
Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	5.5	5.9	6.3	6.6
Consumption	5.4	4.8	5.2	6.6
<i>Private sector</i>	5.2	6.4	6.5	6.7
<i>Public sector</i>	6.8	0.1	0.5	6.1
Gross Fixed Capital Formation	5.8	10.0	9.8	6.5
Net Exports	-15.1	-19.2	-25.7	-24.2
<i>Exports of Goods and Services</i>	19.1	1.7	9.9	3.7
<i>Imports of Goods and Services</i>	27.8	3.5	15.1	8.4
GDP	10.1	4.8	7.2	4.6

Source: Department of Statistics, Malaysia

Public consumption increased by 6.1% (4Q 10: 0.1%) due to higher spending on emoluments and supplies and services.

Gross fixed capital formation expanded by 6.5% (4Q 10: 10%), driven mainly by private sector capital spending. Private sector investment was supported by the expansion in production as reflected by the high capacity utilisation rates in the manufacturing sector and the continued implementation of planned capital investment projects. Major investment indicators such as sales of commercial vehicles and bank lending to businesses recorded strong performance, pointing to an expansion in business spending activity. Of importance, business sentiments improved in the first quarter, as the MIER Business Conditions Index exceeded the 100-point benchmark (113.3 points; 4Q 10: 99.5 points). The public sector capital expenditure was channelled mainly into the transportation, education and industrial sectors.



Meanwhile, the primary sectors experienced smaller contraction in the first quarter, reflecting the decline in production given supply-side factors.

Sustained growth in the services sector

The **services sector** registered a growth of 5.9% in the first quarter (4Q 10: 6.1%). Growth continued to be favourable in most sub-sectors, in line with the sustained improvement in domestic and external demand conditions. The services sector remained the largest contributor to growth, with a contribution of 3.4 percentage points to overall GDP growth.

The **finance and insurance** sub-sector expanded further by 6.8% (4Q 10: 3.7%), following continued growth in bank lending and higher fee-based income. The real estate and business services sub-sector recorded a sustained growth of 8.7%, supported by capital market-related activity and the continued increase in property transactions during the quarter.

The **wholesale and retail trade** sub-sector registered a growth of 6.8% (4Q 10: 8.3%) with an expansion in retail and motor vehicle sales, benefiting from positive consumer sentiments and sustained household spending. The **accommodation and restaurant** sub-sector grew by 4% (4Q 10: 3.7%), amid the festive holidays.

The **communication** sub-sector grew by 6.5% (4Q 10: 9.8%) amid strong demand for both mobile data and broadband services, while the transport and storage sub-sector registered a growth of 4.3% (4Q 10: 5.2%), supported mainly by higher demand for cargo-related transport services, in line with the increase in total trade.

GDP by Economic Activity (at constant 2000 prices)

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Agriculture	7.2	-3.9	2.1	-0.3
Mining	1.0	-1.2	0.2	-3.0
Manufacturing	17.1	6.2	11.4	5.4
Construction	8.6	5.6	5.1	3.8
Services	8.6	6.1	6.8	5.9
Real GDP (Annual Change)	10.1	4.8	7.2	4.6
Real GDP (Preceding Change)	-2.9	1.7	7.2	-3.1

Source: Department of Statistics, Malaysia

Moderate growth across most major economic sectors

On the supply side, most major economic sectors recorded continued expansion in the first quarter of 2011. Growth in the **services sector** was sustained, supported by favourable domestic and external demand conditions. Growth in the **manufacturing sector** was supported mainly by growth in the export-oriented industries and sustained performance of selected domestic-oriented industries.

Performance of the Services Sector (value added at constant 2000 prices)

	Share 2010 (%)	2010			2011
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	43.7	8.7	6.0	7.3	6.8
Finance & insurance	20.3	7.1	3.7	6.4	6.8
Real estate & business services	9.5	14.2	8.7	7.8	8.7
Transport & storage	6.6	8.1	5.2	6.9	4.3
Communication	7.4	6.7	9.8	8.5	6.5
Final Services	56.3	8.5	6.3	6.4	5.1
Wholesale & retail trade	23.6	9.7	8.3	8.0	6.8
Accommodation & restaurant	4.2	5.5	3.7	5.0	4.0
Utilities	5.2	16.8	4.2	8.2	0.4
Government services	13.0	7.6	6.1	5.8	5.3
Other services	10.2	4.7	3.9	4.0	3.9
Total Services	100.0	8.6	6.1	6.8	5.9

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2010				2011
	1Q	2Q	3Q	4Q	1Q
	Index				
MIER Consumer Sentiments Index	114.2	110.4	115.8	117.2	108.2
MIER Retail Trade Index	106.9	134.1	140.0	132.0	99.1
MIER Tourism Market Index	120.5	118.2	118.8	124.6	113.1
	Annual change (%)				
Tourist arrivals	5.3	3.9	5.6	1.2	-3.7
Total passenger traffic at all airports	20.3	14.1	10.0	6.3	11.8
Total consumption credit outstanding	9.5	10.6	10.7	9.8	9.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	4.5	8.6	7.3	7.5	7.2
Imports of consumption goods	18.5	13.3	3.2	6.9	5.3
Total sales of motor vehicles	22.7	17.4	3.7	9.3	7.5
Container cargo handled (Port Klang and PTP)	22.5	21.3	10.9	9.6	14.4

Source: Various sources

Moderate growth in the manufacturing sector

Value-added in the manufacturing sector expanded by 5.4% in the first quarter (4Q 10: 6.2%), supported mainly by growth in the export-oriented industries and sustained performance of selected domestic-oriented industries.

Performance of the Manufacturing Sector				
	2010			2011
	1Q	4Q	Year	1Q
Annual Change (%)				
Value Added (at constant 2000 prices)	17.1	6.2	11.4	5.4
Overall Production ¹	15.3	6.6	11.1	5.7
Export-oriented industries	14.5	4.6	9.7	4.8
Electronics and electrical products cluster	36.0	0.1	17.4	-6.1
<i>Of which:</i>				
Electronics	24.0	-16.5	3.2	-19.3
Electrical products	65.0	34.7	47.4	17.7
Primary-related industry cluster	4.5	7.2	5.7	11.4
<i>Of which:</i>				
Chemicals and chemical products	24.7	4.7	11.5	5.5
Petroleum products	-22.1	16.3	-2.4	26.1
Rubber products	37.8	12.7	20.8	13.5
Off-estate processing	4.3	-14.1	-2.3	-7.4
Domestic-oriented industries	18.1	13.6	15.6	8.6
Construction-related cluster	21.8	22.2	18.9	22.3
<i>Of which:</i>				
Construction-related materials	27.2	20.4	21.9	15.0
Fabricated metal products	14.9	24.7	15.0	32.8
Consumer-related cluster	15.6	7.6	13.4	-1.0
<i>Of which:</i>				
Transport equipment	40.5	20.8	29.7	-4.5
Food, beverage & tobacco products	2.5	9.3	8.8	6.2

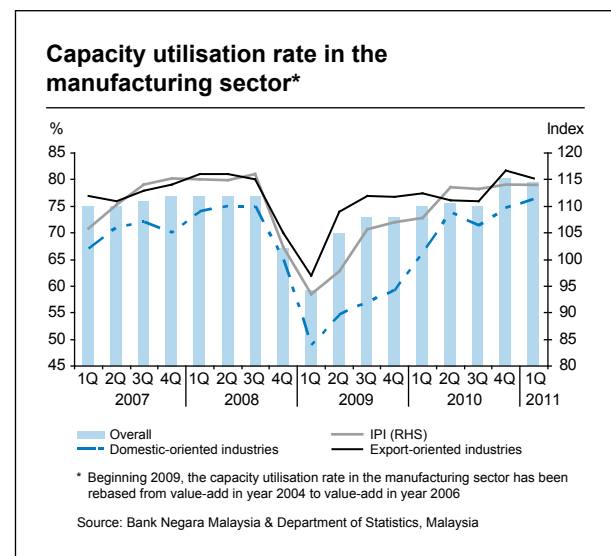
¹ Industrial Production Index (2005=100)
Source: Department of Statistics, Malaysia

Growth in the **export-oriented industries** expanded by 4.8% during the quarter (4Q 10: 4.6%), driven by robust performance in the primary-related cluster, in particular the

petroleum and rubber product segments. Production in the E&E cluster however contracted (-6.1%; 4Q 10: 0.1%), due mainly to continued declines in the production of PC and parts and semiconductors.

Domestic-oriented industries expanded at a more moderate pace (8.6%; 4Q 10: 13.6%) supported mainly by growth in the construction-related cluster (22.3%; 4Q 10: 22.2%), particularly the fabricated metal and non-metallic mineral product segments as these industries continued to benefit from domestic construction activities.

Overall capacity utilisation rate in the manufacturing sector moderated marginally in the first quarter (79%; 4Q 10: 80%), reflecting softer production growth in the sector. Export- and domestic-oriented industries were operating at 80% and 76% of total capacity respectively (4Q 10: 82% and 75% respectively).



Slower contraction in the primary sector

The primary sector experienced a slower contraction in the quarter compared to the fourth quarter. Value-added in the **agriculture sector** contracted by 0.3% in the first quarter (4Q 10: -3.9%), reflecting the decline in crude palm oil output as above average rainfall curbed harvesting. However, the production of food crops remained strong during the quarter. The **mining sector** contracted by 3% (4Q 10: -1.2%), reflecting lower production of crude oil mainly on account of the reservoir management and maintenance work on selected oil fields.

Performance of the Agriculture Sector

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	7.2	-3.9	2.1	-0.3
Industrial Crops	8.3	-10.2	-2.3	-8.4
Food Crops	6.6	4.9	7.9	8.9
Production				
Of which:				
Crude palm oil	1.9	-15.1	-3.3	-7.7
Rubber	34.6	6.1	9.6	2.1
Fish	-2.5	2.4	2.7	2.0
Livestock	7.5	-2.2	2.4	-8.2 ¹

¹ Jan-Feb 2011

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Fisheries Department, Malaysia
Department of Veterinary Services, Malaysia
Department of Statistics, Malaysia

Performance of the Mining Sector

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	1.0	-1.2	0.2	-3.0
Production				
Of which:				
Crude oil and condensates	-2.0	-3.4	-3.5	-6.2
Natural gas	2.5	2.0	4.4	1.0

Source: PETRONAS
Department of Statistics, Malaysia

Moderate growth in the construction sector

The **construction sector** expanded by 3.8% during the quarter (4Q 10: 5.6%), supported by continued growth across all sub-sectors. The ongoing construction of office and retail spaces supported the activity in the non-residential sub-sector, while the expansion in the civil engineering sub-sector reflected further progress in the implementation of infrastructure projects, including commencement of the LRT extension. The residential sub-sector expanded further amid positive consumer and business sentiments, and continued access to financing.

Indicators for the Construction Sector

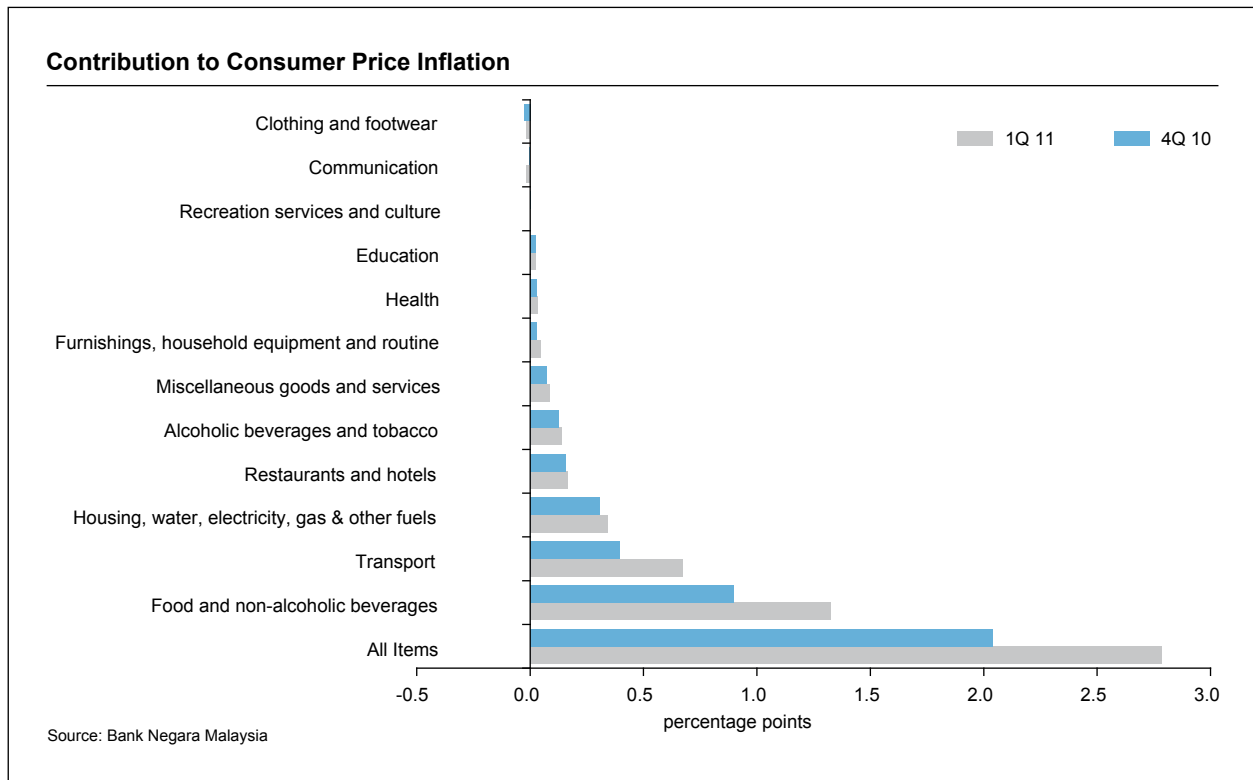
	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	32.0	13.0	16.0	25.1
Housing approvals	13.9	31.7	23.6	31.6
Production ¹ of construction-related materials	21.8	22.2	18.9	22.3
Loans approved for construction	40.5	49.7	53.6	29.3
Imports of construction materials and mineral products	54.2	23.1	27.9	-2.3 ²

¹ Industrial Production Index (2005=100)
² Jan-Feb 2011

Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Inflation increased in the first quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), rose by 2.8% on an annual basis in the first quarter of 2011 (4Q 10: 2.0%). The increase in consumer prices was largely contributed by the *food and non-alcoholic beverages* category, which rose by 4.3% (4Q 10: 2.9%). The increase in food prices was the result of an increase of 12.4% (4Q 10: 7.7%) in the *vegetables* sub-category due partly to adverse weather conditions domestically. Prices in the *transport* category also registered an increase of 4.4% (4Q 10: 2.5%) during the quarter due to the upward adjustment in the price of RON97 in January and February following the higher global crude oil prices. These price increases, however, were partially mitigated by declining prices in the *clothing and footwear* and *communication* categories.



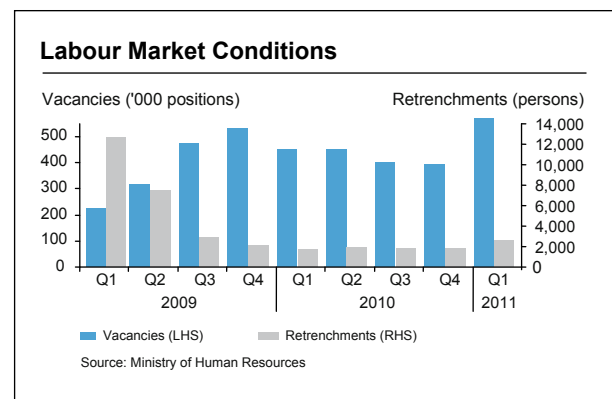
The Producer Price Index (PPI) increased at a higher rate of 7.4% on a yearly basis in the first quarter of 2011 (4Q 10: 4.8%). Prices in the commodity-related components were higher at 19.5% (4Q 10: 13.0%). Similarly, prices in the non commodity-related components of the PPI registered a higher increase of 1.7% (4Q 10: 1.1%). In terms of composition, prices in the imported component of the PPI recorded an increase of 1.8% (4Q 10: 1.1%) while prices in the local component of the PPI rose by 9.9% (4Q 10: 6.6%).

Sustained labour market conditions

Overall labour market conditions remained positive in the first quarter. Despite the relatively higher retrenchments, total vacancies rose significantly, while the overall unemployment rate remained relatively unchanged during the first two months of the quarter. Retrenchments increased to 2,621 persons (4Q 10: 1,761 persons), due mainly to the higher layoffs in the manufacturing sector particularly in the month of March. The higher layoffs were notably in the wood, rubber and plastics industries, which collectively accounted for about 60% of total

retrenchments in the manufacturing sector during the quarter. The services sector, however, recorded fewer layoffs.

Labour demand across all sectors of the economy, with the exception of mining, strengthened during the quarter. Total job vacancies posted on JobsMalaysia Portal rose significantly (568,717 positions; 4Q 10: 393,408 positions), following higher job openings, particularly in the utilities, finance and business services sub-sectors. Corresponding to these developments, the average unemployment rate was sustained at 3.2%.



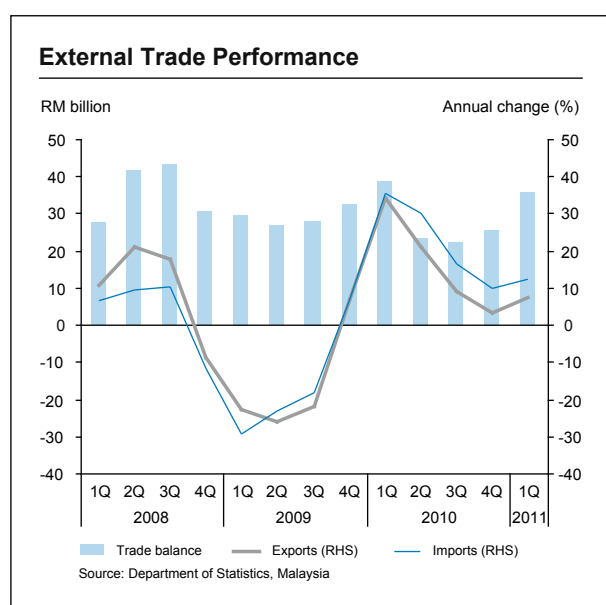
Improvement in external trade activities

The **trade surplus** widened to RM36.1 billion in the first quarter of 2011 (4Q 10: RM25.5 billion). Gross exports increased further by 7.5% (4Q 10: 3.4%), reflecting expansion in all major export sectors. Gross imports also expanded further by 12.4% (4Q 10: 10.1%), driven mainly by imports of intermediate goods.

The broad-based expansion in **gross exports** saw a turnaround in **manufactured exports** (3%; 4Q 10: -0.4%), which were boosted by stronger external demand for electronics,

particularly semiconductors. The sustained growth in exports of non-E&E products was attributed to higher regional demand for machinery, appliances and parts, optical and scientific equipment and resource-based products. **Commodity exports** continued to register robust growth, benefiting from higher prices of most commodities and sustained regional demand.

Gross imports registered a stronger growth due mainly to higher imports of intermediate goods, in tandem with the pick-up in manufactured exports. Capital and consumption imports continued to increase amidst positive business and consumer sentiments in the domestic economy.



Trade Account

	2010			2011
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	34.5	3.4	15.7	7.5
Manufactured	33.2	-0.4	12.0	3.0
E&E	36.3	-8.0	9.7	-0.8
Non-E&E	29.6	9.9	15.0	7.4
Commodities	40.0	15.9	26.8	20.1
Agriculture	45.8	33.1	29.5	25.1
Minerals	36.3	5.0	25.0	16.7
Gross Imports	35.6	10.1	21.7	12.4
Capital goods	9.7	9.4	16.2	9.3
Intermediate goods	37.9	10.5	22.1	13.2
Consumption goods	18.5	6.9	10.1	5.3
Trade balance (RM billion)	38.9	25.5	110.2	36.1

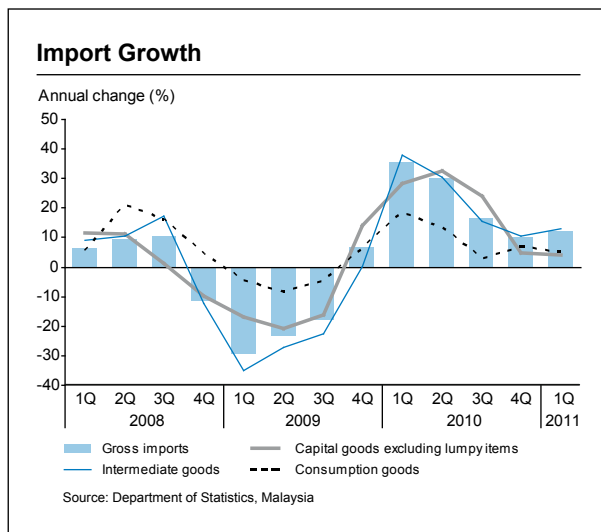
Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2010			2011	2010			2011
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	10.8	-11.0	0.2	-6.6	9.4	9.1	9.5	8.2
European Union (EU)	29.1	0.3	14.3	6.3	10.6	10.8	10.7	10.5
Selected ASEAN countries¹	39.1	1.9	14.0	-0.2	25.9	25.3	25.1	24.0
North East Asia	57.1	1.6	20.0	9.7	25.1	24.3	24.6	25.6
People's Republic of China	67.8	0.0	19.7	9.4	13.1	12.4	12.6	13.3
Hong Kong SAR	36.8	-0.7	11.8	10.0	4.9	5.0	5.1	5.0
Chinese Taipei	76.4	30.6	39.0	18.0	2.8	3.3	3.2	3.1
Korea	43.5	-8.8	19.1	4.9	4.3	3.6	3.8	4.2
West Asia	17.0	11.0	4.0	17.6	3.3	3.7	3.5	3.6
India	21.3	20.2	21.1	37.7	3.3	3.3	3.3	4.2
Total exports	34.5	3.4	15.7	7.5	100.0	100.0	100.0	100.0

¹Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia



FDI moderated while portfolio investment recorded a higher net inflow

On a cash basis, gross inflows of **foreign direct investment (FDI)*** amounted to RM7.8 billion in the first quarter following the exceptional volume of RM13 billion recorded in the fourth quarter of 2010. After adjusting for gross outflows due mainly to repayments of inter-company loans, net FDI was also lower at RM4.6 billion (4Q 10: +RM8.6 billion). Gross FDI inflows were broad-based, channelled mainly into the manufacturing, services and mining sectors. In the manufacturing sector, the bulk of the inflows went to electrical and electronics as well as petroleum-related industries. Investments in the services sector was mainly undertaken by companies in the finance, insurance, business services and wholesale and retail trade sub-sectors.

Net outflows of **direct investment abroad (DIA)*** by Malaysian companies amounted to RM3.8 billion in the first quarter (4Q 10: -RM3.9 billion), reflecting mainly lower outflows of equity capital which more than offset the larger net extension of inter-company loans to subsidiaries abroad. These investments were largely undertaken by companies in the services sector, particularly companies in the finance and insurance, business services and communications sub-sectors. There were also sizeable investments in the oil and gas as well as the manufacturing sectors.

Portfolio investment recorded a larger net inflow of RM4.7 billion in the first quarter (4Q 10: +RM3.3 billion). The higher inflows reflected stronger foreign participation in the domestic capital market, particularly the debt market.

Despite concerns on the geopolitical tension in the Middle East and Africa and the adverse impact of the recent disasters in Japan, inflows of foreign portfolio funds continued to be buoyed by the positive growth prospects in the Malaysian economy amidst further strengthening of the ringgit. This development was also broadly experienced in the regional economies.

External debt remained manageable

Malaysia's **total external debt** amounted to RM233.4 billion or USD77.1 billion as at end-March 2011 (end-Dec 2010: RM227.1 billion or USD72.8 billion), equivalent to 29% of GNI.

The **medium- and long-term external debt** moderated to RM142.4 billion (end-Dec 2010: RM147.7 billion), reflecting largely the net repayment position in the public sector. The net repayment position in the public sector was due mainly to the repayment of several large borrowings by the NFPEs. The medium- and long-term external debt of the private sector, however, recorded a marginal increase during the quarter reflecting mainly higher borrowings in the banking sector.

As at end-March 2011, the **short-term external debt** increased to RM91 billion or USD30.1 billion (end-Dec 2010: RM79.4 billion), due mainly to higher interbank borrowings. Short-term external debt accounted for 39% of total external debt. The latest international reserves position as at 29 April 2011 is able to cover 4.3 times the short-term external debt.

	2010		2011
	end-Mar	end-Dec	end-Mar ^a
	RM billion		
Medium- and long-term debt	147.2	147.7	142.4
Public sector	80.9	83.3	77.2
Private sector	66.3	64.3	65.1
Short-term debt ¹	72.1	79.4	91.0
Total external debt	219.3	227.1	233.4
USD billion equivalent	66.4	72.8	77.1
External debt/GNI	29.6	30.7	29.0
Reserves/Short-term external debt	4.3	4.1	4.3 ²

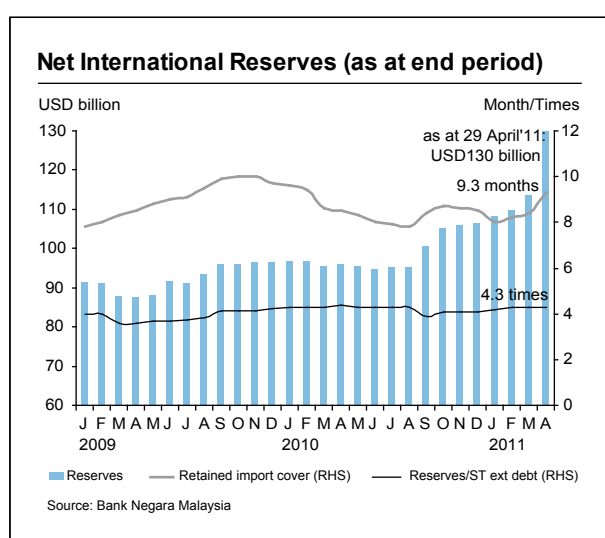
¹ Excludes currency and deposits held by non-residents with resident banking institutions
² Based on reserves as at 29 April 2011
^a Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

* The statistics for FDI and DIA on a cash basis does not include retained earnings.

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM344.5 billion (equivalent to USD113.8 billion) as at 31 March 2011. The reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 29 April 2011, the reserves position amounted to RM393.2 billion (equivalent to USD130 billion), sufficient to finance 9.3 months of retained imports and is 4.3 times the short-term external debt.



Lower fiscal deficit on higher revenue

The Federal Government recorded a smaller fiscal deficit of 2.6% of GDP in the first quarter of 2011 (1Q 10: -5.6% of GDP), due to higher revenue collection particularly from petroleum and corporate income taxes. Total expenditure increased moderately by 15%, contributed mainly by higher operating expenditure. The increase was due to higher payments for debt service and pensions. The deficit was financed from domestic sources. As at end-March 2011, total outstanding debt of the Federal Government amounted to RM430.2 billion or 51.8% of GDP.

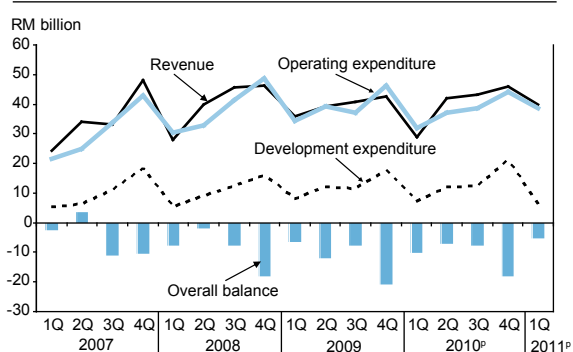
Federal Government Finance^P

	2010			2011
	1Q	4Q	Year	1Q
RM billion				
Revenue	28.7	45.8	159.7	39.8
% growth	-19.9	7.6	0.6	38.4
Operating expenditure	31.9	44.1	151.6	38.7
% growth	-7.1	-4.6	-3.5	21.2
Current account	-3.2	1.7	8.0	1.1
% of GDP	-1.7	0.8	1.0	0.5
Gross development expenditure	7.3	20.8	52.8	6.4
% growth	-11.4	18.6	6.6	-12.0
Overall balance	-10.2	-18.2	-43.3	-5.2
% of GDP	-5.6	-8.9	-5.6	-2.6
Memo item:				
Total gross expenditure	39.2	64.9	204.4	45.1
% growth	-8.0	1.8	-1.0	15.0
Total Federal Government debt (as at end-period)	378.3	407.1	407.1	430.2
% of GDP	49.4	53.1	53.1	51.8
Domestic debt	365.6	390.4	390.4	414.2
% of GDP	47.7	51.0	51.0	49.9
External debt	12.7	16.7	16.7	15.9
% of GDP	1.7	2.2	2.2	1.9

^P Preliminary

Source: Ministry of Finance

Federal Government Finance



^PPreliminary

Source: Ministry of Finance