DEVELOPMENTS IN THE THIRD QUARTER OF 2005

International Economic Environment

Sustained growth in major industrial countries and regional economies, despite high oil prices

The global economy strengthened amidst high oil prices in the third quarter. Growth momentum was sustained in the United States (US) and the People's Republic of China (PR China) and supported by stronger recovery in the euro area and Japan.

The **US** economy remained resilient despite the devastation caused by the hurricanes. Advanced estimate for third quarter showed the economy has expanded by 3.8%, supported mainly by consumer spending and government expenditure. Major indicators, however, showed mixed performance as some data such as jobless claims and unemployment rate were distorted by the hurricane effect. Meanwhile, the **UK** economy recorded a modest growth of 1.6% in third quarter despite a recovery in the manufacturing sector, due mainly to a decline in utilities output and a fall in oil and gas production. The **euro area** economy grew by a stronger-than-expected 1.5% in the third quarter, supported by an export-led expansion in Germany and consumer spending in France. In **Japan**, the economy grew by 1.7%, driven by sustained capital spending and private consumption.

Industrial Countries: Real GDP growth

	2004		2005			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change in %					
US[1]	4.0	3.3	3.8	3.3	3.8[a]	Stronger-than-expected growth supported by strong consumer spending and government expenditure.
UK	3.0	2.5	1.7[r]	1.5[r]	1.6[p]	A decline in utilities output and a fall in oil and gas production led to more modest expansion despite a recovery in the manufacturing sector.
Euro zone	1.9	1.6	1.3	1.1	1.5[p]	Growth supported by an export-led expansion in Germany and consumer spending in France.
Japan[1]	-0.5	0.4[r]	6.3[r]	3.3	1.7[p]	Recovery on track driven by capital spending and private consumption.

[1] Annualised basis
[r] Revised
[a] Advanced estimate
[p] Preliminary
Source: National authorities

Global **crude oil prices** recorded a new peak in the third quarter at USD70.85 p/b on 30 August due mainly to the disruption of oil production and refining capacity in the US Gulf of Mexico by Hurricane Katrina. Oil prices have since declined to range between USD57 - USD60 p/b in the first half of November. Mild weather in the Northern Hemisphere and recovering US oil production have eased fears of a shortage in supply. Nevertheless, oil prices are expected to remain high supported by fundamental factors such as continued strong global demand, especially from the US and PR China, and limited spare production and refining capacity.

The high oil prices had raised concern on rising inflationary pressures among some of the industrial countries. In the US, the Federal Reserve continued to raise

its policy rate by 25 basis points each during its August, September and November meetings to reach 4%. On the other hand, the Bank of England reduced interest rates by 25 basis points to 4.5% on 4 August following the concern of the softening economic growth.

In the **Asian region**, economic growth remained strong with expansion led by PR China and supported by improved performance in other regional countries. Growth was stronger in Hong Kong China, Singapore and Korea compared to the performance recorded in the second quarter. Exports continued to strengthen, supported by a pick-up in demand for electrical and electronics goods.

Regional Countries: Real GDP growth

	2004		2005			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change in (%)					
PR China	9.1	9.5	9.4	9.6	9.2	Supported by strong investments and exports.
Hong Kong China	6.7	7.2	6.2	7.3	8.2	Driven by strong private consumption expenditure, exports and investment.
Singapore	7.2	6.5	2.7	5.4	7.0	Driven mainly by an upsurge in biomedical manufacturing as well as the transport engineering and chemicals clusters.
Indonesia	5.0	6.7	6.1	5.8	5.3	Supported by private consumption and government spending.
Korea	4.7	3.3	2.7	3.3	4.4	Supported by exports and private consumption.
C. Taipei	5.3	3.3	2.5	3.0	4.4	Due to strong exports.

Source: National authorities

Meanwhile, **inflation** in the region is trending upwards due to higher oil prices and the complete/partial removal of fuel subsidies. Inflation surged to a seven-year high in Thailand following the abolition of a state subsidy for diesel prices in July. In Indonesia, inflation has reached double-digits following the recent hikes in fuel prices. To stem rising inflation, Korea, Thailand, the Philippines, India and Indonesia have raised interest rates, while Singapore has maintained its policy of a 'modest and gradual appreciation' of the Singapore dollar.

In the **currency markets**, the US dollar continued to record broad-based appreciation against the other major currencies. The strength in the dollar was supported by views that the Federal Reserve would continue its policy of monetary tightening. This followed comments by top Fed officials that the economy remained resilient despite the adverse impact from hurricanes. The dollar was also supported by perceptions that it is increasingly a high-yield currency among G7 currencies rather than a funding currency. Meanwhile, most of the regional currencies appreciated in the early part of the quarter following the announcement of the change in PR China's exchange rate regime on 21 July, but weakened subsequently on concerns over the impact of record oil prices on the balance of payments position and growth prospects in particular, for the net oil importing economies.

Going forward, despite the ongoing uncertainties such as high oil prices and potential outbreak of avian flu, the global economic expansion is expected to be sustained at a steady pace. The global economy has greater capacity to absorb the current high energy costs given the higher oil efficiency particularly in the developed countries, lower share of energy in expenditures, and continued income growth. Prospects are also reinforced by the recovery in the global electronic cycle.

Developments in the Malaysian Economy

Economic growth led mainly by the services sector…

The Malaysian economy expanded by 5.3% in the third quarter of 2005 (2Q 2005: 4.4%) driven mainly by the services sector. The services sector contributed 4.2 percentage points to growth during the quarter. Strong spending by domestic consumers and tourists as well as increased business activities supported the growth in the services sector during the quarter. Meanwhile, value added growth in the manufacturing sector was sustained, reflecting improvement in the electrical and electronics industry as well as growth in the chemical and selected domestic-oriented industries such as food products and transport equipment industries. Value added growth in the mining sector was supported by high production of natural gas, while growth in the agriculture sector remained positive, supported by the increase in output of plantation and selected food crops.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change in %				
Agriculture	4.9	7.3	6.0	3.3	0.9
Mining	4.5	4.4	3.4	-1.5	3.4
Manufacturing	9.9	5.5	5.7	3.1	3.4
Construction	-2.6	-2.6	-2.4	-2.0	-1.4
Services	6.2	6.5	6.9	6.0	7.3
Real GDP (Ann. Chg.)	**6.7**	**5.8**	**6.2**	**4.4**	**5.3**
Real GDP (Preceding Chg.)	**2.7**	**1.9**	**-2.9**	**2.7**	**3.5**

Source: Department of Statistics, Malaysia

Value added in the **services sector** registered a strong growth of 7.3% in the third quarter of 2005 reflecting broad-based expansion in all sub-sectors. Of significance, the wholesale and retail trade, hotels and restaurants sub-sector increased by 10% (2Q 2005: 7.1%), underpinned by strong spending by domestic consumers and foreign tourists especially during the Mega Sales Carnival. The introduction of the five-day working week for the civil servants further contributed to domestic tourism and consumer spending during the quarter. Meanwhile, tourist arrivals recorded a higher growth of 5.9% during the quarter (2Q: 2.5%). In addition, the distributive trade activity in the motor vehicles segment was also robust supported by the launch of new models and aggressive marketing by car dealers.

The transport, storage and communication sub-sector grew by 3.8%, supported mainly by the favourable performance of the telecommunications industry, and continued increase in transport activities, particularly air passenger transport and port activities. The aggressive marketing by major telecommunication companies resulted in an increase of close to one million new cellular phone subscribers and 77,000 new broadband subscribers during the quarter. Growth in the finance, insurance, real estate and business services sub-sector was supported by strong bank lending and insurance activities, particularly general insurance. The sub-sector also benefited from rapid growth in new activities such as shared services and outsourcing activities and the increased trading activity in the stock market. Government services expanded by 10.2% during the quarter due to higher emoluments partly as a result of the increase

in allowances for selected civil service. Meanwhile, increased demand for electricity from major categories of users, namely commercial and household categories, supported growth of the electricity, gas and water sub-sector.

Performance in the Services Sector (Value Added)

	Share 2004	2004		2005		
		3Q	4Q	1Q	2Q	3Q
	%	Annual change in %				
Intermediate Services	**41.5**	**6.2**	**6.9**	**6.9**	**5.0**	**5.5**
Transport, storage & communication	15.3	7.6	9.3	10.4	5.5	3.8
Finance, insurance, real estate & business services	26.3	5.5	5.6	4.8	4.7	6.5
Final Services	**58.5**	**6.1**	**6.3**	**6.9**	**6.7**	**8.6**
Electricity, gas & water	7.2	8.0	7.3	5.9	6.0	6.6
Wholesale & retail trade, hotel & restaurants	24.9	6.0	6.9	7.7	7.1	10.0
Government services	12.8	7.0	7.2	8.4	8.3	10.2
Other services	13.6	4.5	3.7	4.7	4.9	5.7
Total Services	**100**	**6.2**	**6.5**	**6.9**	**6.0**	**7.3**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Tourist arrivals	51.5	15.4	4.6	2.5	5.9
Total passenger traffic at all airports	15.2	11.2	6.6	5.5	4.7
Total consumption credit outstanding	14.7	16.4	17.4	18.0	18.6
Loans outstanding to the wholesale & retail trade, restaurants & hotels	9.5	11.0	12.7	12.6	12.6
Imports of consumption goods	38.8	16.4	10.7	4.3	5.3
Total sales of passenger cars	21.6	27.3	13.7	-1.2	-2.8
Total sales of commercial vehicles	25.3	39.3	57.1	47.3	65.8
Cellular phone penetration rate (%)	50.8	56.5	60.9	63.3	66.8
SMS traffic	53.0	77.8	70.6	91.0	142.1
Cargo handled (all airports)	13.7	10.2	5.3	5.3	0.3
Container cargo handled (Port Klang and PTP)	8.8	3.6	4.7	2.1	5.2

Source: various sources

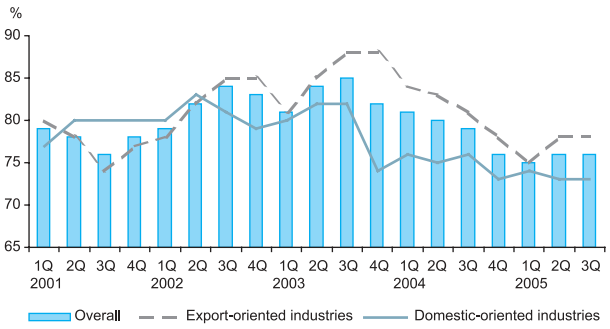
Sustained expansion in the manufacturing sector…

Value added in the **manufacturing sector** expanded by 3.4% in the third quarter of 2005 (2Q 2005: 3.1%). The growth in the **export-oriented industries** was sustained at 4.1% (2Q 2005: 4.1%), supported by the pick-up in the electronics and electrical products (E&E) industry. During the quarter, output of the E&E industry increased by 3.2% (2Q 2005: 0.9%), attributable to the strong demand for computers and computer-related items partly benefiting from the worldwide migration to portable and wireless computers as well as the improvement in the global semiconductor industry. The expansion in the chemical products industry was supported by the strong expansion in synthetic resins and plastic products sub-sector, while the textile industry recovered led by the wearing apparel sub-sector. In line with the modest expansion in crude palm oil production, off-estate processing activity registered a more moderate growth of 7.3% during the quarter (2Q 2005: 18.9%).

In the **domestic-oriented industries**, the transport equipment sub-sector continued to expand at a robust pace of 12.7% (2Q 2005: 10.1%), supported by the strong demand for motor vehicles, stimulated by the launch of new models as well as the ongoing attractive loan packages. Similarly, output of the food products industry increased by a double-digit growth of 11.4% (2Q 2005: 6%) supported by strong domestic consumption. Meanwhile, industries that are related to the construction sector, namely the iron and steel, non-metallic

mineral products, and fabricated metal industries, continued to contract in tandem with the subdued performance of the construction sector.

Capacity Utilisation in the Manufacturing Sector



Performance in the Manufacturing Sector

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (Constant Price)	**9.9**	**5.5**	**5.7**	**3.1**	**3.4**
Overall Production	**11.6**	**7.5**	**5.6**	**2.8**	**2.9**
Export-oriented industries	**12.8**	**7.8**	**5.4**	**4.1**	**4.1**
Of which:					
Electronics and electrical	19.3	5.1	-1.2	0.9	3.2
Electronics	27.0	9.6	-0.1	2.9	5.9
Electrical	-8.8	-13.8	-7.1	-9.2	-10.5
Chemicals and chemical products	8.7	13.3	16.0	10.8	8.9
Wood and wood products [1]	11.3	5.1	-3.4	-6.6	-5.5
Textiles & wearing apparel	-13.8	-14.5	-4.4	-4.6	5.8
Off-estate processing	1.5	17.9	24.6	18.9	7.3
Rubber products	7.5	9.1	10.9	-0.2	-3.9
Domestic-oriented industries	**7.2**	**6.3**	**6.4**	**-1.3**	**-1.4**
Of which:					
Non-metallic mineral products	-4.6	-4.8	-3.6	-4.1	-1.3
Fabricated metal products	38.0	21.4	15.9	-12.7	-14.6
Iron & steel and non-ferrous metal	-1.9	4.7	-3.6	-6.1	-9.8
Food	-1.8	-0.5	2.3	6.0	11.4
Transport equipment	6.4	17.8	13.5	10.1	12.7
Petroleum products	7.1	5.4	10.4	5.8	5.0
Total Manufactured Exports	**27.3**	**13.5**	**12.0**	**9.3**	**6.3**
Of which:					
Electronics and electrical products	21.3	7.5	9.9	8.7	6.8
Chemical and chemical products	43.6	26.9	20.7	3.4	1.3
Petroleum products	66.8	57.1	18.0	45.8	19.4
Optical & scientific equipment	40.5	19.6	22.9	-4.3	-0.7
Wood and wood products	47.1	12.4	16.8	4.6	-14.9
Furniture & parts	24.5	16.2	10.3	11.9	3.0
Rubber products	21.3	14.5	11.9	8.5	10.0

[1] Output of furniture and parts are not captured in the wood production data.
Source: Department of Statistics, Malaysia

The **overall capacity utilisation** of the manufacturing sector remained unchanged from the second quarter level of 76%, with both the export-oriented and domestic-oriented industries operating at 78% and 73% respectively (2Q: 78% and 73% respectively).

Positive contribution from the commodity sector…

The primary commodity sector contributed positively to growth during the third quarter of 2005. The agriculture sector grew by 0.9% (2Q 2005: 3.3%) reflecting slower growth in palm oil output which was partly offset by higher production of other activities including rubber, livestock, aquaculture and other agriculture such as paddy and vegetables. Value added in the mining sector strengthened, increasing by 3.4% (2Q 2005: -1.5%) due entirely to a significant increase in natural gas output. Meanwhile, crude oil production declined, albeit at a slower rate than in the previous two quarters.

In the **agriculture sector**, production of crude palm oil registered a marginal increase of 0.2% during the quarter. The small increase in production growth was attributed to lower yields of fresh fruit bunches (FFB) compared to the exceptionally high levels recorded in the corresponding period of 2004. Yields in terms of FFB declined by 4.3% to 5.14 tonnes per hectare (3Q 2004: 5.37 tonnes per hectare). Nevertheless, the contraction was partially offset by the sustained rise in the oil extraction rate (OER), which increased to 20.17% (3Q 2004: 20.11%). Thus, the monthly average production of crude palm oil was maintained at

1.36 million tonnes (3Q 2004: 1.36 million tonnes) resulting in total production of 4.09 million tonnes for the quarter (2Q: 3.75 million tonnes, 1Q: 3.42 million tonnes).

Rubber production rose by 3.7% after two consecutive quarters of decline, as latex output recovered from the adverse effects of drought seen in the first half of the year. In addition, smallholders who account for 95% of Malaysia's rubber output, accelerated tapping activities, induced by the remunerative prices of above 500 sen per kilogramme quoted during the quarter (552 sen per kilogramme; 2Q 2005: 467 sen per kilogramme). The recovery from excessively dry weather conditions seen in the earlier quarters was also reflected in higher output of food crops, such as paddy and vegetables, during the quarter. Aquaculture products recorded a significant rise during the quarter, rising by 13.2%, reflecting the rise in demand, both domestic and external, for products such as seaweed, ornamental fish and surimi.

Growth in the **mining sector** was driven entirely by significant increase in natural gas production, which expanded at a double-digit rate of 15.9% to 5,363 million standard cubic feet per day. The stronger production was a result of the commencement of output from several new gas fields offshore

Performance of the Agriculture Sector

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at 1987 prices)	**4.9**	**7.3**	**6.0**	**3.3**	**0.9**
Production [1]					
Of which:					
Crude palm oil	5.2	16.5	27.5	14.5	0.2
Crude palm kernel oil	-3.5	11.8	27.2	25.1	7.8
Rubber	20.7	7.2	-9.2	-6.0	3.7
Saw logs	5.3	2.7	-2.2	-16.8	-12.9
Cocoa beans	17.7	17.9	-10.9	-29.9	-19.0
Exports (RM million)	**4.2**	**1.2**	**6.2**	**4.9**	**-0.1**
Of which:					
Palm oil					
('000 tonnes)	-14.0	2.3	13.9	28.6	4.8
(RM/tonne)	5.9	-6.1	-15.7	-21.2	-13.5
(RM million)	-8.9	-3.9	-4.0	1.4	-10.0
Palm kernel oil					
('000 tonnes)	-39.9	-24.7	14.5	-0.8	-14.3
(RM/tonne)	55.9	38.9	8.3	-4.3	-5.8
(RM million)	-6.4	4.5	24.1	-5.1	-19.2
Rubber					
('000 tonnes)	15.3	16.6	-0.8	5.3	4.4
(Sen/kilogramme)	29.0	2.6	-2.2	-3.2	13.0
(RM million)	48.7	19.6	-2.9	2.0	18.0
Sawn timber					
('000 cu.metres)	15.3	16.3	47.8	15.8	9.1
(RM/cu.metre)	-1.9	-10.2	-10.3	18.7	5.7
(RM million)	13.1	4.4	32.6	37.5	15.3
Saw logs					
('000 cu.metres)	22.8	-17.9	42.2	13.7	-4.4
(RM/cu.metre)	7.3	6.2	4.4	-3.6	14.7
(RM million)	31.8	-12.8	48.4	9.7	9.7
Cocoa beans					
('000 tonnes)	53.8	-15.6	183.4	-15.8	-77.6
(RM/tonne)	-5.8	-5.9	0.7	-6.9	18.6
(RM million)	44.8	-20.6	185.3	-21.6	-73.4

[1] In '000 tonnes, except for saw logs in '000 cubic metres

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Forestry Department (Peninsular Malaysia, Sabah and Sarawak)
Malaysian Cocoa Board (MCB)
Department of Statistics, Malaysia

Performance of the Mining Sector

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change in %				
Value Added (at 1987 prices)	**4.5**	**4.4**	**3.4**	**-1.5**	**3.4**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	5.4	1.4	-5.2	-9.2	-2.4
Natural gas (net) (million standard cubic feet)	-1.5	10.3	19.8	12.1	15.9
Exports (RM million)	**50.1**	**44.7**	**34.8**	**30.1**	**25.8**
Of which:					
Crude oil & condensates					
('000 tonnes)	7.8	-11.0	-1.1	-5.3	-9.4
(USD/barrel)	50.6	53.3	36.0	43.4	42.5
(RM million)	62.3	36.4	34.5	35.7	29.0
Liquefied natural gas					
('000 tonnes)	8.9	19.4	17.6	2.5	5.7
(RM/tonne)	11.7	15.9	12.8	14.0	16.8
(RM million)	21.7	38.5	32.7	16.8	23.4

Source: PETRONAS
Department of Statistics, Malaysia

Peninsular Malaysia and Sabah which, in turn, resulted in higher capacity utilisation rates at the Malaysia Liquefied Natural Gas (MLNG) plants in Sarawak and Gas Processing Plants (GPPs) in Peninsular Malaysia. The pick-up in output was in response to the higher demand requirements from domestic buyers including power generators and industrial users, as well as by external buyers. Production of crude oil (including condensates) registered a smaller decline of 2.4%. In the third quarter, 745,180 barrels per day were produced compared with 670,520 barrels per day in the previous quarter when several oil fields and plants were closed for maintenance purpose.

Construction activity supported by residential segment

The construction sector contracted, albeit at a slower rate of 1.4% in the third quarter of 2005 (2Q 2005: -2%). Civil engineering activity remained subdued for a number of quarters following the completion of several large infrastructure projects. Thus, construction companies have expanded abroad and secured overseas projects, including low-cost housing in Thailand, hydropower plant in Laos, airport in Qatar and highway projects in India and Bosnia. In the residential segment, demand was sustained by high disposable incomes and competitive credit environment. In the non-residential segment, demand for office and retail space continued to be supported by business activities. Going forward, the construction sector is expected to improve, benefiting from higher development expenditure announced in the 2006 Budget as well as measures taken to accelerate some of the projects under the Ninth Malaysia Plan.

Construction Indicators

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
New sales and advertising permits	-31.9	-19.4	2.3	10.1	45.4
Housing approvals	-30.7	-34.9	11.2	-26.9	2.4
Production of construction-related materials	-3.4	-0.4	-3.6	-5.1	-5.2
Loans approved for construction	39.0	14.8	47.6	-14.5	-4.0
Imports of construction materials & mineral products	86.9	15.8	6.1	-5.7	-20.1*

* *July-August 2005*

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

Private sector continues to drive growth

Domestic demand strengthened in the third quarter, registering an annual growth of 9.4%. Private sector spending continued to support the growth momentum.

GDP by Expenditure Components (at Constant 1987 prices)

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.0	6.7	6.5	6.2	9.4
Consumption	8.7	8.6	8.4	5.9	9.3
Private sector	11.2	10.2	10.1	7.4	10.4
Public sector	1.1	4.2	1.5	0.9	5.9
Gross Fixed Capital Formation	3.2	2.2	2.0	6.7	9.6
Exports of Goods and Services	19.0	10.2	9.5	7.9	5.7
Imports of Goods and Services	24.3	12.9	7.6	6.9	7.4
GDP	**6.7**	**5.8**	**6.2**	**4.4**	**5.3**

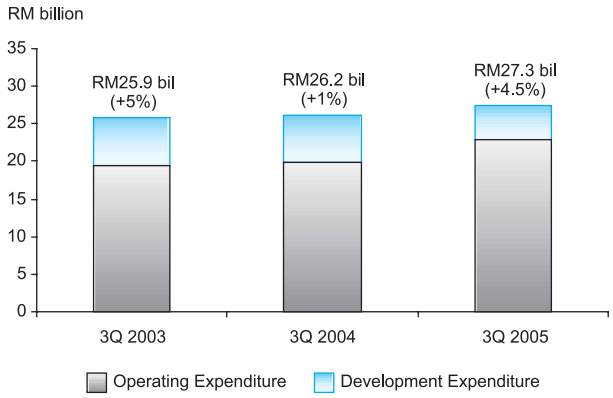
Source: Department of Statistics, Malaysia

Private consumption growth strengthened in the third quarter to 10.4% (2Q: 7.4%). The stable labour market conditions, competitive credit environment and

high commodity prices were factors supporting consumer spending. Major consumption indicators, particularly financial indicators such as credit card spending and consumption credit extended, pointed to sustained expenditure. The number of new passenger cars sold also remained high, partly the result of the aggressive marketing campaigns and the launch of new models.

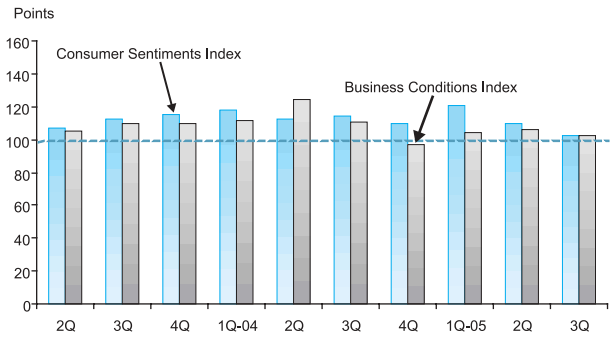
Meanwhile, **public consumption** registered higher growth due to higher expenditure on emoluments and supplies and services.

Moderate Levels of Federal Government Spending



Gross fixed capital formation strengthened to increase by 9.6% (2Q 2005: 6.7%). Private sector investments remained strong due to capacity expansion, upgrading, as well as new investments in downstream activities across most sectors of the economy. Major investment indicators pointed to sustained investment in the manufacturing and services sectors as well as oil and gas sub-sector. This was reflected in the growth of capital imports for use in these sectors. Other indicators, such as loans disbursed to businesses and sales of commercial vehicles, also pointed to sustained investment activities. While lower, Government development expenditure continued to focus on provision of essential services, such as transportation, agriculture and rural development, education, housing, healthcare and public utilities.

Consumer and business confidence remain optimistic



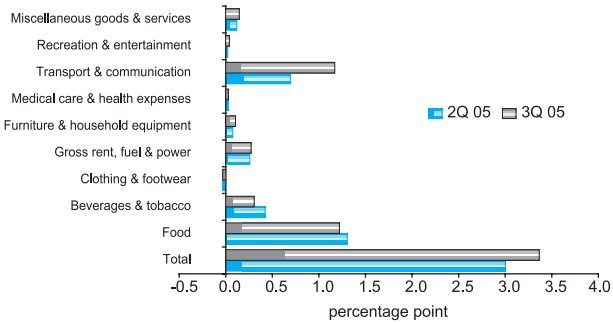
Inflation increased during the period

The annual rate of inflation, as measured by the **Consumer Price Index** (CPI), increased to 3.4% in the third quarter of 2005 (3% in 2Q 2005). The increase in third quarter inflation was caused mainly by the higher increase of prices in the transport and communication category, which was in turn affected by the upward revision of retail petrol, diesel and cooking gas prices that came into effect on 1 August 2005.

The **Producer Price Index** (PPI) increased at an annual growth of 9% (6.2% in 2Q 2005), driven by higher prices of crude oil

and rubber, which more than offset the decline in prices of crude palm oil. Excluding commodities, the PPI, however, increased by 2.4% (2.2% in 2Q 2005), due mainly to higher prices of food and live animals.

Contribution to Inflation



Higher job vacancies and a decline in registered jobseekers indicate healthy labour market conditions

Labour market conditions in the third quarter remained healthy as job vacancies continued to rise while the number of registered jobseekers declined.

A total of 77,578 vacancies were reported to authorities over the course of the quarter, significantly higher than the 28,715 positions reported in the second quarter as the manufacturing and services sectors continued to expand. Mirroring the growth in unfilled vacancies, the number of jobseekers registered with authorities declined in September. The number of registered jobseekers peaked at 104,714 persons at end-August 2005 before declining by 1.8% by end-September to 102,795 (end-June: 82,708).

However, retrenchments increased during the third quarter to 4,875 persons (2Q: 2,570 persons). Nevertheless, this level remains lower than the average of 4,989 retrenchments per quarter recorded over the course of 2004.

Labour productivity growth continued to remain positive and outpaced growth in wages. Real labour productivity during the quarter, as measured by real sales value per employee in the manufacturing sector, rose by 8.8% (2Q: 9.6%) while the real wage rate increased by 1.1% (2Q: -0.4%).

Labour Market Indicators



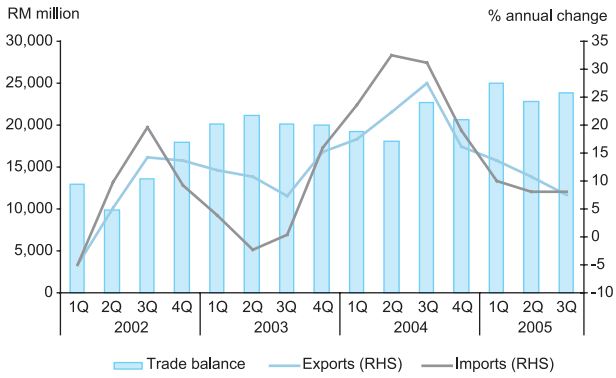
Continued growth in both exports and imports

Consistent with growth in manufactured and mineral exports, the trade account recorded a large **trade surplus** of RM23.9 billion (2Q 2005: RM22.9 billion) in the third quarter.

Gross Exports

Gross exports increased by 7.5% in the third quarter of 2005 (2Q 2005: 10.8%) led

Trade Balance



mainly by robust growth in mineral exports and continued expansion in manufactured exports. Meanwhile, agriculture exports declined marginally during the quarter.

Exports of **manufactured goods** increased by 6.3% (2Q 2005: 9.3%), supported by a continued expansion in the electrical and electronics products industry (6.8%, 2Q 2005: 8.7%). Of significance, growth in exports of electronic equipment and parts remained strong at 19.2% (2Q 2005: 21.6%), underpinned by higher shipment of computers and computer-related products to the US and the regional countries. Among the selected resource-based products, exports of rubber products increased further by 10% (2Q 2005: 8.5%) due to importers stocking up rubber gloves in anticipation of higher latex prices in the near term. Exports of petroleum products also expanded strongly by 19.4%, buoyed by both the high prices and robust demand from the regional countries. During the quarter, export volume of manufactured goods increased by 7.7% while export unit value fell by 1.3%.

Mineral exports continued to grow at a robust pace of 25.8%, mainly benefiting from higher prices. International crude oil prices continued on its upward trend to reach new highs, exceeding the USD60 per barrel level on average during the quarter. The tight global supply situation was further aggravated by the prolonged shutdown of several oilrigs and refineries in the US following the damage caused by the two major hurricanes in the country. Consequently, Malaysian export prices of crude oil increased markedly by 42.5% to average USD61.26 per barrel. The Malaysian Tapis Blend, the benchmark premium grade crude reached a record high of USD70.30 per barrel on 30 August and remained range bound at a high level of between USD65 - 69 per barrel until the end of September. Exports of liquefied natural gas (LNG) rose by 23.4% due to both increases in prices (16.8%) and volume (5.7%). In line with strong demand in the major energy markets, LNG prices hit a new monthly high of RM1,007 per tonne in September 2005.

Agriculture exports declined, albeit marginally, by 0.1% (2Q 2005: 4.9%), due mainly to lower palm oil exports. This was partially mitigated by increased export receipts from other commodities, such as rubber, saw logs and sawn timber. Proceeds from palm oil, the largest agriculture export product, declined by 10% during the quarter due entirely to lower prices (-13.5%) which averaged RM1,435 per tonne, compared to the high level seen during the corresponding period of 2004 (3Q 2004: RM1,660 per tonne). Nevertheless, export volume remained strong, rising by 4% due to higher

demand from PR China and the United States. Rubber exports rose by 18%, supported by higher prices (13%), as well as increased demand for natural rubber from major industries, particularly the automotive industry as prices of the competing synthetic rubber became expensive due to higher crude oil prices.

Malaysia's trade with major trading partners continued to grow. Exports to the United States (US) grew by 15.8% to account for a higher export share of 21%. Exports to the US were underpinned by the replacement cycle to wireless computers and laptops. Consequently, the trade surplus with the US increased to RM14.5 billion (2Q 2005: RM12.5 billion).

Exports to regional countries recorded a growth of 6.2%, supported by export growth to Singapore, Thailand, Indonesia and Hong Kong China. Exports to Thailand were supported by strong demand for office machine parts, computers and components, iron and steel and optical and scientific equipment, while Singapore continued to source machinery, appliances and parts and rubber products from Malaysia. Exports to Hong Kong China were attributable to higher demand for integrated circuits, chemical products and plastics. During the quarter, Malaysia has also recorded stronger export growth to India and Australia, supported mainly by mineral exports.

Trade Account

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Gross Exports	**27.5**	**16.1**	**13.7**	**10.8**	**7.5**
Manufacturing	*27.3*	*13.5*	*12.0*	*9.3*	*6.3*
Agriculture	*4.2*	*1.2*	*6.2*	*4.9*	*-0.1*
Minerals	*50.1*	*44.7*	*34.8*	*30.1*	*25.8*
Gross Imports	**31.1**	**19.1**	**10.1**	**8.0**	**8.1**
Capital goods	*38.4*	*37.2*	*0.7*	*16.3*	*17.6*
Intermediate goods	*25.5*	*13.5*	*10.6*	*5.9*	*6.2*
Consumption goods	*38.8*	*16.4*	*10.7*	*4.3*	*5.3*
Trade balance (RM bil)	**22.7**	**20.6**	**25.0**	**22.9**	**23.9**

Source: Department of Statistics, Malaysia

Malaysia: Direction of Exports

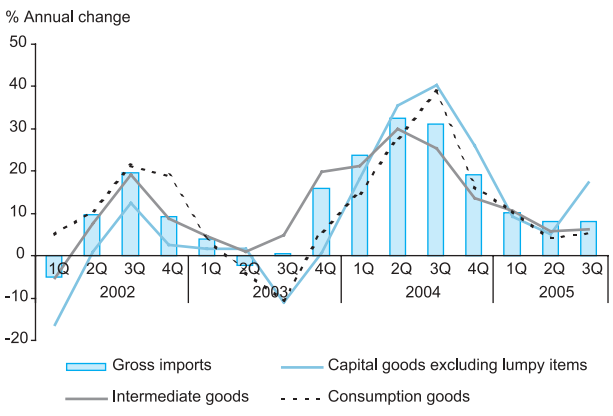
	2004		2005			2004		2005			2004		2005		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**25.0**	**23.2**	**21.6**	**27.0**	**28.9**	**19.5**	**18.3**	**17.6**	**20.6**	**21.0**	**25.7**	**9.8**	**12.2**	**18.4**	**15.8**
European Union (EU)	**16.1**	**15.7**	**14.6**	**15.0**	**15.5**	**12.6**	**12.4**	**11.9**	**11.5**	**11.2**	**28.9**	**18.4**	**5.3**	**2.6**	**-4.0**
Selected ASEAN countries[1]	**31.9**	**32.0**	**32.6**	**33.8**	**34.8**	**24.8**	**25.3**	**26.6**	**25.8**	**25.3**	**32.2**	**18.2**	**20.9**	**16.9**	**9.3**
North East Asia	**24.1**	**24.3**	**23.5**	**24.1**	**24.6**	**18.8**	**19.2**	**19.2**	**18.4**	**17.8**	**22.8**	**11.5**	**7.3**	**4.2**	**2.2**
People's Republic of China	*8.6*	*8.3*	*8.0*	*8.3*	*8.5*	*6.7*	*6.6*	*6.5*	*6.3*	*6.2*	*28.3*	*8.9*	*10.8*	*2.4*	*-0.8*
Hong Kong China	*7.4*	*7.3*	*7.1*	*7.9*	*8.4*	*5.8*	*5.8*	*5.8*	*6.1*	*6.1*	*7.1*	*6.4*	*9.7*	*5.2*	*13.8*
Chinese Taipei	*4.2*	*4.1*	*3.1*	*3.8*	*3.9*	*3.3*	*3.2*	*2.5*	*2.9*	*2.9*	*14.9*	*7.4*	*-14.4*	*-1.4*	*-6.7*
Korea	*3.9*	*4.6*	*5.4*	*4.1*	*3.7*	*3.0*	*3.6*	*4.4*	*3.2*	*2.7*	*66.0*	*32.0*	*14.9*	*11.8*	*-3.7*
India	**2.8**	**3.2**	**3.7**	**3.3**	**3.9**	**2.2**	**2.5**	**3.0**	**2.5**	**2.8**	**24.3**	**17.4**	**37.0**	**19.0**	**36.4**
Total exports	**128.2**	**126.7**	**122.6**	**130.7**	**137.9**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**27.5**	**16.1**	**13.7**	**10.8**	**7.5**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
Source: Department of Statistics, Malaysia

On the imports side, Malaysia continued to source imports from Japan, PR China, Singapore and the US. PR China has increasingly become a major source of intermediate imports for Malaysia, mainly automatic data processing machines, computers and parts, integrated circuits and optical equipment. With a higher growth of 30.9%, imports from PR China accounted for a larger share of 12.5% of Malaysia's total imports (2Q 2005: 10.9%).

The growth in **gross imports** of 8.1% was due mainly to import of inputs for manufactured exports as well as stronger consumer and investment spending. Imports of **intermediate goods**, which were used as raw materials for manufactured goods, expanded at a stronger rate of 6.2% (2Q 2005: 5.9%) in line with expansion in E&E exports and resource-based products such as chemicals. Growth in the motor assembly industry led to higher imports of parts and accessories of transport equipment. Strong growth of imports of fuel and lubricants reflected high oil prices.

Import Growth



Imports of **capital goods** picked up to expand by 17.6%, rising after a second quarter growth of 16.3%. Imports of capital goods excluding lumpy items increased significantly by 17.4%. The bulk of capital imports were channelled into manufacturing, services and oil and gas sectors for capacity expansion and upgrading. In the manufacturing sector, imports of machinery for the electrical and electronics and iron and steel industries increased during the quarter. Higher capital imports by the airline, shipping industries, the marine, power generation and oil and gas sectors reflected the capacity expansion undertaken in these sectors. Imports of office equipment also increased. The extension of network infrastructure and new technologies by telecommunication companies led to growth in imports of telecommunication

Malaysia: Imports by End Use And Broad Economic Categories (BEC) Classification

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
CAPITAL GOODS	**38.4**	**37.2**	**0.7**	**16.3**	**17.6**
Capital goods (except transport equipment)	27.6	30.4	7.3	8.8	19.4
Transport equipment	292.6	90.8	-43.0	147.1	3.7
INTERMEDIATE GOODS	**25.5**	**13.5**	**10.6**	**5.9**	**6.2**
Food and beverages, mainly for industry	58.7	25.1	-7.9	-12.6	-6.7
Industrial supplies, n.e.s.	53.6	29.2	16.0	7.5	1.9
Fuel and lubricants	76.4	68.4	95.7	41.6	24.5
Parts and accessories of capital goods (except transport equipment)	8.3	-0.3	0.1	-0.5	5.0
Parts and accessories of transport equipment	36.0	38.9	40.9	56.3	39.5
CONSUMPTION GOODS	**38.8**	**16.4**	**10.7**	**4.3**	**5.3**
Food and beverages, mainly for household consumption	55.2	18.9	9.5	2.7	5.9
Transport equipment, non-industrial	50.6	-34.4	-16.2	-20.4	2.0
Consumer goods, n.e.s.	29.9	16.7	12.2	5.9	5.1
Durables	*35.9*	*18.5*	*11.3*	*19.9*	*6.2*
Semi-durables	*23.7*	*8.2*	*3.4*	*-3.2*	*-2.8*
Non-durables	*32.4*	*22.4*	*19.2*	*6.0*	*10.8*
DUAL USE GOODS	**54.3**	**43.5**	**17.0**	**38.3**	**18.9**
OTHERS	**26.1**	**4.7**	**-6.0**	**1.5**	**2.5**
RETAINED IMPORTS	**28.5**	**17.3**	**9.0**	**7.9**	**7.9**
RE-EXPORTS	**134.5**	**77.6**	**35.3**	**9.3**	**10.3**
GROSS IMPORTS	**31.1**	**19.1**	**10.1**	**8.0**	**8.1**

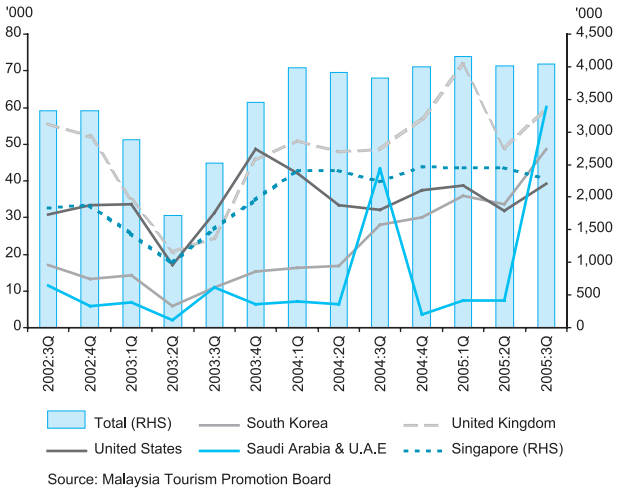
Source: Department of Statistics, Malaysia

equipment. Consonant with sustained private consumer spending, imports of **consumption goods** strengthened further to 5.3%. Consumption imports were supported mainly by higher imports of food and beverages and non-durable consumer goods, namely, medicine, soap and cosmetics.

Tourist arrivals remained high

Tourist arrivals increased at an annual rate of 5.9% to 4 million in the third quarter of 2005. While a significant share of tourist arrivals (74.3%) was attributed to visitors from Singapore, Thailand and Indonesia, aggressive marketing campaigns targeted at summer vacation travel led to a 24.3% increase in tourist arrivals from West Asia. Tourist arrivals from South Asia as well as long-haul tourists from the United States and the United Kingdom were also higher, supported by attractive promotional campaigns and increased connectivity.

Quarterly Tourist Arrivals



Source: Malaysia Tourism Promotion Board

Net inflow of FDI

On a cash basis, both gross inflows and outflows of **foreign direct investment (FDI)** increased to RM20.9 billion and RM20 billion respectively (2Q 2005: RM8.8 billion and RM6.3 billion respectively), reflecting mainly larger short-term inter-company loan transactions, particularly by non-resident controlled oil and gas companies arising from their centralised treasury operations in Malaysia. After adjustments for outflows due mainly to these short-term transactions, FDI recorded a net inflow of RM0.9 billion (2Q 2005: RM2.4 billion). The FDI on cash basis does not include retained earnings and investment in the form of imported machinery and equipment. Of significance, inflows of equity capital were also higher during the quarter. FDIs were channelled mainly into both the upstream and downstream activities of the oil and gas sector, as well as the services and manufacturing sectors. Inflows of FDIs into the services sector were broad-based, channelled particularly into the financing, insurance and business services, as well as restaurants, hotels, wholesale and retail trade sub-sectors.

Overseas investment recorded a significantly lower gross outflow of RM5.4 billion (2Q 2005: -RM21.4 billion) due to a large decline in the short-term loan extensions by non-resident controlled companies arising from the treasury-related operations. Overseas investments during the quarter were led by companies in the manufacturing, services, and agriculture sectors. After adjusting for inflows due to repayment of short-term inter-company loans from abroad, overseas investment recorded a

lower net outflow of RM1.3 billion (2Q 2005: -RM3.1 billion).

During the quarter, **portfolio investment** recorded a net outflow of RM0.2 billion (2Q 2005: +RM3.8 billion). The larger net inflow of portfolio funds in July was attributed partly to the increase in gross inflows arising from the initial reaction of investors towards the Bank's announcement on the adoption of a managed float for the ringgit exchange rate on 21 July 2005. The flows of portfolio funds normalised subsequently amidst an orderly price discovery process.

External debt increased marginally

Malaysia's total external debt increased marginally to RM200.5 billion or USD52.7 billion as at end-September 2005 (2Q 2005: RM197.5 billion or USD52 billion), equivalent to 43.3% of GNP. The **medium and long-term external debt** was lower at RM151.4 billion (2Q 2005: RM154.3 billion), attributed mainly to the net repayment of external debt by the NFPEs. The significantly higher repayment of external debt by the NFPEs was due mainly to the maturity of a US dollar-denominated bond as well as large prepayment of loans. The bulk of the repayments were by companies in the oil and gas, agriculture and telecommunication sectors. The Federal Government registered a small net repayment of RM0.3 billion. Meanwhile, the private sector recorded a net drawdown of external loans of RM1.8 billion (2Q 2005:-RM2.8 billion), reflecting a marginally larger loan drawdown (RM3.2 billion; 2Q 2005: RM2.7 billion) while repayment declined significantly (RM1.4 billion; 2Q 2005: RM5.5 billion).

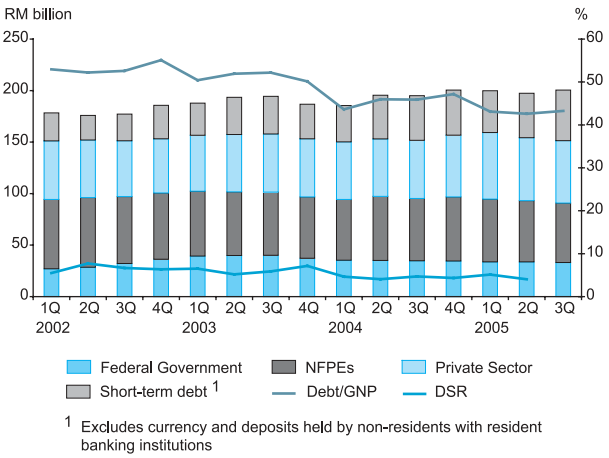
The total **short-term external debt** increased to RM49.1 billion or USD12.9 billion (2Q 2005: RM43.1 billion), due mainly to the increase in short-term debt of the banking sector arising from the hedging activities of banks in relation to trade-related transactions. As at end-September, the short term debt accounted for 24.5% of total external debt and is 16.2% of the net international reserves.

External Debt Outstanding

	2004		2005		
	3Q	4Q	1Q	2Q	3Q[p]
	RM billion				
Medium- & Long-term debt	151.8	156.7	159.3	154.3	151.4
Public sector	95.3	96.7	94.6	93.1	90.8
Private sector	56.5	59.9	64.7	61.2	60.6
Short-term debt [1]	43.3	43.8	40.5	43.1	49.1
Total external debt	195.0	200.5	199.8	197.5	200.5
- USD billion equivalent	51.3	52.8	52.6	52.0	52.7

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[p] Preliminary
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding

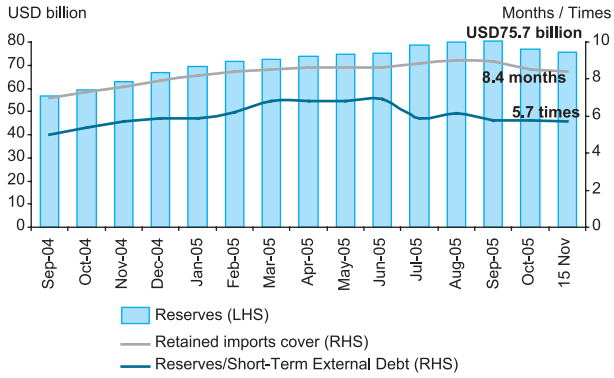


[1] Excludes currency and deposits held by non-residents with resident banking institutions

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM302.7 billion or equivalent to USD80.3 billion as at 30 September 2005. The reserves level has taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of ringgit against the major currencies. The reserves amounted to RM285.2 billion or equivalent to USD75.7 billion as at 15 November 2005. The reserves position is sufficient to finance 8.4 months of retained imports and is 5.7 times the short-term external debt.

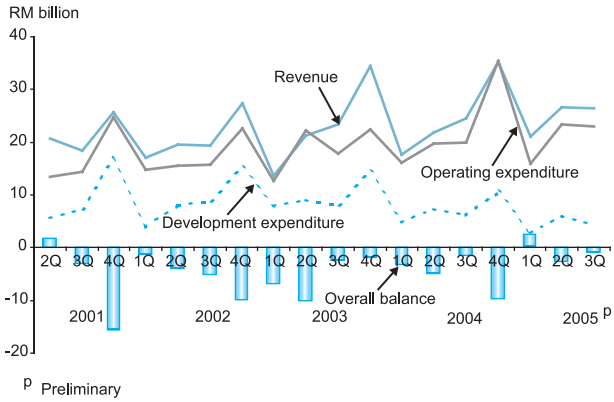
Net International Reserves (as at end-period)



Improved fiscal position - lower fiscal deficit

During the quarter under review, income tax collection was more than sufficient to offset the higher expenditure in petroleum subsidies. As such, the Federal Government recorded a low fiscal deficit of RM805 million or 0.6% of GDP. Revenue performance remained strong in the third quarter of 2005, especially from non-oil sources. Total expenditure rose at an annual rate of 4.5% due to higher operating expenditure as oil subsidy payment continued to rise with higher

Federal Government Finance



p Preliminary

Federal Government Finance p

	2004		2005		
	3Q	Jan-Sept	2Q	3Q	Jan-Sept
	RM billion				
Revenue	24.6	64.1	26.6	26.4	74.1
% growth	*5.5*	*10.2*	*21.9*	*7.3*	*15.6*
Operating expenditure	19.9	55.8	23.4	23.0	62.3
% growth	*11.9*	*5.7*	*18.7*	*15.3*	*11.7*
Current account	**4.6**	**8.3**	**3.2**	**3.4**	**11.8**
% of GDP	***4.0***	***2.5***	***2.7***	***2.6***	***3.2***
Gross development expenditure	6.2	18.4	5.9	4.4	13.1
% growth	*-23.0*	*-26.6*	*-18.3*	*-30.2*	*-28.8*
Loan recoveries	0.1	0.4	0.1	0.2	0.4
Overall balance	**-1.5**	**-9.7**	**-2.7**	**-0.8**	**-0.9**
% of GDP	***-1.3***	***-2.9***	***-2.3***	***-0.6***	***-0.2***
Memo item:					
Total gross expenditure	**26.2**	**74.2**	**29.3**	**27.3**	**75.4**
% growth	*1.0*	*-4.7*	*8.7*	*4.5*	*1.6*
Total Federal Government debt (as at end-period)	204.4	204.4	222.6	227.6	227.6
% of GDP	*45.5*	*45.5*	*45.7*	*46.7*	*46.7*
Domestic debt	169.5	169.5	188.9	194.5	194.5
% of GDP	*37.7*	*37.7*	*38.8*	*39.9*	*39.9*
External debt	34.9	34.9	33.7	33.2	33.2
% of GDP	*7.8*	*7.8*	*6.9*	*6.8*	*6.8*

p Preliminary

international oil prices. In view of the escalating oil prices, the Government raised the prices of retail petroleum products for the third time in the year on 31 July.

In terms of financing requirements, the ample liquidity in the domestic market allowed funds to be raised entirely from domestic sources. As at end of the third quarter of 2005, the total outstanding debt of the Federal Government amounted to RM227.6 billion or 46.7% of GDP. The external debt of the Federal Government remained low at 6.8% of GDP and accounted for 14.6% of total debt.