DEVELOPMENTS IN THE FOURTH QUARTER OF 2005

International Economic Environment

Growth in industrial economies was mixed in the fourth quarter but the regional economies showed stronger performance

Global economic growth was mixed in the fourth quarter. US growth moderated due to special factors while the recovery in Japan and the euro area was sustained. In the Asian region, growth remained strong in the People's Republic of China (P.R. China) and strengthened in several other regional economies.

Fourth quarter growth in the **US** slowed to 1.1% (3Q 2005: 4.1%). Purchases of motor vehicles slowed sharply due to the end of the special discounts offered during the third quarter. Business investments were also affected by the disruption to aircraft deliveries following a strike. In addition, a decline in national defence spending led to negative growth in government expenditure. Net exports were a larger drag on growth, recording a new record level deficit, due mainly to high oil imports following the impact of Hurricane Katrina. In **Japan**, growth was much stronger, rising by 5.5% (3Q 2005: 1.4%) which was the fastest growth rate in 5 years. Growth was supported by higher domestic demand as both private consumption and investments picked up on the back of rising income and corporate profit levels. Higher exports also contributed to the stronger growth. Meanwhile, the core consumer price index (excluding fresh food) rose successively in November and December while industrial production continued to expand. In the **euro area**, fourth quarter growth was just slightly stronger at 1.7% (3Q 2005: 1.6%). Growth continued to be supported by external demand as consumer spending remained weak. In the **UK**, initial estimates revealed that the growth performance in the fourth quarter was at 1.7% (3Q 2005: 1.7%).

Global **monetary policy** remained biased towards tightening. The US **Federal Reserve Board (Fed)** continued to raise the interest rate by 25 basis points at each of its November, December and January meetings, bringing the Fed funds rate to 4.50%. In its December monetary policy statement, the Fed dropped the often-repeated 'accommodative'

Industrial Countries: Real GDP growth

	2004		2005			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year[e]	
	Annual change (%)					
US [1]	3.3	4.2	4.1	1.1[a]	3.5	Slowdown in growth due to special factors affecting consumer spending, business investment as well as goverment spending.
UK	2.7	3.2	1.7	1.7	1.8	Accelerated growth in the services sector.
Euro area	1.6	2.1	1.6	1.7	1.3	Growth continued to be supported by external demand as consumer spending remained weak.
Japan [1]	-1.3	2.3	1.4	5.5	2.8	Strong broad based expansion supported by domestic demand and exports.

[1] annualised basis

[a] advanced estimate

[e] estimate

Source: National authorities

term, thus signaling that rates have risen closer to neutral levels from the low of 1% in mid-2004. Meanwhile the **European Central Bank** raised its key refinancing rate by 25 basis points to 2.25% on 1 December, marking its first increase in five years.

Global **crude oil prices** eased from the peak recorded in end-August, hovering around USD60 per barrel in the fourth quarter. Mild weather in the Northern Hemisphere, recovering US oil production in the Gulf Coast and sufficient US oil inventories had eased fears of a shortage in supply. Nevertheless, oil prices remained supported by fundamental factors such as strong demand especially from US and China, tight supply, lack of refining capacity, risk of adverse weather conditions and geopolitical risks in selected oil-producing countries.

In the **Asian region**, economic growth strengthened, supported by stronger expansion in China and improved performance in other regional countries. Growth was stronger in Singapore, Philippines and Korea compared with the performance recorded in the third quarter. Exports continued to strengthen, based on continued recovery in demand for electrical and electronics goods. In terms of sectoral origin, services and manufacturing sectors remained the growth drivers.

Meanwhile, **inflation** in most regional countries has edged upwards compared with the third quarter due to higher oil prices and the pass-through effects from the complete/partial removal of fuel subsidies. To contain inflationary expectations and limit second-round effects, Indonesia, Korea, Thailand and India have raised interest rates.

In the **foreign exchange market**, the dollar strengthened against major currencies, namely, the euro, sterling and yen, supported by widening interest rate differentials in favour of the dollar. Meanwhile, most of regional currencies appreciated following the monetary policy tightening as well as inflows into the equity markets. The Philippine peso recorded the strongest appreciation, supported by a record estimated USD10bn remittances from overseas Filipino workers and improved investor sentiment following the improvement in the fiscal position. After the initial 2.1% appreciation in July since the change in the exchange rate regime, the yuan gained a further 0.5%. Speculation remained that the yuan would appreciate further during the course of the year.

Regional Countries: Real GDP growth

	2004		2005			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year[e]	
	Annual change (%)					
PR China	9.5	10.1	9.8	9.9	9.9	Supported by strong exports and investment.
Singapore	6.9	8.7	7.6	8.7	6.4	Buoyed by strong expansion in biomedical, transport engineering and electronics clusters.
Hong Kong	7.1	8.6	8.3	7.6	7.3	Driven by exports and fixed investment.
C Taipei	3.3	6.0	4.4	6.4	4.1	Buoyed by strong exports.
Philippines	5.3	5.7	4.5	6.1	5.1	Driven mainly by the services and manufacturing sectors.
Korea	3.3	4.6	4.5	5.2[a]	4.0	Supported by capital investment and manufacturing.
Indonesia	6.7	5.1	5.6	4.9	5.6	Supported by the services and agriculture sectors.
Thailand	5.3	6.1	5.3	n.a.	n.a.	

[e] estimate
[a] advance estimates
Source: National authorities

Developments in the Malaysia Economy

Growth driven by manufacturing and services sectors…

In the fourth quarter of 2005, the Malaysian economy expanded by 5.2% (3Q 2005: 5.3%), supported mainly by the manufacturing and services sectors. The manufacturing sector, after experiencing a slowdown in the first half-year led by the global semiconductor down-cycle, showed visible signs of improvement in the fourth quarter of 2005. Value added growth in the manufacturing sector picked up strongly to expand by 7.3% (3Q 2005: 3.5%), contributing to 2.3 percentage points to overall GDP growth. The strong performance was led by the significant pick-up in the electronics and electrical products industry, and further reinforced by stronger expansion in the chemical products, textiles and wearing apparel, transport equipment and petroleum products industries. At the same time, the services sector expanded further by 6%, underpinned by continued consumption activity, as well as favourable performance in trade and business activities, including finance. Meanwhile, the agriculture and mining sectors were weaker during the quarter due to lower production of key commodities.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Agriculture	7.3	5.0	0.9	-1.1	2.1
Mining	4.4	3.9	3.4	-2.0	0.8
Manufacturing	5.5	9.8	3.5	7.3	4.9
Construction	-2.6	-1.5	-1.4	-0.6	-1.6
Services	6.5	6.8	7.3	6.0	6.5
Real GDP (Ann. Chg.)	**5.8**	**7.1**	**5.3**	**5.2**	**5.3**
Real GDP (Preceding Chg.)	**1.9**	**7.1**	**3.5**	**1.8**	**5.3**

Source: Department of Statistics, Malaysia

Stronger growth in the manufacturing sector …

Value-added growth in the **manufacturing sector** strengthened to 7.3% (3Q 2005: 3.5%) in the fourth quarter of 2005 reflecting improvements in output of both export-oriented (8.7%, 3Q 2005: 4.6%) and domestic-oriented industries (-1.0%, 3Q 2005: -1.9%).

Performance in the Manufacturing Sector

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (Constant Price)	**5.5**	**9.8**	**3.5**	**7.3**	**4.9**
Overall Production	**7.5**	**12.7**	**3.1**	**6.6**	**4.5**
Export-oriented industries	**7.8**	**14.2**	**4.6**	**8.7**	**5.7**
Of which:					
Electronics and electrical	5.1	17.7	4.0	10.4	3.6
Electronics	9.6	25.0	6.6	13.8	5.9
Electrical	-13.8	-9.4	-9.2	-7.5	-8.3
Chemicals and chemical products	13.3	14.1	8.6	11.6	11.7
Wood and wood products[1]	5.1	12.7	-5.2	0.8	-3.7
Textiles & wearing apparel	-14.5	-11.7	6.4	8.6	1.3
Off-estate processing	17.9	4.0	7.3	-2.9	10.8
Rubber products	9.1	14.8	-3.7	0.3	1.7
Domestic-oriented industries	**6.3**	**7.1**	**-1.9**	**-1.0**	**0.4**
Of which:					
Non-metallic mineral products	-4.8	-4.9	-1.5	0.4	-2.2
Fabricated metal products	21.4	29.2	-15.1	-15.8	-7.5
Iron & steel and non-ferrous metal	4.7	4.4	-10.1	-13.4	-8.3
Food	-0.5	3.0	9.2	8.6	6.5
Transport equipment	17.8	8.6	12.7	15.4	12.9
Petroleum products	5.4	1.3	5.2	13.5	8.7
Total Manufactured Exports	**13.5**	**19.7**	**6.3**	**13.1**	**10.1**
Of which:					
Electronics and electrical products	7.5	15.3	6.8	14.7	10.0
Chemical and chemical products	26.9	31.0	1.3	4.7	7.1
Petroleum products	57.1	42.2	19.4	20.1	24.5
Optical & scientific equipment	19.6	26.3	-0.7	12.4	6.5
Wood and wood products	12.4	29.5	-14.9	6.7	2.1
Furniture & parts	16.2	17.8	3.0	0.8	6.0
Rubber products	14.5	19.3	10.0	19.4	12.4

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

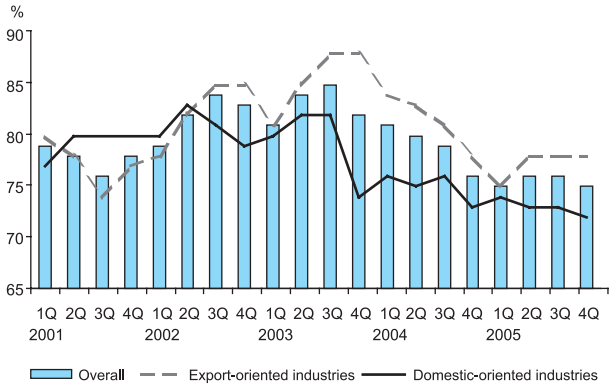
The stronger expansion in the **export-oriented industries** was driven mainly by the

pick-up in the electronics and electrical products (E&E) industry (10.4%, 3Q 2005: 4%), in tandem with the recovery in the global semiconductor sales. The domestic E&E industry benefited from the sustained strong demand for laptops due to the increasing popularity of wireless systems, as well as the improved worldwide demand for chips for various applications, including the automotive and communication segments. Output of the chemical products industry remained strong, expanding by 11.6% (3Q 2005: 8.6%), driven mainly by the favourable external demand for plastic products produced in Malaysia. Meanwhile, the textiles and wearing apparel industry expanded further in the final quarter of 2005 (8.6%, 3Q 2005: 6.4%), partly benefiting from the increase in demand from the US as the quota on China's exports of textile products imposed by the US authorities has been filled since July 2005.

The improvement in the production of **domestic-oriented industries** was due mainly to the strong performance in the transport equipment (15.4%, 3Q 2005: 12.7%) and petroleum products (13.5%, 3Q 2005: 5.2%) industries. The higher output growth in the transport equipment industry reflected the stronger car sales during the quarter, supported by continued income growth, attractive financing packages and launch of new variants of existing models. The higher output of petroleum products was due mainly to the intensified crude oil refining activities and production of lubricant oil. Meanwhile, the construction-related industries continued to remain subdued in line with the weak performance of the construction sector.

The overall **capacity utilisation** of the manufacturing sector during the quarter was sustained at 75% (3Q 2005: 76%), with the export-oriented and domestic-oriented industries operating at 78% and 72% respectively (3Q 2005: 78% and 73% respectively).

Capacity Utilisation in the Manufacturing Sector



Value added in the **services sector** grew further by 6% during the quarter (3Q 2005: 7.3%), reflecting expansion in all sub-sectors. The wholesale and retail trade, hotels and restaurants sub-sector grew by 7.1% (3Q 2005: 10%) as bonus payments and Year-end Sales (1 December 2005 to 31 January 2006), a new programme launched by the Ministry of Tourism, supported continued shopping and spending by consumers and tourists. In particular, the motor vehicle segment in the distributive trade industry was strong supported by double-digit growth in sales during the quarter (14.1%; 3Q 2005: 9.7%). The finance, insurance, real estate and business services sub-sector also continued to expand (5.5%; 3Q 2005: 6.5%) supported by increased bank lending activities

as well as higher growth in fee-based income. In addition, there was expansion in Islamic banking activities with three new Islamic banking subsidiaries and one foreign Islamic bank coming into operation during the year.

Performance in the Services Sector (Value Added)

	Share 2004	2004		2005		
		4Q	Year	3Q	4Q	Year
	%	Annual change (%)				
Intermediate Services	**41.5**	**6.9**	**7.1**	**5.7**	**5.5**	**5.7**
Transport, storage & communication	15.3	9.3	8.5	4.2	5.5	6.3
Finance, insurance, real estate & business services	26.3	5.6	6.3	6.5	5.5	5.4
Final Services	**58.5**	**6.3**	**6.6**	**8.5**	**6.4**	**7.1**
Electricity, gas & water	7.2	7.3	8.2	6.4	3.7	5.5
Wholesale & retail trade, hotels & restaurants	24.9	6.9	7.1	10.0	7.1	8.0
Government services	12.8	7.2	6.5	10.2	8.4	8.8
Other services	13.6	3.7	4.9	5.4	4.6	4.9
Total Services	**100**	**6.5**	**6.8**	**7.3**	**6.0**	**6.5**

Source: Department of Statistics, Malaysia

The transport, storage and communication sub-sector grew by 5.5% mainly supported by strong growth in the telecommunication industry and higher transport activities. The strong performance in the telecommunications industry was underpinned by the increase in subscriber base and higher usage of voice and data services in the cellular segment. The cellular penetration rate rose to 74.1% by end-year from 66.8% as at end-September 2005, while the short-messaging service (SMS) traffic grew by 157.9% during the quarter. Meanwhile, the higher growth in the transport segment was due to increased cargo following the pick-up in trade activities (10.3%; 3Q 2005: 8%). The Government services and utilities sub-sectors were supported by higher emoluments and sustained usage of electricity during the quarter.

Selected Quarterly Indicators in the Services Sector

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Total passenger traffic at all airports	11.2	18.9	5.6	1.9	4.8
Total consumption credit outstanding	16.4	16.4	18.6	18.7	18.7
Loan outstanding to the wholesale & retail trade, restaurants & hotels	11.0	11.0	12.6	8.3	8.3
Imports of consumption goods	16.4	24.1	5.2	4.4	6.0
Total sales of passenger cars	27.3	17.0	-2.7	11.6	4.8
Total sales of commercial vehicles	39.3	35.1	65.6	23.1	46.8
Cellular phone penetration rate (%)	56.5	56.5	66.8	74.1	74.1
SMS traffic	77.8	54.7	142.1	157.9	120.8
Cargo handled (all airports)	10.2	10.5	0.6	6.2	4.3
Container cargo handled (Port Klang and PTP)	3.6	11.2	5.2	7.8	4.9

Source: Various sources

Weaker performance in the commodity sector due to adverse weather conditions

The primary commodity sector recorded a weaker performance in the fourth quarter of 2005, partly due to the high base in the corresponding period of 2004 and partly due to weather-related factors. Both the agriculture and mining sectors were affected by lower production of major commodities including palm oil, rubber, crude oil and natural gas and other activities such as paddy planting, fishing and cultivation of cocoa.

In the **agriculture sector**, production of crude palm oil declined by 6% to 3.7 million tonnes (3Q 2005: +0.2%). The contraction was due entirely to lower yields of fresh fruit bunches (FFB) compared with the

Performance of the Agriculture Sector

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Value Added (at 1987 prices)	**7.3**	**5.0**	**0.9**	**-1.1**	**2.1**
Production[1]					
Of which:					
Crude palm oil	16.5	4.7	0.2	-6.0	7.0
Crude palm kernel oil	11.8	-0.1	7.8	-5.4	12.1
Rubber	7.2	18.6	3.7	-4.5	-3.8
Saw logs	2.7	-0.1	-1.8	2.3	-0.8
Cocoa	17.9	-7.8	-19.0	-7.8	-16.3
Exports (RM million)	**1.2**	**7.4**	**-0.1**	**2.9**	**3.4**
Of which:					
Palm oil					
('000 tonnes)	2.3	-5.6	4.0	-0.2	10.9
(RM/tonne)	-6.1	5.5	-13.5	-7.6	-14.5
(RM million)	-3.9	-0.4	-10.0	-7.8	-5.2
Palm kernel oil					
('000 tonnes)	-24.7	-8.3	-14.3	14.6	4.0
(RM/tonne)	38.9	46.9	-5.8	-5.9	-1.9
(RM million)	4.5	34.7	-19.2	7.9	2.0
Rubber					
('000 tonnes)	16.6	16.7	4.4	-0.2	2.1
(Sen/kilogramme)	2.6	24.3	13.0	28.7	9.0
(RM million)	19.6	45.1	18.0	28.4	11.3
Sawn timber					
('000 cu.metres)	16.3	13.5	9.1	-4.1	15.5
(RM/cu.metre)	-10.2	-10.4	5.7	20.0	7.4
(RM million)	4.4	1.7	15.3	15.1	24.1
Saw logs					
('000 cu.metres)	-17.9	-5.9	-4.4	1.5	10.6
(RM/cu.metre)	6.2	8.9	14.7	17.0	7.6
(RM million)	-12.8	2.5	9.7	18.8	19.1
Cocoa beans					
('000 tonnes)	-15.6	-27.7	-77.6	-5.6	-2.1
(RM/tonne)	-5.9	-12.6	18.6	3.5	-1.8
(RM million)	-20.6	-36.8	-73.4	-2.3	-3.9

[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

exceptionally high FFB yields recorded in the corresponding period of 2004. Fresh fruit bunches yields declined by 8.3% to 4.76 tonnes per hectare (4Q 2004: 5.19 tonnes per hectare). In addition, adverse weather conditions also affected harvesting activities in the latter part of the quarter. Similarly, rubber production declined by 4.5%, as the rainy weather conditions had hindered tapping activities by smallholders, who account for 95% of total rubber output in Malaysia. Amidst the tight supply conditions in the major producing countries coupled with the rise in synthetic rubber prices following the upward trend in crude oil prices, Malaysian rubber prices strengthened significantly to average 605 sen per kilogram (3Q 2005: 552 sen per kilogram). Output of paddy was also lower during the quarter, as the adverse weather conditions had affected the crops. This was partially mitigated by a favourable performance in the livestock subsector, supported by strong domestic and external demand during the quarter.

The **mining sector** was affected by lower production of both crude oil and natural gas. Output of crude oil (including condensates) declined by 3% to 751,038 barrels per day during the quarter due partly to the high base in the fourth quarter of 2004 (4Q 2004: 774,191 barrels per day). Crude oil

Performance of the Mining Sector

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Value Added (at 1987 prices)	**4.4**	**3.9**	**3.4**	**-2.0**	**0.8**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	1.4	3.6	-2.4	-3.0	-4.9
Natural gas (net) (million standard cubic feet)	10.3	4.0	15.9	-0.5	11.3
Exports (RM million)	**44.7**	**38.2**	**25.8**	**22.7**	**27.8**
Of which:					
Crude oil and condensates					
('000 tonnes)	-11.0	1.0	-9.4	9.5	-1.8
(USD/barrel)	53.3	34.8	42.5	25.5	36.6
(RM million)	36.4	36.1	29.0	37.4	34.0
Liquefied natural gas					
('000 tonnes)	19.4	19.7	5.7	-1.8	5.9
(RM/tonne)	15.9	6.8	16.8	17.0	14.8
(RM million)	38.5	27.9	23.4	14.9	21.5

Source: PETRONAS
Department of Statistics, Malaysia

production was however higher compared to the level recorded in the preceding quarter of 745,178 barrels per day. In the case of natural gas, production declined marginally by 0.5% to 5,838 million standard cubic feet per day due to lower offtake by the major external buyers.

Smaller decline in construction activity…

Construction activity declined, albeit at a slower rate of 0.6% in the fourth quarter of 2005 (3Q 2005: -1.4%). While the civil engineering sub-sector remained subdued, the non-residential and residential sub-sectors continued to expand. The residential sub-sector was supported by sustained interest in new properties, especially in the prime locations. The non-residential sub-sector, particularly the office and retail segments were supported by strong business activities. The occupancy rates and rentals for both these segments remained favourable during the quarter.

Construction Indicators

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	-19.4	-5.9	45.4	11.4	15.9
Housing approvals	-34.9	-14.1	2.8	2.8	-2.7
Production of construction-related materials	-0.4	-0.6	-5.5	-6.3	-5.1
Loans approved for construction	-14.8	2.3	-4.0	3.4	3.3
Imports of construction materials and mineral products	15.8	42.1	-23.7	0.7[1]	-7.9[2]

[1] Oct.-Nov. [2] Jan.-Nov.
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Domestic demand underpinned by private sector activities

Domestic demand continued to increase in the fourth quarter of 2005, expanding by 7.3% (3Q 2005: 9.4%). The expansion of private sector activities continued to drive growth during the quarter despite generally higher price levels and an increase in interest rates.

GDP by Expenditure Components (at Constant 1987 prices)

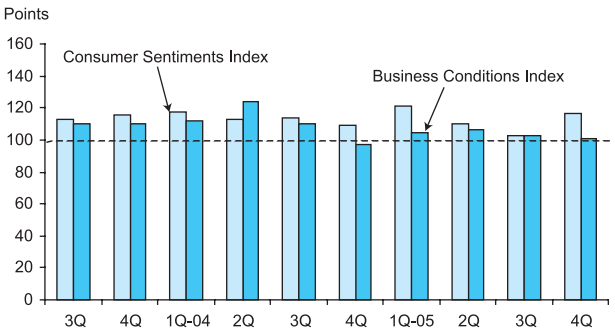
	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.7	7.5	9.4	7.3	7.3
Consumption	8.6	9.5	9.3	10.0	8.5
Private sector	10.2	10.5	10.4	9.0	9.2
Public sector	4.2	6.0	5.9	12.8	5.9
Gross Fixed Capital Formation	2.2	3.1	9.6	0.4	4.7
Exports of Goods and Services	10.2	16.3	5.8	10.4	8.4
Imports of Good and Services	12.9	20.7	7.8	8.0	7.6
GDP	**5.8**	**7.1**	**5.3**	**5.2**	**5.3**

Source: Department of Statistics, Malaysia

Private consumption remained robust, registering a growth of 9% in the fourth quarter (3Q 2005: 10.4%). Almost all major consumption indicators pointed to a continued expansion in private consumption, including disbursements of consumption credit loans and imports of consumption goods. The strong consumer spending was supported by factors that enhanced income prospects such as the improvement in the employment market, the payment of year-end bonuses, firm commodity prices and strong export earnings. These factors, together with promotions held in conjunction with the festive celebrations and school holidays, have spurred household spending during the quarter. The growth in private consumption was also in line with an improvement in consumer confidence. The Malaysian Institute

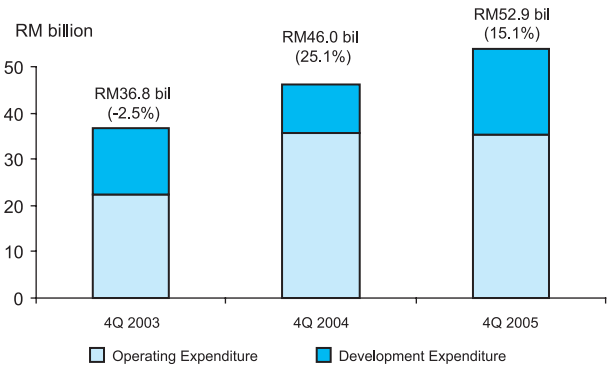
of Economic Research (MIER)'s Consumer Sentiments Index rose by 13.6 points to 116.1 points in the fourth quarter (3Q 2005: 102.5 points), signifying consumers' more optimistic view on the economic outlook, income level and job prospects. **Public consumption** was higher (12.8%, 3Q 2005: 5.9%) mainly due to increased expenditure on emoluments, supplies and services as well as defence.

Consumer confidence improved while business sentiment remained resilient



Gross fixed capital formation registered a growth of 0.4% (3Q 2005: 9.6%). Private sector capital spending remained strong, as indicated by the higher imports of machineries and equipment for use in the manufacturing and upstream oil and gas sectors. Domestic investment activity in both the manufacturing and oil and gas sectors was also supported by the continuous inflow of foreign direct investment during the fourth quarter. Other major investment indicators, namely loans extended to businesses and sales of commercial vehicles, also reflected sustained investment spending in the private sector. The MIER Business Conditions Index continued to hold above the 100-point benchmark since the first quarter of the year (100.5 points, 3Q 2005: 102.7 points), suggesting that business confidence remains resilient. Meanwhile, Federal Government's development expenditure increased further, with the bulk of the expenditure channelled towards the development of agriculture and rural areas, provision of education services as well as maintenance and construction of roads and bridges.

Higher Federal Government Spending



Inflation remained unchanged during the period

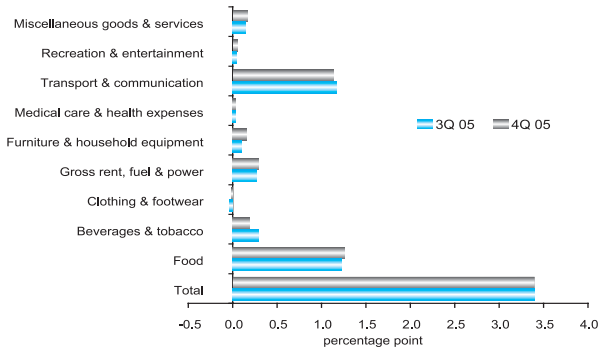
The annual rate of inflation, as measured by the **Consumer Price Index** (CPI), was unchanged at 3.4% in the fourth quarter of 2005[2] (3.4% in 3Q 2005). Almost all CPI categories registered increases, although there was a moderation in the price increases in the beverages and tobacco, and transport and communication categories, following the lapse of the effects of the 2004 price adjustments.

The annual growth of the **Producer Price Index** (PPI) moderated to 7.1% (9% in 3Q 2005) due to the slower increase in both

[2] This is based on the previous base reference for the CPI period (2000 = 100).

commodity- and non-commodity-related categories. The moderation in the PPI for commodity-related categories was mainly due to the slower growth in crude oil prices during the quarter. Excluding commodities, however, the PPI moderated even further to 1.7% (2.4% in Q3 2005) due mainly to the slower increase in the PPI for food and live animals, manufacturing- and chemical-related products.

Contribution to Consumer Price Inflation [1]



[1] This is based on the previous base reference for the CPI period (2000 = 100).

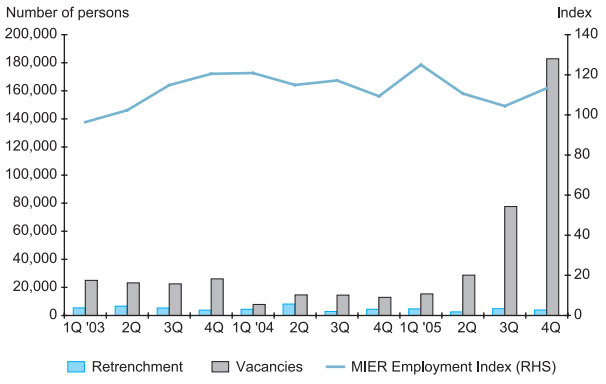
Labour market conditions improved further as vacancies rose and unplaced jobseekers and retrenchments declined

In the fourth quarter, the labour market conditions improved further with new job vacancies significantly outpacing both unplaced jobseekers and retrenchments.

Total quarterly vacancies reported to the authorities rose to a record high of 182,838 positions, significantly higher than the previous high reported in the third quarter (77,578 positions). More vacancies were recorded in all key economic sectors, in particular, the manufacturing sector. At the same time, there were fewer registered unplaced jobseekers as at end-December (72,573 persons) as the downward trend in unplaced jobseekers that began in September (102,795) continued into the fourth quarter. Similarly, total retrenchments also declined in the fourth quarter to 3,955 persons (3Q 2005: 4,875 persons). The overall positive job market climate was also reflected in the MIER Employment Index, which climbed 8.9 points from the previous quarter to 113.3 points in the fourth quarter.

Labour productivity developments were also positive. Labour productivity, as measured by real sales value of products per employee in the manufacturing sector, rose by 7%, surpassing the 0.6% growth in real wages per employee.

Labour Market Improved Further

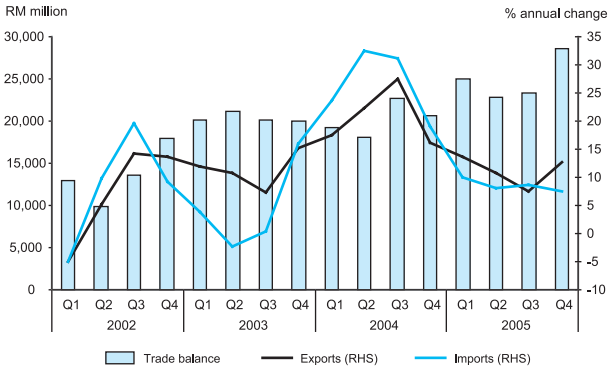


Exports and imports continued to expand

The **trade account** recorded a larger surplus of RM28.6 billion (3Q 2005: RM23.3 billion) as export growth of 12.6% (3Q 2005:

7.5%) outpaced import growth of 7.5% (3Q 2005: 8.6%). The stronger export growth was supported by the strengthening of manufacturing as well as agriculture exports.

Trade Balance



Gross Exports

In line with the improvement in the global semiconductor cycle, growth in **gross exports** strengthened to 12.6% in the fourth quarter of 2005 (3Q 2005: 7.5%) supported by a significant improvement in manufactured exports and sustained growth in commodity exports.

Growth in **manufacturing exports** accelerated to 13.1% (3Q 2005: 6.3%), led mainly by the strong pick-up in exports of E&E products. The E&E products grew by 14.7% (3Q 2005: 6.8%) due mainly to higher shipment of semiconductors, computers and parts, and industrial electrical machinery. Meanwhile, higher exports of chemical products (4.7%, 3Q 2005: 1.3%) were supported by favourable demand from the regional countries such as Singapore, Japan and Indonesia. Exports of rubber products increased further by 19.4% (3Q 2005: 10%), as domestic players gradually increased their production capacity to meet the strong external demand for rubber gloves.

In the **commodity sector, agriculture exports** turned around to record a positive growth of 2.9% (3Q 2005: -0.1%), as the decline in palm oil receipts was more than offset by increases in export receipts from rubber, saw logs and sawn timber. Of significance, rubber exports strengthened markedly by 28.4%, supported mainly by strong increase in prices (28.7%). Global demand for natural rubber, particularly from the automotive industry picked up substantially as prices of the competing synthetic rubber, a petrochemical product, continued to rise in tandem with the stronger crude oil prices. Meanwhile, palm oil exports continued to decline by 7.8% during the quarter, due entirely to lower prices (-7.6% to RM1,466 per tonne).

Export receipts from **minerals** expanded further by 22.7% during the quarter due to higher exports of crude oil and LNG. Crude oil exports rose by 37.4%, supported mainly by the high prices, which rose by 25.5% to an average of USD60.48 per barrel. The increase in oil prices was affected by adverse geopolitical events and concerns over continued strong demand for oil in major consuming countries. Similarly, exports of liquefied natural gas (LNG) rose by 14.9%, due to the substantial increase in prices. Malaysian LNG prices breached the RM1,000 per tonne benchmark during the quarter (+17% to RM1,038 per tonne; 3Q 2005: +16.8% to RM986 per tonne) reflecting the worldwide increase in demand for natural gas.

Trade Account

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	**16.1**	**20.8**	**7.5**	**12.6**	**11.0**
Manufacturing	*13.5*	*19.7*	*6.3*	*13.1*	*10.1*
Agriculture	*1.2*	*7.4*	*-0.1*	*2.9*	*3.4*
Minerals	*44.7*	*38.2*	*25.8*	*22.7*	*27.8*
Gross Imports	**19.1**	**26.4**	**8.6**	**7.5**	**8.5**
Capital goods	*37.2*	*36.0*	*21.0*	*-5.9*	*7.7*
Intermediate goods	*13.5*	*22.2*	*6.3*	*7.7*	*7.5*
Consumption goods	*16.4*	*24.1*	*5.2*	*4.4*	*6.0*
Trade balance (RM bil)	**20.6**	**80.7**	**23.3**	**28.6**	**99.8**

Source: Department of Statistics, Malaysia

Malaysia's trade with the regional countries (excluding Japan) continued to expand by 11.5%, with a sustained large share of 46.6%. The growth was driven mainly by stronger growth of exports to ASEAN, P.R. China and Korea. Export growth was supported by demand for E&E products, telecommunications equipment, transport equipment as well as optical and scientific equipment. Exports of resource-based products, such as rubber and plastic products also recorded a higher growth during the quarter. Exports to New Zealand and India remained strong, growing by 42.1% and 32.2% respectively. Exports to New Zealand was supported by iron and steel as well as E&E products while exports to India reflected mainly petroleum-related products and E&E products.

Of significance, exports to the EU countries strengthened (11.2%) underpinned by exports to Germany, France and Netherlands comprising mainly electrical machinery, optical and scientific equipment as well as chemical products. Exports to the US expanded by 18.8% (3Q 2005: 15.8%) reflecting mainly higher demand for computers, optical and scientific equipment as well as resource-based products, namely wood and petroleum products.

On the imports side, Malaysia continued to source components from regional countries, particularly Singapore and P.R. China. The share of imports from countries in the region was sustained at 49.1%, reflecting mainly imports of E&E products, chemicals and metal products.

Malaysia: Direction of Exports

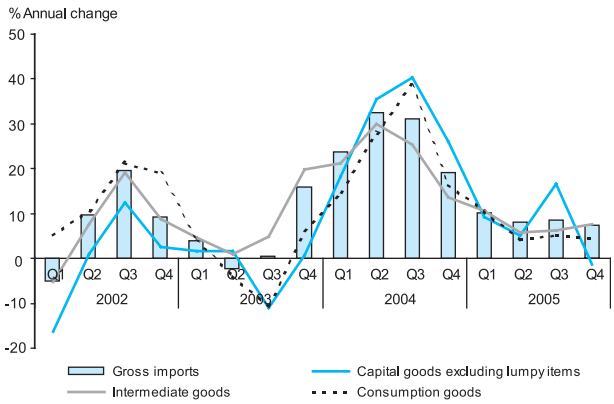
	2004		2005			2004		2005			2004		2005		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**23.2**	**90.2**	**28.9**	**27.5**	**105.0**	**18.3**	**18.8**	**21.0**	**19.3**	**19.7**	**9.8**	**15.8**	**15.8**	**18.8**	**16.5**
European Union (EU)	**15.7**	**60.4**	**15.5**	**17.5**	**62.6**	**12.4**	**12.6**	**11.2**	**12.3**	**11.7**	**18.4**	**20.9**	**-4.0**	**11.2**	**3.7**
Selected ASEAN countries[1]	**32.0**	**119.7**	**34.8**	**36.7**	**137.8**	**25.3**	**24.9**	**25.3**	**25.7**	**25.8**	**18.2**	**22.3**	**9.3**	**14.5**	**15.1**
North East Asia	**24.3**	**93.4**	**24.6**	**27.0**	**99.2**	**19.2**	**19.4**	**17.8**	**18.9**	**18.6**	**11.5**	**20.7**	**2.2**	**11.0**	**6.2**
People's Republic of China	*8.3*	*32.1*	*8.5*	*10.5*	*35.2*	*6.6*	*6.7*	*6.2*	*7.3*	*6.6*	*8.9*	*24.6*	*-0.8*	*26.2*	*9.6*
Hong Kong China	*7.3*	*28.7*	*8.4*	*7.8*	*31.2*	*5.8*	*6.0*	*6.1*	*5.5*	*5.8*	*6.4*	*11.5*	*13.8*	*6.5*	*8.8*
Chinese Taipei	*4.1*	*15.8*	*3.9*	*4.0*	*14.8*	*3.2*	*3.3*	*2.9*	*2.8*	*2.8*	*7.4*	*10.0*	*-6.7*	*-2.4*	*-6.0*
Korea	*4.6*	*16.8*	*3.7*	*4.7*	*17.9*	*3.6*	*3.5*	*2.7*	*3.3*	*3.4*	*32.0*	*45.7*	*-3.7*	*2.5*	*6.6*
India	**3.2**	**11.4**	**3.9**	**4.2**	**15.0**	**2.5**	**2.4**	**2.8**	**2.9**	**2.8**	**17.4**	**18.3**	**36.5**	**32.2**	**31.2**
Total exports	**126.7**	**480.7**	**137.9**	**142.6**	**533.8**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**16.1**	**20.8**	**7.5**	**12.6**	**11.0**

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

Source: Department of Statistics, Malaysia

Gross imports continued to grow, albeit at a more moderate rate of 7.5%. Import growth was attributed to imports of inputs for manufactured exports as well as imports of consumption goods. Imports of **intermediate goods** increased by 7.7% in line with the upturn in global demand for E&E exports. Imports of primary materials used by the food and beverage industry was supported by higher demand for festivities. Strong growth in imports of fuel and lubricants reflected high oil prices.

Import Growth



Imports of **capital goods** remained high at RM15 billion, accounting for 13.1% of total imports during the quarter. However, capital imports declined by 5.9% due partly to the high base caused by larger imports of transport equipment in fourth quarter of 2004. Capital imports by selected industries continued to record growth. Capacity expansion and upgrading for technology in order to improve productivity in the manufacturing sector led to the stronger growth in imports of machinery and equipment. Imports of office equipment, generators, turbines and electric motors for power generation also registered strong growth. Imports of agriculture equipment strengthened with growth in production of agriculture exports. Imports of **consumption goods** increased by 4.4% during the quarter.

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

	2004		2005		
	4Q	Year	3Q	4Q	Year
	Annual change %				
CAPITAL GOODS	**37.2**	**36.0**	**21.0**	**-5.9**	**7.7**
Capital goods (except transport equipment)	30.4	28.3	18.6	6.0	10.2
Transport equipment	90.8	151.0	39.4	-70.5	-11.5
INTERMEDIATE GOODS	**13.5**	**22.2**	**6.3**	**7.7**	**7.5**
Food and beverages, mainly for industry	25.1	52.9	-6.7	6.9	-5.5
Industrial supplies, n.e.s.	29.2	38.9	1.8	0.6	6.0
Fuel and lubricants	68.4	41.8	24.5	32.2	42.3
Parts and accessories of capital goods (except transport equipment)	-0.3	10.9	5.3	5.3	2.6
Parts and accessories of transport equipment	38.9	35.0	39.4	49.5	46.8
CONSUMPTION GOODS	**16.4**	**24.1**	**5.2**	**4.4**	**6.0**
Food and beverages, mainly for household consumption	18.9	31.3	5.8	-1.1	4.0
Transport equipment, non-industrial	-34.4	-6.7	-0.9	17.5	-4.9
Consumer goods, n.e.s.	16.7	20.8	5.1	7.6	7.5
Durables	*18.5*	*21.1*	*6.3*	*13.6*	*12.7*
Semi-durables	*8.2*	*17.7*	*-3.0*	*5.3*	*0.5*
Non-durables	*22.4*	*23.0*	*10.9*	*6.2*	*10.1*
DUAL USE GOODS	**43.5**	**39.8**	**18.9**	**12.2**	**21.5**
OTHERS	**4.7**	**10.8**	**2.5**	**5.1**	**0.9**
RETAINED IMPORTS	**17.3**	**24.3**	**8.5**	**5.4**	**7.7**
RE-EXPORTS	**77.6**	**102.9**	**10.2**	**53.4**	**26.9**
GROSS IMPORTS	**19.1**	**26.4**	**8.6**	**7.5**	**8.5**

Source: Department of Statistics, Malaysia

Higher FDI amidst significant portfolio outflows

On a cash basis, both **gross** inflows and outflows of **foreign direct investment (FDI)** declined to RM12.4 billion and RM10.1 billion respectively (3Q 2005: RM21 billion and RM20 billion respectively), reflecting mainly the marked decline in short-term inter-company loan transactions from the centralised treasury

operations of non-resident controlled companies in Malaysia. On a **net** basis, FDI increased to RM2.3 billion (3Q 2005: RM1 billion). As this FDI data is on a cash basis, it does not capture retained earnings and investment in the form of imported machinery and equipment. The FDI inflows were broad-based, channelled mainly into the manufacturing, services and oil and gas sectors. In the manufacturing sector, FDI inflows were mainly into the electrical and electronics, petroleum-related and chemical-related sub-sectors. Meanwhile, FDI inflows into the services sector were channelled primarily into the financing, insurance and business services sub-sector, followed by the restaurants, hotels, wholesale and retail trade sub-sector.

Overseas investment recorded a significantly higher gross outflow of RM18.2 billion (3Q 2005: -RM5.5 billion), reflecting mainly short-term loans extended by non-resident controlled companies in the oil and gas sector to their related companies abroad arising from their centralised treasury operations. These outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. After adjusting for inflows due mainly to repayment of inter-company loans from abroad, overseas investment recorded a net inflow of RM1.9 billion (3Q 2005: -RM1.2 billion). The overseas investments during the quarter were effected mainly by companies in the services sector, particularly the transport and communications sub-sector, reflecting the acquisition of a telecommunication campany in Indonesia. In the manufacturing sector, overseas investments were led by the semiconductor and other electronic component and ship building- and repairing-related industries.

Portfolio investment recorded a higher net outflow of RM13.6 billion (3Q 2005: -RM0.2 billion). Compared with the previous quarter, gross inflows, particularly into debt securities declined, while gross outflows remained large, reflecting mainly the liquidation of equity and debt securities by foreign investors.

External debt declined

Malaysia's total external debt declined to RM195.8 billion or USD51.3 billion as at end-2005 (3Q 2005: RM203.3 billion or USD53.4 billion), equivalent to 42.2% of GNP. The **medium and long-term external debt** was lower at RM149.6 billion (3Q 2005: RM152.6 billion), attributed mainly to the significantly higher net repayment of external debt by the Federal Government amounting to RM3.2 billion, following the maturity of a Euro bond. The NFPEs also recorded a net repayment of RM1 billion, particularly by companies in the oil and gas, utilities and transportation sectors. The private sector recorded a smaller net drawdown of external loans of RM1.1 billion (3Q 2005: RM1.6 billion), due mainly to a lower loan drawdown during the quarter.

The total **short-term external debt** declined to RM46.2 billion or USD12.1 billion (3Q 2005: RM50.8 billion), reflecting mainly lower short-term borrowings by the banking sector. As at end-2005, the short-term debt accounted for 23.6% of

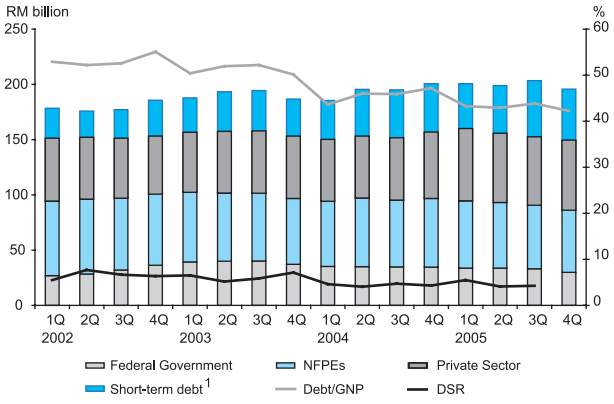
total external debt and is 17.3% of the net international reserves.

External Debt Outstanding

	2004	2005		
	End-Dec.	End-June	End-Sept.	End-Dec.[p]
	RM billion			
Medium- & Long-term debt	156.8	155.7	152.6	149.6
Public sector	96.9	93.3	90.7	86.1
Private sector	60.0	62.5	61.9	63.5
Short-term debt[1]	43.7	43.1	50.8	46.2
Total external debt	200.6	198.9	203.3	195.8
- USD billion equivalent	52.8	52.3	53.4	51.3

[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

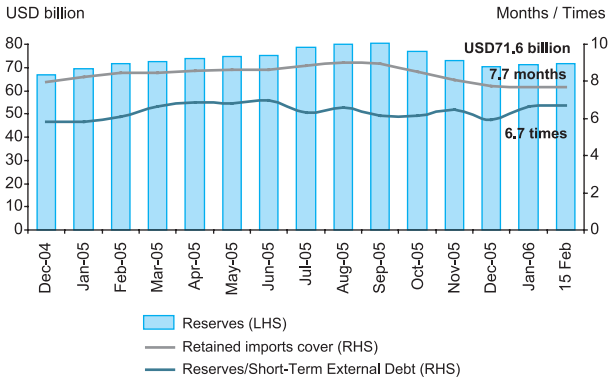


[1] Excludes currency and deposits held by non-residents with resident banking institutions

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM266.4 billion or equivalent to USD70.5 billion as at 31 December 2005. The decline in reserves during the quarter reflected largely the unwinding of speculative short-term positions. Nevertheless, the outflows of short-term funds subsided by December. The reserves amounted to RM270.4 billion or equivalent to USD71.6 billion as at 15 February 2006. The reserves position is sufficient to finance 7.7 months of retained imports and is 6.7 times the short-term external debt.

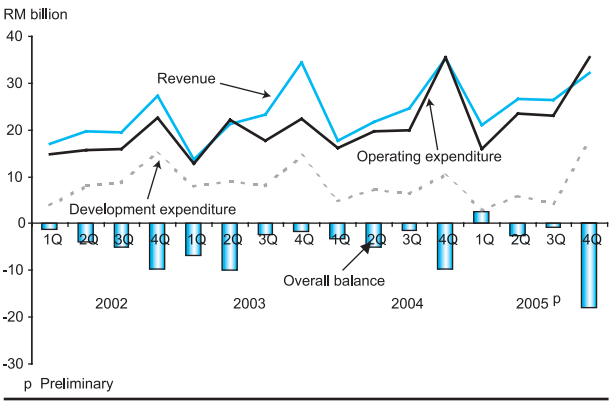
Net International Reserves (as at end-period)



Fiscal deficit for 2005 on target

The Federal Government's development expenditure in the fourth quarter was higher resulting in an overall fiscal deficit of 3.8% of GDP for the year as a whole.

Federal Government Finance



Federal Government Finance[p]

	2004	2005	
	4Q	3Q	4Q
	RM billion		
Revenue	35.3	26.4	32.2
% growth	*2.5*	*7.3*	*-8.7*
Operating expenditure	35.5	23.0	35.5
% growth	*58.3*	*15.3*	*-0.2*
Current account	**-0.2**	**3.4**	**-3.3**
% of GDP	***-0.2***	***2.6***	***-2.5***
Net development expenditure	9.5	4.2	14.6
% growth	*-30.7*	*-32.0*	*53.2*
Overall balance	**-9.8**	**-0.8**	**-17.9**
% of GDP	***-8.3***	***-0.6***	***-13.7***
Memo item:			
Total gross expenditure	**46.0**	**27.3**	**52.9**
% growth	*25.1*	*4.5*	*15.0*
Total Federal Government debt (as at end-period)	216.6	227.6	228.7
% of GDP	*48.2*	*46.0*	*46.2*
Domestic debt	182.0	194.5	198.7
% of GDP	*40.5*	*39.3*	*40.2*
External debt	34.7	33.2	30.0
% of GDP	*7.7*	*6.7*	*6.1*

[p] Preliminary

Revenue performance during the quarter remained favourable on account of higher petroleum income tax. Given the ample liquidity conditions in the domestic banking system, the fiscal deficit was funded largely from domestic borrowings and the drawdown of realisable assets of the Government. As at end-2005, total outstanding debt of the Federal Government amounted to RM228.7 billion or 46.2% of GDP. The external debt of the Federal Government was lower at 6.1% of GDP with the maturity of a Euro Bond in November 2005.