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# Summary of Econo

The Malaysia Economic Report is an annual publication released in conjunction with the country's annual Budget by the Ministry of Finance. The report covers Malaysia's economic performance and prospects in terms of fiscal and monetary operations as well as the growth of contributing sectors towards the National Gross Domestic Product. For the benefit of the REHDA Bulletin readers, a summary of the report with highlights on the residential property market is reproduced below:

## Overview

The Malaysian economy remains robust despite a more challenging external environment, including moderate global growth, declining commodity prices and volatility in financial markets. Real GDP in 2015 grew by 5.3% during the first six months but tapered slightly in Q3 (4.7%) and Q4 (4.5%) to register an annual growth of 5% (2014: 6%), supported by steady domestic demand, particularly in the private sector expenditure. As at end-December 2015, Malaysia's international reserves remained at RM409.1 billion equivalent to USD95.3 billion.

Private consumption remained resilient due to strong domestic demand, particularly in imports of consumption goods. Private investment expanded at a moderate pace, driven largely by capital spending in the manufacturing and services sectors. Public investment grew steadily, attributed by the Federal Government's higher capital spending in construction of major infrastructure projects.

Inflation, as measured by the Consumer Price Index (CPI), averaged at 1.9% in the first eight months of 2015 compared with 3.3% during the corresponding period in 2014. Despite the implementation of the Goods and Services

Tax (GST) on 1 April 2015, inflation remained benign following lower oil pump prices along with the implementation of the managed float fuel pricing mechanism. In addition, the list of zero-rated items, which covers 30% of the CPI basket, helped to cushion the impact of GST. Inflation remained manageable at 2.1% in 2015.

## Sectoral Performance

On the supply side, all sectors registered positive growth during the first six months of 2015 except the agriculture sector. Growth continued to be driven by the services sector on the back of resilient consumption-related activities such as wholesale and retail trade as well as food and beverage and accommodation subsectors. The expansion of trade-related activities supported the higher growth in the transport and storage subsector. The services sector remained the largest contributor to growth during the period. Growth in the manufacturing sector increased on account of improved external demand for E&E products. The construction sector continued to expand, albeit moderately, amid the near completion of some key public infrastructure projects during the first half of the year. Meanwhile, the residential subsector increased

marginally mainly due to lower housing approvals and property launches. Growth in the agriculture sector remained stagnant while the mining sector expanded as the production of crude oil increased.

## Construction Sector

The construction sector grew at a moderate pace of 7.7% during the first half of 2015 (January – June 2014: 14.5%) due to slower civil engineering and residential activities. Residential contributed the highest share (27.7%) followed by civil engineering (27.1%), non-residential (26.4%) and specialised construction activities (18.8%) subsectors. The total value of construction works completed during the first half of 2015 expanded by 11.6% to RM56 billion with 20,056 construction projects registered (January – June 2014: 15.7%; RM50 billion; 19,649 projects). The non-residential subsector contributed 34.7% to the value of construction work, followed by civil engineering (30.4%), residential (30.2%) and specialised construction activities (4.7%) subsectors. The private sector continued to dominate construction activities with a share of 67.7% in the first half of 2015. Amid the moderate growth outlook, the construction sector held steady with a growth of 9.9% and 7.4% during the third and fourth quarter respectively, registering an overall 8.2% in 2015.

The residential subsector expanded moderately by 9.8% (January – June 2014: 22.1%) as new housing approvals decreased by 32.9% to 66,770 units (January – June 2014: 37.3%; 99,461 units), reflecting cautious sentiment among housing developers amid a challenging environment. However, the moderation was

## Construction sector remains resilient

### GDP by Sector: 2014 – 2016

(at constant 2010 prices)

	% Share 2015 <sup>1</sup>	2014	% Growth 2015 <sup>1</sup>	2016 <sup>2</sup>
Agriculture	8.9	2.1	1.3	1.3
Mining	8.8	3.3	3.5	4.0
Manufacturing	22.9	6.2	4.5	4.3
Construction	4.4	11.8	8.8	8.4
Services	53.8	6.5	5.7	5.4
<b>GDP</b>	<b>100.0</b>	<b>6.0</b>	<b>4.5-5.5</b>	<b>4.0-5.0</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

Note: Total may not add up due to rounding.

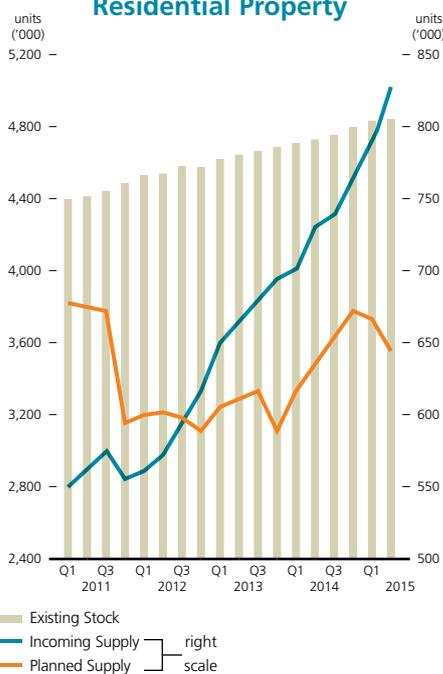
Source: Department of Statistics and Ministry of Finance, Malaysia.

GDP in 2015 registered growth of 5%

The residential subsector expanded moderately by 9.8%

# mic Report 2015/2016

## Supply Indicators of Residential Property



Source: National Property Information Centre.

cushioned by the steady growth of incoming supply at 13.8% (January – June 2014: 10.3%). Klang Valley continued to dominate the incoming supply during the first six months of the year, accounting for 29% of the total supply (January – June 2014: 28.9%). Housing starts<sup>1</sup> rebounded by 38% to 100,712 units (January – June 2014: -1.8%; 72,935 units), supported by serviced apartments as well as condominiums/apartments which accounted for 28.3% (28,541 units) and 22.5% (22,673 units), respectively, of the total starts. The take up rate for residential units increased to 31.4% with 8,542 units in the first half of 2015 (January – June 2014: 23.8%, 11,588 units).

*Starts: Comprises buildings where the foundation and footing work below ground level including piling have started. It does not include site clearing, leveling and laying of infrastructure.*

The total value of property transactions declined by 6.6% to RM76.6 billion, while volume contracted by 3.5% to 186,661 transactions

during the first six months of 2015 (January – June 2014: 19.3%; RM82 billion; 3.3%; 193,403 transactions). The Government’s initiatives to curb speculative activity, including the Real Property Gains Tax (RPGT) as well as macro prudential measures to promote responsible lending, have led to some moderation in the residential property market. The volume of residential property transactions, which accounted for 64% of total property transactions, contracted by 2.6% to 119,604 transactions (January – June 2014: 2.3%; 122,830 transactions), while the value dropped by 9.7% to RM36.4 billion (January – June 2014: 19.4%; RM40.3 billion). Residential transactions declined in the four major states, namely Kuala Lumpur (-6.4%), Selangor (-1.8%), Johor (-17.9%) and Pulau Pinang (-14.2%). Residential overhang<sup>2</sup> reduced to 10,473 units with a total value of RM4.8 billion during the first half of 2015 (January – June 2014: 11,491 units; RM4 billion) with Johor accounting for the highest overhang at 23.3% of the total overhang units.

*Overhang: Residential units with Certificate of Fitness for Occupation (CFO) or Temporary Certificate of Fitness for Occupation (TCFO) or Certificate of Completion and Compliance (CCC) but remain unsold for more than nine months.*

During the second quarter of 2015, the Malaysian House Price Index (MPHI) moderated to 5.9% (Q2 2014: 8.5%). This was the lowest quarterly rate of increase since the third quarter of 2010. Nonetheless, all states recorded positive growth except for Kelantan with Perak registering the highest increase (7.4%), followed by Pahang (7%), Sarawak (6.9%), Kedah (6.9%) and Selangor (6.1%). The average all-house price in Malaysia stood at RM305,075 (Q2 2014: RM288,193), with semi-detached units recording the highest increase at 6.3%, followed by terrace houses (6.1%), high-rise units (4.8%) and detached houses (4.8%).

## MPHI moderated to 5.9% during Q2 2015

### Residential Trend

#### All-House Average Price

The all-house average price, as measured by MHPI, has been on the upward trend since 2005, registering annual single-digit growth rates until 2012. In 2009, growth of the MHPI decelerated to 1.5% following the contraction in the domestic economy due to the global financial crisis in 2008/2009. With the recovery in the domestic

economy, house prices picked up. The trend of double-digit growth started in Q2 2011, dipping to single-digit growth in Q3 2011 before continuing for eight consecutive quarters. The MHPI peaked at 12.2% in Q3 2013 and average prices in five states, namely Selangor, Pulau Pinang, Sabah, Sarawak as well as Kuala Lumpur, continued to exceed the all-house average price since 2004.

## Malaysia All-House Price Index and Annual Change



Source: National Property Information Centre.