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Country Report

MALAYSIA



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EXECUTIVE SUMMARY

In 2016, the Malaysian economy grew at 4.2% (2015: 5.0%). Private consumption growth was sustained at 6.1% (2015: 6.0%) while public consumption growth moderated to 1.0% (2015: 4.4%). On the supply side, all economic sectors continued to expand with the exception of the agriculture sector. The construction sector recorded moderate growth at 7.4% (2015: 8.2%). The value of construction projects awarded increased to RM229.0 billion in 2016 (2015: RM141.8 billion), while the number of projects awarded declined to 6,855 projects (2015: 7,544 projects). The number of contractors and personnel increased by 5.8% and 7.1% respectively. Construction sector productivity grew at 12.4%. The average price for major building materials does not change much, except for steel reinforcement at 18.6%. Average daily wage rates for local construction workers recorded an increase up to 6.0% in 2016. It is estimated that the construction sector will continue to grow at a respectable growth of 8.0% for 2017. It is estimated that the projects awarded may reach the value of RM170 billion and RM180 billion each for 2017 and 2018 respectively.

MACROECONOMIC REVIEW AND OUTLOOK

Main Economic Indicator 2015

The Malaysian economy grew by 4.2% (2015: 5.0%). Domestic demand was driven by private sector. Private consumption was sustained at 6.1% (2015: 6.0%), supported by continued employment and wage growth following the increase in the minimum wage and civil servant salaries. Public consumption growth moderated at 1.0% (2015: 4.4%), following the expenditure rationalisation by the Government in early 2016. Public investment recorded a decline of 0.5% in 2016 (2015: -1.0%) due to fewer spending by public corporations.

On the supply side, all economic sectors continued to expand with the exception of the agriculture sector (-5.1%; 2015: 1.2%). The construction sector recorded moderate growth at 7.4% (2015: 8.2%). The expansion in the civil engineering and residential subsector was countered by a decline in non-residential subsector. The services sector grew at 5.6% (2015: 5.1%); manufacturing sector at 4.4% (2015: 4.9%); and the mining and quarrying sector at 2.7% (2015: 4.7%). The labour force expanded by 168,000 people, while employment amounted to 112,300 jobs. Labour force participation rate slipped marginally at 67.6% (2015: 67.9%), while the unemployment rate rise to 3.5% (2015: 3.1%), due to slower job creation.

Inflation remain unchanged at 2.1% (2015: 2.1%), driven by adjustments to administrated prices. This includes toll charges, cigarette prices, railway fares, reduction in electricity rebates, cooking oil and higher prices of fresh food.

The Overnight Policy Rate (OPR) was reduced to 3.0% (2015: 3.05%). This measure was taken to increase household disposable income and support business activities. The Ringgit depreciated by 4.3% in 2016 against the US Dollar, and ended the year at RM4.49.

Table 1 Malaysia Main Economic Indicator

	2013	2014	2015	2016
GDP at Current Market Price (RM billion)	1,018	1,106	1,158	1,230
GDP Growth at Real 2010 Prices (RM billion)	955	1,013	1,063	1,108
GDP Growth at Real 2010 Prices (%)	4.7	6.0	5.0	4.2
Agriculture	2.0	2.1	1.2	-5.1
Mining	1.2	3.5	4.7	2.7
Manufacturing	3.4	6.2	4.9	4.4
Construction	10.6	11.7	8.2	7.4
Services	5.9	6.6	5.1	5.6
Demographic Indicator				
Population (million persons)	29.9	30.7	31.2	31.7
Population growth rate (%)	1.4	2.7	1.6	1.6
Labour force (million persons)	13.2	14.3	14.5	14.7
Labour force growth rate (%)	3.9	8.3	1.4	1.4
Unemployment rate (%)	3.1	2.9	3.1	3.5
Inflation rate (%)	1.6	2.1	2.1	2.1
Financial Indicator				
Overnight interbank interest rate (%)	2.99	3.23	3.05	3.00
Commercial banks fixed deposit interest rate (%)				
3 months	2.97	3.13	3.13	2.92
12 months	3.15	3.31	3.31	3.06
Exchange rate at end of period (RM against USD)	RM3.28	RM3.50	RM4.29	RM4.49

Source: Central Bank of Malaysia

Malaysian Economy Outlook

In the first half of 2017, the Malaysian economy recorded an average growth of 5.7% (1Q2017: 5.6%; 2Q2017: 5.8%). Domestic demand grew at 6.7% in the first half of 2017, supported by continues expansion in both private and public sector expenditure.

All economic sectors continued to expand. Construction sector grew by 8.3% in the second quarter, after a moderate growth of 6.5% in the first quarter of 2017. The growth was driven by civil engineering activity in the transportation and power plant segments. Other economic sectors posted an increase in first half of 2017, with services sector expand at 6.1%; manufacturing sector at 5.8%; mining and quarrying sector at 0.9%; and agriculture sector at 7.1%.

The Malaysian economy is expected to remain stable with a projected growth of between 4.3% and 4.8% for 2017. As with the past few years, the growth will be led by the construction sector at 8.0%. The services and manufacturing sector are projected to grow at 4.9% and 4.3% respectively. The mining and quarrying sector is expected to grow at 2.7% and agriculture sector at 4.0%.

Table 2 GDP Growth by Main Economic Activity (%)

Economic Sector	2017		
	Q1	Q2	Annual (<i>f</i>)
Agriculture	8.3	5.9	4.0
Mining and Quarrying	1.6	0.2	2.7
Manufacturing	5.6	6.0	4.3
Construction	6.5	8.3	8.0
Services	5.8	6.3	4.9
Real GDP Growth	5.6	5.8	4.3 – 4.8

Source: Central Bank of Malaysia

OVERVIEW OF THE CONSTRUCTION INDUSTRY

Construction Project Review

The value of construction projects awarded increased by 57.5% to RM229.0 billion in 2016 (2015: RM141.8 billion). Meanwhile, the number of projects awarded declined by 9.1% to 6,855 projects (2015: 7,544 projects). Construction project refers to projects awarded to the main contractor with the value of RM500,000 and above. In this report, the value and number of projects was taken as of June 2017.

In terms of value, the private sector commands the larger portion of the construction projects at 77.8% (RM178.1 billion), compared to the government sector at 22.2%

(RM50.9 billion). In terms of numbers, private sector secured 74.3% (5,091 projects) compared to 25.7% (1,764 projects) by the government sector.

Overall, more than half portion of construction works came from the infrastructure projects at 59.9% (RM137.2 billion); followed by non-residential projects at 18.6% (RM42.5 billion); residential projects at 17.7% (RM40.6 billion); and social amenities projects at 3.8% (RM8.7 billion). A total of 70.0% (RM40.7 billion) of the infrastructure projects were driven by the private sector, due to the high-value projects under the transportation and utilities segments.

The major impact to Malaysian construction projects came from the implementation of 24 major projects costing more than RM1.0 billion each. These projects accounts for RM109.9 billion in 2016. The 5 largest projects were:

1. East Coast Rail Link from Port Klang, Selangor to Wakaf Bahru, Kelantan.
Award: November 2016; Expected completion: 2024.
2. Mass Rapid Transit Sungai Buloh – Serdang – Putrajaya Line (Jalan Ipoh North Escape Shaft to Desa Waterpark South Portal) in Klang Valley.
Award: March 2016; Expected completion: 2021
3. Electrified Double Track (Gemasp to Johor Bahru) in Johor.
Award: October 2016; Expected completion: 2020
4. 1,800MW to 2,400MW Combined Cycle Gas Turbine Power Plant in Alor Gajar, Melaka.
Award: November 2016; Expected completion: 2021
5. Setiawangsa – Pantai Expressway in Kuala Lumpur.
Award: November 2016; Expected completion: 2020

During the first half of 2017, a total of RM40.4 billion worth of projects and 2,133 projects were recorded for 2017. In terms of value, the private and government sector each had a share of 84.9% (RM34.3 billion) and 15.1% (RM6.1 billion) worth of projects. The number of private projects stands at 77.1% (1,645 projects) against 22.9% (488 projects) by the government sector.

Table 3 Value of Construction Projects Awarded by Sector and Type of Project

Sector and Type of Project	Value (RM million)
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	2013	2014	2015	2016
Total Private Sector	161,363.78	117,127.32	178,143.68	34,311.26
Residential	34,781.71	51,097.83	39,075.50	11,265.92
Non-Residential	91,973.73	49,374.63	38,964.58	15,072.84
Social Amenities	4,833.52	2,575.03	3,561.94	1,575.82
Infrastructure	29,774.82	14,079.83	96,541.66	6,396.68
Total Government Sector	23,653.56	24,724.12	50,882.08	6,045.07
Residential	2,139.25	2,677.18	1,560.38	909.06
Non-Residential	3,925.24	4,049.74	3,546.58	681.61
Social Amenities	3,343.55	2,940.88	5,110.49	1,047.74
Infrastructure	14,245.52	15,056.32	40,664.63	3,406.66
Grand Total	185,017.34	141,851.44	229,025.76	40,356.33

Note : As at 30 June 2017

Source : CIDB Malaysia

Table 4 Number of Construction Projects Awarded by Sector and Type of Project

Sector and Type of Project	Number			
	2013	2014	2015	2016
Total Private Sector	6,276	5,643	5,091	1,645
Residential	2,161	1,929	1,762	597
Non-Residential	2,677	2,316	2,005	665
Social Amenities	257	250	263	81
Infrastructure	1,181	1,148	1,061	302
Total Government Sector	1,800	1,901	1,764	488
Residential	160	164	92	45
Non-Residential	342	376	404	97
Social Amenities	445	476	414	127
Infrastructure	853	885	854	219
Grand Total	8,076	7,544	6,855	2,133

Note : As at 30 June 2017

Source : CIDB Malaysia

Contractor Registration

In 2016, the number of contractors increased by 5.8% to 72,246 (2015: 68,255 contractors). These contractors were categorised by grade, from Grade 1 (G1) to Grade 7 (G7). Grade G1 to G3 contractors forms the largest portion of contractors at 77.3% (55,850 contractors). Grade G4 and G5 contractors accounted for 11.3% (8,154 contractors), while grade G6 and G7 contractors comprises of 10.8% (7,795 contractors)

of the total registered contractors. The number of registered foreign contractors does not show any significant change, accounting of only 0.6% (447 contractors).

Table 5 Contractors Registered by Registration Grade

Grade	Bidding Limit	2014	2015	2016
G1	Not exceeding RM200,000	34,485	33,991	34,068
G2	Not exceeding RM500,000	9,268	10,441	12,407
G3	Not exceeding RM1 million	8,825	8,875	9,375
G4	Not exceeding RM3 million	3,038	3,093	3,408
G5	Not exceeding RM5 million	4,130	4,287	4,746
G6	Not exceeding RM10 million	1,594	1,528	1,589
G7	Unlimited	5,332	5,618	6,206
Foreign	Unlimited	373	422	447
Total		67,045	68,255	72,246

Source : CIDB Malaysia

Construction Personnel

A total of 767,563 construction personnel were registered in 2016, an increase of 7.1% (2015: 716,542 personnel). This includes new and renewal of construction personnel.

Table 6 Registered Construction Personnel by Category of Worker

Category of Worker	2015		2016	
	Local	Foreign	Local	Foreign
Construction worker	295,560	135,997	304,167	148,025
Skilled construction worker	50,855	1,675	91,637	2,939
Manager and site assistant manager	51,410	1,462	58,646	1,052
Construction supervisor	50,933	272	116,579	1,566
Administrative personnel	126,716	1,662	42,814	138
Total	575,474	141,068	613,843	153,720

Source : CIDB Malaysia

Construction Productivity

Labour productivity measures economic output per unit of labour. Malaysia's labour productivity expanded by 3.5% in 2016 (2016: RM78.2 billion; 2015: 75.5 billion). The construction sector recorded a growth of 12.4% in productivity. Compared to other economic sector, construction sector had a low productivity level of RM40,018 in 2016. Nevertheless, construction sector plays a key role in the economy through its multiplier effect on other industries.

Table 7 Labour Productivity Performance

Main Economic Sector	RM		
	2014	2015	2016
Agriculture	54,924	53,676	55,485
Manufacturing	98,153	105,138	106,647
Construction	33,744	35,601	40,018
Services	64,246	66,328	68,166

Source: Malaysia Productivity Corporation

Construction Cost

Average Price of Major Construction Building Material

In general, the average price for major building materials does not differ much except for steel reinforcement. The prices of steel reinforcement recorded an increase of 18.6%. The prices of brick, cement, ready-mixed concrete, paint and glass each recorded an increase of between 1.1% and 2.8%. In contrast, prices for aggregate decreased by 6.6% in 2016.

Table 8 Average Prices of Major Construction Building Materials

Material	Unit	RM
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		2014	2015	2016
Steel Reinforcement	tonne	2,348.91	2,082.31	2,467.55
Bricks	piece	0.40	0.42	0.43
Aggregate	tonne	44.50	45.97	42.99
Sand	tonne	28.79	28.79	28.79
Cement	50kg bag	18.71	18.89	19.24
Ready-mixed Concrete	m ³	250.15	264.15	257.38
Paint	liter	122.26	129.49	130.92
Glass	m ²	46.55	51.10	52.55

Source : CIDB Malaysia

Construction Industry Wage Rates

Construction Worker Wage Rates

Average daily wage rates for local skilled construction workers were varied and registered an increase of 0.3% to 6.0% in 2016. Plumber - reticulation (RM117.10 per day) and steel structure fabricator (RM114.90 per day) were the highest earner in the skilled worker category.

While the average daily wage rates of local semi-skilled construction workers recorded a growth between a high of 5.8% and a low of 2.9% in 2016. The highest earners in the semi-skilled category were the building wiring installer (RM111.00 per day) and plumber - reticulation (RM102.10 per day).

Table 9 Average Daily Wage Rate for Local Construction Worker

Worker Category	RM per day
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	Skilled		Semi-Skilled	
	2015	2016	2015	2016
General Construction Worker - Building	64.69	68.83	-	-
Concretor	94.86	98.66	79.62	84.30
Barbender	99.07	102.85	78.90	83.71
Carpenter-Formwork	104.71	105.89	86.80	90.20
Bricklayer	96.80	100.62	75.22	79.16
Roofer	106.97	110.19	88.41	92.59
Carpenter - Joinery	112.01	114.06	91.39	95.95
Steel Structure Fabricator	111.73	114.91	95.26	98.81
General Welder	107.43	109.94	92.36	95.50
Plumber - Building & Sanitary	104.61	107.74	83.59	87.12
Plumber - Reticulation	112.84	117.09	97.89	102.05
Building Wiring Installer	-	-	107.70	110.96
Electrical Wireman PW2 (RM Monthly)	2,412.37	2,454.59	-	-
Electrical Wireman PW4 (RM Monthly)	3,166.32	3,174.45	-	-
Scaffolder - Prefabricated	100.27	102.68	82.47	86.13
Scaffolder - Tubular	101.09	104.82	81.61	85.93
Plasterer	102.51	104.89	85.16	89.12
Tiller	107.63	112.40	86.83	91.90
Painter - Building	94.82	97.95	78.87	82.24
General Construction Worker - Civil	79.36	83.04	-	-

Source : CIDB Malaysia

Construction Machine Operator Wage Rates

In 2016, the average daily wages of skilled machine operator grew between 1.5% to 7.9%. The highest wage earners were tower crane operators (RM123.01 per day) and mobile crane operators (RM118.70 per day).

For semi-skilled machine operator, the average wages increase between 2.5% and 4.1%. The highest wage earners were tower crane operators (RM93.98 per day) and mobile crane operators (RM93.53 per day).

Table 10 Average Daily Wage Rates for Local Construction Machinery Operator

Category of Operator	RM per day			
	Skilled		Semi-Skilled	
	2015	2016	2015	2016
Excavator	96.59	103.53	-	-
Pile Riggers	93.89	98.74	75.40	78.19
Off Road Truck Operators	90.34	95.28	75.32	77.21
Backhoe Loader Operators	91.97	97.72	-	-
Roller Operators	90.22	94.83	73.30	75.34
Roller/Compactor	91.00	96.07	74.63	77.53
Scraper Operators	93.74	98.19	78.40	81.21
Motor Grader Operators	93.66	98.18	-	-
Wheel Loader Operators	91.74	96.91	76.09	79.09
Paver Operators	94.68	99.48	78.35	81.35
Mobile Crane Operators	116.86	118.70	90.75	93.53
Crawler Crane Operators	114.60	117.98	89.89	92.48
Tower Crane Operators	116.44	123.01	90.35	93.98
Forklift Truck Operators	88.96	96.60	71.71	75.48
Slinger/Dogger Operators	86.92	91.88	72.39	75.48

Source : CIDB Malaysia

IBS Installer Wage Rates

IBS installers comprises of local Malaysian workers. Average daily wage rates for IBS installer registered an increase between 9.2% and 7.0%. The highest wages were earned by skilled IBS precast concrete installer (RM152.84 per day) and IBS lightweight panel installers (RM143.63 per day).

For semi-skilled IBS installer, the average daily wage rates also registered an increase of between 8.7% and 11.0%. The highest wages were earned by semi-skilled IBS precast concrete installers (RM123.68 per day) and IBS lightweight panel installers (RM120.66 per day).

Table 11 Average Daily Wage Rate for Local IBS Installer

Category of IBS Installer	RM per day			
	Skilled		Semi-Skilled	
	2015	2016	2015	2016
IBS Precast Concrete Installers	142.21	152.84	112.92	123.68
IBS Lightweight Panel Installers	131.90	143.63	109.63	120.66
Lightweight Block Wall Installers	116.58	128.43	97.31	109.33
System Formwork Installers	117.56	126.52	100.94	110.29
Roof Truss Installers- (wood)	116.60	125.37	96.29	106.26
Roof Truss Installers- (light steel gauge)	119.42	129.02	97.18	106.50

Source : CIDB Malaysia

Export and Import of Construction Services

Based on the Malaysia's balance of payment statement, the value of projects awarded to the foreign contractor (imports) increased by 15.8% to RM12.2 billion in 2016 (2015: RM10.5 billion). The involvement of Malaysian construction companies in foreign countries (exports) increased by 1.2% to RM4.1 billion (2015: RM4.0 billion). This shows a deficit in construction services, which widened to RM8.1 billion in 2016 (2015: RM6.5 billion).

Among the biggest projects undertaken by Malaysian companies were the structure steel works for Tiara United Tower, Theme Park and Dubai Eye in Qatar; construction of Phnom Penh Domestic Terminal Airport in Cambodia; and mechanical and electrical works for Mae Moh Power Plant in Thailand.

Comparatively, a large number of construction projects in the Malaysia domestic market were secured by contractors from China, Japan and Korea. They were mainly geared towards infrastructure, commercial and refinery projects. Other foreign contractors were from German, Singapore and Hong Kong.

Table 12 Export and Import of Construction Services

	2014	2015	2016
Export of Construction (RM million)	2,796	4,038	4,086
<i>% Export Change</i>	-13.7%	44.4%	1.2%
Import of Construction (RM million)	8,675	10,549	12,219
<i>% Import Change</i>	7.1%	21.6%	15.8%
Net Trade: Export-Import(RM million)	-5,879	-6,511	-8,133

Source : Balance of Payment, Department of Statistics Malaysia

Since 2010, the exports and imports of architectural, engineering and other technical services have increased. Over the years however, the statistics between the export and imports had been narrowing. In 2016, the exports rose by 0.1% to RM7.2 billion against the double digit growth of the imports which grew by 34.9% to RM14.2 billion.

Table 13 Export and Import of Other Business Services

	2014	2015	2016
Export of Architectural, engineering and other technical (RM million)	6,297	7,173	7,181
<i>% Export Change</i>	-2.2%	13.9%	0.1%
Import of Architectural, engineering and other technical (RM million)	8,104	10,550	14,235
<i>% Import Change</i>	12.9%	30.2%	34.9%
<i>Net Trade: Export-Import (RM million)</i>	-1,806	-3,378	-7,054

Source : Balance of Payment, Department of Statistics Malaysia

CONSTRUCTION INDUSTRY OUTLOOK FOR 2017 AND 2018

The Malaysian economy is projected to register a sustained growth between 4.3% to 4.8% for 2017, and 5.0 % to 6.0% for 2018. Domestic demand will be the principal driver of growth, led by private sector activity. All economic sectors are projected to

register positive growth in 2017. The construction sector will continue to expand with new and existing civil engineering project. The construction sector is expected to have a sustainable demand approximately at RM170 billion for 2017 and RM180 billion for 2018. Construction sector is projected to grow at 8.0% for 2017 and up to 10.3% for 2018.