

**ECONOMIC REPORT | State Economy****Towards 2020 - States Growth Divergence Leads to Policy Challenges**

- *Solid macroeconomic performance for almost all states. Malaysia's economy rebounded to 5.9% last year underpin by robust global demand, recovery in commodity prices, upbeat momentum in external trade activities and stable domestic demand.*
- *Buoyant Economic activities centered within central region. Selangor and Kuala Lumpur which represent Central Region make up about 38.6% of Malaysia's total economic activity in 2017. Back in 2010, the region only covers about 35.4%. In a simple term, for every RM1 produced in Malaysia in 2017, 39 cents are produced in Selangor and Kuala Lumpur.*
- *Malaysia to achieve the 2020-target by 2022. Based on the current momentum, GDP per capita of Malaysia is projected to breach RM43,560 by 2 years after 2020. Referring to the eleventh Malaysia plan, the targeted Real GDP and population are RM1.4 trillion and 32.4 million respectively by 2020. With that, the GDP per capita in 2020 is at RM43,560.*
- *Penang and Selangor hit the target before 2020. Out of all states except Kuala Lumpur, Penang has achieved the target last year while Selangor in 2018. The average annual economic growth in Penang and Selangor are 5.6% and 6.1% respectively, higher than Malaysia's of 5.2%.*

**Solid macroeconomic performance for almost all states.** Malaysia's economy rebounded to 5.9% last year underpin by robust global demand, recovery in commodity prices, upbeat momentum in external trade activities and stable domestic demand. Most of states in Malaysia registered sound economic growth including commodity-based states such as Sabah, Sarawak and Terengganu. The three states expanded by 8.2%, 4.7% and 5.9% respectively in 2017. As for 2018, we forecast Malaysia's GDP to expand by 5.5% as upbeat momentum in global demand is expected to continue, further recovery in commodity prices and supported with better improvement in domestic demand especially with the zero-rated GST.

**Buoyant Economic activities centred within central region.** Selangor and Kuala Lumpur which represent Central Region make up about 38.6% of Malaysia's total economic activity in 2017. Back in 2010, the region only covers about 35.4%. In a simple term, for every RM1 produced in Malaysia in 2017, 39 cents are produced in Selangor and Kuala Lumpur. Increase in GDP share by Selangor and Kuala Lumpur is in line with the rising importance of services sector. Comparatively, services sector constituted about 54.4% in 2017 against 51.2% in 2010 to national GDP. Most notably, the shift was due to indirect effect of tepid growth in petroleum-based economies. For instance, Terengganu and Sarawak hold less share in 2017 as compared to 2010, 2.8% vs 2.6% and 10.6% vs 9.7% respectively. On the other hand, we noticed GDP share of Johor surged by 0.5% in 7 years, underpinned by expansion of petrochemical industries and real estate sector.

**Table 1: GDP Growth Summary by State vs 11<sup>th</sup> Malaysia Plan Target**

	2011	2012	2013	2014	2015	2016	2017	MP-11 Target*
Malaysia	5.3	5.5	4.7	6.0	5.0	4.2	5.9	5.0-6.0
Johor	6.5	6.5	4.7	6.5	5.6	5.7	6.2	5.9
Kedah	8.1	5.6	4.8	4.1	5.6	3.2	5.0	5.8
Kelantan	7.1	5.2	3.3	5.1	3.5	4.8	5.0	4.8
Malacca	5.4	7.0	2.4	7.7	5.5	4.6	8.1	5.5
Negeri Sembilan	5.9	6.0	2.9	3.0	4.4	3.5	4.9	5.1
Pahang	6.3	5.0	5.4	4.1	4.5	2.0	7.8	5.7
Penang	5.4	4.5	5.1	8.0	5.5	5.6	5.3	6.1
Perak	7.0	7.4	5.2	4.6	6.0	4.1	5.5	5.9
Perlis	2.7	5.0	3.3	5.1	2.3	3.9	2.3	4.0
Selangor	5.5	7.2	5.8	6.8	5.7	4.8	7.1	6.9
Terengganu	3.3	3.3	4.3	6.0	3.3	3.1	5.9	4.2
Sabah	2.1	3.2	3.3	5.0	6.2	4.7	8.2	4.6
Sarawak	6.4	1.4	4.3	4.4	3.9	2.3	4.7	4.7
Kuala Lumpur	8.7	7.0	6.9	8.5	5.3	5.9	7.4	7.5

Source: DOSM, EPU, MIDFR

\*Average Annual Growth Rate for 2016-2020

**Table 2: GDP Share by State & CAGR (2010-17)**

	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	9.0	9.1	9.2	9.2	9.3	9.3	9.4	9.5	5.9
Kedah	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.3	5.2
Kelantan	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	4.8
Malacca	2.9	2.9	3.0	2.9	3.0	3.0	3.0	3.1	5.8
Negeri Sembilan	3.7	3.7	3.7	3.7	3.6	3.5	3.5	3.5	4.4
Pahang	4.4	4.4	4.4	4.4	4.3	4.3	4.2	4.3	5.0
Penang	6.4	6.5	6.4	6.4	6.5	6.6	6.7	6.6	5.6
Perak	5.3	5.4	5.5	5.5	5.4	5.5	5.5	5.4	5.7
Perlis	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	3.5
Selangor	21.6	21.7	22.0	22.3	22.4	22.6	22.7	23.0	6.1
Terengganu	2.8	2.7	2.7	2.7	2.7	2.6	2.6	2.6	4.2
Sabah	7.1	6.9	6.7	6.6	6.6	6.6	6.7	6.8	4.6
Sarawak	10.6	10.7	10.3	10.3	10.1	10.0	9.8	9.7	3.9
Kuala Lumpur	13.8	14.2	14.4	14.7	15.1	15.1	15.3	15.6	7.1

Source: DOSM, EPU, MIDFR

**Agriculture sector rebounded soundly.** Agriculture sector improve by 7.2% in 2017 from contraction of -5.1% in the year before. Better recovery in global commodity prices and higher-than-expected demand from China and India are key drivers boosting the performance of agriculture sector last year. Particularly, agriculture-important states in Peninsular Malaysia show solid rebound with Johor, Pahang and Perak recorded 8.8%, 12% and 9.6% respectively in 2017. Oppositely, agriculture sector in Sabah and Sarawak expand at rate lower than national average, 5.7% and 1.4% respectively last year.

**Sabah is losing out agriculture share.** Based on our estimate, Sabah's agriculture sector experienced contractions by -0.9% annually from 2011 to 2017. Hence, this leads to a drop of Sabah's contribution to national agriculture output from 19.2% in 2010 to 15.5% in 2017. On a flip side, other states like Johor, Pahang, Perak and Sarawak had higher of agriculture contributions in 2017 especially with the help of steady growth rate since 2010. For instance, Johor's annual growth rate is 2.9%, higher than overall Malaysia's speed of 2.1%.

**Table 3: Agriculture Growth Rate by State (%)**

	2011	2012	2013	2014	2015	2016	2017
Malaysia	6.8	1.0	2.0	2.0	1.3	(5.1)	7.2
Johor	6.8	3.6	2.4	3.5	0.5	(4.6)	8.8
Kedah	8.4	1.1	3.1	(1.9)	11.1	(8.7)	7.1
Kelantan	7.8	0.5	0.1	2.1	(0.6)	2.9	4.7
Malacca	7.2	4.8	7.2	4.3	5.7	3.7	6.8
Negeri Sembilan	5.8	3.0	(0.8)	(4.2)	14.2	(6.9)	8.0
Pahang	8.0	0.8	5.2	(0.3)	1.4	(6.1)	12.0
Penang	6.0	5.0	2.7	4.0	2.0	(2.8)	2.2
Perak	6.8	2.4	(1.1)	1.8	6.5	(3.5)	9.6
Perlis	(5.9)	1.6	(2.5)	4.1	(1.7)	2.9	3.5
Selangor	1.7	5.9	(2.4)	(5.9)	(2.7)	(6.3)	13.1
Terengganu	3.8	(2.4)	0.0	(4.4)	(0.5)	(6.1)	11.2
Sabah	6.9	(5.8)	2.6	2.9	(6.1)	(11.1)	5.7
Sarawak	8.9	3.7	2.3	8.2	2.0	(2.5)	1.4

Source: DOSM, EPU, MIDFR

**Table 4: Agriculture Share by State & CAGR (2010-17)**

	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	15.1	15.1	15.5	15.5	15.8	15.6	15.7	15.9	2.9
Kedah	5.3	5.4	5.4	5.5	5.3	5.8	5.6	5.6	2.7
Kelantan	5.4	5.5	5.4	5.3	5.3	5.2	5.7	5.6	2.4
Malacca	3.1	3.1	3.2	3.4	3.5	3.6	3.9	3.9	5.7
Negeri Sembilan	4.1	4.0	4.1	4.0	3.8	4.2	4.2	4.2	2.5
Pahang	12.1	12.3	12.3	12.7	12.4	12.4	12.3	12.8	2.9
Penang	1.5	1.5	1.6	1.6	1.6	1.6	1.7	1.6	2.7
Perak	10.4	10.4	10.5	10.2	10.2	10.7	10.9	11.1	3.1
Perlis	1.4	1.2	1.2	1.1	1.2	1.1	1.2	1.2	0.2
Selangor	4.7	4.5	4.7	4.5	4.2	4.0	3.9	4.2	0.3
Terengganu	3.2	3.1	3.0	2.9	2.7	2.7	2.7	2.8	0.1
Sabah	19.2	19.2	17.9	18.0	18.1	16.8	15.8	15.5	(0.9)
Sarawak	14.3	14.6	15.0	15.0	15.9	16.0	16.5	15.6	3.3

Source: DOSM, EPU, MIDFR

**Mining & quarrying sector gives positive signal.** Despite of slow growth at 1.1%, the outlook for mining & quarrying sector is bright amid of steady recovery in global commodity prices. Brent crude oil price, as mostly referred, recorded at average of \$77.3 in May-18, up by 50.2%yoy. Petroleum-driven states such as Terengganu, Sabah and Sarawak registered solid growth of 9.1%, 14.9% and 3.4% respectively for each mining & quarrying sector.

**Expecting positive spillover effects.** With the steady recovery commodity prices, we foresee further positive spillover effects towards the overall Malaysia's economic activity particularly via increase in employment growth, stable wage growth and improve government's revenues. Tun Mahathir-led government, among its promises is to reduce foreign workers and prioritize local workers. Hence, the structural change in labor market will indirectly boost domestic demand.

**Table 5: Mining & Quarrying Growth Rate by State (%)**

	2011	2012	2013	2014	2015	2016	2017
Malaysia	(4.9)	1.6	1.2	3.3	5.3	2.2	1.1
Johor	3.9	19.0	14.5	13.3	10.7	19.3	15.1
Kedah	5.4	20.3	15.5	14.6	9.6	14.6	14.5
Kelantan	6.4	19.5	14.5	13.7	7.7	11.7	16.7
Malacca	4.0	19.2	12.9	17.1	7.3	20.5	7.6
Negeri Sembilan	3.8	16.7	14.3	13.9	6.1	18.4	9.8
Pahang	11.1	9.5	6.4	21.2	81.2	(33.3)	19.3
Penang	6.1	14.3	15.0	13.0	3.8	9.3	6.2
Perak	9.0	19.2	11.5	10.9	(33.5)	16.4	5.9
Perlis	6.5	15.2	0.0	0.0	7.9	(9.8)	8.3
Selangor	4.3	15.2	11.9	11.8	4.1	28.7	7.6
Terengganu	11.4	17.9	15.2	11.3	(5.1)	8.9	9.1
Sabah	(14.5)	10.3	2.7	5.7	25.4	20.6	14.9
Sarawak	4.7	(7.2)	6.4	1.5	0.3	(2.8)	3.4
Kuala Lumpur	6.6	14.8	11.8	11.5	10.3	9.4	12.8

Source: DOSM, EPU, MIDFR

**Table 6: Mining & Quarrying Share by State & CAGR (2010-17)**

	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.6	13.6
Kedah	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	13.4
Kelantan	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	12.8
Malacca	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	12.5
Negeri Sembilan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	11.7
Pahang	0.4	0.5	0.5	0.6	0.7	1.2	0.8	0.9	12.4
Penang	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	9.6
Perak	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	4.0
Perlis	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7
Selangor	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.7	11.7
Terengganu	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	9.6
Sabah	15.7	14.1	15.3	15.5	15.9	18.9	22.4	25.4	8.6
Sarawak	25.2	27.7	25.3	26.6	26.1	24.9	23.7	24.2	0.8
Kuala Lumpur	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	11.0

Source: DOSM, EPU, MIDFR

\*Other Mining & Quarrying Sector Parked Under Supra Account

**Thanks to robust external trade performance.** Manufacturing output across all states in Malaysia improved significantly in 2017. Solid expansion in manufacturing sector is in line with the soaring exports and imports growths of 19.3% and 20.4% respectively last year. Underpin by strong global demand, exports to major economies like China, EU and the US rose to double-digit rate by 30.2%, 19.8% and 10.7% respectively in 2017. Consequently, Malaysia's overall IPI and manufacturing sales increase by 4.4% and 13.9% accordingly last year. Moving forward, we forecast exports and IPI to expand by 9.3% and 4.3% in 2018. We opine global trade activity to remain on upbeat momentum due to receding trade war effects, steady global demand, optimistic business environment globally and gradual rise in commodity prices.

**Petrochemical and distribution hubs.** Since 2015, manufacturing sector in Johor has been expanding at faster than national's rate. This is line with the pick-up in manufacturing projects and investments made in the state. According MIDA, for 5-consecutive years Johor has been the highest investments recipient since 2013. The average investments approved value during the half decade period is RM23bn. Besides Johor, states like Selangor, Sarawak and Penang are the major investment recipients. For the period of Post-GFC, for every RM1 of investment, 27 cents in Johor, 16 cents in Selangor, 13 cents in Sarawak and 12.5 cents in Penang. Looking ahead, we foresee investment flows will improve further especially in petroleum-related states such as Johor, Sarawak, Terengganu and Sabah. In addition, Malaysia's re-exports to total exports ratio hits the highest in Apr-18 at 24%, indirectly due to the increase in number of distribution hubs. Hence, we expect states that are heavily exposed to external trade activities such as Selangor and Penang will see continuous of solid investment flows and projects.

**Table 7: Manufacturing Growth Rate by State (%)**

	2011	2012	2013	2014	2015	2016	2017
Malaysia	5.4	4.4	3.4	6.1	4.9	4.4	6.0
Johor	4.7	5.7	4.3	5.5	5.9	5.5	6.8
Kedah	10.4	6.9	3.5	3.8	1.8	4.5	4.2
Kelantan	4.3	2.9	(0.1)	1.9	0.8	2.2	9.1
Malacca	3.2	5.7	(0.7)	9.9	6.6	4.0	6.7
Negeri Sembilan	6.8	5.4	0.2	0.7	1.6	3.0	3.1
Pahang	4.4	7.4	3.9	3.4	1.5	3.9	6.5
Penang	3.8	1.6	4.1	9.5	6.9	5.4	5.7
Perak	10.0	5.2	6.9	7.3	5.6	5.1	8.0
Perlis	13.1	5.0	3.9	4.0	3.2	(2.1)	2.3
Selangor	4.9	5.3	3.6	6.5	5.4	4.3	7.9
Terengganu	(0.3)	4.3	2.6	8.1	7.4	7.3	3.8
Sabah	6.7	(1.1)	4.7	7.5	0.3	(3.7)	5.3
Sarawak	6.6	1.3	2.7	4.0	3.6	4.5	3.5
Kuala Lumpur	13.0	8.4	10.2	10.7	7.2	2.8	1.2

Source: DOSM, EPU, MIDFR

**Table 8: Manufacturing Share by State & CAGR (2010-17)**

	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	12.2	12.1	12.3	12.4	12.3	12.4	12.6	12.7	5.5
Kedah	4.1	4.3	4.4	4.4	4.3	4.2	4.2	4.1	5.0
Kelantan	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	3.0
Malacca	5.3	5.2	5.3	5.1	5.2	5.3	5.3	5.3	5.0
Negeri Sembilan	6.9	6.9	7.0	6.8	6.4	6.2	6.2	6.0	3.0
Pahang	4.2	4.2	4.3	4.3	4.2	4.1	4.1	4.1	4.4
Penang	12.6	12.4	12.1	12.2	12.6	12.8	12.9	12.9	5.3
Perak	3.9	4.1	4.1	4.3	4.3	4.3	4.4	4.5	6.9
Perlis	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	4.1
Selangor	28.5	28.4	28.6	28.7	28.8	28.9	28.9	29.4	5.4
Terengganu	4.3	4.1	4.1	4.0	4.1	4.2	4.3	4.2	4.7
Sabah	2.5	2.5	2.4	2.4	2.5	2.4	2.2	2.2	2.7
Sarawak	12.5	12.7	12.3	12.2	12.0	11.8	11.8	11.5	3.7
Kuala Lumpur	1.8	1.9	2.0	2.1	2.2	2.3	2.2	2.1	7.6

Source: DOSM, EPU, MIDFR

**Imbalance growth.** Expansion rate of construction sector across all states in Malaysia varies. Nationally, the sector increases by 6.7% in 2017. Malacca had the highest growth rate of 72.2%, followed by 38.7% in Terengganu and 20% in Sarawak. On a flip side, Perlis had the largest contraction of -42.7% and Perak by -24.3%. By average annual rate, Malaysia's construction sector recorded 9.6% during the period of 2011-2017. Out of all states, there are only four states namely Kuala Lumpur, Johor, Pahang and Malacca that have higher expansion rate than national average for the corresponding period.

**Heavy construction activity in Selangor, Johor and Kuala Lumpur.** We observe significant jump in construction share by Kuala Lumpur, from 18.7% in 2010 to 27% in 2017. Another one is Johor in which up to 12.4% last year. Nevertheless, Selangor's construction sector remains dominant at 29.3% even though slight deceleration from 32.9% in 2011. Among others, the rise of non-residential projects in Johor and Kuala Lumpur are the driving force for the changing share of Malaysia's construction sector. For instance, 29.9% of non-residential projects in Malaysia are developed in these two states in 2016. Overall, almost half of total construction projects are located in Selangor (21.4%), Johor (16.5%) and Kuala Lumpur (10.1%).

**Table 9: Construction Growth Rate by State (%)**

	2011	2012	2013	2014	2015	2016	2017
Malaysia	4.6	18.1	10.6	11.7	8.2	7.4	6.7
Johor	(0.8)	17.4	8.0	33.3	26.4	24.0	(6.6)
Kedah	0.7	10.9	(10.7)	(8.8)	22.6	16.0	(7.1)
Kelantan	(0.9)	10.9	(19.6)	6.5	20.9	29.8	(9.3)
Malacca	1.5	56.0	(23.6)	(5.7)	3.6	5.6	72.2
Negeri Sembilan	4.9	12.6	2.6	17.0	(6.7)	9.8	16.8
Pahang	(2.7)	13.9	6.0	17.9	3.4	29.7	18.3
Penang	5.0	21.7	(0.6)	13.0	(3.3)	10.4	(10.1)
Perak	0.6	51.0	20.0	(6.7)	4.8	8.3	(24.3)
Perlis	(3.7)	(8.4)	3.5	21.8	(12.3)	9.6	(42.7)
Selangor	8.6	10.7	15.2	11.8	7.1	(2.0)	8.0
Terengganu	(2.8)	19.4	5.2	(1.1)	(22.0)	2.0	38.7
Sabah	7.4	13.0	(13.6)	4.2	(2.3)	(3.2)	(1.7)
Sarawak	(1.3)	21.3	1.7	(6.0)	20.3	(5.2)	20.0
Kuala Lumpur	6.9	22.0	27.6	18.0	9.3	12.8	12.8

Source: DOSM, EPU, MIDFR

**Table 10: Construction Share by State & CAGR (2010-17)**

	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	9.6	9.1	9.0	8.8	10.5	12.3	14.2	12.4	13.7
Kedah	2.1	2.0	1.9	1.5	1.3	1.4	1.5	1.3	2.7
Kelantan	1.1	1.1	1.0	0.7	0.7	0.8	0.9	0.8	4.2
Malacca	2.3	2.2	3.0	2.0	1.7	1.7	1.6	2.6	11.6
Negeri Sembilan	3.0	3.1	2.9	2.7	2.8	2.4	2.5	2.7	7.8
Pahang	3.3	3.1	3.0	2.9	3.0	2.9	3.5	3.9	11.9
Penang	5.3	5.3	5.4	4.9	5.0	4.4	4.5	3.8	4.7
Perak	4.4	4.2	5.4	5.8	4.9	4.7	4.8	3.4	5.6
Perlis	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.2	(6.8)
Selangor	31.7	32.9	30.8	32.1	32.1	31.8	29.0	29.3	8.4
Terengganu	2.9	2.7	2.7	2.6	2.3	1.6	1.6	2.0	4.2
Sabah	6.6	6.8	6.5	5.1	4.7	4.3	3.9	3.6	0.2
Sarawak	8.1	7.6	7.8	7.2	6.1	6.7	6.0	6.7	6.6
Kuala Lumpur	18.7	19.1	19.7	22.8	24.0	24.3	25.5	27.0	15.4

Source: DOSM, EPU, MIDFR

**Steady pace across all states.** Services sector across all states stay on steady momentum underpin by stable job market and sturdy wage growth. Johor saw the highest expansion in services sector by 6.7% while Perlis registered the slowest pace of 4% in 2017. Looking at job market, employment in Johor grew by 2.2% while the most north state of Malaysia saw employment contracted by -2.2% last year. Based on the latest salaries & wages survey 2017, overall median wage in Malaysia rose by 4.2% (Inflation-Adjusted) to RM2,160 per month. The highest salary is RM2,650 in Kuala Lumpur, followed by RM2,580 in Selangor and RM2,250 in Johor whereas the lowest is RM1,500 in Kelantan. Out of 14 states, only 5 states recorded median salary equivalent and above the national level.

**Half of services sector centered in KL and Selangor.** In 2010, Selangor and Kuala Lumpur held about 49.6% of total services sector in Malaysia. After 7 years, the share rose to 50.2% given that 25.3% in Selangor and 24.9% in Kuala Lumpur. This is explainable as average annual growth rate of both states are higher than national average, 6.4% vs 6.2%. The fast growing services sector in these states is among key factors contributing towards state imbalances in Malaysia. Economic focus points have been heavily centered in Selangor and Kuala Lumpur over the years. Looking at job market, there is no significant structural change in the market given that Selangor remains the host of employment in Malaysia. In fact, the share of employment by the state increases strongly from 18.6% in 2003 to 23.3% in 2017. 10 out of all states experienced drop in employment share when compared between 2003 and 2017. Employment share of Johor, Kuala Lumpur and Penang fell the most by -1.7%, -1.4% and -1.1% respectively.

**Table 11: Services Growth Rate by State (%)**

	2011	2012	2013	2014	2015	2016	2017
Malaysia	7.0	6.5	5.9	6.6	5.1	5.6	6.2
Johor	8.3	7.0	4.3	6.8	4.6	5.8	6.7
Kedah	7.2	5.9	6.7	6.4	5.3	5.3	5.4
Kelantan	7.3	7.3	5.6	6.4	4.9	5.0	5.0
Malacca	7.2	5.8	6.2	7.4	4.2	5.1	5.6
Negeri Sembilan	5.5	6.9	3.8	5.5	5.4	5.4	4.9
Pahang	6.7	5.8	6.1	5.9	5.2	5.4	6.2
Penang	6.8	6.0	6.3	6.5	4.7	5.6	5.6
Perak	6.5	7.6	5.8	5.4	6.3	5.6	5.6
Perlis	6.7	6.5	5.2	4.8	4.4	4.8	4.0
Selangor	5.3	7.3	6.7	6.8	5.6	6.0	6.8
Terengganu	6.2	2.9	6.3	7.3	2.8	1.7	4.4
Sabah	8.0	6.2	5.3	5.5	5.2	5.7	5.6
Sarawak	7.4	6.2	5.5	6.0	5.8	6.7	6.3
Kuala Lumpur	8.3	6.1	6.0	7.2	4.7	5.5	6.6

Source: DOSM, EPU, MIDFR



**Table 12: Services Share by State & CAGR (2010-17)**


	2010	2011	2012	2013	2014	2015	2016	2017	CAGR%
Johor	8.2	8.3	8.3	8.2	8.2	8.2	8.2	8.2	6.2
Kedah	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.3	6.0
Kelantan	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	5.9
Malacca	2.6	2.6	2.5	2.5	2.6	2.5	2.5	2.5	5.9
Negeri Sembilan	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.8	5.3
Pahang	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.8	5.9
Penang	6.1	6.1	6.0	6.1	6.1	6.0	6.0	6.0	5.9
Perak	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Perlis	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	5.2
Selangor	25.0	24.6	24.8	24.9	25.0	25.1	25.2	25.3	6.4
Terengganu	2.6	2.6	2.5	2.5	2.5	2.5	2.4	2.3	4.5
Sabah	5.1	5.1	5.1	5.1	5.0	5.0	5.0	5.0	5.9
Sarawak	6.2	6.2	6.2	6.2	6.1	6.2	6.2	6.2	6.3
Kuala Lumpur	24.6	24.9	24.8	24.8	24.9	24.8	24.8	24.9	6.4

Source: DOSM, EPU, MIDFR

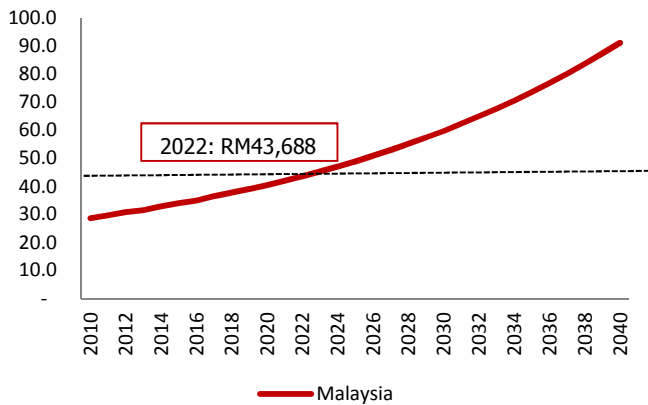
**Towards 2020.** Referring to the eleventh Malaysia plan, the targeted Real GDP and population are RM1.4 trillion and 32.4 million respectively by 2020. With that, the GDP per capita in 2020 is at RM43,560. Thus, the GDP per capita level is used as a benchmark. For long term growth forecast, we assume every state expands at an average speed based on each CAGR (Compounded Annual Growth Rate) of 2010-2017. As for population growth, long term projections made by DOSM is adopted.

**Malaysia to achieve the 2020-target by 2022.** Based on the current momentum, GDP per capita of Malaysia is projected to breach RM43,560 by 2 years after 2020. Real GDP value is expected to be at RM1.5 trillion and population at 34.7 million. If Malaysia wants to reach the GDP per target by 2020, the economy need to expand at a rate of 7.85% - 8.0% annually starting from 2018 till 2020. There are 3 states achieving the 2020-target in between 2020-2025. Negeri Sembilan is expected to reach the GDP per capita target by 2023 while Malacca and Sarawak to reach in 2020.

**Penang and Selangor hit the target before 2020.** Out of all states except Kuala Lumpur, Penang has achieved the target last year while Selangor in 2018. The average annual economic growth in Penang and Selangor are 5.6% and 6.1% respectively, higher than Malaysia's of 5.2%. The strong pace indirectly supports both states to reach the GDP per capita target prior to 2020. Plus, export-oriented and manufacturing-based industries are key pillars in generating economic activities in these states.

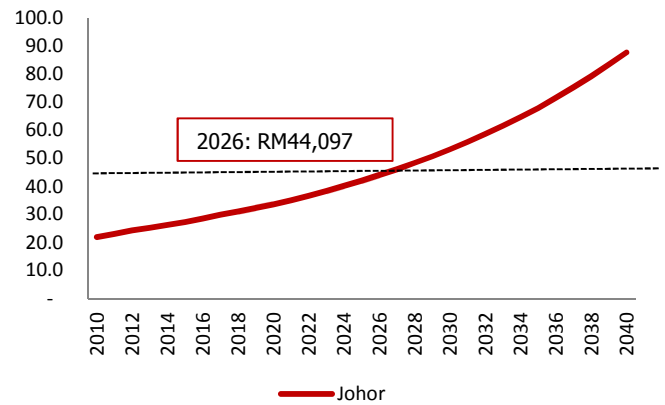
**Infrastructure-led economic development to spearhead overall economic expansion.** We opine the construction of railways and highways in Malaysia will drive up economic development and expansion in the long term. For instance, East Coast Railway and Pan-Borneo Highway would be catalyst of economic growth especially for states like Kelantan, Terengganu and Pahang while Sabah and Sarawak to benefit from the longest-highway in Malaysia. Apart from that, changes in Malaysia's economic policies which aim towards reducing poverty and inequality will uplift economic development in most states. As guided by PH's manifesto to raise minimum wage to RM1,500, rationalization of income distribution and tightening labor laws are some of the economic policies proposed by the government in improving income level and household spending power. 

**Chart 1: Malaysia to reach 2020-Target by 2022**



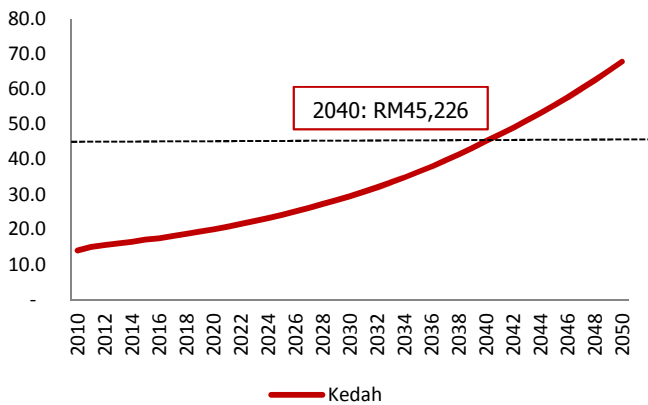
Source: DOSM; MIDFR

**Chart 2: Johor to reach 2020-Target by 2026**



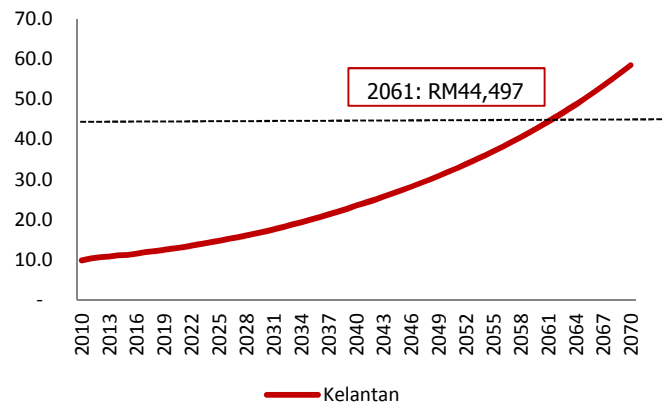
Source: DOSM; MIDFR

**Chart 3: Kedah to reach 2020-Target by 2040**



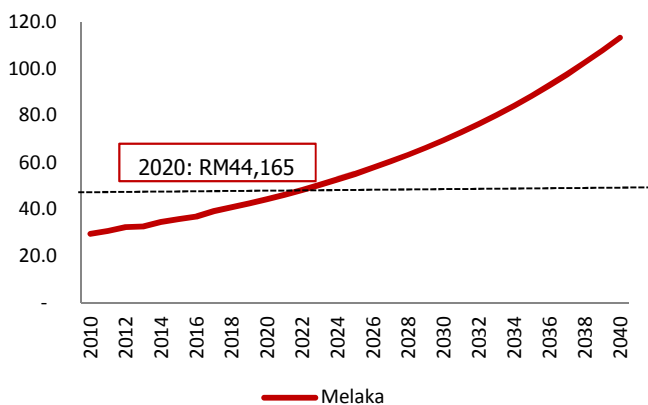
Source: DOSM; MIDFR

**Chart 4: Kelantan to reach 2020-Target by 2061**



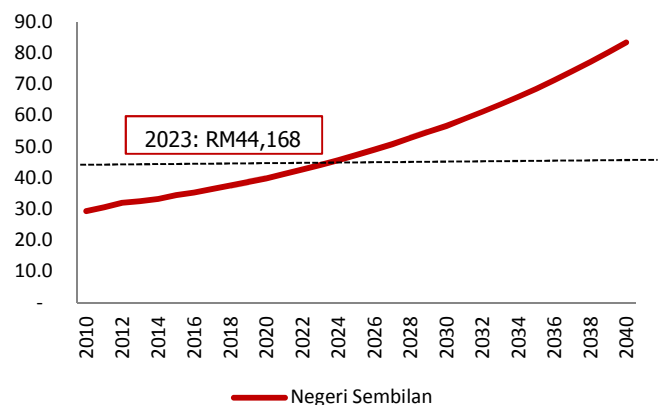
Source: DOSM; MIDFR

**Chart 5: Malacca to reach 2020-Target by 2020**



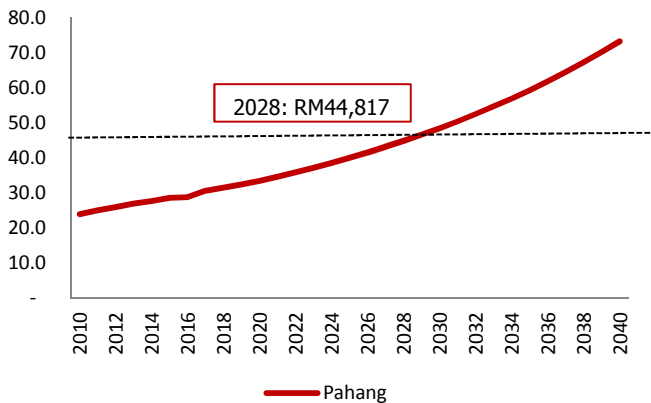
Source: DOSM; MIDFR

**Chart 6: Negeri Sembilan to reach 2020-Target by 2023**



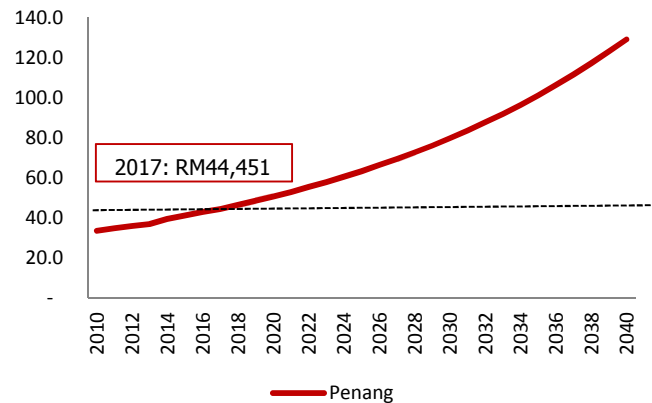
Source: DOSM; MIDFR

**Chart 7: Pahang to reach 2020-Target by 2028**



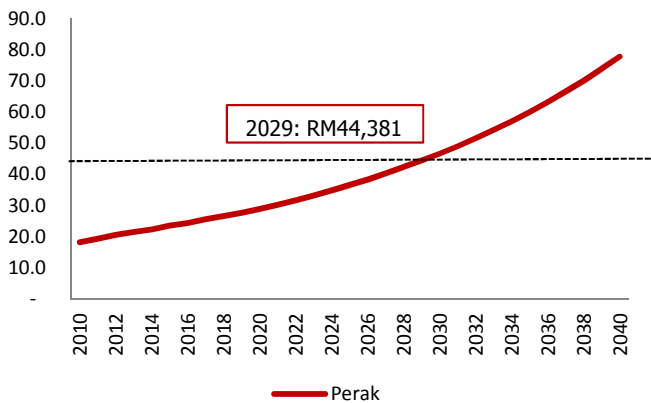
Source: DOSM; MIDFR

**Chart 8: Penang reached 2020-Target in 2017**



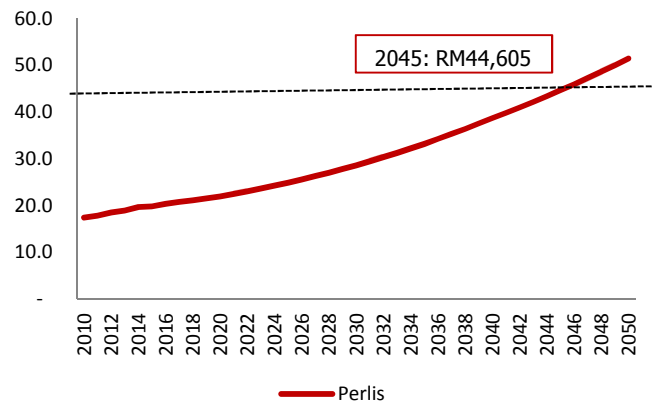
Source: DOSM; MIDFR

**Chart 9: Perak to reach 2020-Target by 2029**



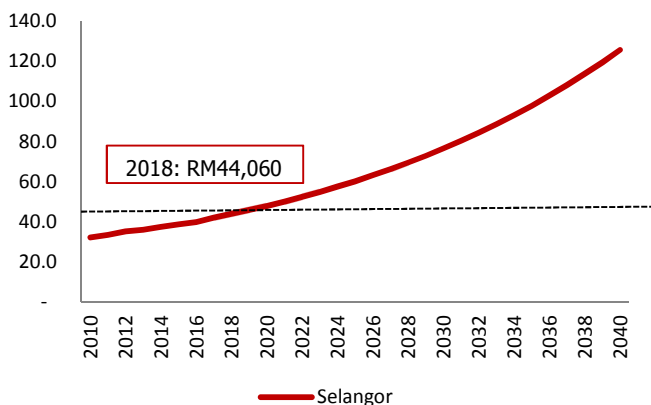
Source: DOSM; MIDFR

**Chart 10: Perlis to reach 2020-Target by 2045**



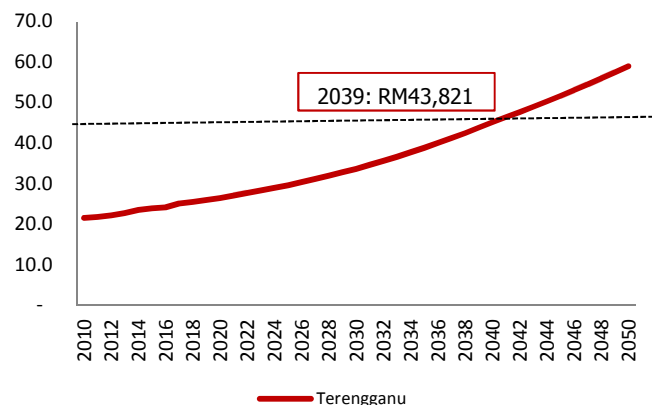
Source: DOSM; MIDFR

**Chart 11: Selangor to reach 2020-Target by 2018**



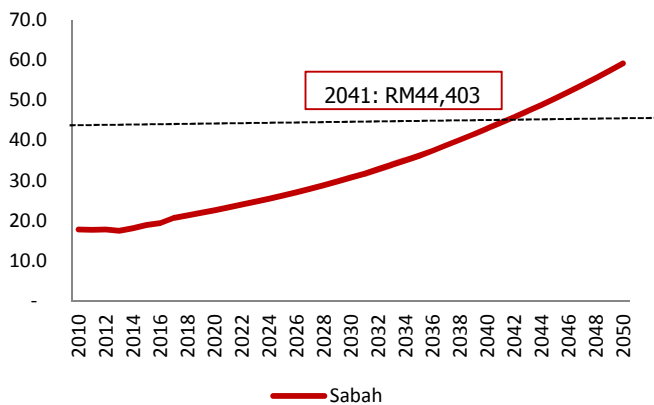
Source: DOSM; MIDFR

**Chart 12: Terengganu to reach 2020-Target by 2039**



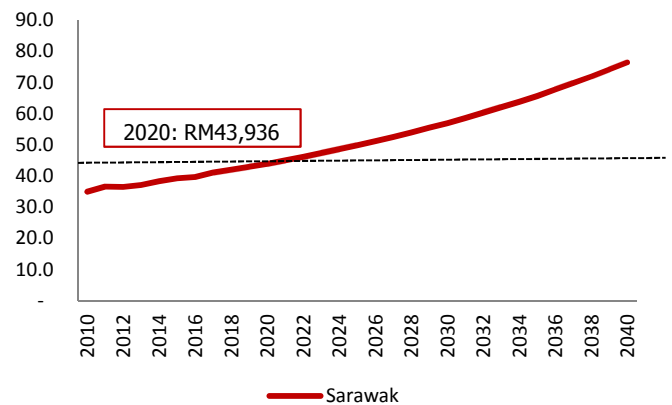
Source: DOSM; MIDFR

**Chart 13: Sabah to reach 2020-Target by 2041**



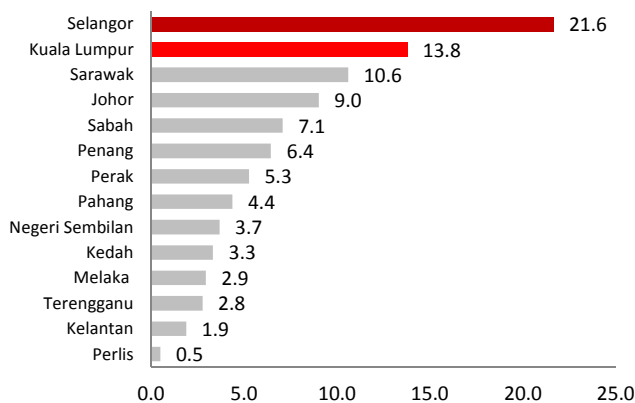
Source: DOSM; MIDFR

**Chart 14: Sarawak to reach 2020-Target by 2020**



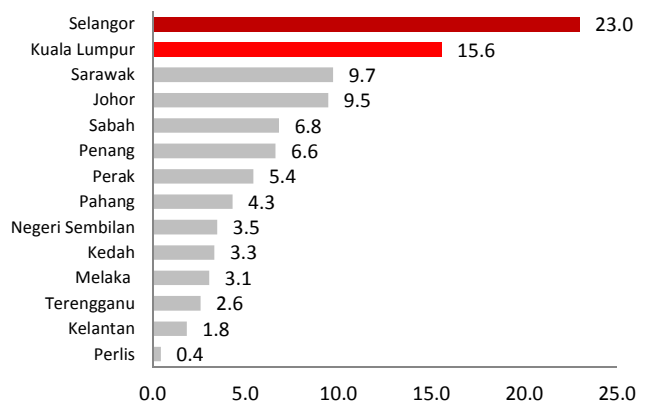
Source: DOSM; MIDFR

**Chart 15: GDP Share by State in 2010 (%)**



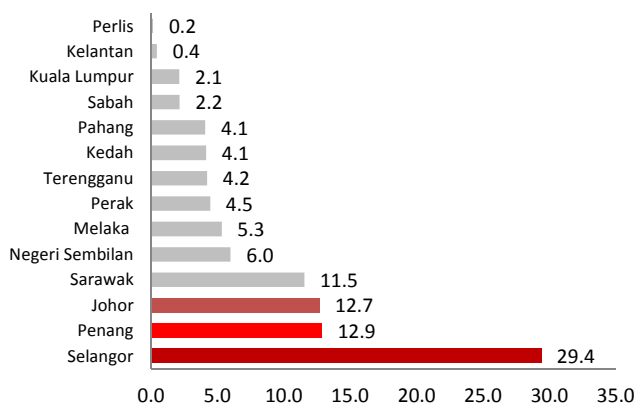
Source: DOSM; MIDFR

**Chart 16: GDP Share by State in 2017 (%)**



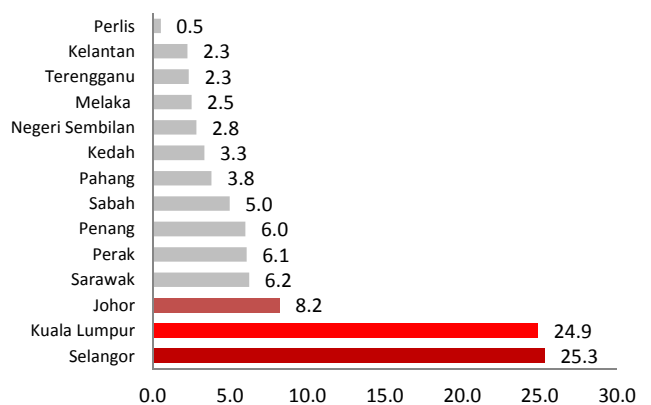
Source: DOSM; MIDFR

**Chart 17: Manufacturing Share by State in 2017 (%)**



Source: DOSM; MIDFR

**Chart 18: Services Share by State in 2017 (%)**



Source: DOSM; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.