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## **EXECUTIVE SUMMARY**

The Southeast Asian economy is enjoying an economic revival in 2022 as borders reopen, social distancing measures are ratcheted back, and businesses return to more "normal" operations in the transition to a post-pandemic environment. Sat at the heart of this national economy is the agri-food industry, which has played a crucial role in the country's resilience throughout the past two years of the pandemic and is central to its future trajectory, too. The sector not only puts food on the table for the region's population, but also provides income and employment for a large portion of its workforce and a multitude of opportunities to businesses at each stage of the agri-food value chain.

As the industry looks forward, it faces significant risks on the horizon that threaten its growth. From inflationary pressures to demographics and policy risks, the implications matter not only to the livelihoods of agri-food industry entrepreneurs and employees but, given the size of the sector and its role in supply chains, the wider economy too.

Oxford Economics was commissioned by Food Industry Asia (FIA) to assess the total economic impact in 2021 of the agrifood sectors in five major Southeast Asian economies: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. In this report, we unpack the importance of the sector's contribution to the Malaysian economy, and its future trajectory.



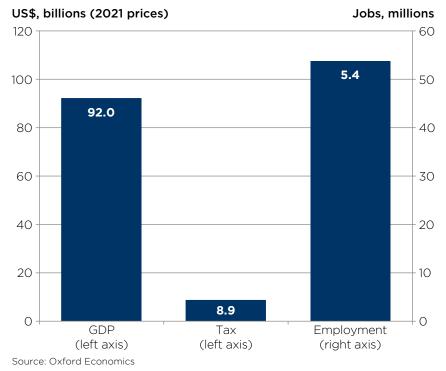
#### THE AGRI-FOOD SECTOR'S ECONOMIC IMPACT

In this analysis, we fine the agri-food sector to be the combination of three components: agricultural production; food and beverage (F&B) manufacturing; and F&B distribution (including wholesale, retail, and hospitality services).

The Malaysian agri-food sector grew significantly in 2021, contributing approximately USD 92.0 billion to Malaysian GDP. This economic footprint represented over a quarter of the domestic economy that year. From the employment perspective, the agri-food sector sustained 5.4 million jobs in 2021, with Malaysia's agri-food sector boasting the highest labour productivity of any of the five countries in our regional study. In addition, agri-food activities supported tax revenues totalling USD 8.9 billion.



Fig. 1: Total economic contribution of the agri-food sector in Malaysia, 2021



Total number of jobs supported by the agri-food sector in Malaysia in 2021.

Agricultural production activities accounted for 47% of the Malaysian agri-food sector's economic footprint in 2021. It contributed USD 42.9 billion to GDP, as the sum of its direct footprint, indirect supply chain impacts and the induced consumer spending from employee wages. The agricultural sector also sustained 2.0 million jobs in 2021, equivalent to 38% of the agri-food sector's overall employment footprint.

Meanwhile, the F&B manufacturing sector contributed USD 27.6 billion to Malaysian GDP in 2021. This represented 30% of the agri-food sector's overall footprint. F&B manufacturing activities also employed 1.1 million people in 2021, or approximately one in every five individuals employed in the agri-food sector that year.

F&B distribution represented the smallest component of Malaysia's agri-food sector in 2021, with an economic contribution worth USD 21.5 billion. This economic footprint included wholesale and retail activities of F&B products as well as catering and accommodation activities in Malaysia. The component also sustained 2.3 million jobs in 2021, with the lion's share of jobs in the catering sector.



The Malaysian agri-food sector has grown rapidly since 2015, with an average growth of 6% per year in real terms. This growth was particularly strong in 2021, attributable to a strong recovery in the agricultural production and F&B manufacturing sectors, post pandemic. However, lags continued in F&B distribution, which has so far failed to regain its pre-COVID levels of output due to impacts of reduced tourism and Movement Control Orders (MCOs). Employment in the agrifood sector has grown steadily to reach 5.4 million jobs in 2021. However, this growth was outstripped by the real-terms growth in the GDP footprint, indicating an improvement in labour productivity.

Malaysia has historically maintained a strong trade surplus in the agri-food sector – a trend that continued in 2021, with a surplus worth USD 9.4 billion. This was largely driven by agricultural products, which had a net export surplus worth USD 12.3 billion. However, processed F&B products also maintained a small trade deficit worth USD 2.9 billion in 2021.

Malaysia's agri-food sector is benefitting from the broader economic recovery underway, even as global and domestic price pressures have picked up. "

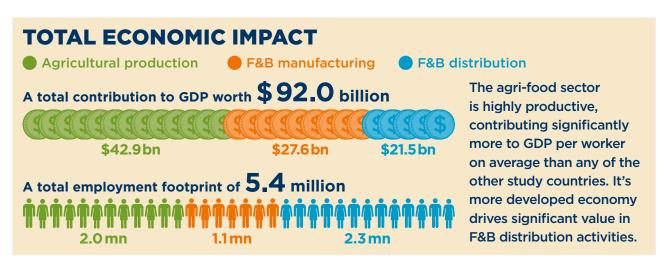
#### **OUTLOOK FOR AGRI-FOOD DEMAND IN MALAYSIA**

Malaysia's agri-food sector is benefitting from the broader economic recovery underway, even as global and domestic price pressures have picked up. And the outlook is positive, with an ongoing recovery in domestic activity and inbound tourism likely to support demand for the sector. Oxford Economics anticipates spending on food and non-alcoholic beverages to grow from USD 55 billion in 2022 to around USD 60 billion in 2025, in 2021 price terms. But challenges remain – especially in helping the sector deal with climate change, as well as the need to start reducing the debt stock accumulated during the pandemic.

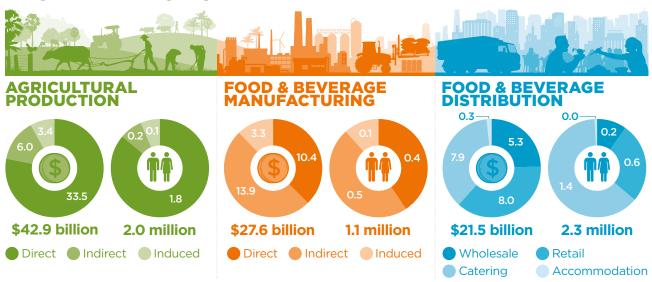


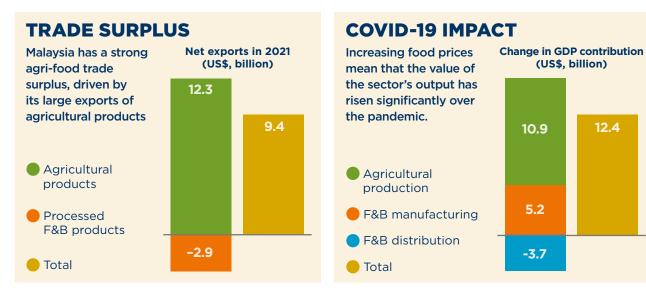
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## FROM FARM TO FORK







## 1. INTRODUCTION

#### 1.1 THE STRUCTURE OF THIS REPORT

This report presents an analysis of the economic contribution that the agrifood sector makes to the Malaysian economy. It is structured in three parts. This chapter details the approach

that we take in our analysis and how the agri-food sector is conceptualised. We then present a full assessment of the sector's economic impact, focussing on 2021, as well as detailing how it has changed over the past eight years. Finally, we go on to examine the current economic picture in the country and, critically, the factors that will influence the demand for agri-food products in the near future.

#### 1.2 HOW WE FRAME OUR ANALYSIS

The supply of food and nonalcoholic beverages in a country relies upon a diverse network of activities, covering the production, processing, distribution, and sale of food and beverage products. In this study, we consider the agrifood sector to encompass all of these activities, representing the food value chain from farm to fork. In this respect, the sector is not only the source of essential goods to the population, but also the backbone to the region's economies.

To quantify the contribution the sector makes to the economy, we focus primarily on its "direct economic impact". This refers to the activities of enterprises directly engaged in one of those three components. We augment this analysis with an assessment of the "indirect economic impact" that flows from each component. This refers to activity within their supply chains. Finally, we assess a third tier of impact, the "induced economic

impact". This refers to the activity supported by employees in the agri-food sector and its supply chain as they spend their wages. More detail on these three channels of impact and how they are estimated is provided in Box 1.

Our analysis is focused primarily on the size of the agri-food sector's economic footprint in 2021—the latest year for which complete economic statistics are available—and we evaluate the historical trend from 2015-2020. This provides us with a clear picture of the state of the agri-food sector in each country prior to the impact of the Covid-19 pandemic, and its performance since.

## Component 1: Agricultural production

The Southeast Asia region is home to some of the world's major agriculture producers. In each of the five economies featured in this study, agricultural production (including both the agriculture

and fishing sectors) makes up a significant proportion of the Gross Domestic Product (GDP). Rice accounts for the largest share of agricultural output, by gross production value, followed by other key commodities such as coffee, cocoa, fruits, vegetables, and maize. Livestock and poultry farming also play a critical role in the production mix. The region is characterised by large coastal or islandbased geographies, and thus also supports large fishing communities, with sizeable seafood production sectors.

Agricultural production also naturally accounts for a huge share of Southeast Asian employment. Despite the sector's moderate wages, agricultural workers typically spend a high proportion of their earnings on local goods and services, thereby creating a significant spending footprint, which manifests itself as a large "induced economic impact" in our analytical framework.



## Component 2: Food and beverage manufacturing

The second major component of the region's agri-food value chain is food and beverage manufacturing, which includes production, processing, and packaging. For the purpose of this study, alcoholic beverages are excluded from this category. A significant number of people

are employed in this sector and its supply chain, going on to spend some portion of their income in their local economy, which stimulates a wider induced economic impact.

## Component 3: Food and beverage distribution

The third and final stage of the agri-food value chain

is the distribution of food and beverage products to consumers. This involves the wholesale and retail activities linked to distribution, as well as activities in the hospitality sector, such as events catering and restaurants.

#### **BOX 1: OUR APPROACH TO ECONOMIC IMPACT ASSESSMENT**

In this report, we use a bespoke economic impact modelling framework to analyse the contribution the agri-food sector makes to the economies of Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. Our assessment captures three channels of impact.

Firstly, we assess the direct economic impact of the businesses and workers directly involved in the agri-food sector itself—that includes agricultural production, F&B manufacturing, and F&B distribution,

For the agricultural production and F&B manufacturing components, we also capture two further channels of impact, as summarised in Fig. 2.

- The indirect economic impact refers to the economic activity stimulated along the agri-food sector's non-food supply chain, from procurement spending.
- The induced economic impact refers to the economic activity that flows from the payment of wages in the agri-food sector and the businesses in its non-food supply chain. Those wages are spent in the local economy, for example in retail and leisure outlets, generating profits and wages for other businesses, which in turn stimulate further spending in their own supply chains and amongst their own employees.

The total economic impact of the agri-food sector encompasses all of these impacts, and we present the impact in three ways:

- Gross value added (GVA) contribution to Gross Domestic Product (GDP). This is the value of the output produced by a firm minus its expenditure on inputs (goods and services) that are used up in production. Aggregated across all economic operators in the economy, this forms GDP (plus production taxes and subsidies), which is the most widely recognised measure of total economic output.
- Employment. This is measured on a headcount basis to facilitate comparisons with national statistical agencies' employment data. It therefore includes anyone who is paid wages regardless of the length of their working week or whether they work all year round. Those who are paid as part of a contract for the provision of services will be considered as part of the supply chain, for the purposes of this study.
- Tax receipts. This is an estimate of all income and corporation tax revenues generated by firms and employees that form part of the economic footprint.

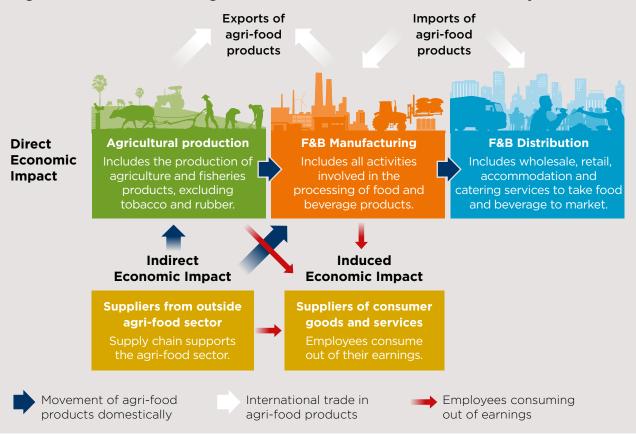


Our results are presented on a gross basis. They therefore ignore any displacement of activity from other uses of the land, for example. They do not consider what those resources currently used by the agri-food sector, or by their suppliers, could produce in the absence of the sector's activity.

We present our results in real terms, using 2021 price levels and a 2021 USD exchange rate, for the purposes of consistent international comparison. When adjusting prices to real terms, we use official price deflators based on economy wide inflation trends. We are cognisant that inflation rates are not uniform across all sectors of the economy and that if we were to use sector-specific price deflators—especially for the agriculture sector, which is characterised by more

volatile prices than the weighted national average—the implied 2021 value of the agrifood sector's economic footprint would look different. Rising prices mean the value of the agriculture sector's economic impact would rise, even if output remains static. Nevertheless, in our judgement, the soundest approach to normalising price levels is to use the national, not sectoral price deflator. This is because our analysis is designed to capture the ways in which the value that the agrifood sector generates reaches across sectors and permeates through the whole economy. Sector-specific price indices would skew this picture. For the purposes of transparency, when we observe trends in the volume of agricultural output that contradict our analysis of the value of economic output in this study. we caveat our findings appropriately.

Fig. 2. The contribution the agri-food makes to the Southeast Asian economy







# 2. THE AGRI-FOOD SECTOR'S IMPACT IN MALAYSIA

The agri-food sector plays a major role in the Malaysian economy, providing jobs, tax revenues and food security to the nation. This is underpinned by a strong agricultural sector, which is a net exporter of food products. As one of the most economically developed countries in Southeast Asia. Malavsia's strong consumer base also drives relatively high levels of demand in the restaurants and retail outlets of the F&B distribution sector. High levels of labour productivity in key sectors such as agriculture mean the agrifood sector does not dominate. the domestic workforce as much as in other Southeast Asian economies, instead freeing up workers to add value in other parts of the economy.

In this chapter, we map out the economic footprint of the agri-food sector in Malaysia and its different components. We then go on to analyse its trajectory over recent years and the impact the Covid-19 pandemic had on the sector's performance, before considering Malaysia's international trade position in agri-food products.

All values are quoted in US dollars, adjusted to keep prices and exchange rates constant at 2021 levels. This enables comparability across the years and the five markets in this report. As is detailed in

Box 1, we adjust prices based on economy-wide, rather than sector-specific inflation indices, because our analysis is designed to capture the agri-food sector's impact throughout the whole economy.

#### 2.1 THE TOTAL ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR

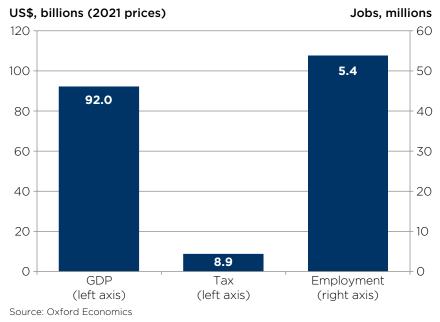
Malaysia's agri-food sector contributed a total of USD 92.0 billion to domestic GDP in 2021. This represented more than one quarter of the domestic economy (25%) and meant that the sector had grown significantly in value relative to the previous year.

This economic activity was responsible for employing a total of 5.4 million people in 2021, representing 35% of all jobs in the economy. Furthermore, the

tax revenues that the sector's activities supported were worth a total of USD 8.9 billion, primarily through income and corporation tax.

Malaysia boasts a highly productive agri-food sector when compared to other countries in our study. In 2021, the sector contributed over USD 17,000 to GDP per worker in its economic footprint, more than double that of any other country in the study.

Fig. 3: Total economic contribution of agri-food sector in Malaysia, 2021





#### 2.2 THE AGRI-FOOD SECTOR IN DETAIL

The economic contribution of the agri-food sector consists of three main components: agricultural production, F&B manufacturing, and F&B distribution. Each of these components made valuable contributions to Malaysia's diversified economy. The largest came through agricultural production, which constituted 47% of the whole sector's contribution to GDP once its supply chain and induced consumer spending impacts were included.

#### 2.2.1 Agricultural production

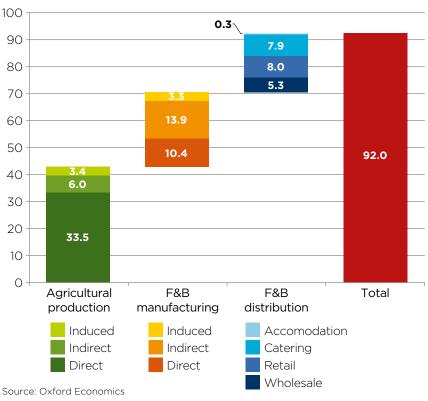
Agricultural production accounted for a large contribution to GDP in 2021, worth USD 42.9 billion and equal to 47% of the entire agrifood sector's footprint. Most of this impact, totalling USD 33.5 billion, came directly from the activities of agricultural producers, with a further USD 6.0 billion sustained indirectly through the supply chain and USD 3.4 billion through the induced consumption activity generated by employees spending their earnings.

also responsible for a large employment footprint, sustaining 2.0 million jobs in 2021. This represented 38% of all jobs sustained by the Malaysian agri-food sector that year, with the largest portion (1.8 million) employed directly within the sector and a further 280,000 employed through associated indirect and induced activities. The agricultural sector's relatively small share of the agri-food sector's overall employment footprint illustrates the high labour productivity in the sector. Malaysia boasts a high contribution to GDP per worker, three-times that of the next most productive country in our study.

The agricultural sector was

## Fig. 4: Agri-food industry contribution to Malaysian GDP, by component, 2021

## US\$, billions (2021 prices)



Alongside the GDP and employment footprints, the agricultural sector was responsible for a total tax footprint worth USD 3.6 billion.

## 2.2.2 Food and beverage manufacturing

In 2021, the food and non-alcoholic beverage manufacturing sector contributed a total of USD 27.6 billion to domestic GDP, representing 30% of the entire agri-food sector's footprint. The direct activities of F&B manufacturers contributed USD 10.4 billion of this impact, with the remaining USD 17.2 billion coming from the indirect and induced contributions.



Alongside this GDP contribution, F&B manufacturing boasted a total employment footprint of 1.08 million jobs in 2021 – one fifth of the whole agrifood sector's total. The direct activities of F&B manufacturers were responsible for sustaining 440,000 of these jobs, with the remainder coming through the sector's supply chain and induced consumer spending channels. The sector was also responsible for contributing USD 3.4 billion in tax revenues.

## 2.2.3 Food and beverage distribution

The third component of the agri-food sector's economic footprint is F&B distribution, which includes the wholesale and retail of F&B products. as well as their consumption in catering establishments and hotels. In 2021, this component of the sector made a contribution of USD 21.5 billion to Malaysian GDP. This represents 23% of the total GDP footprint of the agri-food sector, which is the largest share held by the distribution sector for any country in this study.

Its share of the total was even higher in 2019, representing 32% of the sector. The large relative weight of this component in the agri-food sector reflects the greater consumer spending power of the relatively higherearning Malaysian population.

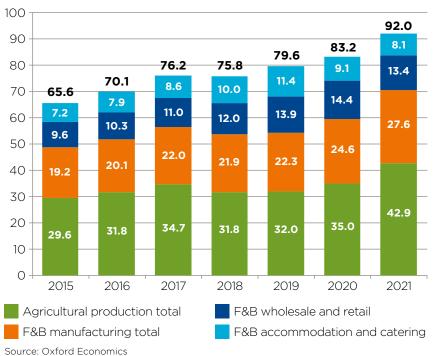
F&B distribution was responsible for sustaining 2.3 million jobs in 2020. The largest portion of these, totalling 1.4 million, came in the catering sector, with a further 600,000 from F&B retail. In addition to this, the sector contributed 2.0 billion in tax revenues.

#### 2.3 THE EVOLUTION OF THE MALAYSIAN AGRI-FOOD SECTOR

The economic footprint of the Malaysian agri-food sector has grown significantly over the last seven years. Its contribution to GDP was 40% larger in 2021 than in 2015. This represents rapid growth, averaging 6% per year in real terms, with every component of the agri-food sector contributing more to GDP in 2021 than in 2015.

Fig. 5: Change in GDP contribution of Malaysian agri-food sector, by component, 2015-2021

US\$, billions (2021 prices)



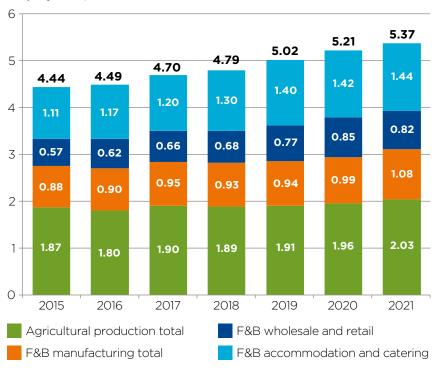


The sector enjoyed particularly strong growth in 2021, driven by the recovery of its agricultural and F&B manufacturing sectors. The strength of this growth masks certain weak spots in the wider sector's performance, notably a decline in the value of agricultural production in 2018 and 2019, and a severe slowdown in F&B distribution as a result of the Covid-19 pandemic-particularly the drop in tourism and the strict Movement Control Orders (MCOs) put in place.

The Malaysian agri-food sector's employment footprint has grown more consistently year-on-year, sustaining 930,000 more jobs in 2021 than in 2015—a 21% increase. In terms of employment, the impact of the slowdown in agricultural production in 2018 and 2019, and during the Covid-19 pandemic, is less apparent. Notably, whilst employment has increased over this period, it has done so more slowly than the sector's GDP footprint, signalling a rise in labour productivity, despite already being significantly more productive than other major agri-food sectors in the region. Between 2015 and 2021 the sector's contribution to GDP per worker increased by 16%, illustrating the continued development of a sector that is already significantly more productive than that of other countries in the region.

Fig. 6: Change in employment footprint of Malaysian agri-food sector, by component, 2015-2021

## **Employment, millions**



Source: Oxford Economics

## 2.3.1 Agricultural production

The economic footprint of Malaysia's agricultural sector has grown robustly in recent years. The value of its contribution to GDP was 45% larger in 2021 than in 2015, representing an annualised growth rate of 6.4%. This makes it the fastest growing component of the agri-food sector. However, this growth has not been consistent over time, with weaker performance in 2018 and 2019 in terms of the US dollar value of its output. One possible reason for this decrease is poor weather, with irregular levels of rainfall affecting growing conditions.1

Since the Covid-19 pandemic emerged, the agricultural sector has grown in value, but this is driven largely by rising prices. Output volumes have actually contracted over the same period. In the last two years, the cost of non-price controlled, locally produced food items has risen—the Ministry of Agriculture and Food Industries reported a 32% increase in prices for fresh food, attributed to the impacts of the pandemic.<sup>2</sup>

Employment growth within the sector has been consistent, with 230,000 more people employed in 2021 than 2015 and only a slight decrease in

¹https://www.straitstimes.com/asia/se-asia/malaysias-farmers-fret-cold-wet-spell-could-slow-output-of-veggies-and-flowers

<sup>&</sup>lt;sup>2</sup>Department of Statistics Malaysia: Selected Agricultural Indicators, Malaysia, 2021



2018, indicating that labour supply was not the key reason for the significantly weaker agricultural output in that year. The overall growth in employment has been lower than that of the GDP footprint, illustrating increased labour productivity; the labour productivity of workers directly employed under agricultural production has been growing at an average rate of 5% annually since 2015.

## 2.3.2 Food and beverage manufacturing

The food and beverage production sector has enjoyed consistent year-on-year growth since 2015, in terms of its contribution to GDP, with the exception of 2018, the only year where its contribution to GDP was smaller than the year before. By 2021, the total GDP footprint of F&B manufacturing had grown by 44% compared to 2015 levels, representing an annualised growth rate of 6.3%. It is notable that the sector achieved its highest growth rates since 2015 in the last two years—10% growth in 2020 and 12% growth in 2021. This was achieved despite movement control orders and social distancing rules which resulted in disrupted production processes due to shortages in inputs and a decrease in demand of goods.3

The employment footprint of F&B manufacturing has also grown but has done so more slowly as the sector has become more productive. In 2021, the sector's employment footprint sustained 200,000 more jobs than in 2015, a 23% increase. In fact, output grew at an even faster pace than employment, signalling significant productivity gains by those directly involved in food and beverage manufacturing. Despite facing manpower shortages as a result of the pandemic<sup>4</sup>, the sector's employment continued to grow, recording a 14% increase between 2019 and 2021, and adding 50,000 jobs.

## 2.3.3 Food and beverage distribution

The food and beverage distribution sector contracted in both 2020 and 2021 in the face of the Covid-19 pandemic. Prior to this it had enjoyed consistent growth—its contribution to GDP in 2019 was around 50% larger than in 2015. Despite the 15% contraction since 2019, the sector is still significantly larger than its 2015 levels, in real terms.

In fact, the impact of the pandemic was uneven across this industry segment. F&B activities with accommodation providers contracted by more than three fifths, illustrating the impact of reduced tourism; and catering services sustained a 26% decline over the period, which was the largest contributor to the overall decline. On the other hand, wholesale and retail together only contracted slightly, as a sign of relatively robust domestic consumption.

Employment in this seament has grown consistently, expanding in 2020 and 2021, despite the pandemic. As of 2021, 570,000 more people were employed by F&B distribution than in 2015, an increase of one third. Prior to the pandemic, retail and catering saw the most rapid growth. Over the last two years, the F&B wholesale component has been the strongest performer. However, due to the sheer size of the catering sector, the moderate growth sustained in the last two years was outweighed by the decline in the employment footprint in both the accommodation and retail sectors.

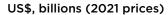


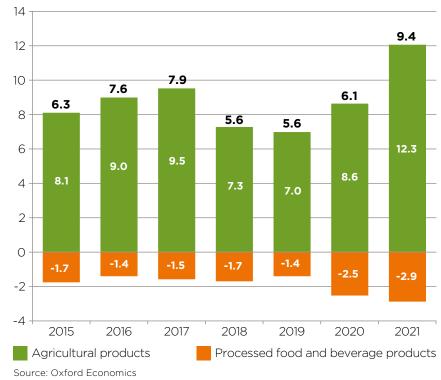
#### 2.4 TRADE IN AGRI-FOOD PRODUCTS

Malaysia maintained its strong trade surplus in agri-food production in 2021, with a net export value of USD 9.4 billion. The value of exports totalled USD 28.1 billion, approximately one and half times its total import value of USD 18.7 billion. The main driver of the trade surplus was the export of agricultural products, which recorded USD 22.0 billion of sales and resulted in a net export surplus worth USD 12.3 billion. Processed F&B products experienced a trade deficit worth USD 2.9 billion.

Since 2015, Malaysia has constantly sustained a strong positive trade balance, with large surpluses in agricultural products and a relatively small trade deficit in processed F&B products. The overall trade surplus has been growing despite the weaker performance in 2018 and 2019 which was mainly attributed to the decrease in agricultural exports, mirroring the weaker GDP contribution of the sector those years. Since the pandemic, the agrifood sector has continued its growth path, rising sharply to its largest-ever trade surplus in 2021. Again, this mirrors wider economic conditions, after a sharp increase in agricultural prices in 2021 boosted the value of exports from Malaysian producers.

Fig. 7: Net exports of primary and processed food and non-alcoholic beverages, Malaysia, 2015-2021







# 3. DEMAND OUTLOOK FOR THE AGRI-FOOD SECTOR IN MALAYSIA

In this chapter, we examine the prospects for post-Covid-19 economic recovery in Malaysia, and the implications this has for the agri-food outlook. We expect Malaysia's economic recovery to continue through 2022 and into the coming years. The agri-food sector will benefit from a normalisation of activities, a reopening of borders, selected fiscal support, and better labour market conditions to support growing food expenditure over the next five years.

And although inflation has picked up by Malaysia's recent standards, it remains very well contained by any regional or global comparison.

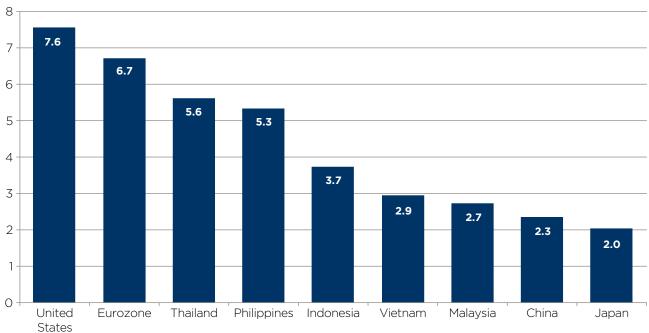
The economic rebound from Covid-19 in Malaysia will support household spending power to the benefit of the wider agri-food system, and a recovery in tourism will fuel demand in the hospitality industry and its supply chains. Both factors feed into a positive demand-side outlook for the sector in the coming years.

And as prosperity and living standards rise over the longer-term, we expect higher spending on food to drive growth in the agri-food sectors' economic footprint.

However, the sector will face significant macroeconomic threats to this recovery. In this chapter we unpack these opportunities and risks in more detail.

Fig. 8: Consumer price inflation, 2022

2022 CPI inflation, % year-on-year



Source: Oxford Economics



#### 3.1 OUTLOOK FOR EMPLOYMENT AND TOURISM WILL UNDERPIN RECOVERY

## 3.1.1 Labour market recovery will provide a boost

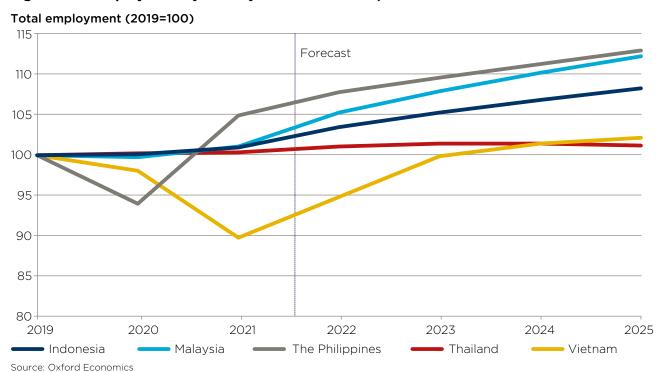
Malaysia's economic recovery has been gathering pace through 2022, with both domestic spending and tourism activity picking up. A rise in inflation towards 3% has dented consumer spending power, but only modestly so, and we expect further solid demand growth through the remainder of 2022 and into 2023. In turn, this is supporting a labour market recovery. with the unemployment

rate reaching pre-pandemic levels in mid-2023. As labour demand rebounds, wages are recovering, yielding real income growth for consumers, especially in light of relativelymild inflation by regional standards.

In common with others in the region, Malaysia's government has continued to support economic growth in the postpandemic recovery. Measures in the 2022 budget included substantial new cash aid and other support to household, as

well as broader measures to support growth. And assuming global energy prices normalise and supply chain pressures ease, we expect inflation to slow after 2022, bolstering real wage growth and food spending. Oxford Economics anticipates spending on food and non-alcoholic beverages to grow from USD 55 billion in 2022 to around USD 60 billion in 2025, in 2021 price terms.

Fig. 9: Total employment by country in Southeast Asia, 2019-2025



Thailand

Vietnam



US\$, billions (2015 prices) Forecast 

Fig. 10: Real spending on food and non-alcoholic beverages in Southeast Asia, 2015-2025

## 3.1.2 Tourism rebound supports the hospitality sector

Indonesia
Source: Oxford Economics

Malaysia

Malaysia is one of the more tourism-reliant economies in our study, with tourism accounting for around 13% of GDP. As such the reopening of borders around the world is a key driver of economic growth and food spending. We forecast the number of tourist visitors to Malaysia to rise to 13 million in 2022, although this rebound remains well below the 37 million arrivals pre-Covid-19.

Nevertheless, a recovery in tourism and higher domestic demand will boost spending on hospitality services from 2022 onwards, supporting the broader recovery in domestic demand for the agri-food sector. However, the recovery in 'meals out' spending will be constrained by the gradual recovery in tourism inflows, and will take longer to full rebound than in less tourism-reliant economies.

The Philippines



Fig. 11: Number of inbound tourists, 2015-2025

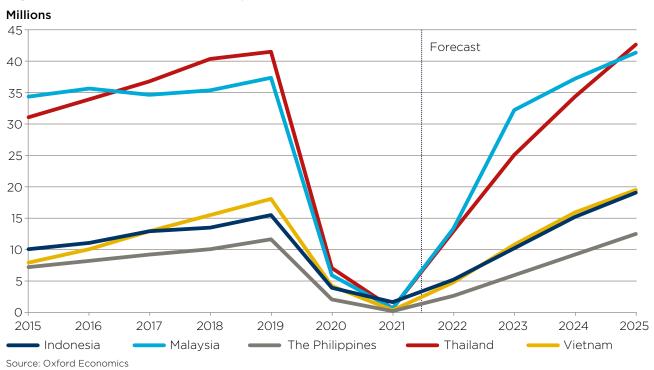
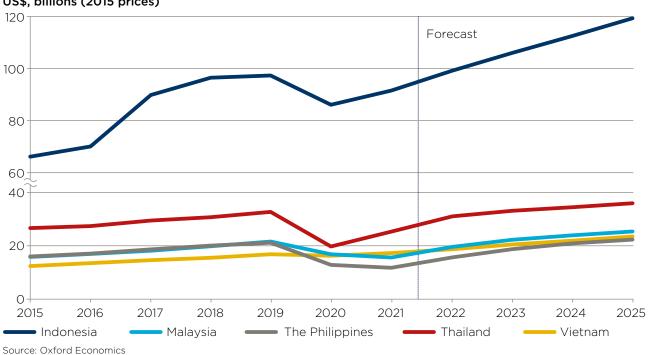


Fig. 12: Real spending on eating out, 2015-2025

## US\$, billions (2015 prices)





#### 3.2 FOUR FACTORS THAT MAY CONSTRAIN THE PACE OF RECOVERY

Despite the various reasons for optimism, the agri-food sectors in the five Southeast Asian countries will have to adapt to four key negative macroeconomic conditions, which could present major challenges. But Malaysia compares well on many of these metrics by regional standards.

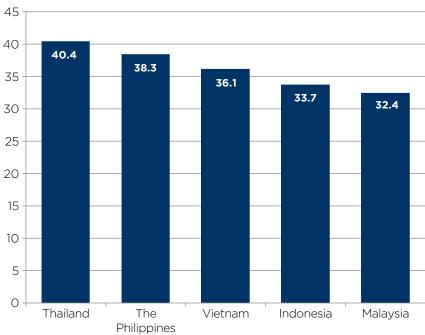
## 3.2.1 Inflation accelerating less than in other ASEAN economies

Through the first half of 2022 the Russia and Ukraine war drove commodity prices sharply higher across a range of commodity types. As of May 2022, both maize and corn prices were around a third higher than at the start of the year, whilst wheat

prices were up around 46%—three markets for which both Russia and Ukraine are key global suppliers. Meanwhile oil and gas prices, which are also important cost drivers for food producers given the importance of energy in food manufacturing<sup>5</sup>, have both more than doubled in price so far in 2022.

Fig. 13: Food and restaurant spending accounts for a third or more of household spending in Southeast Asia

CPI weights: Food, beverages, and restaurants, %



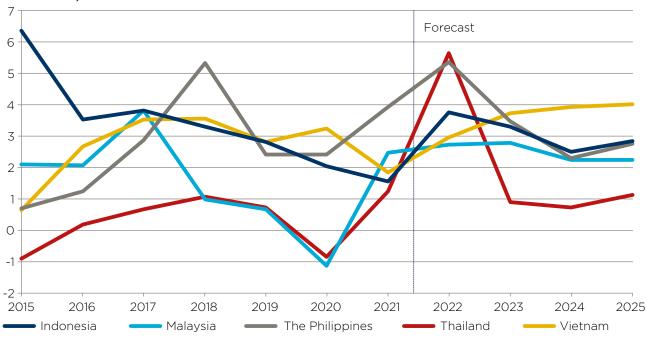
Source: Oxford Economics

As spending on food, beverages, and restaurants accounts for a relatively large portion of household budgets in Southeast Asian countries, average households are highly impacted by this shift in alobal commodity prices. At 30% of the total, the importance of food in total consumer spending (using the respective shares in the consumer price index as a benchmark) is the lowest in Malavsia of any of our economies, but nevertheless still significant. In this respect the fact that Malaysia's inflation performance this year has been better than other economies is positive news for household spending power.



Fig. 14: Consumer price inflation in Southeast Asia, 2015-2025

CPI inflation, %



Source: Oxford Economics

## **3.2.2 Demographic pressures** to workforce growth

The decline in the working age population in some Southeast Asian countries will mean labour becomes scarcer, necessitating new and faster solutions to grow productivity. In Malaysia's case we expect relatively solid growth in the total working age population, but unlike most other countries in the region there is limited scope for a further shift to urban areas, potentially impinging on labour force growth for manufacturing firms, compared to some other economies.

# 3.2.3 Solid trade surplus means exchange rate risk is modest

Oxford Economics' baseline forecast is for ASEAN currencies to strengthen gradually over the coming years, along with expectations of rising productivity and more stable inflation. But the region has historically been more prone to exchange rate volatility than other parts of Asia, especially during periods of heightened global financial and economic uncertainty. Exchange rate volatility can transmit to increased food prices through the cost

of imported agricultural and energy commodities. Malaysia is more protected against this risk than other economies though, thanks to its consistent trade surplus and high foreign exchange reserves.



## **3.2.4 Impact of post-Covid-19 fiscal measures**

Governments in Southeast Asia are under pressure to tackle the fiscal deficits that have widened during the coronavirus pandemic. As we discussed in the 2021 publication with FIA, "Fiscal Risks in the food sector in Asia after Covid-19" some governments in the region need to start balancing their books in the aftermath of Covid-19. At 15% of GDP, the increase in the government debt burden in Malavsia since 2019 is greater than in some other ASEAN economies. So, although the government is currently providing support to households, it seems likely that the longer-term priority will be to find areas to rationalise spending and raise tax, which could impact negatively on both supply and demand side conditions for the sector.

#### 3.3 CONCLUSION

Malaysia's agri-food sector is benefitting from the broader economic recovery underway, even as global and domestic price pressures have picked up. And the outlook is positive, with an ongoing recovery in domestic activity and inbound tourism likely to support demand for the sector. But challenges remain - especially in helping the sector deal with climate change, as well as the need to start reducing the debt stock accumulated during the pandemic.





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# ABOUT FOOD INDUSTRY ASIA

Food Industry Asia (FIA) was formed in 2010 to enable major food and beverage manufacturers and ingredients suppliers to speak with one voice on complex issues such as health and nutrition, food safety, sustainability, and regulations and trade. From its base in Singapore, FIA seeks to enhance the industry's role as a trusted partner and collaborator in the development of science-based policy across Asia. To do so means acting as a knowledge hub for Asia's national industry associations and affiliated groups, to support with their engagement of public bodies and other stakeholders across the region.

#### August 2022

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Cover photo: Patrick Foto/Shutterstock.com





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