The industry sector is expected to contribute about 1.75 percentage points to 2009-10 GDP growth. This translates into a forecast of about 5.9 percent growth for the sector, the same rate achieved in 2008-09, but slower than 7.8 percent achieved annually in the past half decade. Indeed, if realised, this will be the most prolonged slowdown in industry growth since the early 1990s.

It's obvious that the slowdown in the industry sector has its roots in the global recession.[2]

About three-fifths of the industry sector is manufacturing, which grew by 5.9 percent in 2007-08 -- a sharp slowdown from the 8.6 percent a year achieved in the previous half decade. Undoubtedly, through an export slump, it is manufacturing that has borne the brunt of the global recession. But, compared with sharp falls in industrial production witnessed around the world -- the biggest contractions since the 1930s in many countries -- our manufacturing sector seems to have held up reasonably well.

The forecast explicitly assumes improved agricultural productivity, diversification of crop production, and improved disaster management capacity.

If the rest of the industry sector (30 percent construction, the rest nearly evenly split between mining and utilities) grows at the average rates recorded in the past two decades, manufacturing will need to grow by about 5 percent for the whole sector to achieve budget forecast. Given the severity of the global recession, risks to the manufacturing sector seem to be firmly weighed to the downside.

On the other hand, there may well be upside to construction, which has grown at 5.7 percent a year since 2006-07, compared with an annual growth of 8.4 percent in the previous decade. The recent construction slowdown has been attributed to political uncertainty and associated low confidence, as well as high costs of building materials. To the extent that both these factors have dissipated, a construction boom may well be on the cards. Construction could get further fillip from various infrastructure investments being unrolled.

Finally, the services sector is forecast to contribute about 2.75 percentage points to economic growth. This translates to an implied sectoral growth forecast of 5.5 percent in 2009-10 -- a percentage point slowdown from the average over the past half decade, but on par with what was achieved in the previous half decade.

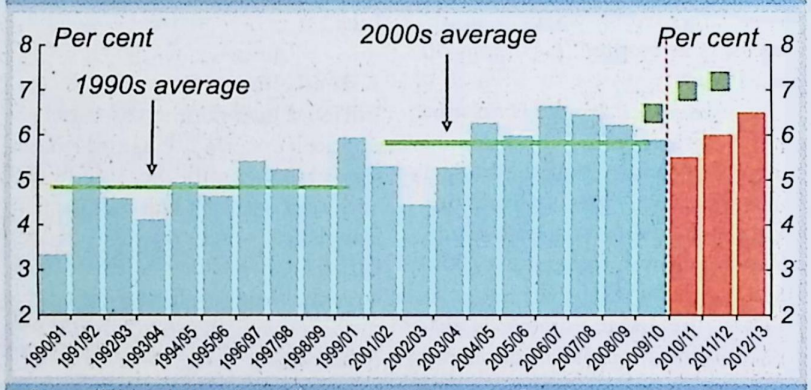
Retail and wholesale trade, as well as transport and communication services, have driven the services boom during the past half decade. These services, indeed the entire services sector, have benefited from high remittance inflows over this period. Defying expectations, remittance inflows have held up thus far into the recession. While the budget forecasts assume renewed remittance inflows, should remittances dip, the service sectors will be hurt (a remittance slowdown could hurt construction too).

Social services -- health, education, community services -- have also contributed to the services boom. With a favourable business environment and various government programs supporting them, these services should see robust growth, partly off-setting potential negative impacts of the global recession.

From the GDP (expenditure) perspective, the economic slowdown is driven by an investment downturn. Investment-to-GDP ratio is forecast to dip in 2009-10, implying investment growth will be at half the rate recorded in 2008-09. The forecasted investment slowdown has been questioned by some commentators. However, such a slowdown would hardly be unusual in the current global economic climate.

Possibly more at risk are the export forecasts. Exports are estimated to have grown by 12 percent in 2008-09, down from nearly 16 percent the previous year. Exports are projected to grow by 12.5 percent in 2009-10, and then by 18 percent a year in the following two years. As discussed in the final section below, there is reason to be sceptical about this medium-term

Chart 1: Economic growth



Source: CEIC Asia database, Budget. Red bars are 2009-10 forecasts. Green squares are 2008-09 forecasts.