

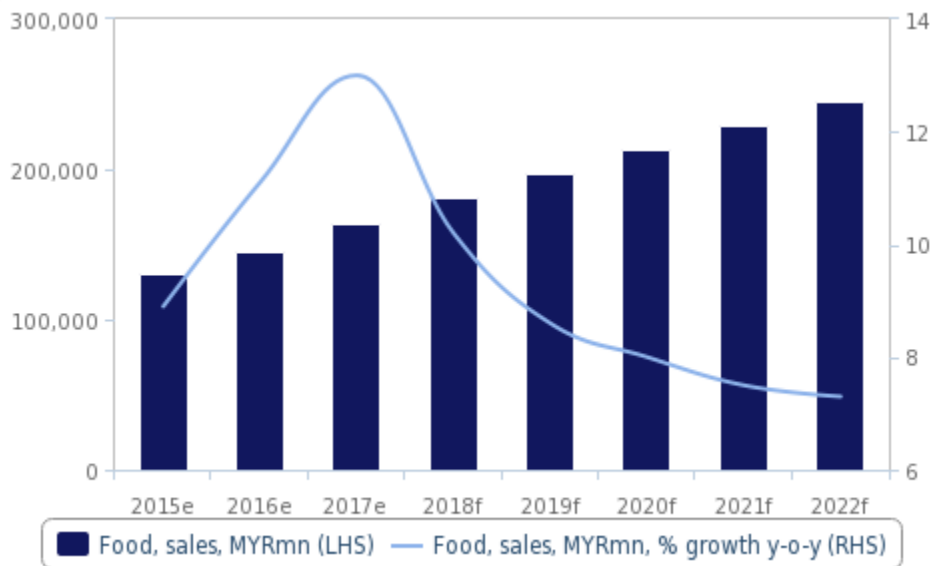
## Malaysia's Food Industry (JULY 2018)

Malaysia's food sales are expected to show strong growth until 2022. Rising income levels will provide consistent support for spending growth. The emerging middle class is expected to fuel growth in demand for expensive and healthier food items, whereas less wealthy consumers are likely to shift away from lower quality to higher quality food.

### Latest Updates

- Food spending growth will climb slightly to 10.2% in 2018; however, growing household incomes and robust consumer confidence will provide additional support. The growth rate will slow down further to average 8.3% in the medium term.
- Driven by *premiumisation* and increasing preference for healthier products, fruit and fish product categories will expand at CAGRs of 10.7% and 9.7%, respectively for the next 5 years.

### Food Sales



Source: BMI, Dept of Statistics

### Structural Trends

Food sales will continue to show robust growth over 2018, at 10.2%. Consumption will be supported by high disposable incomes, a large urban population and a well-developed mass grocery retail sector. For the next 5 years, per capita food consumption will grow at a five-year CAGR of 5.8%. Robust per capita food consumption will largely be driven by premiumisation trends as existing high household incomes already cover essential food needs.

By regional standards, Malaysia is a well-developed economy, with a high GDP per capita. It is estimated that Malaysia's real GDP per capita to reach RM46,300 in 2018. As Malaysian consumers already cover their food requirements, an increase in income is unlikely to be spent wholly on food, as is the case in poorer countries. Expected growth in incomes will only translate to higher food expenditures among poorer households.

As the sizeable middle-income bracket in Malaysia reaps the benefits of the country's rapid economic development, it is expected that the trend of premiumisation is to increase rapidly over the coming years. Stronger growth prospects are also expected in the higher-value food categories, such as confectionery and functional foods, as well as beverages. Per capita food consumption is expected to reach RM5,300 in 2018 in Malaysia, which is high by regional and emerging market standards.

### **Halal Food**

Over the coming years, halal food is considered to be one of the most exciting growth opportunities in the country's food sector. This opportunity stands to be realised as incomes grow and Malaysia strengthens its position in regional trade, with Indonesia as a preferred partner. Malaysia has a Muslim population of approximately 16mn and borders the Islamic country of Indonesia, showing the possibilities for the halal-certified food sector. Supported by higher purchasing power, local consumers are likely to develop a growing appetite for a wider array of higher-quality halal food products.

While halal food producers can certainly look forward to robust growth in the domestic market, they can also leverage Malaysia's efforts to consolidate its position as a leading halal industry hub and enjoy stronger export opportunities. Given its strategic location, well-developed trade facilities and infrastructure, Malaysia has earned a reputation as a major producer of halal products and services.

As halal food manufacturers in Malaysia ramp up their production to lock in opportunities on the domestic and export fronts, the sector will experience greater dynamism, in turn stimulating sales growth. Industry players such as **Nestlé**, **Tesco** and **McDonald's** will continue to increase quality standards of their halal product offerings and expand their product portfolios beyond non-halal products in order to capture a wider share of this expanding market.

### **Confectionery**

Malaysia's confectionery sector is mature by regional standards. Investments from firms such as Singapore's **Petra Foods** are likely to fuel further growth, with new products released on the market and new avenues of distribution explored. The continued development of the convenience retail sector will be particularly crucial in this regard. The sector will also be assisted by a rise in disposable incomes and greater interest in both product innovation (with particular regard for health and wellness) and branding among Malaysia's young, urban consumers.

Weak distribution infrastructure, an impediment to the growth of chocolate sales in other markets with a hot climate, is not a major problem in Malaysia, thanks in part to the country's fairly well-developed mass grocery retail sector. Weak purchasing power - typically a hindrance to growth in the more innovation-led gum sector - is also less of a problem in Malaysia than in comparable regional markets.