

Did The Economy Change Much Last Year?: The Bank Negara Annual Report 2006

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INTRODUCTION

If it is one of your preoccupations to often look out the window at the sky to see if the weather is changing, you will know that most times the view is much the same. Except on occasions when the sky turns dark, rain comes pouring down or lightning flashes across the sky, the view outside the window most times makes only subtle changes. Nonetheless like the good meteorologist, you want to know every small shift in temperature, air pressure and wind speed. Chaos theory helps in our study of inherently unpredictable systems, like the weather, in which a small change can lead to very large changes. A shift in air pressure has the potential to develop into a storm system. Storms, however, though chaotic, do exhibit regularities. Little things, when they occur, usually mean nothing most of the time. They can result in big things but only when they all occur at the same time and in a certain way.

Looking at how the economy is doing is in many ways like studying the weather. We collect data so that small but expected shifts can be observed whilst the economy chugs along its steady course. Small shifts in numbers revealing how the economy responds to external and business cycle changes are to be expected. Nonetheless the numbers we want to keep our eyes on are those small but prolonged movements in one direction.

Bank Negara Malaysia released its annual report on the economy for 2006 as scheduled on 21 March 2007. The big news is, of course, that the economy grew by 5.9% (preliminary figures for the real, i.e., inflation adjusted, gross domestic product) in the year 2006 and the forecast for 2007 will be 6.0%. It appears that things are looking up because some years ago, there had been concerns that 2007 might be a downturn year following the usual swings in the business cycle. But the economy has been expanding moderately from the 7.2% high in 2004. Growth had slowed to the low 5% in 2005 but it looks like growth is slowly creeping upwards.

Students of economics learn that economic management uses a combination of fiscal and monetary policy instruments in pursuit of two goals. First, the economy must be made to expand at a rate which is faster than both the rate of inflation as well as the rate of population growth. Real gross domestic product (GDP) numbers adjust for inflation, but as the population expands, economic growth must not only keep up but also do better so that overall welfare can improve. Malaysia's population grew from 26.1 million people in 2005 to 26.6 million in 2006 or by about 1.9% and thus it appears that the economy has done about 4 percentage points better.

The other policy goal that concerns the economy is stability. While a steady economy that does not grow means little when it comes to the people's well being, a growing but unstable economy may not be very sustainable. Long term growth might not be guaranteed. As usual, it is not our aim here to repackage what is contained in Bank Negara's report. Instead, since it is not as often discussed elsewhere, our interest will focus on examining the stability of Malaysia's economy by assembling the country's national account figures using the system of national accounts or SNA framework.¹ This is the fourth time SERI has done this and interested readers might consider looking back at our March 2004, April 2005 and March 2006 issues for similar assessments that we have made during these past years.

THE SNA FRAMEWORK

The SNA framework comprises four accounts: I) production, II) appropriations, III) accumulation and IV) external or rest of the world. These accounts are balanced as row and column entries as shown in Table 1 according to the various components that make up these accounts. Descriptions of such components are given in the notes below Table 1. Note also that the ringgit values are current (instead of real) since our main aim is not to look at changes over time but how production leads to consumption and investments both at home and with the rest of the world.

**Table 1: System of National Accounts, Malaysia 2006 (current RM million)
Bank Negara Malaysia (preliminary)**

Account	I	II	III	IV	Total
I		C+G= 200,690	I= 110,396	X-M= 127,669	547,262
II	GDP= Y-P 546,343			P= -19,825	Y= 526,518
III	D= 920	S= 200690			201,610
IV		T= 16,630	CA= 91,214		107,844
Total	547,263	526,517	201,610	107,844	

Source: Developed from numbers in Bank Negara Annual Report, 2006 (released, March 2007)

Notes: C+G = pvt. and govt. consumption, I = investments, P = net factor payments abroad (negative numbers indicate outflows), D = depreciation (drawdown of stock levels), S = national savings, T = net transfers abroad (positive numbers indicate outflows), Y= National Income, CA = current account (positive numbers indicate surplus, implying financial investment capital outflows abroad).

DID THE ECONOMY CHANGE MUCH LAST YEAR?

The national account numbers for Malaysia's economy from 2004 through 2006 and forecasted for 2007 is given in Table 2 as a percentage of the gross national product or GNP. The first thing to note is that Malaysia's economy is very much unique when compared with most countries in the world today. Consumption is about six-tenths of national income (i.e., the GNP), national savings is approaching four-tenths of GNP. Probably the only other country in the world displaying this amount of savings is Singapore. Investment is about a fifth of the GNP. Trade surplus, is between a fifth and a quarter of GNP, and a current account surplus which is way, way above 10% of GNP. All that talk about China's current account surplus in the news, but China's surplus is only around 8% of its GDP. Only Singapore top Malaysia in its surplus of about a fifth of its GDP, while Norway, Switzerland and Hong Kong have more comparable rates with Malaysia in its surplus. Some countries have numbers close to an even balance: Austria, 1.1%, Canada, 0.9%, France, -1.4%, while many other countries face current account deficits: U.S.A (-6%), Britain (-3%), Australia (-5%).

1. United Nations (1968), *A System of National Accounts*, Studies in Methods Series F, No.2, United Nations Statistical Office, New York.

Table 2: System of National Accounts, Malaysia 2004-2007 (% of GNP)

Account	Year	I	II	III	IV	Totals
I	2004		59.23%	21.57%	22.48%	103.29%
	2005		59.40%	20.99%	24.73%	105.12%
	2006		58.72%	20.97%	24.25%	103.94%
	2007		59.07%	22.19%	23.06%	104.33%
II	2004	105.77%			-5.77%	100.00%
	2005	105.07%			-5.07%	100.00%
	2006	103.77%			-3.77%	100.00%
	2007	103.89%			-3.89%	100.00%
III	2004	-2.48%	37.33%			34.85%
	2005	0.04%	37.00%			37.05%
	2006	0.17%	38.12%			38.29%
	2007	0.43%	38.07%			38.50%
IV	2004		3.44%	13.28%		16.72%
	2005		3.60%	16.06%		19.66%
	2006		3.16%	17.32%		20.48%
	2007		2.86%	16.31%		19.17%
Totals	2004	103.29%	100.00%	34.85%	16.72%	
	2005	105.11%	100.00%	37.05%	19.66%	
	2006	103.94%	100.00%	38.29%	20.48%	
	2007	104.33%	100.00%	38.50%	19.17%	



Source: Developed from bank Negara Report 2006. The 2006 numbers are preliminary and the 2007 numbers are forecasts made in the report. The 2005 and 2004 numbers are now final and official and may vary slightly from the forecast or preliminary numbers found in previous reports for these years.

THE ACCOUNTS AND COMPONENTS

Account I (production) ($C+G+I+(X-M) = Y-P+D$)

This is the gross domestic product or GDP which is made up of the demand components: consumption, investments and net trade. In Malaysia, the GDP is reported inclusive of stock levels within which statistical discrepancies are made. Thus the 2006 GDP figure of RM546,343 million is the sum of the demand components totaling RM547,262 million less a drawdown of stock levels by RM920 million. In other words, in 2006 the money that went into consumption, investments and trade was more than the actual production in 2006, the shortfall then met by using up some of the stock inventory. Technically there will always be some inventory shifts because production completed near the end of the year will not end up being purchased in the same year. Also, purchasers made early in the year is not likely to come from production in the same year but more likely from production in the previous year. But in Table 2, we see that such stock levels shifts and statistical discrepancies amount to less than a half percent. The important thing to note here is if anybody were to ask you about the structure of Malaysia's economy, your answer should be that for Malaysia these days, consumption is six-tenths, investments two-tenths and trade surplus, shy of a quarter of the gross national product.

Account II (appropriation) ($Y = C+G+T+S$)

The nation's income is summarized as Y which is the gross national product or GNP. Y differs from the GDP by the net amount of factor income flows: wages, profits, interests, and rents. The net figure is obtained by flows to Malaysian nationals from their participation in all other economies across the world less flows to non Malaysian nationals participating in Malaysia's economy. What this means is that while Intel Malaysia's production output form part of Malaysia's GDP, the factor payments of Intel-Malaysia do not count as part of Malaysia's GNP. Likewise, production output from Malaysia's direct investments say in China count as part of China's GDP but factor incomes from such investments count as part of Malaysia's GNP. Again, should anybody ask you about this then you would say that, on the whole, factor payments to foreign nationals in Malaysia's economy is about three to five percent more than such payments to Malaysian's from economies abroad.

The T, for transfers simply means Malaysia's expenditures on economies abroad that do not go in as imported goods and services. National account numbers are harder to track across international borders. Strictly speaking if one pays fees with an invoice, say for your children's education abroad, through a Malaysian bank, it might rightly get counted as a trade in services – Australia exporting a service to Malaysia. But if you send this money together with the rest of the pocket money you are giving to your child at his or her Australian address, the money would more than likely get counted as a transfer (i.e., unrelated to any economic activity) even though it ends up as fees when your child pays for it from his or her pocket money at the cashier's counter in Australia. In Table 2, we are talking about two to three percent of the GNP of net transfer payments abroad which is small in relation to the trade balance.

Our understanding about foreign direct investments, or FDI, concerns such factor payments. When the country is young, FDIs bring investment capital, economic growth, employment opportunities, as well as technologies. But more FDIs will also mean that factor payments abroad will increase, thereby widening the gap between GDP (the jobs) and GNP (the income). Per capita income in Malaysia today is touching RM20000 (around US\$5400) per person. This figure is obtained by dividing the GNP by population. Thus while GDP is a measure for economic growth, on the one hand, income growth, on the other hand, will depend on watching the GNP number. The good news is that Malaysia has been making direct investments abroad and if the amount can at least keep pace or does better than FDIs into Malaysia, then the GDP to GNP gap can at least remain stable or better still, narrow.

Account III (accumulation) ($S+D = I+CA$)

The bottom line to how money appears as a balance for the entire economy is found in this account. The current account says whether the economy has been overspending or under spending its national income in terms of domestic consumption or domestic investments. More consumption means less savings and vice versa. Thus from account III, Malaysians, as a whole, spending only six-tenths of its national income, means that there will be about slightly less than four-tenths of national income in its national savings after taking out the two to three percent of transfer abroad. One might think of transfers as Malaysian's spending part of its money abroad.

The amount of savings is meant to fund domestic investments and thus any excess or shortfall between national savings and domestic investments becomes the current account surplus or deficit. An economy investing beyond its savings faces a resource gap by the same amount. This gap shows up as a current account deficit. For example, say a country's national savings is \$40 billion, but total domestic investments amount to \$50 billion. In the accumulation account identity above it will show that this \$40b (adjusted for depreciation) equals total domestic investments, \$50b minus the current account deficit (i.e.,-\$10b). The excess investments between \$40b funded by domestic savings and the total domestic investments of \$50b is actually FDI, i.e., funded from abroad. This also means that every dollar of FDI is equal to a dollar of current account deficit in terms of book keeping entries into the SNA framework.

In Malaysia today, the current account is positive, meaning that in our accumulation account identity above, the total savings (adjusted for depreciation) equals total domestic investments, I, plus Malaysians investments abroad by the amount of current account surplus, CA.

Account IV (rest of the world) ($T+CA = (X-M) + P$)

Had Malaysia been either a closed economy or where the external sector plays only a small role, this last account component of the SNA framework would be less important. Since all the elements found in this account are also parts of the other accounts (I, II or III), we would have examined them. However, one good way to look at account IV is to see it as a residue that remains after production, appropriations and accumulation have taken place in the local economy. In terms of merchandised trade (in goods and services), Malaysia has, for some years, been coming out ahead with a surplus by about shy of a quarter of the GNP. In terms of current account, the economy has also been coming out ahead by about between 13% and 15% of the GNP.

CAPITAL FLOWS BETWEEN MALAYSIA AND ABROAD

Students of economics learn that the balance of payment of any country is always zero. When a country registers a current account deficit, then there must be capital flows from abroad by the same amount to cover this deficit and, hence, achieve a zero balance of payments. This also means that if there is a current account surplus, then there must be outward capital flows by the same amount.

For the years 2003 through 2006, Malaysia's current account has been a surplus by 13% to 15% of the GNP. Technically speaking, this is actually money that enables an economy to invest abroad, since had all the money been used up in domestic investments then it would show up under the investment element of the SNA framework and wiping out the current account in the process. Remember that the current account is actually the difference between domestic investment and national savings. Another way to look at a current account surplus is that it is indication of either under investing domestically or the zeal to invest abroad and therefore a current account surplus would be needed to fund outward investments.

In this section, we then look at the capital flows mindful that if all of the outward direct investments, amount to the size of the current account surplus, then a zero balance of payments have been achieved. Table 3 shows that in 2006, outward direct investments by Malaysian enterprises abroad have, almost doubled, from about RM11 billion to RM21.5 billion. The current figure is almost four times the 2003 figure of only RM5.2 billion. This is good sign that Malaysia is maturing as an economy and is expanding its direct investment interests abroad which will result in factor income payments that would improve Malaysia's GNP figures. In the mean time, however, FDI investments into Malaysia's economy have also increased and continued to outpace Malaysia's outward investments. The overall net effect is in fact a capital inflow instead of a net capital outflow.



Table 3: Malaysia's capital flows 2003-2006 (current RM million)

	2003	2004	2005	2006	
A. Current Account	50625	56511	75681	91214	
B. Capital Account					
Outward direct investment	-5,204	-7,833	-11,253	-21,532	
Inward (FDI) investments	9,398	17,572	15,024	25,875	
Portfolio investments	4,168	31,965	-14,156	14,726	
Other investments	-20,508	-24,913	-26,633	-58,988	
TOTAL CAPITAL FLOWS	-12,146	16,791	-37,018	-39,919	
C. Current Account plus Capital balance	38,479	73,302	38,663	51,295	
Errors and Omissions	1,223	10,482	-25,111	-26,045	
OVERALL BALANCE	39,702	83,784	13,552	25,250	
D. Foreign Reserves					
Ringgit	128,110	167,812	251,596	265,148	290,398
Expressed in U.S. Dollars	33,713	44,161	66,209	70,169	82,451
Months of retained imports	5.4	6.5	7.9	7.7	7.8
BALANCE OF PAYMENTS	0	0	0	0	

Source: Adapted from figures in Table A.9 Balance of Payments in Bank Negara Annual Report 2006

Except for 2005, Malaysia has experienced foreign interests in Malaysian portfolios and thus the RM14.7 billion of shorter term portfolio investment inflows further aggravates the direction of cross border flows between Malaysia and abroad. Again, the issue here is that factor payments (profits or interests) on these foreign investments, whether FDI or portfolios, are discounted from the GDP to arrive at the GNP figure for Malaysia.

The "other investments" category is sizable but is less easily understood, since what else remain besides longer-term direct investments and shorter-term portfolio investments? The bottom line for 2006 is then a capital outflow amounting to RM39.9 billion, which is

far below the RM91 billion available in the current account surplus. Even after a sizable amount of errors and omissions of RM26 billion has been included there is still the overall balance of RM25.3 billion. As a result, Malaysia's foreign reserves expand further by the same amount as the overall balance, i.e., from RM265 billion to RM290 billion between 2005 and 2006 or equivalent to US\$70 billion and US\$82.4 billion respectively. Note that increasing the foreign reserves is technically also a capital outflow since reserves by definition cannot be kept in Ringgit (which can be merely printed). Instead the reserves are translated into investments in save relatively risk-free securities issued by financially credible countries abroad.

CONCLUSION



So what do we make of the subtle changes in the economic numbers and can we tell if a storm is brewing? The numbers given on Table 2 have hardly changed actually over the past four years. There is certainly hardly anything in the 2006 numbers that would captivate our attention compared to numbers from the past few years. In fact, relative to many if not most economies abroad, these numbers are rock solid numbers when used as indication of economic stability: moderate consumption, very high savings, exports in surplus, only minute stock level changes, and of course, the very handsome current account surplus. The only complaint, really, is the net factor payments abroad but this is moderated at around 4% of GNP compared to the 5.7% figure in 2003.

With such numbers, domestic investments should actually go up by much more. This would help push GDP up and narrow the current account surplus. But if there have been intentions to further emphasize outward investments from the current account surplus, outward capital flows have remained relatively dismal. Regardless, this amount of surpluses suggests that the role of the capital market in Malaysia is even more important. Many years have passed since the launching of the capital markets master plan so that surpluses can be appropriately channeled into investments and accordingly drive economic growth further.

Of course it is more easily said on paper than putting words into actions. From what textbook understanding tells us, the investment potential from the reported numbers implies that Malaysia is actually poised for tremendous growth – as if there is all this potential energy waiting to be released. In reality, of course, investment is only the supply side. For growth to occur, investments risks from the demand side have also to factor in. Timing, it is always the question of timing isn't it? ***Ψ Dr. Chan Huan Chiang***

The Dawn of Islamic Financing In Malaysia

INTRODUCTION

The Malaysia International Islamic Financial Centre (MIFC) initiative was launched on 14 August 2006 amidst strong foundation and steady performance of the Islamic finance industry. It marks the beginning of a new era for the future landscape of the Islamic financial system in Malaysia. At that moment, the global financial landscape was undergoing dramatic changes. Financial markets are becoming more integrated, with freer and faster flows of information and capital. Globalisation is boosting liquidity and facilitating growth, but it is also transmitting market disturbances with greater speed and complicating the conduct of monetary and exchange rate policies. Globalisation, coupled with deregulation and technological changes are revolutionising the way financial institutions compete and do business. There was a wave of mergers and acquisitions, as institutions sought to diversify risks, reduce costs, and exploit synergies. Central to this common vision is the creation of a comprehensive Islamic Financial System that will be able to respond to the requirements of the domestic economy and also to become an integral component of the International Financial Systems.



ISLAMIC FINANCE – HOW IT OPERATES ?

By Islamic finance, it means that transactions, operations and services need to comply with Islamic rules, principles and codes of practices. Services included under Islamic Finance are: Islamic Banking, Islamic Insurance (Takaful) and Islamic Capital Market. These are said to have become an important segment within the global financial markets. This new industry fits in well with globalisation and liberalisation of financial markets. Malaysia will stand to benefit with a financial market where there are diverse and innovative products.

There are two different approaches to developing modern Islamic financial products and services: i) adopt and modify existing product, and ii) invent new products. The former covers the existing conventional products and services that are generally acceptable to Islam. However, modification may be necessary to remove any prohibited elements so that they comply with Shariah principles. The latter involve the application of Shariah principles to new products and services.

A wide range of products are now available in Malaysia. It was reported that ABN Amro Bank Bhd (which has an existing branch in Penang) has already developed various Islamic products and was awaiting regulatory approvals. The Bank set up an Islamic window in March this year and it is now moving on to open up an Islamic subsidiary in 2008 (The Sun, Business News, p.23; 23 April, 2007).

Most international banks have already built their network and they have also established a base in Islamic banking in the Middle East and other country such as Pakistan. They could readily introduce products which they deem as being successful to Malaysia.

THE ISLAMIC FINANCIAL SYSTEM IN MALAYSIA

The Government streamlined the associated delivery system to facilitate advancing the MIFC agenda with the formation of the MIFC Executive Committee. The Committee comprises a high-level group of 28 top officials from the key relevant Ministries, Government departments and agencies, financial and market regulators and

representatives from the banking and Takaful sectors. Through the shared vision and commitment, this Committee is responsible for providing the direction as well as undertaking a review of all existing policies that are relevant for the comprehensive and coordinated promotion of the MIFC.

Malaysia has developed the comparative advantage in the area of Islamic finance. The comprehensiveness of the Islamic financial system in Malaysia has been mutually reinforcing with the key components of the financial system comprising the Islamic banking, Takaful, Islamic money and capital markets now being at an advanced stage of development. In addition, the established legal, regulatory and Shariah frameworks in the Islamic financial infrastructure is also a key competitive advantage for Malaysia, placing it ahead of other financial centers offering Islamic financial services. As a part of its drive for diversity, the Central Bank has also issued Malaysian banking licenses to three Islamic banks from the Gulf, including Saudi Arabia's Al Rajhi, which labels itself as the world's largest Islamic financial institution.

The Government is encouraging banks to replace interest-based transaction with arrangements that, while benchmarked to interest rates, are technically based on profit-sharing, leasing or trading-all activities permissible in Islam.

Malaysia has shifted from a merit-based supervisory approach to a disclosure-based approach that emphasises market discipline to incentives financial institutions to conduct their business in a sound, efficient, and professional manner. The local banks in particular have significantly improved their disclosure practices. Malaysia must continue to update our disclosure standards in line with industry developments and international best practice.

The Government has also granted an attractive tax package to promote Malaysia as a competitive international Islamic financial centre with the view to building the base to create the necessary critical mass of participating financial players and to increase the scale of activity.

With today's pace of development in the Islamic Financial Systems and together with an estimated 1.2 billion Muslims globally, the management of liquidity is a challenge due to the relative scarcity of Islamic Capital Markets instruments.

WHAT IS IN STORE FOR THE FINANCIAL SYSTEM OF MALAYSIA

The IMF recently estimated that oil-exporters' current account surplus could reach USD 500 billion, more than four times as much as 2002. The rise in oil prices represents a big redistribution of income from those who buy oil to those who produce it. What will happen to all these petrodollars?

In essence, they can either be spent or saved. Either way, a lot of money can be invested in global capital markets. By increasing their demand for Islamic financial assets in Malaysia, they can boost asset prices and push down bond yields. This in turn can support economic activity in Malaysia. Our capital markets have grown and deepened without adversely affecting our ability to manage the exchange rate. In practical terms, Malaysia has now gone as far as we can to relax the restrictions while still maintaining the principle of not-internationalising the Ringgit. All but two restrictions have been lifted, namely, foreigners are not to borrow Malaysia Ringgit to speculate in the currency, and if they should borrow for offshore purposes, then must either swap or convert the Ringgit into the foreign currency before taking them out in.

These remaining restrictions are an important signal that Malaysia has not changed its fundamental stand against outright speculation on the Ringgit, even though we have permitted nearly all activities of legitimate investors. The best defence against speculative attacks remains with Malaysia's sound economic fundamentals and a credible exchange rate policy. The Central Bank continues to work with the other

economic agencies to manage and preserve these economic fundamentals. This in turn, would help us to better anticipate events that could impact our economy, and give us time to work out appropriate policy responses.

The success of Islamic financing will depend on the collaborative efforts of the financial regulators, the delivery system, the industry players and the supporting professionals. In meeting the MIFC objectives, we encourage the exploitation of this new growth area. At the onset, it is also emphasized that an equally important part of this process is having the right people in place with the appropriate skills, having in place the appropriate systems and governance framework to ensure the viability and sustainability of this industry. In future, among the key intermediation role for Malaysia is to act as a centre for origination, issuance and trading of Islamic capital market and treasury instruments such as sukuk, and to act as an investment gateway to the region specialising in Islamic fund and wealth management, and as a Takaful and re-Takaful centre.



International Headlines

India The New Hot Spot for Fabs

Electronic News, 23rd March, 2007

India's government has finally come up with a package of tax breaks and interest-free loans to attract semiconductor manufacturers to set up shop in the country. With this new plan in place, India is expecting to attract \$6 to \$9 billion in investments in three years. The policy should help attract global chip companies to set up two to three chip foundries worth \$2 to \$3 billion each by 2010, with Intel among the first he would target to entice. India's Union Cabinet approved the policy last month whereby subsidies would be provided in the form of tax breaks and interest-free loans amounting to 20 percent of capital expenditures for projects in special economic zones and 25 percent of projects elsewhere - with the caveat that interested semiconductor companies would need to invest at least \$570 million to qualify for the subsidies.

PENANG
ECONOMIC
MONTHLY

US Economy grows at 2.5 percent

Bloomberg, 29th March, 2007

The US economy grew at a 2.5 percent pace in the final quarter of last year, healthier than previously thought but still largely caught up in a spell of sluggishness. The new reading on gross domestic product, released by the Commerce Department has shown an improvement from the prior estimate of a 2.2 percent growth rate for the October-to-December period. However, it marked the third quarter in a row where the economy's growth clocked in at a lethargic 2 percent or better, reflecting the drag of the crumbling housing market on overall business growth. The small upgrade to fourth-quarter GDP mostly stemmed from businesses investing more to build up their inventories of unsold goods, especially automobiles, than the government previously estimated a month ago.

South Korean Export Gains Accelerated

Bloomberg, 30th March, 2007

South Korea's export growth probably accelerated in March from a year earlier on increased demand for ships. Consumer prices likely rose at a slower pace this month. Overseas shipments gained 13.1 percent from a year earlier after climbing 10.5 percent in February. Consumer prices rose an unadjusted 0.6 percent from February and 2.2 percent from a year ago. Increased exports from companies such as Hyundai Heavy Industries Co., the world's biggest shipyard, may ease concerns slowing global demand will curb expansion in Asia's third- largest economy. Overseas shipments have been the main driver of the nation's longest stretch of growth in 10 years. South Korea's economic expansion slowed to 0.9 percent in the fourth quarter from a year earlier. The economy has advanced for 15 consecutive quarters, largely fueled by rising exports, which account for about 40 percent of gross domestic product.