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GDP-1ST QTR
MALAYSIA'S 1ST QTR GDP CONTRACTS BY 1.3 PCT

KUALA LUMPUR, June 23 (Bernama) -- Gross Domestic Product (GDP) contracted 1.3 percent in the first quarter of this year from a year earlier based on a new base year of 1987 and a new methodology for calculation.

Announcing this today, Bank Negara governor Tan Sri Ali Abul Hassan Sulaiman said first quarter GDP would have contracted by 1.6 percent, as mentioned by Prime Minister Datuk Seri Dr Mahathir Mohamad recently using a previous methodology and statistical base year of 1978.

Speaking at a joint press conference by the central bank and the Department of Statistics, he said the country is already out of its recession judging from the GDP growth of 1.4 percent registered in the February to March period compared to the year-earlier period.

"January wasn't good as manufacturing production was down substantially," he said. "February and March registered 1.4 percent growth so we've got positive growth and we are already out of the recession," Ali Abul added.

Saying that the first quarter marked the end of negative (GDP) growth and four consecutive quarters of contraction, he added that the second quarter GDP growth would return to the plus territory.

"The third and fourth quarter GDP growth would not only be positive but substantially stronger," the governor said.

He added that overall GDP performance for the year would be better than the one to two percent forecast earlier with the manufacturing sector leading the country out of the recession.

"I am not going to revise Bank Negara's official figures of one percent growth for 1999 although a lot of foreign research houses have been placing the GDP growth figure for Malaysia at higher levels.

"The higher forecasts of many agencies could materialise.

"We can expect much higher growth in the second and third quarter," he said, adding that "fund managers have indicated more than two percent growth this year.

Ali Abul said the manufacturing sector, which is second to the services sector in terms of contribution to the GDP right now, would overtake this sector in no time and account for one third of this year's GDP growth.

He explained that signs of recovery in the economy, first seen in last quarter of 1998, strengthened in the first quarter of this year.

Indicators showed favourable developments in both the external sector and domestic economic conditions, he added.

Among key indicators that continued to strengthen in the first quarter included the trade balance position which stood at a substantial surplus of RM15.8 billion, export growth which improved further by 4.6 percent in US dollar terms.

International reserves of Bank Negara reached US\$31.3 billion as at June 15, sufficient to finance 6.9 months of retained imports, inflation moderated to four percent while consumer and investor confidence gained strength with car sales picking up strongly.

Ali Abul also said the retrenchment rate moderated further and loan approvals by banks for manufacturing and construction sector continued to increase.

The minus 1.3 percent growth in GDP in the first quarter of this year reflected a significant moderation in the contraction seen in recent

quarters following the onset of the Asian financial and economic crisis, he added.

It reflects a turnaround in manufacturing output which increased by 4.6 percent in February and March, partially offsetting the decline in January.

The manufacturing and construction sectors registered the most pronounced improvement in economic performance on the supply side in the first quarter of this year.

Growth in value added of the services sector also turned around in the first quarter.

On the demand side, signs of recovery in aggregate domestic demand have also become more apparent with improvement in consumer spending, as reflected in the purchase of cars and higher total loan approvals for consumption credit contributed to a moderation in the decline of private consumption.

Private investment meanwhile remained subdued because of the excess capacity in the system.

Ali Abul said the decline in aggregate domestic demand (excluding stocks) moderated significantly in nominal and real terms to 9.2 percent and 9.1 percent during the quarter from declines of 24 percent and 28 percent in the fourth quarter of 1998.

As for private sector activity, Ali Abul said it was gaining momentum judging from the manufacturing output which rose 4.5 percent in April, the third consecutive monthly increase while gross imports in US dollar terms increased further by 14.3 percent.

More significantly, he said imports of intermediate goods turned positive in April, auguring well for export performance in the second quarter.

Money supply continued to expand, with M3 growing 5.7 percent in May while growth in M1 has turned positive, indicating the need for higher transaction balances to support the increase in economic activities.

As for the slower increase in the Consumer Price Index (CPI) the central bank chief said it was most noticeable in the food, gross rent, fuel and power and miscellaneous goods and services sub-groups.

The Producer Price Index (PPI) declined by 4.1 percent in the first quarter, the first decline recorded since the second quarter of 1997 with lower prices reflected in both local and imported goods.

Ali Abul also said the labour market situation in Malaysia improved in the first quarter of this year, reflecting improvements in the domestic economic and financial conditions.

The number of job seekers registered with the Manpower Department rose only marginally by 0.8 percent to 33,605 at end-March after rising by 17.8 percent to 27,988 a year earlier.

At the same time, the number of workers retrenched in the quarter declined to 11,454 persons from the peak of 26,238 in the third quarter of 1998. -- BERNAMA

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