

Commodities cushion Malaysia's economy

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MALAYSIA'S diversified economy, particularly with its exposure to the commodities sector, is helping it withstand the onslaught of the global slowdown triggered by the wobbly US economy.

While countries like Singapore and Taiwan are bracing themselves for a possible downturn due to their massive dependence on electronics exports to the US, Malaysia should fare better, economists said.

Echoing Prime Minister Datuk Seri Dr Mahathir Mohamad's positive comments, local economists Suhaimi Ilias of Affin-UOB Research and Lee Heng Guie of HLG Research are equally upbeat about the economy, which they say is more broad-based than Singapore and Taiwan.

"Malaysia is not experiencing a broad-based contraction in all the sectors. While the manufacturing sector contracted due to a sharp slowdown in demand for electronics, the construction, mining, agriculture and services-related sectors are expected to post positive growth which will cushion the slowdown in manufacturing," said Lee in his report.

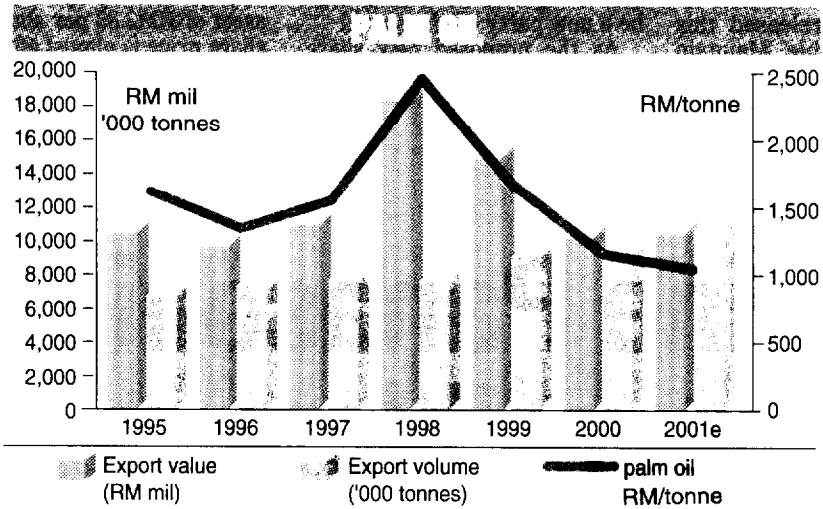
Suhaimi of Affin-UOB also concurred with Lee's views, saying that this was further strengthened by the first quarter gross domestic product (GDP) which showed a strong growth of 12% in the agriculture sector.

Other sectors such as manufacturing and mining recorded a 3.7% growth while construction growth was at 0.9%.

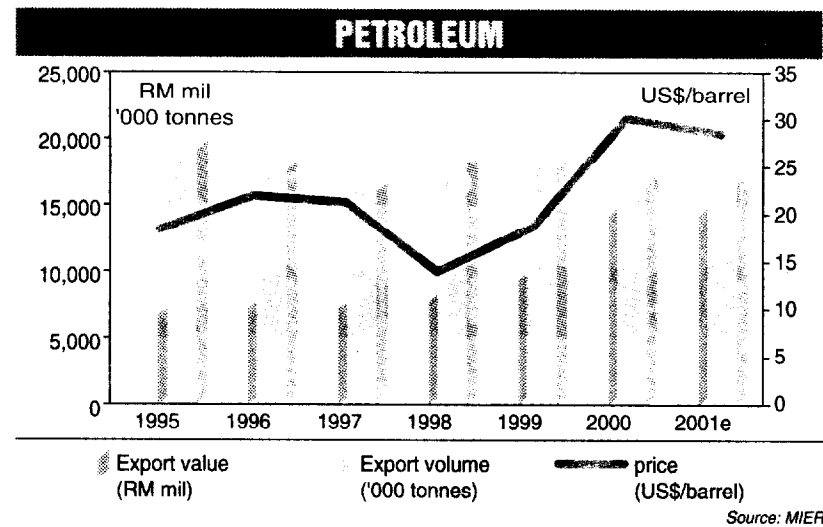
Suhaimi said palm oil, which constituted between 35% and 40% of the agriculture sector output, will again be the star amid the depressed state of the electronics and electrical (E&E) sector.

He said palm oil remained an important contributor to the economy, particularly the multiplier effect it has on the economic chain.

Based on real value, palm oil contributed RM1.5bil, out of the RM4.2bil generated by the agriculture sector,



Source: MIER



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to the total gross domestic product (GDP) in the first quarter of this year.

Suhaimi said the RM1.5bil did not include the downstream activities which is classified under manufacturing.

"The linkage (the industry) provides into the downstream sector is more important as it produces value added products which command

higher price," he added.

Some of these end products include soap and cooking oil, used both locally and for export.

With the recovery in crude palm oil (CPO) prices to the RM1,150 level, from RM700 less than six months ago, Suhaimi said the sector will definitely help to cushion any impact from the E&E downturn.

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Country strengthening position in downstream oil and gas sector

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He added that with nearly one million of the country's population dependent on various stages of oil palm activities, the higher prices of CPO will lead to higher spending in the country.

"Those people benefiting from the higher CPO prices would include farmers and workers in the plantation scheme, and a higher income for them would likely be used for spending," said Suhaimi.

But he is not entirely banking on agriculture for the economic balance.

"We still have other commod-

ities such as mining, oil and gas, and construction which is shaping up quite nicely, aided by the government's RM3bil pump priming measure," said Suhaimi.

Suhaimi said Malaysia, a net exporter of crude oil, should also fare well with the price of the commodity maintained at the current US\$27 to US\$28 per barrel, even though it is off its high of US\$30 per barrel last year.

The country is also strengthening its position in the downstream oil and gas sector with a number of foreign companies already operating their petrochemical sites to manufacture feedstocks for ex-

ports.

According to Lee of HLG Research, the construction sector, even though with only a 0.9% growth recorded in the first quarter, should be able to pick up steam with the commencement of some infrastructure projects in the second half of the year.

"We are targeting for a 2.2% overall growth for this year," he said.

Lee added that the expected pick-up in construction-related activities in the second half of the year can be detected from the increasing number of employment advertisements in the market.

Suhaimi said the pick-up in construction activities would spur the growth of construction and building material industries.

Credit Suisse First Boston regional chief economist P.K. Basu said Malaysia was likely to lessen the impact of recession as there were sufficient engines of growth in services, agriculture and construction.

In report by *Bernama*, Basu said the surge in visitor arrivals, up 48% year-on-year in April, was also boosting the services sector. The attractiveness of the ringgit value is also making Malaysia a "shopper's paradise."