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Govt optimistic Malaysia will skirt recession in Q3

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THE Government remains optimistic about seeing the economy avoid slipping into negative territory in the third quarter, despite prognoses to the contrary by private economists.

"There will be some positive growth, maybe 0.5 per cent, maybe slightly more," Prime Minister Datuk Seri Dr Mahathir Mohamad said.

He was speaking to reporters yesterday after opening the International Water Association (IWA) Conference on Water and Wastewater Management in Developing Countries in Kuala Lumpur.

Some economists, when contacted, said a positive gross domestic growth (GDP) growth for the three months would be a surprise as the numbers for the quarter's first two months were not encouraging.

Trade, manufacturing sales and the Industrial Production Index (IPI) all showed signs of a further cooling of the economy, while consumer and business sentiment remains low, they said.

They believe that the economy would contract in the third quarter, possibly in the range of -2.5 to 1.0 per cent.

"Looking at the first figures so far, it is likely that growth for the quarter will be negative, unless we see a big jump in the year-on-year growth for September," said DBS Bank senior economist Wong Chee Seng.

"But at this point, the prospects for that are not good in the wake of the September 11 terrorist attacks (on the US)."

Other economists, however, said the services sub-sectors, such as utility, transport as well as finance and business services, could spring a surprise.

"A growth in the third quarter will mean a fairly large jump in the services sector. Construction may also be bolstered by the pump-priming measures," one said.

In the previous quarter, Malaysia managed to avoid contraction by posting a 0.5 per cent GDP growth.

A 6.7 per cent decline in the manufacturing sector was offset to a large extent by a 6.1 per cent jump in the services sector which was fuelled by robust tourism and retail activities, as well as a better than expected performance in the finance, insurance, real-estate and business services sub-sector.

The services sector makes up 55.9 per cent of the GDP, and manufacturing 31.4 per cent. They are nevertheless closely linked.

"It used to be that services were a supporting sector, but in April-June, we could see a divergence with services taking the lead," said DBS' Wong.

"We were expecting no improvement in the third quarter, and a small one if any in the fourth... we will just have to wait and see," said another economist.

Positive growth for July-September will definitely be cheered by the stock market, Wong said, adding that trading in the past days appeared to show that investors have factored in the possibility of negative growth.

In August, Malaysia's trade surplus widened as the fall in exports was outpaced by a record 25 per cent decline in imports. Manufacturers were said to be bringing in less intermediate materials in anticipation of shrinking demand.

Exports had remained anaemic, falling 18 per cent year-on-year in July-August.

Likewise, the IPI for August retreated from the gains made in July, by 3.5 per cent month-on-month and 7.3 per cent year-on-year. And manufacturing sales shrank 13.2 per cent in July-August.

Slower business was also beginning to be felt in the domestic sector as well. According to the Malaysian Institute of Economic Research, both its business condition index and consumer sentiment index had breached the threshold that indicates bearish outlook.

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