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GDP growth hits 2-year high of 5.6pc

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MALAYSIA'S economy accelerated 5.6 per cent in the third quarter, its fastest pace in almost two years, as consumers continue spending, exports strengthen and capital investment recovers.

Bank Negara Malaysia said Malaysia, whose gross domestic product (GDP) is among the best in the region after China and South Korea, is on track to record at least 4 per cent growth this year.

"In the next quarter, we expect the economy to at least sustain the growth that was achieved in the third quarter. Indeed, if the external environment continues to remain favourable, it could outperform the third quarter," said central bank governor Tan Sri Dr Zeti Akhtar Aziz.

Prime Minister Datuk Seri Dr Mahathir Mohamad said the GDP of 5.6 per cent for the third quarter was above expectation despite the current global economic uncertainties.

He said Malaysia is capable of doing well largely because of the peaceful atmosphere in the country which allows businesses to be conducted well.

"Terrorists and war against terrorism have created tension in the world, which inadvertently affected the world economy.

"Many countries suffered economically because of that as people do not dare to travel, investments drop and so on. But against this backdrop, Malaysia's economy was running smoothly," he said at the presentation of Hari Raya gifts and schooling aid to orphans in the Federal Territory yesterday.

At a press conference to announce the GDP figures, Zeti said positive effects from low-interest environment and government pump-priming, on top of the higher commodity prices and a stronger recovery in external demand, helped uphold private consumption from July to September.

Bank Negara has also revised its second quarter GDP up to 3.9 per cent from 3.8 per cent.

Year-to-date, the economy has grown 3.5 per cent, and it will need to at least expand by 5.4 per cent to achieve the 4 per cent target, a feat economists think is achievable.

"Year-end orders and the low-base of last year's fourth quarter should result in double-digit growth in gross exports for November and December, while consumer spending should remain intact with the large cash injections into consumer pockets through year-end bonuses should be in time for festivities and back-to-school spending," said Azrul Azwar, MIDF-Sisma Securities economist.

Malaysia last grew at a faster rate than this in the fourth quarter of 2000 when it recorded 6.3 per cent GDP.

While the risk of war still posed "high degree of uncertainty" in the global economic environment, and could be destabilising to the external demand, Zeti expects Malaysia's resilience to minimise the impact in the domestic economy.

"While risks remain, they appear to be contained at this point," said Zeti.

"In the event of a significant slowdown, the Government has the flexibility to respond to address the situation. Our fundamentals remain strong, and these place Malaysia in a position to undertake further stimulus if necessary," she said.

Meanwhile, all sectors of the economy recorded growth in the third

quarter.

Manufacturing, which accounts for one-third of the economy, surged 7.3 per cent from 5.3 per cent in the second quarter, thanks to the double-digit growth in fabricated metal products, electronic, and machinery and equipment.

Capacity utilisation for export-oriented industry grows to 84 per cent from 82 per cent in the second quarter, boosted by a turnaround in the electronics industry, which records growth for the first time after 12 months of decline.

Higher commodity and crude oil prices helped boost the economy, spurring the mining and agriculture sectors to grow 7.3 per cent and 5.4 per cent, respectively.

Labour shortage due to the repatriation of illegal workers in the third quarter, however, is affecting the construction sector, which slowed down to 2.3 per cent, its slowest growth in 18 months.

Economists earlier estimated eight out of 10 foreign construction workers were illegals.

This has in turn affected the domestic-oriented manufacturing. Growth output for domestic manufacturing has slowed down significantly to 1.8 per cent from 8.2 per cent in the second quarter, and capacity utilisation dropped to 77 per cent from 83 per cent.

Bank Negara said this was mainly due to lower production in construction related materials such as cement and steel, and the situation is expected to be temporary.

"Indicators show that this moderation reflects specific factors rather than fundamental trend. The labour situation is, therefore, expected to normalise going into next year," said Zeti.

Meanwhile, public consumption jumped a whopping 21.7 per cent due to the acceleration in pump-prime implementation, while capital investment grew 2.6 per cent, the first time it expanded after four consecutive quarters of contraction.