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Economists see 3.8pc growth in 2nd qtr (HL)

Maisara Ismail

MALAYSIA is expected to have grown 3.8 per cent in the second quarter of this year as strong manufacturing performance helps to carry the economy through the worst of Severe Acute Respiratory Syndrome (SARS) outbreak.

The average forecast of 10 economists polled by Business Times ahead of the second quarter growth announcement next Wednesday is lower than the 4.5 per cent estimated by Prime Minister Datuk Seri Dr Mahathir Mohamed.

The forecast is higher than what many economists would have guessed back

in May, when SARS was clouding the economic outlook.

"SARS started later and ended earlier in Malaysia. And unlike Singapore, Taiwan, China and Hong Kong, the country was never included in the affected list, so the hit was not as badly as some would expect it to be,"

said Standard Chartered economist Joseph Tan.

Manufacturing sector shone due to the industrial production index's (IPI) surprising strength during the quarter. Although the Statistics Department had scaled down the pace of IPI growth in May, the second quarter still expanded strongly at 8.7 per cent.

Exports, though less inspiring, maintained their pace to grow at 5.8 per cent within the period as strong commodity prices offset weak electronics sales.

The strong showing prompted economists to estimate manufacturing growth of as high as 8.0 per cent during the quarter, up from the first quarter's 5.2 per cent.

Falling imports may be a bad sign, but in the second quarter, the -5.0 per cent imports growth has helped widen the trade balance.

This increased net exports contribution to the economy, estimated to be around 1.9 per cent, a marked contrast to net exports' negative contribution in most of 2002.

"There is just a lot of buffer in Malaysian economy," said an economist at a bank-backed research.

The downturn in the affected industries has shaved the services sector growth and "slowed it down a bit to around 2.5 per cent from the 4.0 per cent recorded from January to March," said MMS International regional economist Dave Cohen.

But even then, the severity within the sector was contained in the travel and tourism and related sectors. The financial services sub-sector, for instance, enjoyed significant boost with the run-up in stock market and accelerating loan growth.

Domestic spending also seemed to weather the SARS scare well, said economists, despite more cautious consumers.

A 3.8 per cent growth in the second quarter will bring Malaysia's first-half gross domestic product (GDP) to 3.9 per cent. To achieve 2003's official target growth of 4.5 per cent, Malaysia needs to grow at a rate of 5.1 per cent in the second half, a plausible feat according to the economists.

"There is general optimism that the world economy will be better in the second half and that should be supportive of Malaysian exports," said MMS Cohen.

This may even be an added boost in the form of an upward revision in the first quarter GDP.

The Statistics Department's review of March IPI could push first quarter GDP up to as much as 4.4 per cent, pointed an economist.

Sustained growth in manufacturing sales has allayed the fear of inventory build-up due to stronger-than-expected growth in industrial production in the second quarter.

Meanwhile, US new orders and semiconductors' book-to-bill ratio show that external demand is picking up.

For Malaysia's manufacturers, whose operation accounted for one-third of the Malaysian economy, outlook is much brighter.