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'Economy to keep growing'

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MALAYSIANS have nothing to fear economically from now to the end of next year if predictions by Affin-UOB Securities Sdn Bhd chief economist Suhaimi Ilias are anything to go by.

Suhaimi forecasts that the economy will grow 4.6 per cent this year and 5.5 per cent in 2004. The growth estimates are more or less in line with the Government's forecast of 4.5 per cent for this year and 5.5-6.0 per cent in 2004.

The predicted growth will come from the economy's key growth driver, the manufacturing sector, which is expected to grow by 6.0 per cent this year and 7.0 per cent in 2004.

Suhaimi also expects exports to contribute positively to economic growth, growing 5.2 per cent this year and 7.2 per cent in 2004.

The optimistic outlook is based partly on the encouraging signs from local economic indicators in recent months.

"For instance, the country's consumer sentiment and business conditions improved in June this year after the end of the US-led war in Iraq and the outbreak of Severe Acute Respiratory Syndrome (SARS)," Suhaimi said during his presentation at the Third Annual Convention of Unit Trust Consultants, organised by the Federation of Malaysian Unit Trust Managers, in Petaling Jaya recently.

Data for June-August 2003 tourist arrivals also showed that Malaysia's tourism industry was over the worst from SARS after hitting a low for the year of 457,900 in April.

"This increase in tourist arrivals was also reflected in the number of passengers carried by Malaysia Airlines. With the increase in foreign visitors to Malaysia, the average occupancy rates of hotels across the country also picked up to that of the pre-SARS period," said Suhaimi.

He said the imports of intermediate goods have also shown signs of stabilisation after marked drops in the third quarter of last year. The pace of contraction has slowed down a bit, and this offers some ground for optimism over the growth outlook for the rest of 2003 and 2004.

"This suggests that the inventory correction is almost over, and going forward, we can expect manufacturers to start building up inventories, which translates into higher exports, higher production, higher sales and better economic growth," he added.

At the same time, policymakers are trying to stimulate the economy through monetary and fiscal stimulus not only in Malaysia but also in

several parts of the world.

"As far as monetary and fiscal policies are concerned, I think we are enjoying an overdose of stimulus. If you look at the trend in interest rates, they are at a low and I believe this will continue well into next year," said Suhaimi.

He expects the low interest rate policy to be sustained essentially by two factors: high liquidity in the domestic economy and the low level of inflation.

"Thus, there is no pressure on the central bank to raise interest rates to curb inflation. On the other hand, there are more incentives for it to keep interest rates down. This may not be very exciting for the bond market, but I think the outlook for the stock market remains positive next year," said Suhaimi.

Since 1998, Bank Negara Malaysia has been cutting interest rates, with the most recent cut in May this year, to boost growth.

The numbers are also pointing to a strong recovery in the US, said Suhaimi.

The strong acceleration, from the 1.4 per cent growth rate in the first quarter of this year to 3.1 per cent in the second quarter, has prompted economists and investors in the US particularly to feel more positive about the outlook of the US economy, at least over the next 12 months.

The US economy is expected to grow by more than 3 per cent in the second half of this year and the first half of 2004.

Another reason things look so good is that there are signs of recovery in the global electronics industry.

"Electronics is an important part of the Malaysian economy, accounting for 45 per cent of total exports and about three-quarters of total exports to the US. It is also one-fifth of the local manufacturing industry," said Suhaimi.

He pointed out that all these factors are being priced into the local financial markets, given the recent rise in the Kuala Lumpur Stock Exchange (KLSE) and the increase in bond yields.

"For instance, the KLSE Composite Index (KLCI) has been rising since late May in response to the announcement of the stimulus package as well as the general outlook of the economy. The rise in equity prices indicates expectations of improvements in corporate earnings growth as well as economic growth," he added.

Suhaimi expects the KLCI to rise to 880-990 points by the end of next year.

However, he highlighted the many risks the local economy is still facing.

He said the major risk to growth will come from the US economy's failure to recover sufficiently to expectations, which could dampen the prospects for the global economy.

"Other minor risks include concerns about global inflation or deflation, a new SARS outbreak in Asia, a terrorism backlash if West Asian tensions in our part of the region continue and, for foreign investors, domestic politics may present some risks given the transition of power and the upcoming general election," he said.

On the outlook beyond 2004, Suhaimi said that after the crisis, the question is whether or not Malaysia is still on track to achieve Vision 2020, that is, for it to be a fully developed country by 2020.

"When the vision was first introduced by Prime Minister Datuk Seri Dr Mahathir Mohamad, the country's economy was projected to grow 7.0 per cent annually all the way to the year 2020. But the Asian crisis has derailed the growth forecast, during which the growth from 1999 through the first half of this year has been slower than the 7.0 per cent needed," he said, adding that to get back on track, Malaysia needs to continue growing at an 8.2 per cent pace from 2005 to 2020.