

Stock market not a yardstick for economic performance

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Deputy Minister of International Trade and Industry Ng Lip Yong reacted last week to a press interview I gave with regards to the economic figures provided by the government and as to whether or not they provided an accurate picture of the country's economic situation.

Ng said that the ministry's statistics were accurate. I, however, did not say that the numbers were not accurate but it depended on how one interprets them.

When asked about the 'good news' as reported by the government (chiefly through the ministry) on our state of economy, I commented that the government might want to be careful when painting such a rosy picture if the 'goodies' do not trickle down to the ground. Earlier, the government has announced that the ministry had approved RM46 billion in investment last year. Perhaps it will be helpful for the ministry to disclose the actual amount of money which has been invested. On paper, the investment figures look extremely good.

While some major investments in the oil and gas and plantation industries have started to trickle down, by and large small and medium enterprises, employees in the private sector and even civil servants are not experiencing a higher level of living standards. Inflationary pressure is higher in the urban areas compared to rural areas and so far no study has been conducted to find out how the urbanites are coping with rising costs.

Hence, it is too early for the government to shout that we have turned around and there is a 'feel good' feeling all round.

According to the survey by the Associated Chinese Chambers of Commerce and Industry (Acccim), the economy had 'remained relatively stable' during the second half of 2006. The bi-annual survey, in its 15th year, was conducted last December involving some 257 Acccim members including those from the wholesale, retail, manufacturing, professional and service industry.

Fifty-six percent of respondents felt that for second half of 2006 there was 'no change' in economic conditions while 32 percent felt that the economy was 'deteriorating'. In a nutshell, only 12 percent of the respondents agreed with the government that the economic sentiment was upbeat. In the same report, 55 percent of respondents said they were 'somewhat optimistic' about the Malaysian economy over the next two to three years while 19 percent claimed they were 'optimistic'.

It is fair to say that although the nation's economic condition is improving, we are not out of the woods yet. The deputy minister said that my views on the economy were based solely on my own perception and not backed up by statistics. But perception is the key in business and many investors make their investment decisions based on the consumer perception index. What are the statistics which suggest that our consumer power is expanding and that our GDP per capita is growing above the inflation rates?

I argue that despite an impressive 25 percent rise in the Malaysian stock market since last November, this is not a good yardstick of our real economic performance. In a Business Times report recently, retail investors are said to have shown little interest in joining in the action at Bursa Malaysia. Exchange data indicates only 10-15 percent of the more than two million

accounts in the central depository system are active although the Kuala Lumpur bourse's market cap is moving towards the RM1 trillion mark.

Prime Minister Abdullah Ahmad Badawi has speculated that the KLCI would break its record thanks to foreign reserves, a lower deficit, approved total investment of RM46 billion, a national trade volume of RM1,069 billion in 2006 and other factors.

Since the prime minister's prediction that the KLCI will hit 1,350 points soon, some second-line and smaller capitalisation counters have seen some movement, indicating the participation of more retail investors. It should be noted that the prime minister's prediction is purely his own judgement and is highly speculative in nature.

The deputy minister told the press that he had warned me not to be too presumptuous in my analysis and that it is my own business if I refused to accept the government's statistics. At the moment, I remained unconvinced that economic fundamentals have strengthened and that we have managed to turn around. Moreover, I am very concerned with the excessive speculation in the economy especially the stock market.

If everything is so buoyant, why do we need Pemudah and the 3P special task forces to help improve the efficiency of government's implementation system and to help cut down excessive bureaucratic red-tape? In the Acccim survey, 43 percent of respondents claim that government policies were 'adversely affecting' their business performance. They recommended that the government improve its delivery system and be more transparent and liberal in its policies.

Finally, retail investors should not be lead astray over some speculation on the KLCI. Most of them are the last to get into the market and the last to come out too. Unfortunately, many researchers I have spoken to are of the opinion that the government is building up for a general elections. This kind of perception does not help the government either if it is not telling the truth.

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