



Cautiously Upbeat

With such encouraging data coming from the global and Malaysian economies, it's easy to join the feel-good crowd and overlook the risks.

IT HAS BEEN A GOOD START FOR THE GLOBAL ECONOMY. GOOD NEWS is pouring in from different parts of the world. Based on the latest macro releases, the world's economic locomotive, the United States, is still resilient even after experiencing a housing slump last year. While construction spending has yet to rebound, home prices have slowly stabilised.

Although recent comments about a possible recession by the former chairman of the US Federal Reserve Bank (Fed), Alan Greenspan, shook investors' confidence, many still believe that there is no major catastrophe on the horizon. Not surprisingly, the Fed is now putting inflation at the top of its agenda in its policy meetings.

Similarly, the Euro region's economy sizzled with a near-3% growth last year, its best performance since 2000. The German economy, which had struggled to keep itself afloat in the past several years, is outshining others in the region as exports have surged following explosive demand from the US and Asian countries.

Back in Asia, Japan's longest economic expansion since World War Two is giving confidence to its policy makers who decisively hiked up interest rate for the second time in six years on Feb 21. Japan's economy chalked up an impressive growth rate of 4.8% in the fourth quarter last year, beating market consensus of a 3.8% expansion.

In the Far East, new economic superpowers China and India are still struggling to control their economies from growing too fast. China posted a growth rate in excess of 10% in 2006, forcing its central bank to lift banks' reserve requirement recently to soak up excessive liquidity in the system.

Similarly, India's sizzling growth rate, which is expected to reach double digits this year, is giving a headache to the Reserve Bank of India which is continuing to raise the cost of borrowing to control inflation in the country.

In Malaysia, things also look pretty upbeat. The growth rate in 2006 beat the Government's forecast and more and more record-breaking numbers are being churned out by the Department of Statistics. The trade surplus hit RM108 billion last year, the highest ever as exports continued to outpace imports.

The value of trade surpassed the RM1 trillion mark for the first time in history. The country's external reserves were at a historical high of US\$84 billion at the end of January this year. The stock market is booming although its benchmark index experienced a sharp correction following a plunge in China's stock exchange on Feb 28.

With such a buoyant economy, it is easy to overlook some of the risks that may lie on the horizon. Don't get me wrong, I'm

not trying to be a party pooper. But having looked at the macro data for nearly two decades, I have noticed that even economists have short memories. We downplay the risks when things look too good and we often feel queasy about being too far from consensus in our forecasts. In other words, we are just human.

So, despite painting this nice rosy picture of Malaysia's economic outlook, let us try to

spell out some of the risks that may possibly derail some of our upbeat projections.

First is the external sector. Malaysia's exports are slowly feeling the pinch from waning global demand. It is true that exports have done fairly well last year, with a double-digit growth rate of 10%, almost as strong as in the previous year.

Looking closer, however, economists are seeing signs of weakness in the exports performance in the last months of 2006. In December, for instance, growth fell sharply to 6.2%, compared with a 18% expansion the earlier month. A deeper scrutiny reveals that exports of electrical and electronic products (E&E) – Malaysia's export lifeline – are showing signs of fatigue.

ALTHOUGH RECENT COMMENTS ABOUT A POSSIBLE RECESSION BY THE FORMER CHAIRMAN OF THE US FEDERAL RESERVE BANK (FED), ALAN GREENSPAN, SHOOK INVESTORS' CONFIDENCE, MANY STILL BELIEVE THAT THERE IS NO MAJOR CATASTROPHE ON THE HORIZON.