

Slower Malaysia Q2 GDP growth seen
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Kuala Lumpur: The Malaysian economy probably expanded at a slower pace in the second quarter due to lingering uncertainties over the progress of the global recovery.

Economists are now concerned about the growth momentum for the rest of the year. Already, most of them have shaved their earlier projections for Malaysia, citing the drag by the manufacturing sector as one of the main factors.

A Business Times quarterly poll expects the second quarter to turn in an average growth of 4.25 per cent, down from the 4.6 per cent growth in the first three months of the year.

With the revision in their outlook, the gross domestic product (GDP) is expected to grow by an average of 5.03 per cent this year, the lower end of the official 5 per cent to 6 per cent forecast for 2011.

Although exports have improved in recent months, economists have attributed it directly to the favourable commodity prices.

Neighbouring Singapore expanded at a weaker pace in the second quarter, mostly due to manufacturing. Its second quarter weakness is expected to push the economy into a technical recession (two quarters of negative growth) in the third quarter.

Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz will release the second quarter performance details tomorrow.

DBS Bank economist Irvin Seah says the slower growth is due to the global supply chain disruption, especially after Japan's calamity as well as the European debt crisis, sluggish US recovery and a general slowdown in growth momentum in the global economy.

"The key drag on the economy came from the external front."

Industrial production growth contracted by 1.6 per cent in the second quarter, while export growth improved 8.4 per cent. This was mainly driven by high energy and commodity prices.

Non-oil exports, he added, have been relatively flat since the end of last year and this largely reflects the weakness in external demand as well as the side effect of a stronger currency.

Seah said although domestic demand was expected to pick up some of the slack, it was probably not enough to offset the decline.

"In fact, investment and consumption growth probably have also softened in the second quarter," he said, adding that consumer sentiment index and capacity utilisation for companies both dipped in the last two quarters.

Although Seah does not expect a technical recession in Malaysia, he said growth

momentum will be slower, as long as risk aversion and negative sentiments impact consumers and expansion plans by companies.

Standard Chartered Bank economist Edward Lee said Malaysia's financial sector has, however, been relatively robust, given the rise in equity market turnover, high loan growth, active bond market and still-positive equity market during the second quarter.

"Similarly, the transport sector should have performed well, given high cargo volumes through ports and the strong rise in airline passengers," he added.

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