

Malaysia likely to be a two-speed economy, say analysts
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KUALA LUMPUR, Aug 17 — Malaysia's surprisingly strong second-quarter economic growth despite weakening exports was largely due to the buffer of ongoing construction projects and increased spending attributed to civil servant salary hikes and government cash handouts, say economists, which could point to uneven growth in the months ahead.

Malaysia's firm Gross Domestic Product (GDP) performance of 5.4 per cent growth stood in sharp contrast to externally-driven economies such as Singapore which grew only 1.9 per cent in the second quarter as global uncertainties continued to depress demand in Western economies.

While domestic demand growth in the country accelerated to 13.8 per cent in the second quarter from 9.7 per cent in the first, net exports slumped by 36.2 per cent during the same period.

"The economy is showing a diverging trend between the domestic and external sectors," said Maybank Investment Bank chief economist Suhaimi Ilias.

He noted that the leading indicators for the manufacturing sector was "not good", which was a tell-tale sign that manufacturers were not ramping up production.

Suhaimi said however that while the government wanted to rebalance the economy to be more domestic driven, it was important to keep leveraging growth opportunities abroad.

"We are well positioned to benefit from regionalisation and globalisation," he said. "There is an advantage to keeping the door open and we can have the best of both worlds."

The economist added that whether Malaysia could successfully make the leap to a domestic-driven economy also hinged on whether it could achieve the ambitions of becoming a high-income nation.

RAM Ratings chief economist Yeah Kim Leng said that the domestic consumption growth could continue as long as there were no major shocks to the employment market or any sharp corrections to asset prices which tended to bring about a wealth effect and encouraged spending.

"Our consumers will continue to spend although consumer sentiments have edged lower," he said.

Citi Research said in a report that the strong support provided by domestic demand, underpinned by activities in both the private and public sectors, has ensured higher growth amidst the challenging global environment.

"This trend is expected to be sustained going forward, although downside risks emanating from external developments remain," said Citi.

UOB, meanwhile, upgraded its forecast for Malaysia's economic growth to five per cent from 4.3 per cent, thanks to the "exceptional" second-quarter performance.

"Nonetheless, risks of global weakness persisting into 2013 and a high base effect could dampen the growth rate next year," it said in a report.

The government had hiked civil servant pay by up to 13 per cent in March which affected some 1.4 million public sector employees.

The monthly cost of living allowance was also increased by RM50.

Several large construction projects are also under way, including the RM4.6 billion Sabah-Sarawak gas pipeline, the RM4.5 billion second Penang bridge, the RM7.7 billion LRT extension project and RM5 billion Janamanjung power plant.

More mega projects are also in their beginning stages which could further bolster the construction sector in the months ahead including the new Klang Valley MRT which has been estimated to cost at least RM20 billion, a proposed high-speed rail link to Singapore and the RM60 billion RAPID petrochemical complex in south Johor being spearheaded by Petronas.

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