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3RD QUARTER ECONOMIC ANALYSIS

Figures add up to a good year

BY any standard, the five per cent economic growth in the third quarter seems credible and is on the right track to achieve the revised full-year growth forecast by Bank Negara of 4.5 to five per cent.

The most remarkable feature of the third quarter growth is the performance in exports, where it rebounded convincingly from negative territory to a strong 1.7 per cent growth.

Domestic demand, the pillar of the economy, expanded robustly at 8.3 per cent. Although higher than the previous quarter, it fell short compared with the same period last year, which was at 11.4 per cent. Private investments accounted for a significant amount of the overall contribution of the domestic sector, at 15.2 per cent. This shows the resilience of the economy and the government's commitment to reduce the fiscal deficit and debt levels in the near future.

On the other hand, private consumption has grown by 8.2 per cent, slightly higher compared with the first and second quarter figures of 7.5 and 7.2 per cent. The growth needs to be managed in the coming years as it will increase the ratio of household debt to the gross domestic product (GDP), which is at 83 per cent, the highest in the region.

On the supply side, the construction sector remains the shining star, registering 10.1 per cent growth even though last year, the sector contributed the least to GDP, at a mere 3.5 per cent. One of the possible explanations for this would be the effects of the Economic Transformation Programme projects, especially the Mass Rapid Transit venture.

But boosting the services sector is crucial in moving forward. The share in the services sector has improved from five per cent in the second quarter to 5.9 per cent in the third quarter. As the economy moves towards de-industrialisation, this amount can be considered relatively small.

Last year, the tertiary sector's contribution to the economy amounted to only 54.6 per cent. Therefore, more needs to be done to increase the level beyond the 60 per cent threshold. Measures spelt out in the 2014 Budget appeared to focus on this sector, which is a step in the right direction but more needs to be done to liberalise the sector.

The government cannot lose sight of strengthening industrialisation. Technological transfers need to be intensified via foreign direct investments and improving productivity. Cluster industry initiatives need to be revived to strengthen inter-industry linkages to reap the benefit of economies of scale and agglomeration.

The performance of the balance of payments indicates that the economic ecosystem is conducive for investment. It has recorded a wider surplus of RM11.8 billion compared with the previous quarter of RM1.5 billion. Inflation remains stable at 2.2 per cent though it shows an increasing trend, thus, expectations are high that Bank Negara might impose monetary tightening in the first half of next year by increasing the overnight policy rate, which is at three per cent.

The foreign exchange market has experienced relatively moderate volatility because of uncertainties in fiscal and monetary policy adjustments in the developed economies, especially in the United States. Although the nomination of new Federal Reserve chairman Janet Yellen has somewhat cooled down the ruthless market reaction, a trend of capital reversals is still conspicuous in Malaysia. This trend can also be seen in other major developing countries, such as India and Indonesia.

Based on the data, it seems that the economy is moving in the right direction. This is strengthened with the latest assessment by the international credit rating agency, Moody's, which upgraded the outlook of Malaysia's credit rating to "positive" from "stable". Even the International Monetary Fund recently gave Malaysia the thumbs up for introducing the Goods and Services Tax in 2015 plus the improvement in the World Bank ranking for Ease of Doing Business, where Malaysia's position improved from 12th last year, to sixth.

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