Manufacturing, services sectors 'remain prime growth drivers'

Construction sector will be key beneficiary of the mega transportation, highway projects

by ANNA CHIDAMBAR

THE manufacturing and service industries will remain the prime drivers of growth for Malaysia with healthcare, education, insurance, transportation, information and communications sectors providing further momentum, says United Overseas Bank (M) Bhd economist Julia Goh.

"Maintaining the momentum will be challenging, given the tougher operating environment both globally and locally. We believe further investments from the private sector will help boost the country's economic growth," she said in her recent economic outlook for Malaysia.

According to her, within the manufacturing sector, export-related sectors will benefit from the weaker ringgit and domestic-related sectors will likely gain from ongoing infrastructure development and import-substitution.

"Within the services industry, we expect growth to come from a range of sources. For instance, retail sales and food and beverage services will likely benefit as domestic tourism is picking up," she added.

The construction sector will stand out as a key beneficiary of the mega transportation and highway projects announced in Budget 2016. Meanwhile, the mining sector will face challenges amid the ongoing oil rout, while agriculture is likely to be affected by weaker palm oil output, Goh noted.

Over the longer term, Malaysia's economy continues to look attractive given its solid fundamentals and ongoing policy reforms to stimulate economic growth by improving labour productivity, she said.

Some of the ongoing key infrastructure projects that will contribute to growth include the Mass Rapid Transit Sungai Buloh-Serdang-Putrajaya Line, the Light Rail Transit 3, the Pan Borneo Highway, the KL-Singapore High-Speed Rail and the Pengerang Integrated Petroleum Complex in Johor.

"A recent uptick in infrastructure projects and follow-through of capital spending should yield higher investment growth in the next few quarters," Goh said.

"There is a need for the government to continue creating a conducive and competitive landscape where multinationals, government-linked companies, private enterprises and new innovative startups can thrive together in building Malaysia's economy further," she added.

Goh said that the bearish commodity prices and currency volatility will continue to pose challenges to the economy. These drags are in addition to the anticipated weakr private consumption growth in light of rising costs, weaker sentiment and negative wealth effects.

On Malaysia remaining as an attractive investment opportunity for foreign investors, Goh said foreign investors will look at a country's historical growth and its plans to catalyse future growth when considering it as an investment opportunity.

International Monetary Fund (IMF) data indicated that the growth differential is the single most important driver of foreign capital inflows and investments. Much of the decline in emerging market (EM) investment inflows can be explained by the narrowing differential in growth prospects between EM and advanced economies.

IMF data also revealed that Malaysia has experienced a positive growth differential, recording an average growth of 4% over and above Group of Seven advanced nations' since 2011.

"Despite sustaining four quarters of slowing growth, the Malaysian economy continues to display an underlying resilience supported by its high labour force participation rate and positive employment growth," she said.

In addition, Malaysia's favourable demographics of growing working age population and positive nominal wage growth, accommodative monetary policies and government support measures are contributing to its appeal, Goh added.

"We expect that the ringgit may be able to revert to lower levels and benefit from the potential capital inflows from repatriated funds and receipts from local and foreign asset sales. Inflation is expected to edge higher this year due to low base affects and cost-related adjustments," Goh said.

"We continue to expect the policy rate to remain on 'Hold' this year," she added.