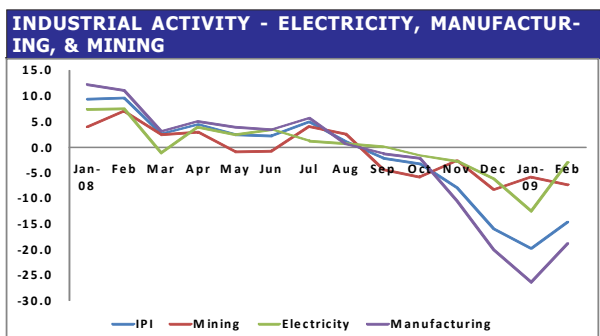


## Production February IPI - still falling

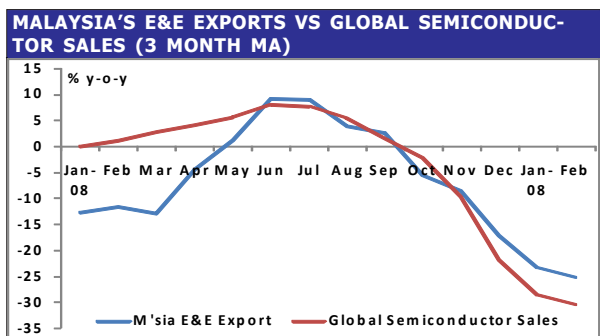
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IPI (%YOY)				
% Y-O-Y	IPI	ELEC.	MINING	MFG.
2005	3.6	5.8	-1.6	5.1
2006	5.0	5.1	-3.4	7.5
2007	2.0	3.9	3.2	1.9
2008	0.1	1.3	-0.5	0.4
Nov-08	-7.8	-2.8	-2.6	-10.5
Dec-08	-15.9	-6.2	-8.3	-20.0
Jan-08	-19.8	-12.5	-5.8	-26.3
Feb-08	-14.6	-3.0	-7.3	-18.8
1Q-08	5.9	4.5	3.7	6.6
2Q-08	3.5	3.3	-0.4	4.5
3Q-08	0.6	0.7	-0.1	0.7
4Q-08	-9.0	-3.5	-5.6	-10.5

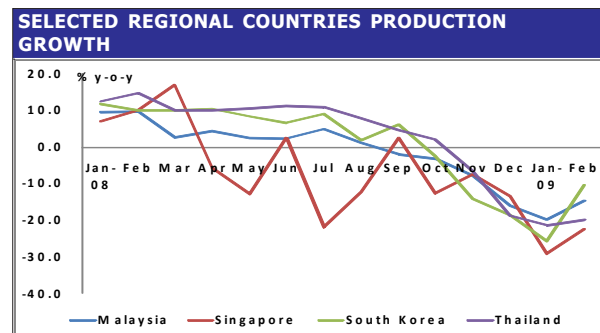
Source : Bank Negara Malaysia & Department of Statistics Malaysia



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- Malaysia's industrial production index (IPI) registered its seventh successive month of decline in February 2009, falling by 3.7% m-o-m but a shade smaller than the -4.0% in January. As a result, the yearly decline of the IPI during the month moderated evidently to 14.6% as against almost -20.0% in the earlier month. As in the previous months, the pathetic industrial activity was largely attributed to the further decline in the major component of the IPI, namely manufacturing (-0.7% m-o-m and -18.8% y-o-y). This was exacerbated by a larger contraction in mining (-7.3% m-o-m and -10.0% y-o-y). Together, it had the effect of pulling down electricity generation and demand. The mining sub-component of the IPI fell by 10.0% m-o-m and -7.3% y-o-y.
- The deterioration in industrial activity mirrors closely the weakening of the external sector. Had it not for the sustained, albeit weaker, domestic spending (public and private), the overall industrial activity could have posted an even weaker performance in February and the preceding months. While the downtrend in both, industrial activity and exports, would have depressed the overall real GDP growth during the first two months of 2009, we view the parallel developments (fall in manufacturing in tandem with exports) as healthy to lower the level of stocks in the sector (for recovery to occur quickly, inventory must be kept at minimum level so that production could resume rapidly should external demand reverses for the better).
- Looking a month beyond, we believe that both industrial activity and the external sector could have again posted an unexciting performance in March. For the whole of the 1Q09, we estimate the manufacturing sector and exports to decline by 15.1% and 20.4% y-o-y respectively as against -8.8% and -13.4% in the preceding quarter and +7.0% and +6.0% in the same quarter of 2008. Real GDP therefore could have declined by an estimated 3.0% in January-March 2009. The official release of the first quarter numbers would only be made in May 25, 09 by Bank Negara.
- Although some spots of positive news had emerged in the real and financial sectors in several major economies, it is still too early to conclusively suggest that the worst is over. More importantly for the Government at this juncture is to ensure a more effective and speedy implementation of the projects identified in the stimuli projects and the 2009 Budget. Additionally, in an environment of low borrowing rates, made possible by the sharp and successive cuts by the Bank Negara, it is equally important to ensure uninterrupted flow of credit to the private sector. In this regard, we are encouraged to note that loan growth had remained at double-digit y-o-y growth in January (+11.6%) and February (+10.9%), suggesting steady domestic demand. Equally encouraging are data on loans applied, approved and disbursed that had remained healthy in the first two months of 2009, although all had eased slightly compared with the final few months of 2008. It is for the immediate past reason that we had expected the real GDP in the initial quarter of this year, while will begin to register negative growth it is not likely to fall sharply. At this juncture, we are looking at real GDP growth of roughly -3.0% in January-March, and an unchanged forecast of -1.0% to +1.5% for the entire year.