

Production December IPI - contracted sharply; a bleak outlook for 4Q GDP

16 FEBRUARY 2009
2009/0008

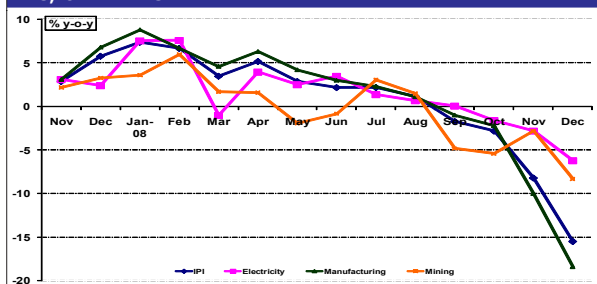
MALAYSIA'S PRODUCTION INDEX (%YOY)

% 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
Sept-08	-1.7	0.1	-4.8	-1.0
Oct-08	-2.8	-1.6	-5.4	-2.2
Nov-08	-8.2	-2.8	-2.8	-10.0
Dec-08	-15.5	-6.2	-8.3	-18.4
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

* From January 2006 onwards, the production index is calculated using 2005 as a base year

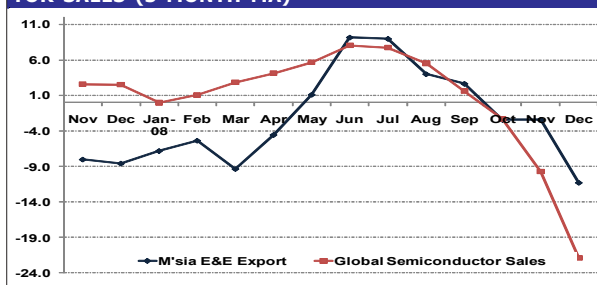
Source : Bank Negara Malaysia & Department of Statistics Malaysia

INDUSTRIAL ACTIVITY - ELECTRICITY, MANUFACTURING, & MINING



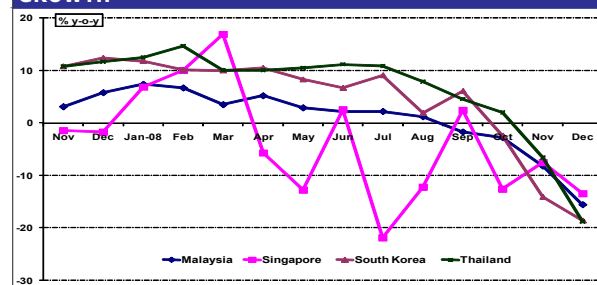
Source : Bank Negara Malaysia & Department of Statistics Malaysia

MALAYSIA'S E&E EXPORTS VS GLOBAL SEMICONDUCTOR SALES (3 MONTH MA)



Source : Bank Negara Malaysia & Department of Statistics Malaysia

SELECTED REGIONAL COUNTRIES PRODUCTION GROWTH



Source : Bank Negara Malaysia & Department of Statistics Malaysia

- The industrial production index contracted sharply in Dec by 15.5% yoy, marking the biggest fall in 15 years. The pace of decline came larger than consensus forecast of a 10.7% drop.
- The collapse in external demand crimped Dec manufacturing output which had weakened notably to an 18.4% yoy contraction. The factory shutdowns and shortened working days due to Christmas further contributed to the decline in manufacturing output. Mining output also deteriorated in view of lower commodity prices while electricity production dropped the most on the back of rising factory closures.
- Invariably, the record decline in Dec exports (-14.9% yoy) came in line with the faltering manufacturing output. Demand for electronics products continued its slump, which moved in tandem with global semiconductor sales. The slump in global demand has not only drag Malaysia's IPI but also hit production in other regional countries. Singapore's key electronics sector continued to dip, causing its manufacturing sector to shrink for the fifth consecutive month in Jan 09. Singapore's economy fell into recession in the 4Q08 and the continued drop in its manufacturing activity implies a bleak outlook for its neighborhood country like Malaysia.
- The deepening global economic slowdown, to a certain extent, will affect future domestic industrial production. The US recently posted a further contraction in its 4Q08 GDP by 0.2% yoy, as consumer spending continued to slide. US GDP may shrink at an even faster rate this quarter as businesses were mostly focused on inventory reduction.
- Elsewhere, several European countries were dragged into recession since World War II with Spain becoming the latest casualty. Accordingly, the Eurozone had announced a -5.8% annualized contraction for 4Q08, the most since 1995.
- On the domestic front, the worst than expected Dec IPI given the slump in the manufacturing output points to a likelihood that 4Q08 manufacturing is likely to be poor, which suggest a significantly weaker GDP growth. On this basis, we reckoned that GDP growth for 4Q08 will be at approximately 0.2% -0.5%, yielding an average of 4.6%-4.7% growth for 2008, as compared to the official estimation of 5.5% yoy.
- The grim outlook in the external environment, going forward, will cause economic growth for this year to fall substantially below the 3.5% level targeted by the government. While the government is expected to revise downwards the figure, we further downgrade our 2009 GDP forecast to 1.0-1.5% from the 2.0-2.5% level targeted earlier, on rising concerns on the job market outlook and a persistent slump in the external environment.