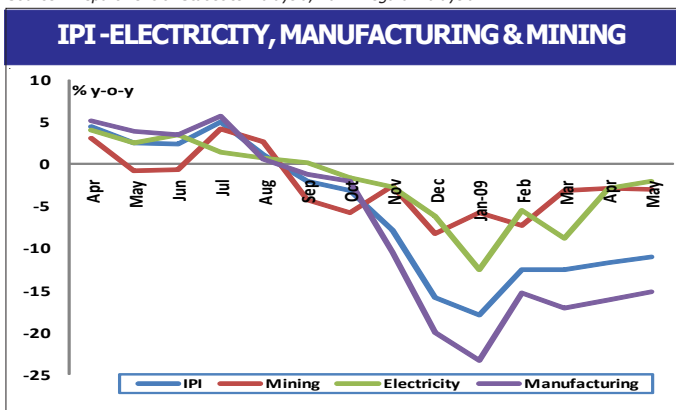


Malaysia: May industrial activity - recession grip eases further

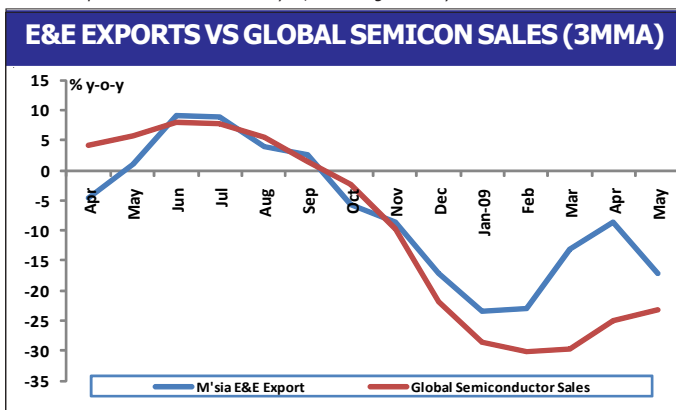
10 JULY 2009
2009/0035

INDUSTRIAL PRODUCTION INDEX				
% YOY	IPI	ELEC	MINING	MFG
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
Mar-09	-12.6	-8.9	-3.2	-17.1
Apr-09	-11.7	-3.0	-2.9	-16.1
May-09	-11.0	-2.1	-3.0	-15.2
3Q-08	1.4	0.7	0.8	1.7
4Q-08	-9.1	-3.5	-5.6	-11.1
1Q-09	-14.4	-9.1	-5.4	-18.7

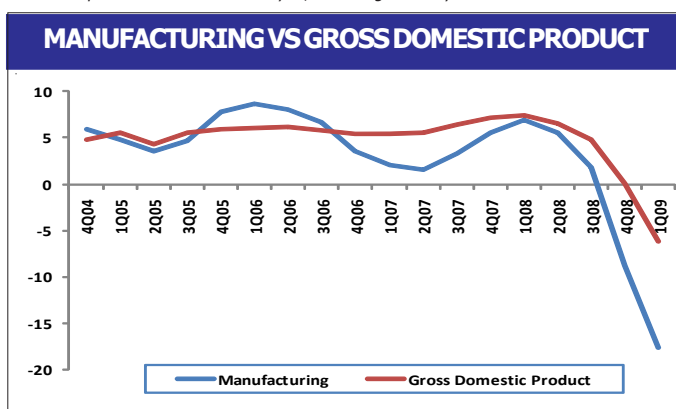
Source : Department of Statistics Malaysia, Bank Negara Malaysia



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- Although the latest data released by the Department of Statistics showed that industrial activity had remained weak in May, it also suggested that the grip of global recession on Malaysia is obviously retreating.
- All components of the industrial production index (IPI) posted healthy monthly gains during the month (third successive month for manufacturing and electricity) that helped moderate the yearly contractions.
- Manufacturing sub-sector, in particular, was down 15.2% y-o-y, a significant improvement from -23.4% in January 09. Similarly, mining and electricity sub-indices, although shrank y-o-y by 3.0% and 2.1% respectively, it was their best performance since the beginning of this year.
- Of significant was the sharp monthly rise in the production of electrical and electronics items (estimated at about 17.2% m-o-m) which smoothed the annual decline, from a peak of -45.2% in January this year to only -31.6% in May.
- Indeed, the positive industrial developments in May have provided more comfort and improve our expectation that the crisis continues to unwind, although we do not see a substantial increase in economic activity during the remaining months of this year.
- The latest developments had also reaffirmed new reports early this month that Penang's electronics industry was facing a shortage of production workers after orders started to pick up early last month (June).
- What we are essentially seeing now is the restocking activity by manufacturers given the renewed interest and demand from overseas importers. As such, the still weak exports figures displayed in May could be expected to reverse in the subsequent months.
- On the expectation that the uptrend could continue in June, the 2Q09 manufacturing output could have registered an estimated 3.5% q-o-q increase following two successive quarters of decline. This would help reduce the y-o-y decline to perhaps 15.8% as against -18.7% in the 1Q09.
- Exports in 2Q09, on the other hand, could be expected to show a bigger y-o-y contraction (-27.1% as against -20.0% in 1Q09) that would result in accumulation of inventories. Perhaps, the 3Q09 could display better exports figures.

- On the back of steady private consumer demand and a higher Government spending, we believe that real GDP in the 2Q09 could have posted a smaller y-o-y contraction of about 5.0% as compared to -6.2% in the earlier quarter.
- Should higher output in the 2Q09 be translated into better domestic and external demand in the current

quarter (3Q) we, therefore, could expect a further retreat in the real GDP contraction. Given the still low visibility (for only one quarter), we are not changing our entire year's real GDP forecast of -4.0% at this juncture (official -5.0% to -4.0%). As the 1H09 could have posted a 5.5% decline, technically the 2H09 may show a negative -2.4%, the larger improvement of which would probably come in the 4Q09.