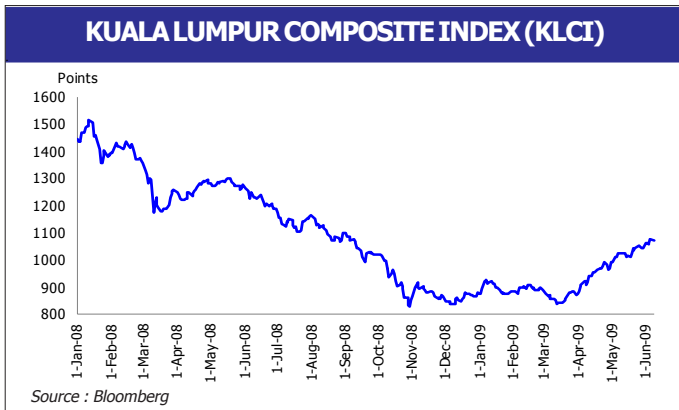
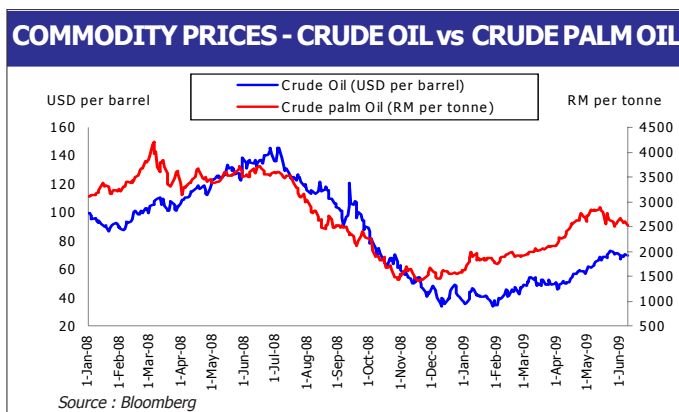


Malaysia: Looking for green shoots

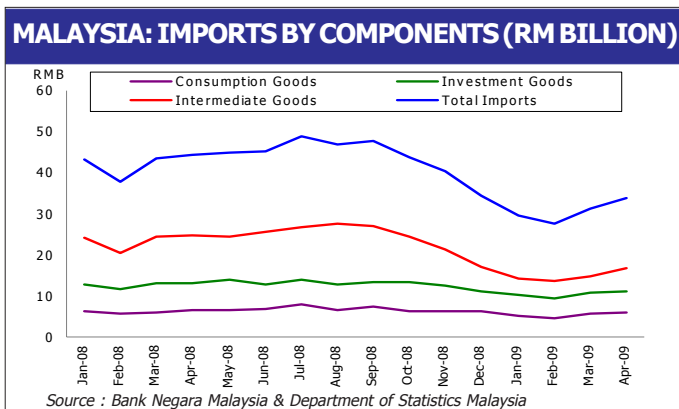
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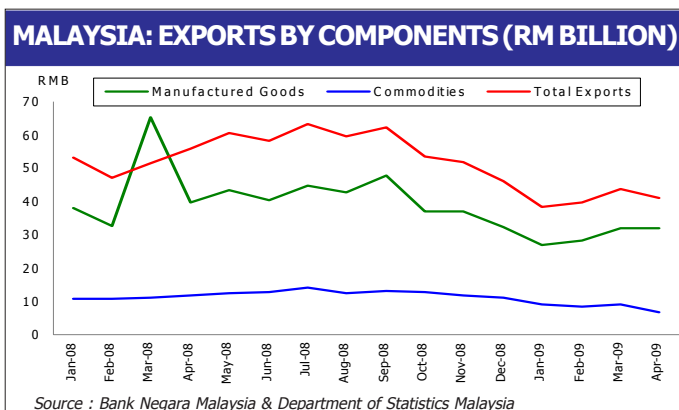
- "Green shoots" is the term that is being increasingly bandied about by analysts, policymakers and investors in spotting a nascent economic recovery. Since it was used by Fed Chairman, Ben Bernanke, in a March 15 interview with an American news agency, economists have been extensively arguing whether *green shoots* have actually emerged or is it a mere case of *yellow weeds* (another new term used by economists to describe weak economic inflows).
- On the local standpoint, it is widely perceived that the economy have seen the worst of its contraction, after plunging to -6.2% yoy in 1Q 2009, the sharpest since 4Q 1998 when it contracted by 11.2% due to the Asian currency crisis.



- Anecdotal evidences suggested that the situation is gradually improving as indicated by higher commodity prices that would boost rural household incomes, the rebound in stock prices that are likely to underpin a gradual improvement in consumer and business confidence and the slowdown in the pace of labor retrenchment as suggested by the Human Resources Minister on May 15 press statement.
- Already, Malaysian Institute of Economic Research's (MIER) consumer sentiment index rebounded to 78.9 in 1Q09, from 71.4 in the previous quarter, suggesting that consumers are feeling less pessimistic.

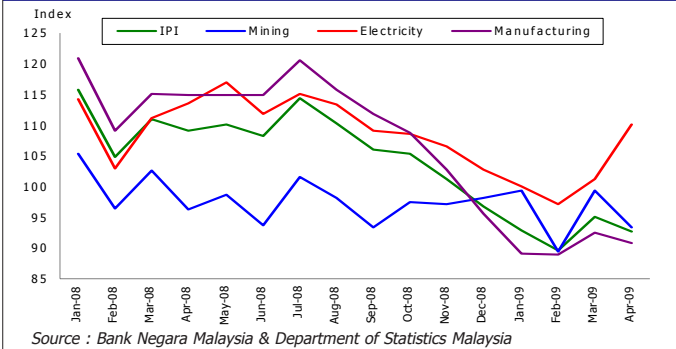


- The question, again, however lies on whether the rally in financial and commodity markets were merely sentiment plays or has the investment society spotted the so called *green shoots*.
- If any, imports data might be one of them. The two straight monthly increases in all of imports components had further complement the aforementioned optimistic view, particularly the uptick in intermediate goods and consumption goods, as it might be a tentative signal that producers and manufacturers are starting to receive fresh orders. The slower pace of contraction might also be a cautious indication of a new inventories accumulation cycle following seven straight quarters of depletions (since 3Q07).

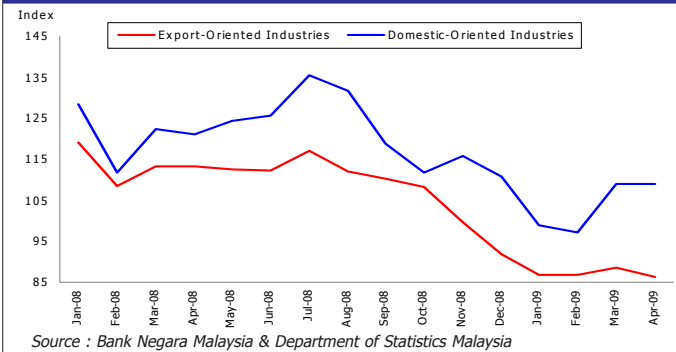


- Nonetheless, these arguments remain uncertain as they have yet to be shown by other key economic indicators.
- Industrial productions contradicted the improvement in imports data as it remained at a depressed level. April's IPI continued to plunge by 15.0% yoy after contracting by 14.4% in March, largely contributed by the -21.0% drop in the manufacturing sector. Export related industries maintained its rate of decline (-23.9% yoy vis-à-vis -21.9% in March) while the only comfort came from domestic related industries which showed a slower pace of decline since it peaked in January.

MALAYSIA: INDUSTRIAL PRODUCTION INDEX (IPI)



MALAYSIA: IPI (INDUSTRY ORIENTED)



- On the external front, the prospect of a faster recovery in exports seems very dubious. The monthly increase in exports in March was seen as seasonally inflicted as it continued to decline at a larger pace in April. On annual basis, exports will continue registering double digit declines at least until 3Q09 due to high base effects recorded in 2008, even if monthly growth shows positive numbers.

- As far as Malaysia's major trading partners are concerned, all the hypes on the emergences of *green shoots* had been largely contained in terms of consumers and business sentiments, and not real economic activities (except China). Aggressive policy responses all over the world were mostly at play, inciting the possibility that the global economy is likely to have reached a favorable inflection point and will likely begin to improve.
- Recent data globally however proved to be otherwise. Employment, retail sales, industrial production, and housing remained at historically low levels in the United States as similarly reflected by other major economies such as Europe and Japan. China is the only country so far bucking the overall trend and posted a solid rebound in its manufacturing activities, thanks to the swift implementation of its US\$570 billion stimulus package. Even so, China's main engine of growth; exports, plunged by 26.4% in May, the fastest pace since at least 1990 and instigate the possibility for the stimulus effects to wane faster than expected.
- Taking China as an example, this ultimately means that Malaysia, being an export-led economy, must wait until demand from its major trading partners, especially US, to at least stabilize before any hope of a stable recovery, or *green shoots* in this case, could emerge. Fiscal measures and policy incentives for Malaysia could only do as much as buffer the pace of economic contraction.
- Thus, the search for *green shoots* will go on, as far as Malaysia is concerned. May and June data will prove to be crucial for a clearer direction of the Malaysian economy.