Economy

AMB

IPI

January: 5th Drop and Counting

13 MARCH 2009

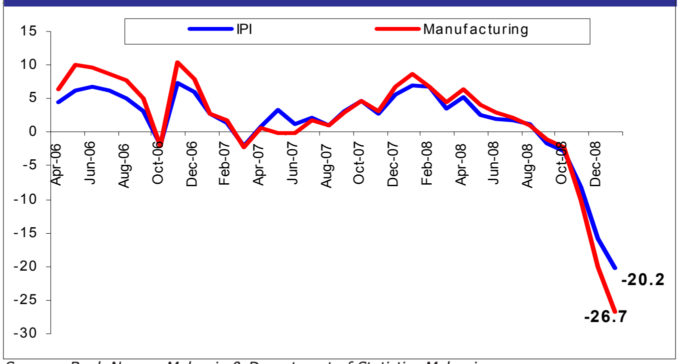
2009/0013

IPI

%Y-O-Y	IPI	ELEC	MINING	MNFG
2005	3.6	5.7	-1.7	5.2
2006	5.0	5.1	-3.8	8.9
2007	2.0	3.9	2.2	2.3
2008	0.5	1.2	-0.1	0.6
Oct-08	-2.8	-1.6	-5.4	-2.2
Nov-08	-8.2	-2.8	-2.8	-10.1
Dec-08	-15.9	-6.1	-8.3	-20.0
Jan-09	-20.2	-12.4	-6.1	-26.7
1Q 2008	5.7	3.7	4.7	6.6
2Q 2008	3.2	-1.0	3.3	4.4
3Q 2008	0.4	0.0	0.7	0.8
4Q 2008	-9.0	-5.5	-3.5	-10.8

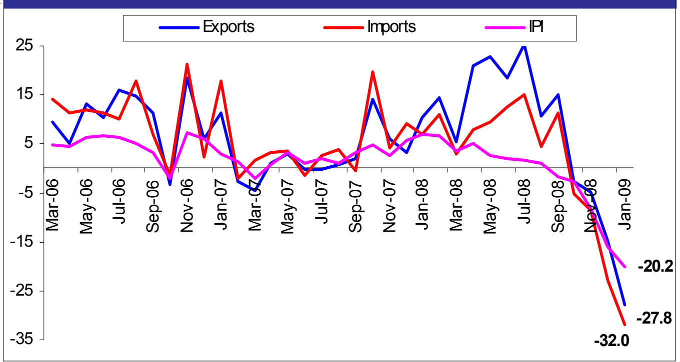
Source : Bank Negara Malaysia & Department of Statistics Malaysia

IPI vs Manufacturing (%yoy)



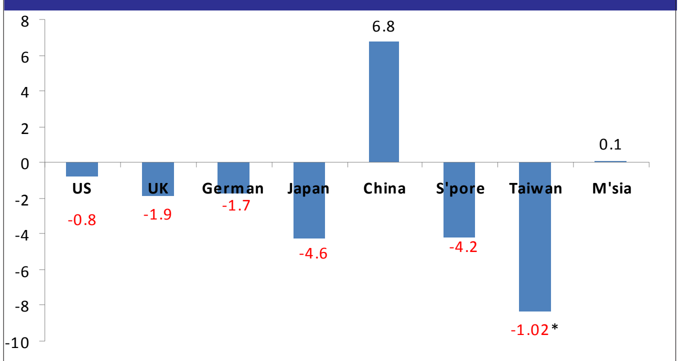
Source : Bank Negara Malaysia & Department of Statistics Malaysia

IPI vs Exports vs Imports (%yoy)



Source : Bank Negara Malaysia & Department of Statistics Malaysia

4Q 2008 GDP selected countries (%yoy)



Source : Bloomberg LP

- **The Industrial Production Index (IPI) fell by a record 20.2% yoy in January, marking its fifth straight decline since December 2008, as manufacturers responded to the sharp deterioration of export.** The contraction was broad based and slightly higher than consensus view of a 19.0% drop. On a monthly basis, the IPI maintained December's pace with a 4.5% decline. It is also important to note that the decline was even worse than the contraction seen during 1997/98 recession, when it fell to the lowest level of -12.3% yoy in November 1998.

- **Manufacturing led the decline with a staggering 26.7% yoy plunge, after a sharp drop of 20.0% in December, and aligned with the 27.8% drop in exports January.** This indicated that a severe contraction in demand, mostly foreign, have caused manufacturers to cut production and shut down plants to prevent stocks from piling up. Some have even been forced to close down their factories due to severe losses. As a result, output of electricity also shrank by a larger magnitude of 12.3% yoy in January, compared with -6.1% yoy in December, in tandem with a drop in industrial activities. Mining output also fell, albeit by a smaller magnitude of 6.1% yoy in January compared with -8.3% in December.

- **Going forward, we envisaged that IPI would be trending downwards.** This is in view of the severe decline in imports by 32% in January. Hence, imports, being the leading indicator for the IPI, is pointing towards a more protracted contraction in production going forward and as manufacturing account for more than half of exports value, the downward trend in factory output is expected to continue on the back of global demand slowdown. The heavy reliance on G3 countries' demand for local exports would probably exacerbate the expected future decline in IPI where 44% of local exports were shipped to these countries based on January data. In the US, the record low consumer confidence on the back of the 8.1% unemployment rate, the highest in 25 years, will likely hurt its consumer spending further. Japan on the other hand set to weaken further given that orders for machinery continued to fall and at a rapid pace in January, as exports nosedived and inventories jumped sharply. Hopes for China to cushion the slowdown had increased lately as the massive government stimulus announced in November is showing its impact based on its recent lending and PMI data. This however might be shortlived following China's sharp contraction in exports, falling property prices for the third straight month in February and rising unemployment.

- **In terms of overall economic growth, this drop suggested that economic activities will likely weaken more significantly in 1Q 2009 and increases the downside risk to our real GDP projection of -2.0% for the current quarter and -0.5% to -1.0% for the whole 2009.** Domestic demand, despite the government's effort through monetary easing and two stimulus packages, would probably do little to buffer the decline in economy in the near term as rising retrenchment could continue to hurt business and consumer confidence. The expansionary policies set by the government in our view will only begin to filter through into the economy beginning in 3Q 2009.

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