Economy

AMB

Malaysia: July industrial activity- rays of recovery

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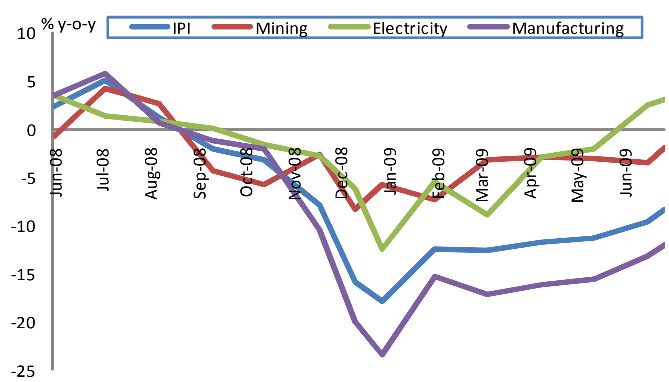
INDUSTRIAL PRODUCTION INDEX

% YOY	IPI	ELEC	MINING	MANUF
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	0.5	1.2	-0.1	0.7
Apr-09	-11.7	-3.0	-2.9	-16.1
May-09	-11.3	-2.1	-3.0	-15.6
Jun-09	-9.6	2.5	-3.5	-13.0
Jun-09	-8.3	3.1	-1.9	-12.0
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
2Q-09	-10.9	-0.9	-3.1	-14.9

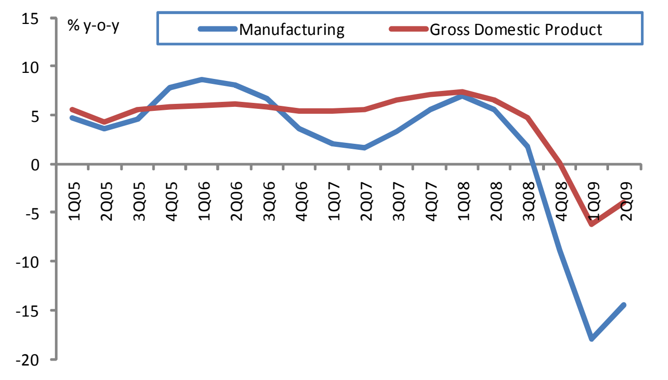
Source : Department of Statistics Malaysia, Bank Negara Malaysia

IPI- ELECTRICITY, MANUFACTURING & MINING



Source : Department of Statistics Malaysia, Bank Negara Malaysia

E&E EXPORTS VS GLOBAL SEMICONDUCTOR SALES (3MMA)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

- Malaysia's industrial production index surprisingly grew larger by 7.3% m-o-m (June: +0.2%) in July, resulting to a slower contraction of 8.3% y-o-y (June: -9.6%). This has come above consensus estimates of –11.0% and was the smallest decline recorded in eight months. The significant increase in total IPI was supported by an improvement in all of the three key sectors, namely manufacturing, mining and electricity.

- Manufacturing output (which account for almost 64% of total IPI) grew by 6.3% m-o-m in July, more than double the growth pace recorded in the previous month (June: +3.0%). Despite the high base effect posted a year earlier, the y-o-y contraction continued to recede to -12.0% from its biggest drop of -23.4% beginning of the year. Such improvement was helped by the export-oriented sector, led by the improvement in global demand for electrical and electronics (E&E) item. The higher E&E exports in recent months seem to support the view that demand could start to recover, albeit at a slower pace.

- Of a greater note, mining production rebounded from a negative 5.4% m-o-m to a positive growth of 10.1%, yielding a slower y-o-y contraction of 1.9% (June: -3.5%). Meanwhile, mining production increased by a larger 3.5% m-o-m (June: +0.2%), while on a yearly basis, the industry registered growth for the second consecutive month in July (+3.1%).

- At this stage, the larger than expected increase in exports and manufacturing industry in July could indicate a good start for the third quarter. Invariably, signs of a global recovery continue to emerge with the trend of decline in many sectors moderating, providing more support for stabilization in the external demand. Coupled with the expectation that Malaysia plays a cyclical catch-up and chances of a continue pick-up in industrial production in Aug-Sept, we expect that exports and manufacturing output to improve further, probably recording a slower decline of -20.0% y-o-y and -7.6% y-o-y in 3Q from a negative growth of -26.3% and -14.9% in 2Q respectively.

- Nonetheless, the global economy is still vulnerable to shock which we feel might derail the recovery process. Also, the global unemployment rate still remains at a higher level, putting a dent on consumer spending and overall growth. While we remain cautious over the sustainable improvement in the global economy, Malaysia could still record better economic performance by end of this year on the back of a stronger domestic demand as the massive fiscal stimulus packages and low interest rates policy begin to filter through the broader economy.

- Judging from the improvement in recent manufacturing output and the pickup in consumer and businesses sentiment, this will help to sustain the economy recovery for the next two quarters of this year. On that note, we believe GDP figure to decline by a smaller rate of 2.3% in 3Q (2Q: -3.9%) before posting a growth of +1.7% in 4Q (growth could partly helped by the base effect), taking the full year average of between -2.5% to -3.0% for 2009.