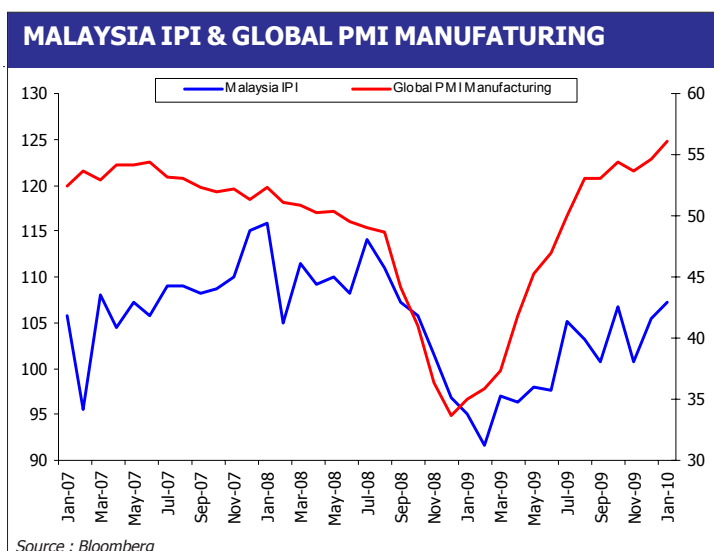
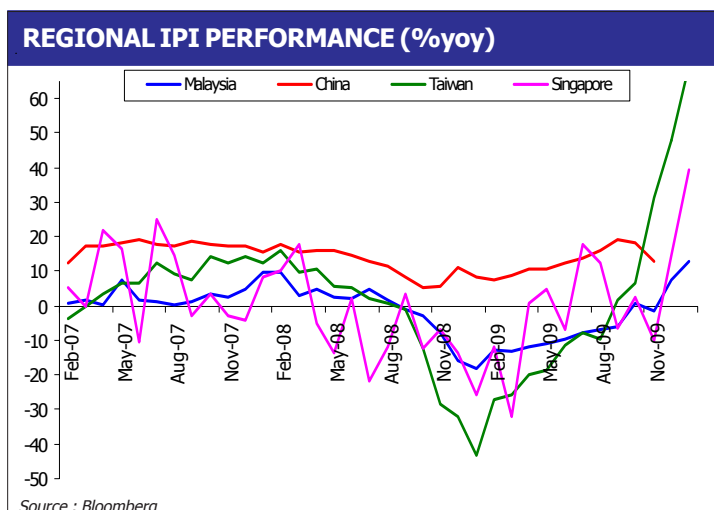
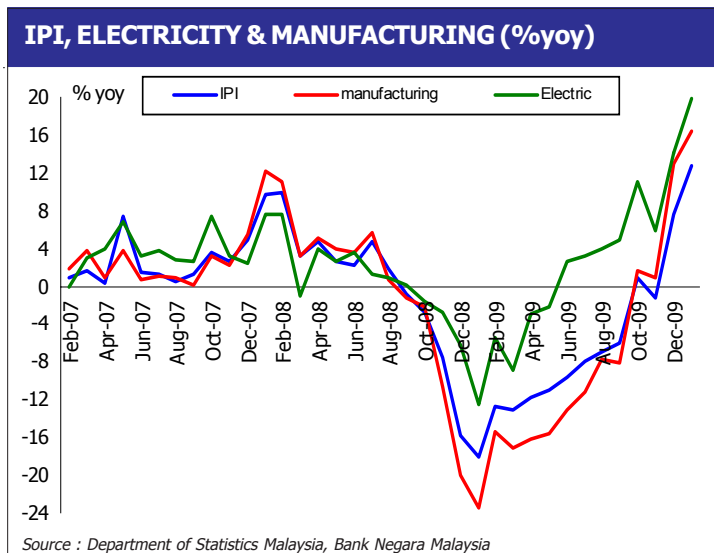


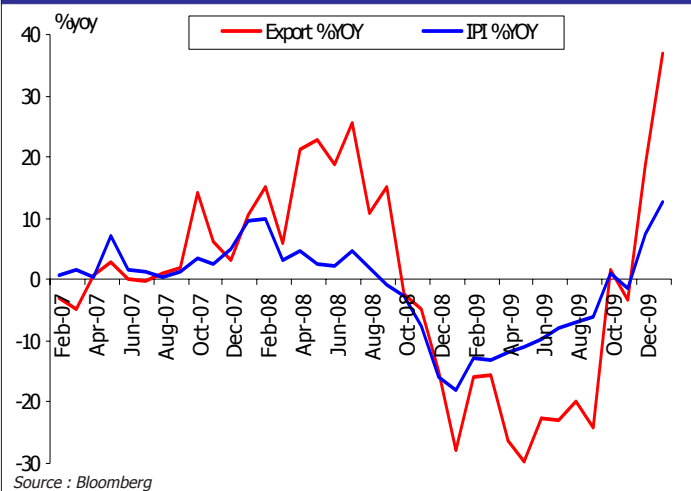
## Malaysia: Industrial Production - Riding on recovery momentum

11 MARCH 2010  
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- In tandem with export performance, industrial production index (IPI) in January 2010 rose to its highest level since September 2008, charting an annualised growth of 12.7% from 7.5% (revised from 8.9%) in December. This came above consensus and our expectations of 11.7% and 11.5% respectively as manufacturers continued to respond to the improving external and domestic demand conditions. The second consecutive monthly increase in factory output also suggests a pick-up in restocking activities and the strong annualised performance was not entirely attributed to low-base effect. We expect this momentum to continue through the next five months of 1H10, although the trajectory may be uneven.
- The strong annual gain in January IPI was led by the manufacturing and electricity sectors, which saw output expanding at 16.4% and 19.8% yoy respectively, accelerating from +10.7% and 14.1% in December 2009. Within manufacturing, the production of electrical and electronic products had surged further by 39.1% from 23.6% in the preceding month, in response to the 55.6% jump in E&E exports. The mining sector had also turned around as it posted an increase of 4.0% which is the strongest growth in over a year.
- The pace of recovery in Malaysia's industrial production however was slower compared with its regional peers such as Singapore, Thailand and Taiwan which all reported more than 30% expansion in January. Potentially, Malaysia can see a further acceleration in its industrial activity following the strengthening global demand, especially from the US and China. While the slowdown in China's industrial production and lower Global PMI manufacturing index may suggest a lower domestic production in February amidst shorter working days, on an annualised basis, the rate of increase in the country's IPI could strengthen further.
- The low base would also help the IPI to post double-digit annual growth in the upcoming months of the 1H10. Industrial production had shown contraction for seven consecutive months since August 2008 which caused the annual contraction rate to widen to 18.0% in January last year.
- Since hitting its lowest level in February 2009, the IPI level has now increased by 16.9% but remained 7.5% below the peak reached in January 2008. At the prevailing growth rate perhaps industrial production could recover back to the pre-crisis level by June 2010. The recovery in production would help to increase recruitment and loan demand over the coming months.

## MALAYSIA IPI & EXPORTS (%yoy)



- The ongoing uncertainties in the developed economies could affect the pace of global economic recovery especially during 2H10 following the withdrawal of stimulus policies. Thus, we expect export growth to slow in 2H10 and industrial production to also chart a deceleration, amidst fading base effect.
- On a quarterly basis, IPI in 1Q09 is expected to grow by 13.0% yoy, after rising by 3.2% in 4Q09. We are also expecting the inventory level to increase in 1Q10 after seeing a smaller depletion rate in 4Q09. Together with a strong growth in exports and sustained domestic demand, the net positive change in stocks would help contribute positively to GDP growth in 1Q10, forecasted at 8.0% to 8.5%.

## INDUSTRIAL PRODUCTION INDEX

	IPI			Manufacturing			Mining			Electricity		
	Index	% yoy	% mom	Index	% yoy	% mom	Index	% yoy	% mom	Index	% yoy	% mom
2008	99.7	0.5		112.1	0.7		98.2	-0.1		110.5	1.2	
2009	109.4	-7.5		101.0	-9.9		94.9	-3.4		111.6	1.0	
Jan-09	95.1	-17.9	-1.9	92.6	-23.4	-3.1	99.3	-6.1	0.8	100.0	-12.5	-2.7
Feb-09	91.7	-12.7	-3.6	92.3	-15.3	-0.3	89.5	-7.7	-9.9	97.2	-5.5	-2.8
Mar-09	97.0	-13.0	5.8	95.5	-17.0	3.5	99.3	-4.4	10.9	101.2	-8.9	4.1
Apr-09	96.3	-11.8	-0.7	96.4	-16.1	0.9	93.5	-3.3	-5.8	110.1	-3.0	8.8
May-09	97.9	-11.0	1.7	97.0	-15.6	0.6	96.6	-2.0	3.3	114.5	-2.1	4.0
Jun-09	97.7	-9.7	-0.2	99.9	-13.0	3.0	89.7	-4.3	-7.1	114.7	2.5	0.2
Jul-09	105.2	-7.8	7.7	107.1	-11.2	7.2	98.6	-1.8	9.9	118.7	3.1	3.5
Aug-09	103.2	-7.0	-1.8	106.9	-7.7	-0.2	92.8	-7.8	-5.9	117.9	4.1	-0.7
Sep-09	100.8	-6.0	-2.5	102.7	-8.2	-3.9	94.1	-3.1	1.4	111.7	2.4	-5.3
Oct-09	106.8	0.9	6.1	110.5	1.5	7.0	96.4	-2.6	2.4	120.5	11.0	7.9
Nov-09	100.9	-0.7	-5.5	104.6	1.8	-5.3	91.0	-7.3	-5.6	112.9	5.9	-6.3
Dec-09	104.2	7.5	3.3	105.9	10.8	1.2	98.3	-0.2	8.0	117.3	14.2	3.9
<b>Jan-10</b>	<b>107.2</b>	<b>12.7</b>	<b>2.9</b>	<b>107.9</b>	<b>16.4</b>	<b>1.9</b>	<b>103.3</b>	<b>4.0</b>	<b>5.1</b>	<b>119.8</b>	<b>19.8</b>	<b>2.1</b>
1Q08	110.8	7.5	-0.4	115.0	8.7	-0.2	102.2	5.3	-1.2	115.0	8.7	-0.2
2Q08	109.1	3.1	-1.5	114.9	4.2	-0.1	96.3	0.5	-5.8	114.9	4.2	-0.1
3Q08	110.8	1.9	1.6	116.1	1.8	1.0	99.4	2.6	3.2	116.1	1.8	1.0
4Q08	101.4	-8.9	-8.5	102.4	-11.1	-11.8	98.6	-4.6	-0.8	102.4	-11.1	-11.8
1Q09	94.6	-14.6	-6.7	93.4	-18.8	-8.8	96.0	-6.1	-2.6	93.4	-18.8	-8.8
2Q09	97.3	-10.8	2.9	97.8	-14.9	4.7	93.3	-3.1	-2.8	97.8	-14.9	4.7
3Q09	103.0	-7.0	5.9	105.6	-9.0	8.0	95.2	-4.2	2.0	105.6	-9.0	8.0
4Q09	104.4	3.0	1.4	107.6	5.1	1.9	95.2	-3.4	0.0	107.6	5.1	1.9

Source : Department of Statistics, Bloomberg, Research Divison PNB