

Malaysia: Industrial Activity- picking up, 4Q09 GDP growth on track

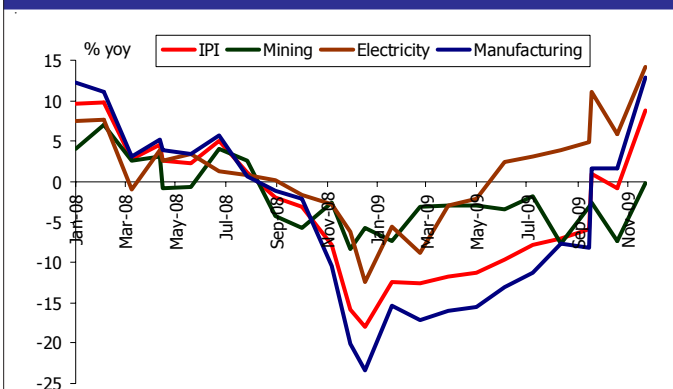
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INDUSTRIAL PRODUCTION INDEX

% YOY	IPI	ELEC	MINING	MANUF
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
2009	-7.4	1.0	-3.4	-9.8
Sep-09	-6.0	4.8	-3.1	-8.2
Oct-09	0.9	11.0	-2.6	1.5
Nov-09	-0.8	5.9	-7.3	1.7
Dec-09	8.9	14.2	-0.2	12.9
1Q-09	-14.4	-9.1	-5.4	-18.7
2Q-09	-10.8	-0.9	-3.1	-14.9
3Q-09	-6.5	3.9	-2.6	-9.1
4Q-09	3.2	10.3	-2.4	5.0

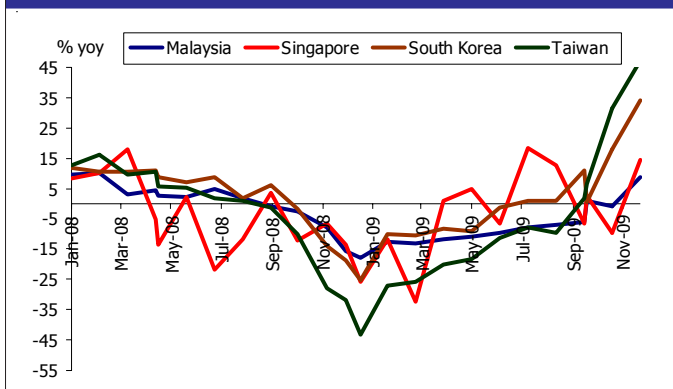
Source : Department of Statistics Malaysia, Bank Negara Malaysia

IPI- ELECTRICITY, MANUFACTURING & MINING



Source : Department of Statistics Malaysia, Bank Negara Malaysia

REGIONAL IPI PERFORMANCE



Source : Bloomberg

- **In line with the strong external trade performance, industrial production rebounded in December. The positive trade and industrial developments consequently reaffirmed our view of a positive GDP growth for 4Q09 after three straight negative quarters. Technically, the Malaysian economy has moved out of recession.**

- The IPI in December gained 8.9%, reversing its decline of 0.8% posted in Nov 09. This marked the strongest annual rate of expansion since Feb 08 and was slightly above our and consensus forecast of 8.6% and 8.7%. On a mom basis, the IPI grew by 4.7% after contracting by 5.6% in Nov 09. Overall, industrial activity rose on account of substantially higher output in the manufacturing and electricity sectors, amidst a slower decline in mining output. to a certain extent, growth in industrial production was helped by low base effect.

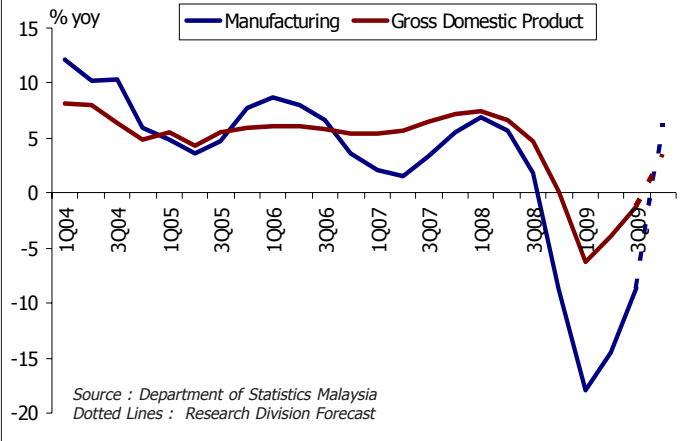
- Manufacturing, which shows the biggest weightage in total IPI, posted a strong double-digit growth of 12.9% yoy compared with +1.7% in Nov. On mom, the trend reversed from a 5.4% decline in Nov 09 to +3.3% in Dec. The electricity production also gained, both on the annual (Dec: +14.2%, Nov: +5.9%) and monthly basis (Dec: +3.8%, Nov: -6.3%). A lower decline in annual mining output in Dec (-0.2%, Nov: -7.3%) was on the back of a 8.0% mom gain (Nov: -5.6%).

- Within the manufacturing segment, electrical and electronics charted the fastest annual growth of 24.3% in Dec as against -4.2% in Nov. This is in tandem with the higher exports of E&E products reported for the month (+4.3% mom, Nov: -7.2%), indicating a recovery in global demand. A strong growth in production was also reported for wood products/furniture, paper products/printing (Dec: +20.7% yoy, Nov: -3.2%), food/beverages/tobacco (Dec: +7.5% yoy, Nov: +3.9%), petroleum/chemical/rubber/plastic products (Dec: +9.6 yoy, Nov: +9.4%) transport equipment and others (Dec: +5.3%, Nov: +1.6%).

- In terms of quarterly performance, the IPI charted a positive growth of 3.2% yoy in 4Q09, the first gain since 4Q08, from -6.5% in 3Q09. This was on the back of a strong turnaround in manufacturing output, charting a 5.0% growth after contracting for four straight quarters. In 3Q09, it recorded a decline of 9.1%. Electricity and mining also recorded a better performance in 4Q09, with the former recorded a growth of 10.3% yoy from 3.9% in 3Q09, while the rate of contraction in the mining sector narrowed to 2.4% from -2.6% in 3Q09.

- On account of improved industrial production and external trade performance, the 4Q09 GDP would have posted its first positive growth after three straight quarters of contraction (BNM is scheduled to announce the official GDP growth

MANUFACTURING VS GROSS DOMESTIC PRODUCT



estimate on 24 Feb). Exports in 4Q09 grew by 5.1% after declining -22.4% in 3Q09 while imports, an indicator of domestic spending, rose by 6.7% in 4Q09 after contracting by 18.4% previously. The trade balance in the 4Q09 had also widened with a surplus of RM32.4 billion in 4Q09 from

RM26.4 billion surplus in 3Q09. Thus, we are expecting real GDP to grow between 3.0% to 3.5% in 4Q09. For the whole of last year, the rate of GDP contraction would range between 2.0% to 2.3%.

- Going forward, we expect manufacturing output to continue therefore posting double-digit annual increment, gaining from low base-effect, during 1H before normalising to a slower pace in 2H10. The inventory accumulation by manufacturers after nine straight quarters of destocking activities since 3Q07 should further support production activities. Malaysia's industrial production is also set to benefit from the global inventory cycle, as suggested by the PMI global manufacturing index which rose to the highest level since August 2006 of 56.1 in January 2010.
- However, it is important to note that the downside risk to a sustainable global recovery remains significant over the immediate term. As demand from developed countries could be dampen by persistent high unemployment and weak labor market in these countries, domestic manufacturers would continue to adopt a cautious approach in their production until firmer signs of recovery set in.