

Malaysia: Nov industrial activity- Aligned with trade data, cyclical recovery intact

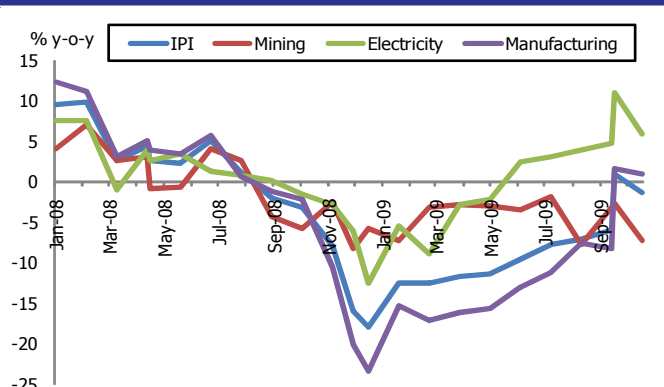
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INDUSTRIAL PRODUCTION INDEX

% 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
Aug-09	-7.0	3.9	-7.7	-7.7
Sep-09	-6.0	4.8	-3.0	-8.2
Oct-09	0.9	11.0	-2.7	1.6
Nov-09	-1.3	5.9	-7.4	0.9
4Q-08	-9.1	-3.5	-5.6	-11.1
1Q-09	-14.4	-9.1	-5.4	-18.7
2Q-09	-10.8	-0.9	-3.1	-14.9
3Q-09	-6.5	2.9	-2.6	-9.0

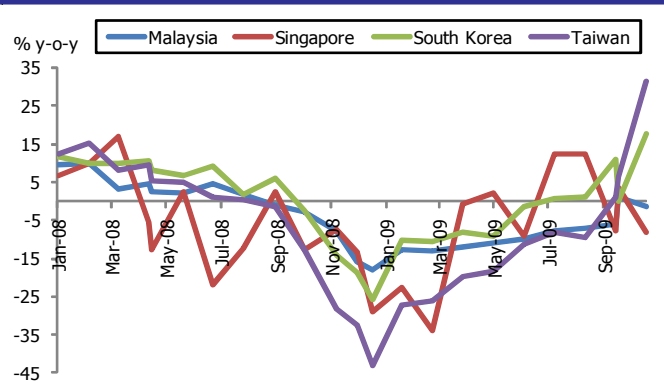
Source : Department of Statistics Malaysia, Bank Negara Malaysia

IPI- ELECTRICITY, MANUFACTURING & MINING



Source : Department of Statistics Malaysia, Bank Negara Malaysia

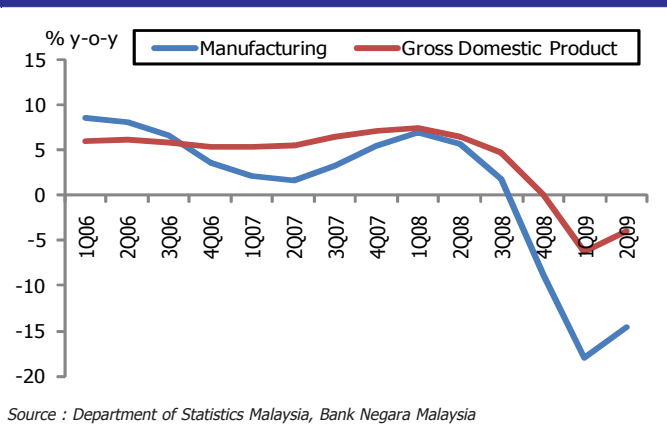
REGIONAL IPI PERFORMANCE



Source : Bloomberg

- In tandem with the weaker in November export data, Malaysia's industrial production fell by 1.3% yoy in November, reversing from a 0.9% growth in October. Again, the figure came lower than consensus and our estimate of 2.9% and 2.7% respectively. On a monthly basis, IPI declined 6.0%, its worst since February 2008 after a possible front-loaded gain of 5.9% in October.**
- The contraction was caused chiefly by mining, which posted a sharper decline in November of 7.4% against -2.7% yoy in October, mainly following a steep annual fall in crude oil output (Nov: -11.1%). Manufacturing and Electricity production both continued to rise, but at a more modest pace.
- Within Manufacturing, slowdown in output was led by declines in Wood Products, Furniture, Paper products, Printing (Nov: -6.9%, Oct: 1.6%) and Non-metallic and Mineral Products, Basic metals and Fabricated metal products (Nov: -6.6%, Oct: +7.7%). Electrical and Electronic products on the other hand showed an improvement with a smaller rate of decline (Nov: -5.7%, Oct: -9.0%).
- The monthly performance saw all IPI components charted contraction in November. Manufacturing sector, having the largest weightage of 63.5% in the overall industrial production, saw output declined 6.2% mom (largely dragged by lower electrical and electronic production which fell 7.8% vs +10.8% in October), followed by electricity and mining production which fell 6.3% and 5.6% respectively. After a rather robust month in October (mostly due to seasonal factors of Raya and Christmas), we believe producers might be taking a breather while waiting for further signs of recovery in global demand.
- Malaysia was not alone in facing November's disappointment. Singapore, Malaysia's largest trading partner saw its production in the same month declined 8.2% yoy, after posting a growth of 3.2% in October. However, regionally, Malaysia's production still continued to lag other countries where some had already grown by double digits. China's production rose 19.2% yoy in the same month while Taiwan grew a massive 31.5%. Across the borders, Thailand and Indonesia posted 8.9% and 3.0% growth respectively.
- As the global production cycle is still on the upswing, the gap between Malaysia's industrial production and other regional performance should provide some room for local production to catch up to its regional pace. The depletion in inventories both globally and locally during the global financial crisis together with an anticipated recovery in global demand should drive global production growth to the upside. Evidently, the global PMI Manufacturing Index rose to the strongest level in December, hitting the 55 mark and stayed above the expansionary level for the sixth consecutive month.
- The declines in both November trade and industrial production data signalled the choppy pattern of Malaysia's manufacturing and exports cyclical recovery. Although recent global and

MANUFACTURING VS GROSS DOMESTIC PRODUCT



economic data pointed towards some improvement in the economy, the sustainability and durability of the recovery is still at a risk given that it was mostly driven by government stimulus efforts. As such, factories might continue practice a cautious approach in their production until firmer signs of recovery sets in.

- Despite the uneven pattern, we believe the industrial has the upside potential for improvement. As the global financial crisis slowly unwinds, global demand will start to recover and demand for local products would also increase, prompting a ramp-up in production.
- **Overall, with a possibly larger annual growth in production in December, helped partly by low base effect, IPI could have registered a positive 1.5% growth in 4Q09 from -6.5% in 3Q09 to help support GDP to grow by 3.0% in 4Q09, taking the overall average 2009 GDP decline to 2.0%.**