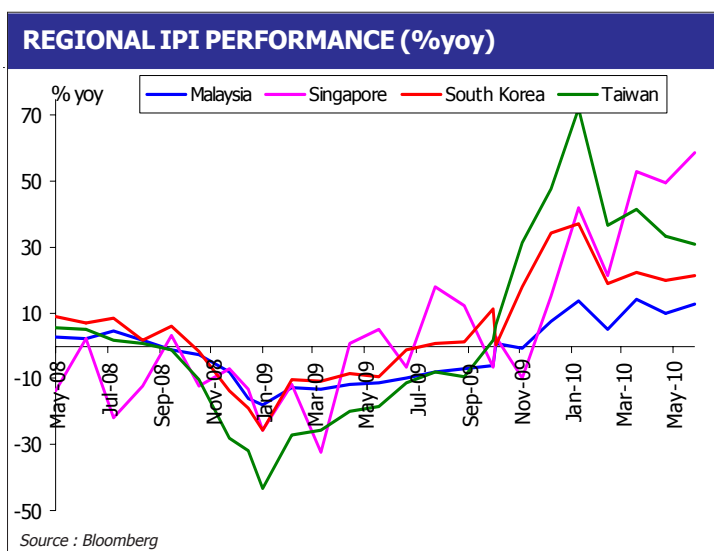
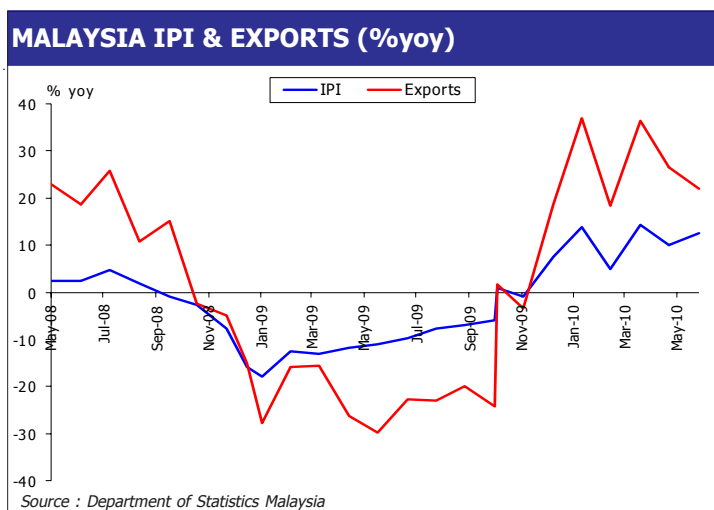
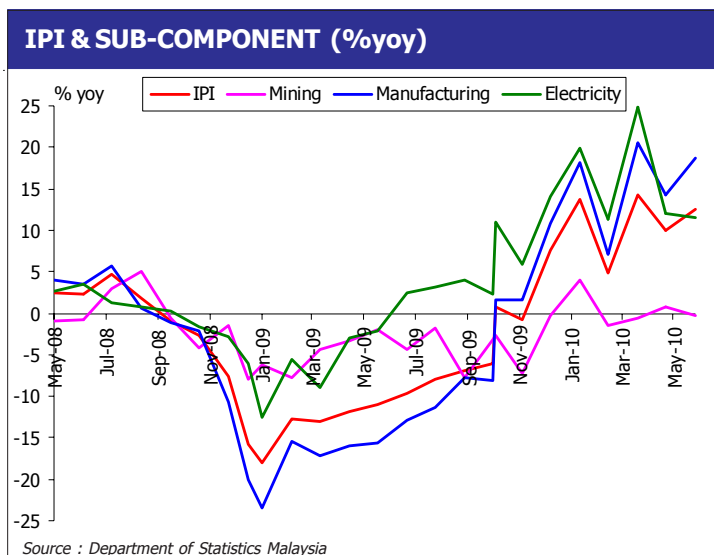


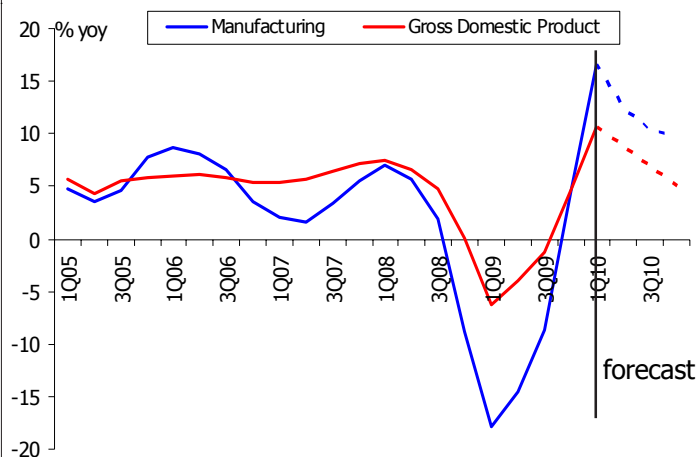
## Malaysia: Industrial Activity - another strong growth

9 JULY 2010  
2010/026



- Despite the moderation in exports growth, Malaysia's industrial production index grew stronger at 12.6% yoy in May from 10.6% in April. It has also exceeded our and consensus expectations of 10.1% pace, pointing towards a sustainable growth momentum in the second quarter, albeit slower compared with the pace in the preceding three months. On a mom basis, the IPI gained 3.4%, reversing its decline of 3.8% charted in June. We expect the double-digit growth in manufacturing, thus overall industrial production to continue until June before decelerating in the second half of the year due to heightened risks from the external front.
- The strong industrial production was boosted by the manufacturing sector which grew at a stronger pace of 18.8% yoy from 15.0% in April. Looking closely at the manufacturing segments, the growth was underpinned by a strong recovery in manufactured products of petroleum, chemical, rubber and plastic (May: +11.5% yoy, Apr: -3.1%). The growth in electrical and electronics (E&E) output had remained robust, but moderated compared with the preceding month (May: +33.4% yoy, Apr: +38.8). This was in line with its export performance. Exports of E&E items charted a slower growth of 12.9% yoy in May from 21.5% in April.
- Electricity output moderated but growth was sustained at a double-digit 11.5% yoy on the back of a higher 3.3% monthly gain, which also supported the faster overall rise in the IPI in May. Mining output on the other hand limited the upward movement in overall industrial production when it charted a decline of 0.2% yoy due to lower crude oil production.
- The slower growth in E&E output caused the local IPI to continue lagging the industrial performance in other regional countries. Singapore was ahead of other countries, charting a robust 58.6% yoy gain in IPI in May, followed by Taiwan and South Korea which charted 31.1% yoy and 21.5% yoy expansion respectively.
- Despite the positive development in the Asian region, signs of weakening manufacturing sector performance in developed countries have emerged. In June, manufacturing output was declining in Eurozone for the second month, while the US manufacturing index dropped from 59.7 in May to 56.2 in June. Even China reported a downtrend as the PMI

## MALAYSIA MANUFACTURING & GDP (%yoy)



Source : BAHK Negara Malaysia

manufacturing index expanded at the slowest pace in 16 months last month. Consequently, the Global PMI manufacturing index fell to 55.4 in June after sustained at 57 in April and May, reinforcing the view that the global export-led recovery is gradually losing strength.

- While the external risks are re-emerging to affect global recovery, the impact on the overall domestic economy is not expected to be severe as it would be offset by the improvement in domestic demand. For the second quarter, we believe economic growth to have sustained a strong growth, albeit at a slower pace compared to 1Q of between 8.0-8.5% yoy. Manufacturing and exports would have charted double-digit growth rates of 15.3% yoy and 18.4% yoy respectively.

## 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	
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
Jan-10	108.2	13.8	3.8	109.5	18.2	3.5	103.3	4.0	5.1	119.8	19.8	2.1
Feb-10	96.2	4.8	-11.2	98.9	7.1	-9.7	88.2	-1.4	-14.6	108.3	11.4	-9.6
Mar-10	110.8	14.2	15.2	115.1	20.5	16.4	98.7	-0.6	11.9	126.4	24.9	16.7
Apr-10	106.6	10.6	-3.8	110.0	15.0	-3.6	94.2	0.7	-4.6	123.6	12.3	-2.2
<b>May-10</b>	<b>110.2</b>	<b>12.6</b>	<b>3.4</b>	<b>115.2</b>	<b>18.8</b>	<b>3.8</b>	<b>96.4</b>	<b>-0.2</b>	<b>2.3</b>	<b>127.7</b>	<b>11.5</b>	<b>3.3</b>
1Q08	110.5	7.2	-0.7	115.0	8.7	-0.2	101.5	4.4	-1.8	109.4	4.5	4.5
2Q08	109.1	3.1	-1.3	114.9	4.2	-0.1	96.2	0.5	-5.1	114.1	3.3	4.3
3Q08	110.3	1.4	1.0	116.1	1.8	1.0	97.7	0.8	1.5	112.5	0.7	-1.4
4Q08	101.2	-9.1	-8.2	102.5	-11.1	-11.8	97.6	-5.6	-0.2	106.0	-3.5	-5.8
1Q09	94.6	-14.4	-6.5	93.5	-18.8	-8.8	96.0	-5.4	-1.6	99.5	-9.1	-6.1
2Q09	97.3	-10.8	2.9	97.8	-14.9	4.6	93.3	-3.1	-2.9	113.1	0.9	13.7
3Q09	103.1	-6.5	5.9	105.6	-9.1	8.0	95.2	-2.6	2.0	116.9	3.9	3.4
4Q09	104.0	2.5	0.9	107.0	4.4	1.4	95.2	-2.4	0.1	116.9	10.3	0.0
<b>1Q10</b>	<b>105.0</b>	<b>11.0</b>	<b>1.0</b>	<b>107.8</b>	<b>15.2</b>	<b>0.7</b>	<b>96.8</b>	<b>0.7</b>	<b>1.6</b>	<b>118.2</b>	<b>18.8</b>	<b>1.1</b>

Source : Department of Statistics, Research Division PNB