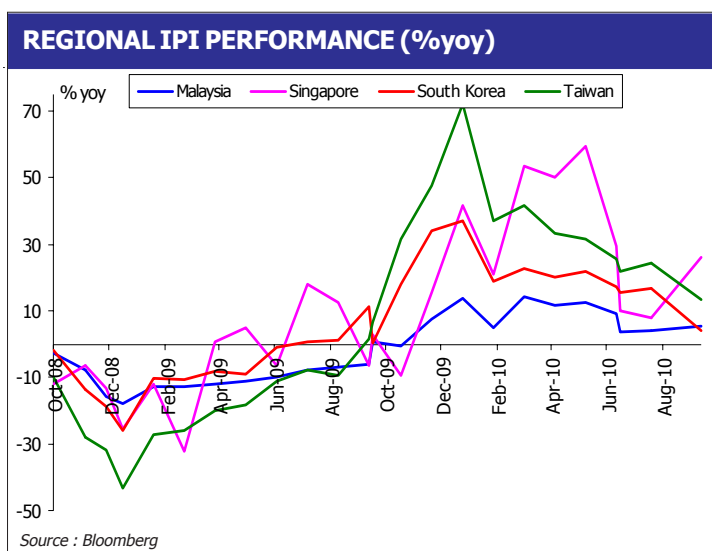
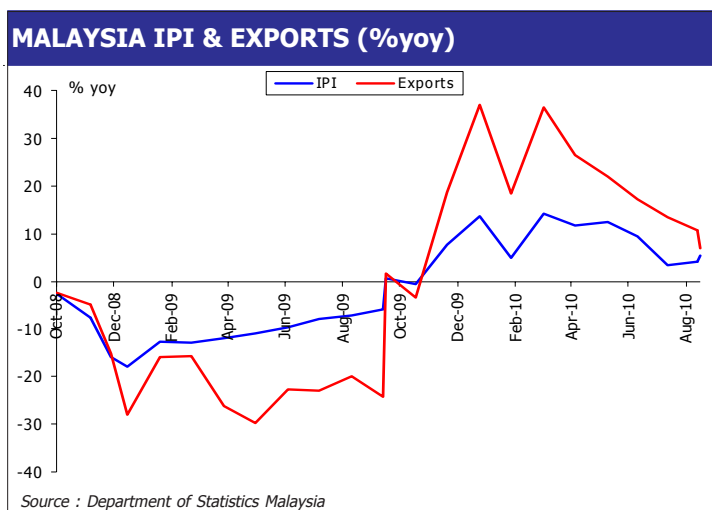
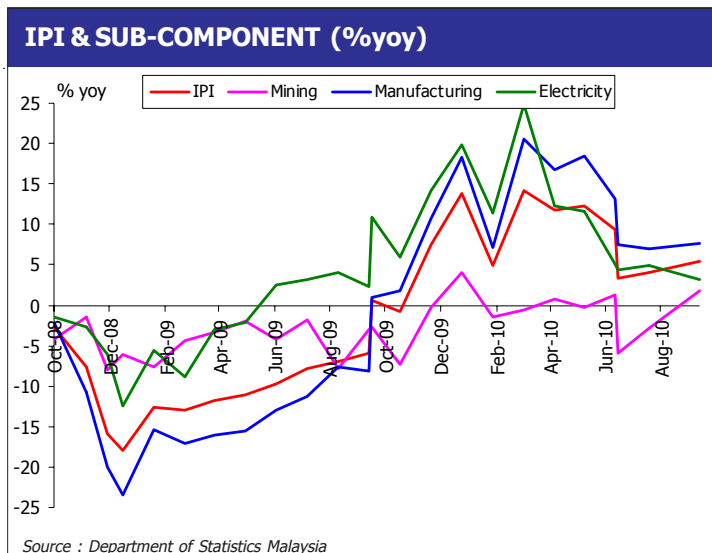


## Malaysia Industrial Activity - Moderated, Pointing to Slower 3Q10 GDP

11 NOVEMBER 2010  
2010/040



### September IPI

- The industrial production index (IPI) grew faster by 5.6% y-o-y in September from 3.8% y-o-y in August. This exceeded our and the consensus' expectations of 5.0% and 4.8% respectively and also marked the fastest growth recorded since July 10. The increase was supported by higher manufacturing and mining outputs. On a m-o-m basis, the overall industrial production, however, fell by 0.8% from -1.5% in August.
- Manufacturing** production increased from 6.5% y-o-y in August to 7.6% y-o-y in September. The higher growth rate was mainly because of the low base effect in which the sector charted a sharp decline of 8.1% y-o-y in Sept 09. It fell by 2.9% on a m-o-m basis, worsening from -1.0% m-o-m in August, mainly dragged down by a drop in electrical and electronics (E&E) products.
- Looking closely into the manufacturing sub-segments, the E&E output eased 8.9% (Aug: +10.6%) in response to the slowing global demand. This is in tandem with the drop in exports of E&E by 0.8% y-o-y during the month (Aug: +3.8%). Petroleum, chemical, rubber and plastic products, however, gained 7.6% y-o-y and 2.5% m-o-m, implying that growth would continue to be led by domestic-oriented industries.
- Mining** output charted a positive growth of 1.8% y-o-y in September, turning around from a 2.8% y-o-y drop in August. On a m-o-m basis, the mining index rebounded from -2.7% to +6.2%, largely due to strong double-digit growth of 10.2% in the natural gas index.
- Electricity** output, on the other hand, posted a slower annual growth of 3.1% y-o-y in September (Aug: +4.8% y-o-y), on the back of a larger 6.8% monthly decline (Aug: -0.2% m-o-m).

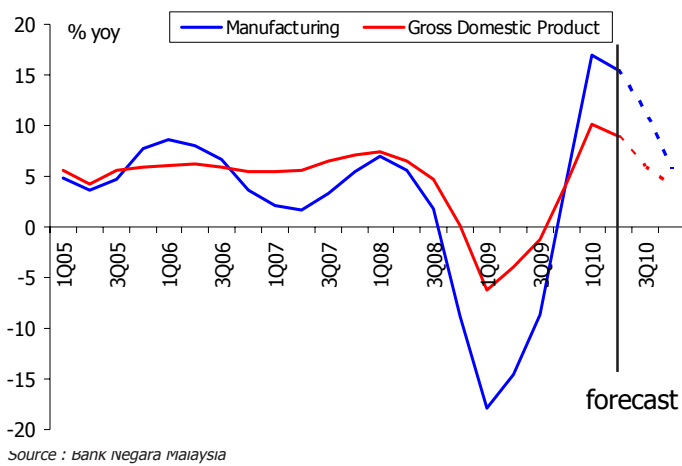
### 3Q10 IPI

- In the 3Q10, the IPI growth slowed markedly to 4.2% y-o-y from 11.1% in the 2Q10. During the period, manufacturing and electricity production charted a slower growth pace of 7.2% y-o-y (2Q10: +15.5%) and 4.1% (2Q10: +9.6%) respectively. Mining output, on the other hand, contracted by 2.4%. On a quarterly basis, industrial production dropped 0.6% as electricity and mining production declined while manufacturing output growth eased.

### Comments

- The higher industrial activity performance during September was mainly reflected by the low base effect, rather than the actual improvement in the production activities. Looking into the larger decline posted on a m-o-m performance, this could

## MALAYSIA MANUFACTURING & GDP (%yoy)



imply the end of the inventory cycle as producers reduced production ahead of a slowing global demand. Export growth showed a dismal performance in September when it grew at a much slower rate of 6.9% y-o-y from 10.6% y-o-y in August.

- The slowing exports and manufacturing growth would have further slowed down the overall GDP in the 3Q10. Nevertheless, private consumption indicators continued to record strong growth while private investment indicators charted further increases, indicating that domestic demand could continue to support some slack in external demand. As such, we hold to our 3Q GDP growth estimate of 5.9% y-o-y, which is in tandem with consensus expectations. The actual 3Q GDP growth rate will be announced by BNM on November 22, 2010.

- Going forward, we expect industrial production to trend lower because of weak external conditions. The weak external demand is attributed to the high unemployment rate in the US, the appreciation of Japanese yen and further tightening measures by China that would provide further downside risk to local industrial production.

- The latest Global Manufacturing PMI however displayed an encouraging performance, suggesting the slight improvement in the global economic activity. The index accelerated for the first time in six months in October at 53.7 from 52.5 in September. The increase could be due to seasonal factors as manufacturing production rise to meet the increasing orders ahead of the festive season. This, in turn, could also support for a pickup in m-o-m local manufacturing output for October but the y-o-y expansion is expected to remain weak at probably around 2.5-3.0% level as the base effect subsides.

- The expectations of a weakening in export growth and industrial activity would continue to drag GDP in the final quarter. Thus, we expect GDP growth to ease further to 4.6% y-o-y from our earlier estimate of 5.9% y-o-y, taking the overall growth for the full year to be at 7.6%. Judging from the increasing downside risks on global growth that could further dampen local economic activity and given the subdued inflation rate, we do not expect further changes in the Overnight Policy Rate (OPR) during the Monetary Policy Committee Meeting on November 6, thus leaving the OPR to stay accommodative at 2.75% for the whole of this year.

## 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	
Sep-09	100.8	-6.0	-2.5	102.7	-8.1	-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	16.5	98.7	-0.6	11.9	126.4	24.9	16.7
Apr-10	106.6	10.6	-3.8	110.0	15.1	-3.6	94.2	0.8	-4.6	123.6	12.3	-2.2
May-10	110.0	12.4	3.2	114.9	18.5	3.5	96.4	-0.2	2.3	127.7	11.5	3.3
Jun-10	106.8	9.3	-2.9	113.1	13.2	-1.6	90.8	1.2	-5.8	120.6	5.1	-5.6
July-10	108.8	3.4	1.9	115.1	7.5	1.8	92.7	-6.0	2.1	123.9	4.4	2.7
Aug-10	107.2	3.8	-1.5	113.9	6.5	-1.0	90.2	-2.8	-2.7	123.6	4.8	-0.2
<b>Sep-10</b>	<b>106.3</b>	<b>5.6</b>	<b>-0.8</b>	<b>110.6</b>	<b>7.6</b>	<b>-2.9</b>	<b>95.8</b>	<b>1.8</b>	<b>6.2</b>	<b>115.2</b>	<b>3.1</b>	<b>-6.8</b>
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	2.8	0.9	107.0	4.4	1.3	95.2	-2.4	0.1	116.9	10.3	0.0
1Q10	105.1	11.1	1.1	107.8	15.3	0.8	96.7	0.7	1.6	118.2	18.8	1.1
2Q10	108.1	11.1	2.9	113.0	15.5	4.8	93.8	0.6	-3.0	124.0	9.6	4.9
<b>3Q10</b>	<b>107.4</b>	<b>4.2</b>	<b>-0.6</b>	<b>113.2</b>	<b>7.2</b>	<b>0.2</b>	<b>92.9</b>	<b>-2.4</b>	<b>-1.0</b>	<b>120.9</b>	<b>4.1</b>	<b>-2.5</b>

Source: Department of Statistics, Research Division PNB