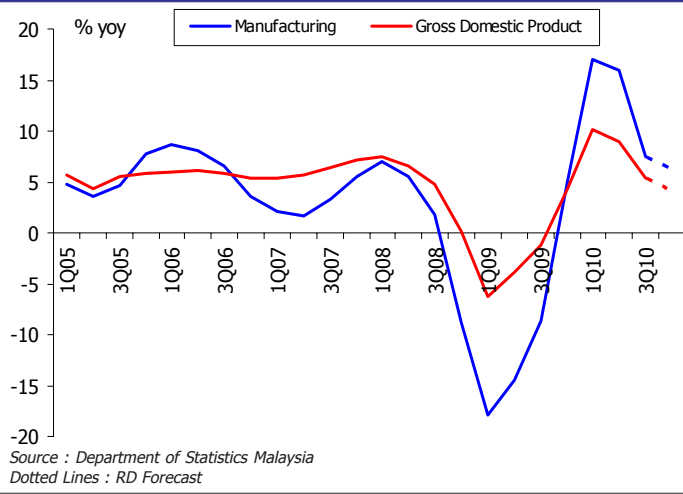


- Remained moderates.** The industrial production index (IPI) grew slower by 4.2% yoy in Dec., partly due to diminished base effects, from 5.3% yoy in Nov. The rate of growth was lower than the consensus' estimation of +5.0% but higher than our expectation of +3.7%. On a mom basis, the IPI increased 2.2%, reversing a 3.4% decline in Nov. This was supported by an expansion in manufacturing and electricity output, while mining production fell.
- Higher manufacturing and electricity output.** Manufacturing production grew 7.7% yoy in Dec., the fastest in three months, from +6.9% yoy in Nov. The annual increase resulted from a 2.1% mom gain during the month, reversing the decline of 3.5% charted in the previous month. This is in tandem with the improvement of exports for E&E items, which the dropped to 6.8% yoy from 11.6% yoy in Nov, suggesting the continued recovery for overall manufacturing sector. Electricity production also charted a positive growth, increasing by 2.4% yoy in Dec, although lower, from +4.9% yoy in Nov.
- Mining output dropped.** Mining production fell on an annual (Dec:-3.5%, Nov:+1.6%) and monthly (Dec: -0.8%, Nov: -0.8%) basis. The drop, according to Department of Statistics, was due to the decreases in both the crude oil and natural gas indices.
- IPI growth slower than regional countries.** Similar to exports, Malaysia's IPI still lagged behind other regional economies such as South Korea, Taiwan and Singapore.
- 4Q10 IPI growth sustained, while manufacturing cooled.** For the 4Q10, IPI growth was sustained at 4.2% yoy (3Q10: 4.2% yoy), supported by a 0.8% qoq gain during the period. Manufacturing production, however, eased to 6.4% yoy in the 4Q10 from 7.2% yoy in the 3Q10. This was mainly due to diminished base effects following the 4.4% gain charted in the same period last year. Manufacturing growth, on a qoq basis, grew faster at 0.6% from 0.2% in the 3Q10 but slower compared with the 1.3% gain charted in the same period in 2009.
- Strong IPI growth in 2010.** In line with exports, the IPI for the whole year charted an encouraging growth when it rebounded to +7.5% from -7.5% charted in 2009.
- Slowing exports and manufacturing to moderate 4Q10 GDP.** The slowing exports and manufacturing production would have moderated 4Q10's GDP performance. This, however, would have been cushioned by a stronger domestic demand, from both the private and public sectors. Domestic demand is expected to have expanded faster, as evidenced by the faster increase in private consumption indicators such as passenger car sales (4Q: +8.4%, 3Q:+2.2%), imports of consumption

MANUFACTURING VS GROSS DOMESTIC PRODUCT



goods (4Q: +6.8%, 3Q: +3.1%), market capitalization of Bursa Malaysia (4Q: +27.2%, 3Q: +25.1%) and outstanding balance of credit cards (4Q: +14.0%, 3Q: +13.2%). The higher commodity prices such as crude oil and palm oil during the 4Q10 would have also supported domestic demand through a higher wealth effect. Meanwhile, the increase in government spending, which normally occurs

towards end of the year, would have also contributed to a higher domestic demand, and hence cushioning the impact of a slowing external demand. As such, we maintain our estimation of 4Q10 GDP growth at 4.1% yoy, moderating from 5.3% yoy in the 3Q10, and taking the overall full year growth to be at 7.1%.

- Manufacturing growth to sustain into 2011.** We expect manufacturing to continue expanding in the coming months, following the positive development on the global front. The upward trend of the global manufacturing PMI index, which leapt to 57.2 in Jan (the fastest pace in nine months) from 55.6 in Dec, would suggest a further recovery in global demand, thus providing a better outlook for local exports and the manufacturing industry. The encouraging signs were also based on the faster than expected recovery in the US, though there are concerns over a slowdown in China due to its tightening measures that may have an adverse impact on the global and country's growth prospects. Presently, we are expecting manufacturing growth to be sustained during the 1H11, albeit moderately, before picking up during the 2H11 following a steady recovery in global demand for manufactured products and on further increases in manufacturing activities resulting from the implementation of the Economic Transformation Programme projects.

INDUSTRIAL PRODUCTION INDEX

	IPI			Manufacturing			Mining			Electricity		
	Index	% yoy	% mom	Index	% yoy	% mom	Index	% yoy	% mom	Index	% yoy	% mom
2008	107.8	0.5		112.1	0.7		98.2	-0.1		110.5	1.2	
2009	99.7	-7.5		101.0	-9.9		94.9	-3.4		111.4	0.8	
2010	107.2	7.5		112.0	10.9		94.4	-0.5		121.2	8.8	
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
Sep-10	106.3	5.6	-0.8	110.6	7.6	-2.9	95.8	1.8	6.2	115.2	3.1	-6.8
Oct-10	110.0	3.0	3.5	115.8	4.8	4.7	95.3	-1.1	-0.5	126.7	5.1	10.0
Nov-10	106.3	5.3	-3.4	111.0	6.9	-3.5	92.5	1.6	-0.8	118.4	4.9	-6.6
Dec-10	108.6	4.2	2.2	114.1	7.7	2.1	94.9	-3.5	-0.8	120.1	2.4	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
3Q10	107.4	4.2	-0.6	113.2	7.2	0.2	92.9	-2.4	-1.0	120.9	4.1	-2.5
4Q10	108.3	4.2	0.8	113.9	6.4	0.6	94.2	-1.1	1.4	121.7	4.1	0.7

Source : Department of Statistics, Research Division PNB