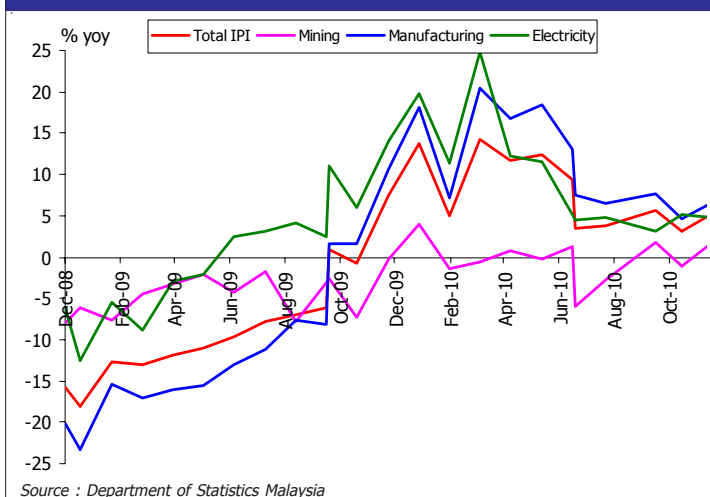
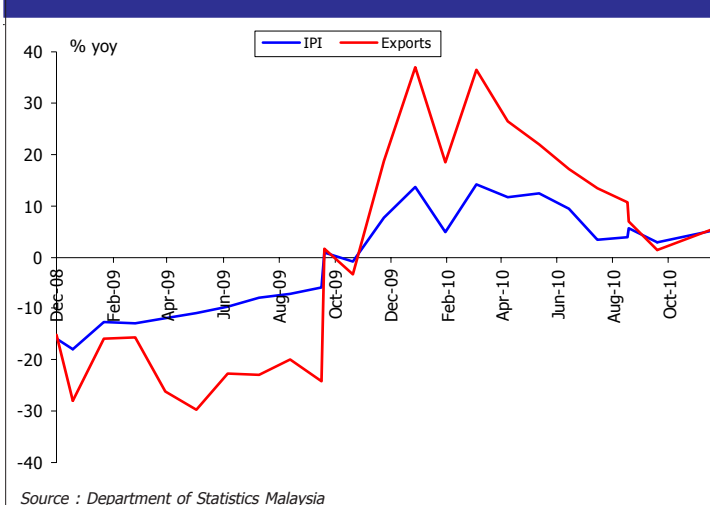


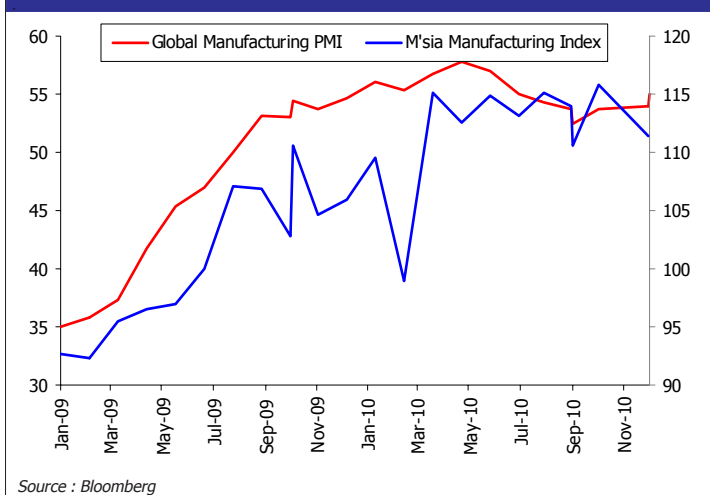
### INDUSTRIAL PRODUCTION INDEX



### TOTAL IPI VS EXPORTS

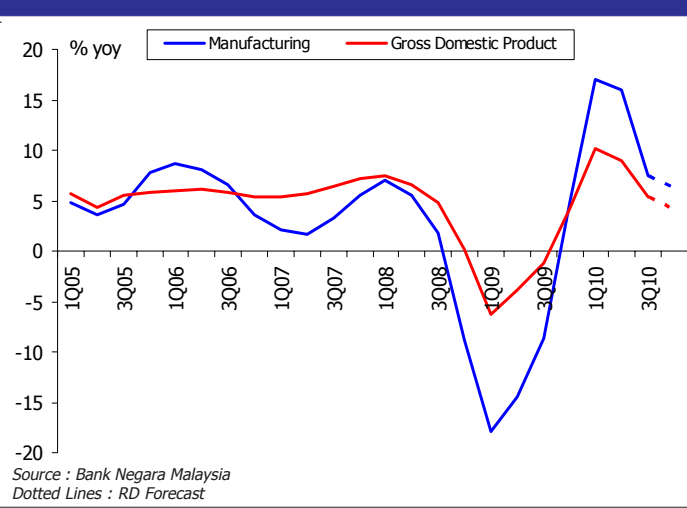


### GLOBAL PMI VS M'SIA MANUFACTURING INDEX



- Higher IPI.** The IPI grew faster by 5.1% yoy in November from 3.1% yoy in October, largely due to base effect and higher manufacturing output growth. This came above our expectation of +4.8% but was below +5.9% estimated by consensus. The IPI growth performance, however, was limited by the monthly 3.6% fall across three major indexes; manufacturing, electricity and mining.
- Manufacturing-led growth.** IPI growth was led by the manufacturing sub-sector which saw production expanding at 6.5% yoy in Nov vs 4.8% yoy in Oct. This was largely spurred by a faster increase in production of petroleum, chemical and plastic products. The electrical and electronics output growth, on the other hand, eased due to the weakening demand from the developed economies. On mom, overall manufacturing output fell 3.8%, reversing its 4.7% gain in Oct. The pace of decline, however, was smaller compared with a 5.3% drop a year before, suggesting that the growth momentum will continue to recover in the immediate term.
- Improved mining but slowing electricity output.** Mining production turned around from a 1.1% yoy decline in Oct to chart a 1.6% yoy gain in Nov, thus supporting a faster expansion in the total IPI. This was driven by the base effect given the 0.8% monthly drop charted for the month. On the flip side, electricity output eased from 5.1% yoy growth in Oct to 4.9% yoy in Nov following its large 6.6% mom drop. The slower electricity output, an indicator of a broader economic activity, seems to partly offset the 10.0% mom gain charted in previous month.
- Positive manufacturing activities across countries..** Further expansion in the manufacturing sector mainly in developed countries would suggest that the global recovery is going to be sustained. In the US, the ISM Purchasing Managers Index rose to 57 in Dec, expanding for the 17<sup>th</sup> straight month, from 56.6 in Nov. Further expansions can also be seen in Europe and other Asian countries such as Taiwan and South Korea. The recovery in the manufacturing sector was further strengthened by the uptrend in the JPMorgan Global Manufacturing PMI which reached its six-month high at 55.0 in Dec. This has attained despite the slower manufacturing growth in China which charted a drop in its PMI to 53.9 in Dec, the first decline in five months, from 55.2 in Nov.
- .. pointing towards sustained domestic manufacturing growth.** The favorable performance of the global manufacturing industry could support the continued recovery in local manufacturing industry. Moreover, the better than expected results of selected US economic indicators, a sign that the US economy may be picking up, would certainly help China sustain its growth momentum through higher exports albeit concerns for its growth resulting from monetary

## MANUFACTURING VS GROSS DOMESTIC PRODUCT



tightening to combat inflation. A recovery in both the US and China economy would augur well for growth prospects of Asian economies including Malaysia. For December, we expect manufacturing to increase to 6.0% and for IPI

to grow by 3.0% with a view that the demand in manufactured goods would pick up. Given December's growth, we estimate manufacturing and the overall IPI to grow at an average rate of 5.8% yoy and 3.5% respectively in 4Q10, slowing from 7.2% yoy and 4.2% in 3Q10

- 4Q10 and 2H10 GDP to moderate on lower exports and manufacturing sector.** The slowing exports and manufacturing growth would drag down overall GDP for the 4Q10. Nevertheless, domestic demand is expected to have sustained, stemming from rising private spending. Private consumption indicators such as loan growth, imports of consumption goods and stronger commodity prices have so far shown a healthy growth that could support private consumption and hence the overall 4Q10 GDP. The higher government spending which normally occurs by end of the year would also boost domestic demand, thus cushioning the slowing external demand. On this note, we expect GDP growth to continue to increase at 4.1% yoy, albeit at a moderate pace, from 5.3% yoy in 3Q10. Thus, the 2H10 would have expanded by 4.7% yoy from 9.5% yoy in 1H10, taking the full year average to 7.1%.

## 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	
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
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
<b>Nov-10</b>	<b>106.0</b>	<b>5.1</b>	<b>-3.6</b>	<b>111.4</b>	<b>6.5</b>	<b>-3.8</b>	<b>92.5</b>	<b>1.6</b>	<b>-2.9</b>	<b>118.4</b>	<b>4.9</b>	<b>-6.6</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