

# Malaysia Industrial Production

Fallen the least in six months to -11.1% YoY in May

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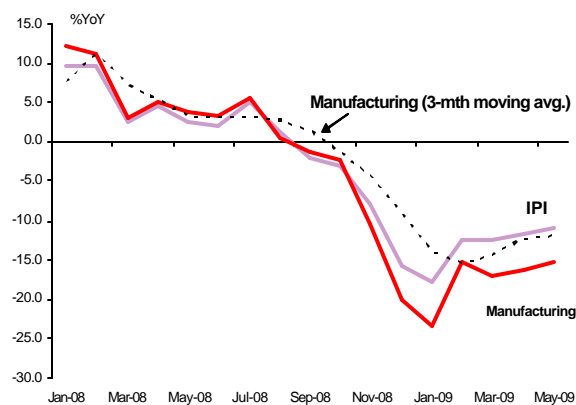
## HIGHLIGHTS

- The **Industrial Production Index (IPI) dropped the least in six months at 11.1% as manufacturing output continued to improve on a MoM-basis**. The contraction was a tad higher than consensus' median estimate of 11.0% but slightly lower than our estimate of -11.3%. On MoM-basis, the IPI rebounded 1.6% after it slipped 0.7% in April.
- The MoM rebound in IPI was largely attributed to the rebound in mining (+2.4%) as well as the continued uptrend in manufacturing (+1.0%) and electricity (+4.0%) output. **This helped reduce manufacturing output's contraction to 15.1%, the smallest drop since November 2008, reaffirming that further improvement may be in the offing.** Though the expected 2Q09 GDP contraction could be less severe it could have declined by no less than 4.0% vs. 6.2% in 1Q09, bringing about an average drop of about 5.1% in 1H09.
- The nascent positive data emanating from the US and other G7 economies appear to give some glimmer of hope that the worst of the recessionary trend is over. We expect the GDP contraction in the 3Q09 to be sharply reduced before growth appears in the final quarter of the year. **This would bring about an average GDP growth of 2.3% in 2H09. Hence, this would tie in with our full year GDP forecast of -1.3%.**

**Yet another improving month.** The overall industrial output performance in May has given us more reason to cheer and reaffirmed our belief that the worst of the recessionary phase is over. The **Industrial Production Index (IPI) dropped the least in six months at 11.1% as manufacturing output continued to improve on a MoM-basis**. The contraction was a tad higher than consensus' median estimate of 11.0% (compiled by *Bloomberg*) but slightly lower than our estimate of -11.3%. On MoM-basis, the IPI rebounded 1.6% after it slipped 0.7% in April. The cumulative index for the first five months of the year showed a decline of 13.2% YoY compared with an increase of 5.7% in the same period last year.

**Monthly output improved across the board.** The MoM rebound in IPI was largely attributed to the

## IPI v. Manufacturing Output Trend – On the Mend?



Source: Department of Statistics, Kenanga Research

rebound in mining (+2.4%) as well as the continued uptrend in manufacturing (+1.0%) and electricity (+4.0%) output. However, manufacturing output continued to contract at 3.0% YoY in May, its ninth consecutive month of decline. Similarly, electricity output fell for the eight consecutive months, with May showing a drop of 2.1%.

**Manufacturing on the mend.** It might still be too early but signs are beginning to emerge that the manufacturing output cycle is beginning to turn. The three months of continued MoM upturn **helped reduce manufacturing output's contraction to 15.1%, the smallest drop since November 2008, reaffirming that further improvement may be in the offing.** Even the seasonally adjusted three-month-moving-average (3mma) growth trend is pointing towards further deceleration in the contraction of output. Manufacturing output's 3mma YoY decline was 11.1%, a steady improvement from the base in February when it technically hit bottom at -15.5%. To top that the Semiconductor Industry Association said the global chip sales rose by 5.4% MoM in May.

**GDP in 3Q09 to contract less.** On average the monthly improvement is expected to reduce manufacturing output's decline to about 15.0% in 2Q09 from 18.7% in 1Q09. Hence, this could help to moderate the overall GDP growth downtrend. Though the expected 2Q09 GDP contraction could be less severe it could have declined by no less than 4.0% vs. 6.2% in 1Q09, bringing about an average drop of about 5.1% in 1H09.

**Table 1: Malaysia Industrial Production Trend (2005=100)**

	Weight	2006	2007	2008	May-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jan-May 08	Jan-May 09
IPI	% MoM				0.9	-3.8	-4.5	-1.7	-3.6	5.7	-0.7	1.6		
	% YoY	4.8	2.3	0.5	2.5	-7.9	-15.9	-17.9	-12.5	-12.7	-11.7	-11.1	5.7	-13.2
	3mma				3.3	-4.4	-9.1	-14.0	-15.5	-14.4	-12.3	-11.8	6.9	-13.6
Manufacturing	% MoM				0.0	-5.5	-7.1	-3.1	-0.4	3.5	1.0	1.0		
	% YoY	8.9	2.2	0.6	4.0	-10.6	-20.0	-23.4	-15.4	-17.1	-16.1	-15.2	7.0	-17.5
	3mma				4.0	-26.3	-23.4	-18.1	-19.7	-18.7	-16.0	-16.0	8.4	-17.8
Mining	% MoM				2.5	-0.4	1.1	1.2	-9.9	11.0	-5.8	2.4		
	% YoY	-3.8	2.2	-0.1	-0.8	-2.6	-8.3	-5.8	-7.3	-3.2	-2.9	3.0	4.4	-4.4
	% MoM				3.1	-1.8	-3.6	-2.7	-2.8	4.1	8.8	3.9		
Electricity	% YoY	5.1	3.9	1.2	2.6	-2.8	-6.2	-12.5	-5.5	-8.9	-2.9	-2.1	6.4	-6.4

Source: Dept of Statistics preliminary release, Kenanga Research, 3mma=3-month month average %YoY growth

**Outlook**

**The worst is over.** The nascent positive data emanating from the US and other G7 economies appear to give some glimmer of hope that the worst of the recessionary trend is over. Though, exports and industrial output may see some recovery on a MoM-basis its annualised growth would remain benign. Nonetheless, this would help to cushion manufacturing sector's downtrend which we expect would moderate to -1.0 in 2H09 from an estimated -15.0% in 1H09. Along with the expectation that the multiplier effect from the fiscal stimulus and the impact of interest rate cuts begins to kick in, **we expect the GDP contraction in the 3Q09 to be sharply reduced before growth appears in the final quarter of the year. This may lift up GDP growth to 2.3% in the 2H09 and would tie in with our full year GDP forecast of -1.3%.**

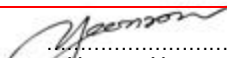
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