

# Malaysia Industrial Production

## Fell 9.6% YoY in June, the smallest decline in seven months

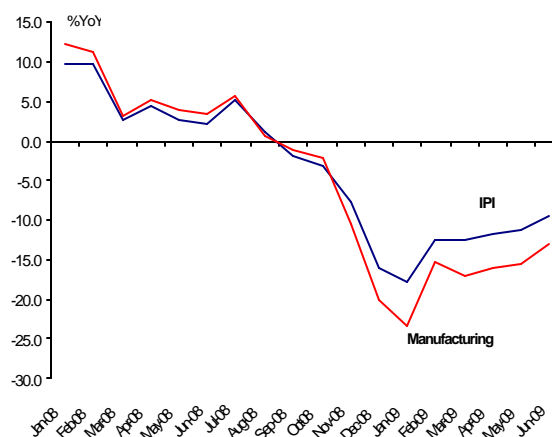
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### HIGHLIGHTS

- The **Industrial Production Index (IPI)** fell the least in seven months at **-9.6% YoY on the back of further monthly improvement in manufacturing output**. The contraction was higher than consensus' median estimate of 9.1% and our estimate of -9.4%. On MoM-basis, the IPI edge up by 0.2% albeit smaller than 1.4% gain in May.
- The higher-than-expected MoM gain in manufacturing output (+2.9%) helped mitigate IPI's MoM deceleration following sharp monthly drop in mining output (-5.4%). **As a result, the manufacturing output's contraction decelerated further to -13.1% YoY, the least in seven months.** Similarly, it's contraction decelerated to 14.9% YoY in 2Q09 from -18.7% in 1Q09, suggesting that the GDP outcome could be less severe. Hence, **we estimate that 2Q09 GDP contraction could have decelerated or fallen by no less than 4.0% compared with -6.2% in 1Q09.**
- Going forward, we are sanguine of a better economic condition in 2H09 courtesy of the impact from massive global stimulus packages and concerted monetary easing. We reiterate our view that Malaysia's growth prospects would be better in 2H09 with GDP growing at a projected 2.3% versus an estimated -5.1% in 1H09. **For the whole of 2009 we maintain our GDP forecast of -1.3%.**

**Industries improve further.** Following regional trend, Malaysia's overall industrial output trend showed sustained recovery but still far from turning positive due to the severe demand pullback since 2H08. **Industrial Production Index (IPI) fell the least in seven months at -9.6% YoY on the back of further monthly improvement in manufacturing output.** The contraction was higher than consensus' median estimate (compiled by *Bloomberg*) of 9.1% and our estimate of -9.4%. On MoM-basis, the IPI edge up by 0.2% albeit smaller than 1.4% gain in May. In the first six months of this year, the IPI dropped 12.7% compared with an expansion of 5.1% in the same period a year ago.

### IPI v. Manufact'g Output Trend – Slow Recovery



Source: Department of Statistics, Kenanga Research

**Improvement mixed.** The MoM rebound in IPI was mixed led by manufacturing (+2.9% MoM), followed by electricity (+0.2%). However, mining fell 5.4% MoM due to declines in LPG (-8.7%) and crude oil (-1.2%). On a YoY basis, mining dropped 3.4%, its tenth consecutive months of decline.

**Manufacturing steadily recovering.** So far, the continued inventory rebuilding since March has yet to reverse the negative trend. However, it helped to moderate the protracted contraction and improve the chances that the trend could turn around soon. Furthermore, the higher-than-expected MoM gain in manufacturing output (+2.9%) helped mitigate IPI's MoM deceleration following sharp monthly drop in mining output (-5.4%). **As a result, the manufacturing output's contraction decelerated further to -13.1% YoY, the least in seven months.** However, we like to caution that the monthly stock build up may run off steam and take a breather soon before resuming its uptrend towards 4Q09.

**A less severe GDP contraction in 2Q09.** For 2Q09, the manufacturing output contraction in 2Q09 moderated to -14.9% YoY from -18.7% in 1Q09, suggesting that the GDP outcome could be less severe. Hence, **we estimate that 2Q09 GDP contraction could have decelerated or fallen by no less than 4.0% compared with -6.2% in 1Q09. On average, the GDP is estimated to fall by 5.1% in 1H09, from +2.4% in 2H08 and +7.0% in 1H08.**

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

	Weight	2006	2007	2008	Jun-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jan-Jun 08	Jan-Jun 09
IPI	% MoM				-1.7	-4.5	-1.7	-3.6	5.7	-0.7	1.4	0.2		
	100.00	4.8	2.3	0.5	2.3	-15.9	-17.9	-12.5	-12.7	-11.7	-11.3	-9.6	5.1	-12.7
	3mma				3.1	-9.1	-14.0	-15.5	-14.4	-12.3	-11.9	-10.9	6.3	-13.2
Manufacturing	% MoM				-0.1	-7.1	-3.1	-0.4	3.5	1.0	0.6	2.9		
	70.67	8.9	2.2	0.6	3.4	-20.0	-23.4	-15.4	-17.1	-16.1	-15.6	-13.1	6.4	-16.8
	3mma				4.2	-23.4	-18.1	-19.7	-18.7	-16.2	-16.2	-14.9	7.7	-17.3
Mining	% MoM				-5.1	1.1	1.2	-9.9	11.0	-5.8	2.4	-5.4		
	23.37	-3.8	2.2	-0.1	-0.7	-8.3	-5.8	-7.3	-3.2	-2.9	3.0	-3.4	2.5	-4.3
	3mma				3.5	-3.6	-2.7	-2.8	4.1	8.8	4.0	0.1		
Electricity	% MoM				3.5	-3.6	-2.7	-2.8	4.1	8.8	4.0	0.1		
	5.96	5.1	3.9	1.2	-4.3	-6.2	-12.5	-5.5	-8.9	-2.9	-2.1	2.5	3.9	-4.9

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

## Outlook

**A moderate recovery ahead.** Going forward, we are sanguine of a better economic condition in 2H09 courtesy of the impact from massive global stimulus packages and concerted monetary easing. Hence, we expect exports and industrial output to gradually improve on a YoY-basis. On this respect, we expect the manufacturing downtrend to moderate to -1.0% in 2H09 from -13.2% in 1H09. We reiterate our view that Malaysia's growth prospects would be better in 2H09 with GDP growing at a projected 2.3% versus an estimated -5.1% in 1H09. **For the whole of 2009 we maintain our GDP forecast of -1.3%.**

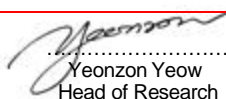
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Published and printed by:

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