

Malaysia Industrial Production

Fell 8.4% YoY in July, surprisingly better-than-expected

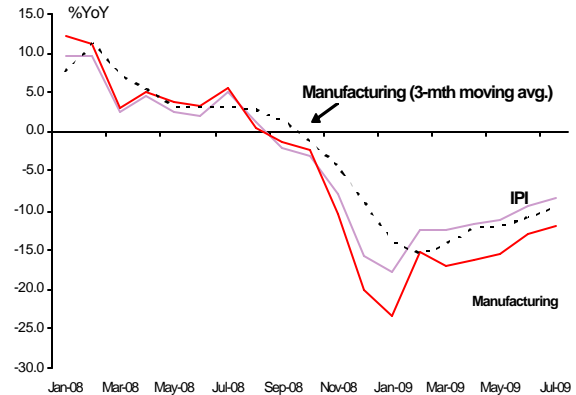
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HIGHLIGHTS

- Malaysia's July Industrial Production Index (IPI) registered a smaller-than-expected decline of 8.4% YoY on the back of strong MoM rebound in manufacturing and mining. The contraction was better than consensus' median and our estimate of -10.5% and -12.4% respectively.
- The sharper-than-expected MoM increase in manufacturing (+6.3%) and mining (+10.0%) output drove up IPI's monthly growth to 7.1%, the biggest since March 2007. This helped IPI to overcome the higher base effect and further lowering the YoY contraction. **Stronger pick up in global electronics and electrical (E&E) demand as well as growing signs that the world economy is recovering from the worst recession since the World War II helped support expansion in exports and manufacturing.**
- Though the US economy is stabilizing, the rising unemployment would continue to weigh on growth bringing about a lethargic recovery going forward. For the time being, while Malaysia may benefit from the global recovery effect, the main thrust of domestic recovery would come from the fiscal pump priming and the effect of rate cuts. Hence, **we reaffirm our view that Malaysia's growth prospects in 2H09 would be better and the economy is projected to turnaround by 2.3% from -5.1% in 1H09. For the whole of 2009 we maintain our GDP forecast of -1.3%.**

A surprising monthly expansion. The bigger-than-expected MoM (month over month) gain on the overall industrial output in July has helped to reduce annualize (YoY) contraction in spite of the higher base in the same period last year. As a result, the **Industrial Production Index (IPI) registered a smaller-than-expected decline of 8.4% YoY on the back of strong MoM rebound in manufacturing and mining.** The contraction was lower than consensus' median (compiled by *Bloomberg*) at -10.5% and our estimate of -12.4% respectively. In the first seven months, however, the contraction remained severe at -12.0% YoY due to the large demand pullback that began almost a year ago.

Manufacturing gradual move towards recovery



Source: Department of Statistics, Kenanga Research

Stronger manufacturing and mining. The sharper-than-expected MoM increase in manufacturing (+6.3%) and mining (+10.0%) output drove up IPI's monthly expansion to 7.1%, the biggest since March 2007. This helped IPI to overcome the higher base effect and further lowering the YoY contraction. **Stronger pick up in global electronics and electrical (E&E) demand as well as growing signs that the world economy is recovering from the worst recession since the World War II helped support expansion in exports and manufacturing.** Meanwhile, mining's YoY growth contracted at a smaller rate of 1.9% compared with -3.4% in June. However, electricity output fell 0.7% MoM but yielded a positive 4.0% growth.

Manufacturing gain still lag regional trend. In tandem with the regional trend, Malaysia's manufacturing output surprisingly accelerated MoM but not enough to turn positive on YoY-basis. **Unlike Singapore's more diversified manufacturing base, Malaysia's highly weighted E&E sector was not enough to jack up overall output.** Nonetheless, the manufacturing output YoY decline was less severe at 12.0%, the smallest decline since November last year. Meanwhile, **Singapore's manufacturing output unexpectedly jumped in July on the back of strong pharmaceutical production.** Its industrial production grew 12.4% YoY and 23.0% on a MoM seasonally adjusted basis, reversing a 9.0% YoY contraction in June.

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

	Weight	2006	2007	2008	Jul-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Jan-Jul-08	Jan-Jul-09
IPI	% MoM				-5.8	-1.7	-3.6	5.7	-0.7	1.4	0.3	7.2		
	100.00 % YoY	4.8	2.3	0.5	5.0	-17.9	-12.5	-12.7	-11.7	-11.3	-9.5	-8.4	5.1	-12.0
	3mma				3.3	-14.0	-15.5	-14.4	-12.3	-11.9	-10.9	-9.7	5.8	-12.7
Manufacturing	% MoM				-5.1	-3.1	-0.4	3.5	1.0	0.6	3.0	6.2		
	70.67 % YoY	8.9	2.2	0.6	5.7	-23.4	-15.4	-17.1	-16.1	-15.6	-13.0	-12.0	6.3	-16.1
	3mma				4.4	-18.1	-19.7	-18.7	-16.2	-16.2	-14.9	-13.5	7.7	-17.3
Mining	% MoM				8.3	1.2	-9.9	11.0	-5.8	2.4	-5.4	-10.0		
	23.37 % YoY	-3.8	2.2	-0.1	4.1	-5.8	-7.3	-3.2	-2.9	3.0	-3.4	-1.9	2.7	-3.9
	% MoM				2.9	-2.7	-2.8	4.1	8.8	4.0	0.2	-0.7		
Electricity	5.96 % YoY	5.1	3.9	1.2	1.3	-12.5	-5.5	-8.9	-2.9	-2.1	2.5	3.1	3.5	-3.7

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

... and may run out of steam. After the five straight month of uninterrupted MoM gain, we like to caution that factory output could be running out of steam and take a much needed breather before resuming its uptrend in 4Q09. Such is to be expected and should not be a signal that the trend would reverse. In fact, we would expect the contraction would sharply reduced to about -8.0% in 3Q09 before turning positive in 4Q09 after four consecutive quarters of contraction since 4Q08.

Outlook

A moderate recovery ahead. Though the US economy is stabilizing, the rising unemployment would continue to weigh on growth bringing about a lethargic recovery going forward. For the time being, while Malaysia may benefit from the global recovery effect, the main thrust of domestic recovery would come from the fiscal pump priming and the effect of easy monetary policy. Hence, **we reaffirm our view that Malaysia's prospects in 2H09 would be better and the economy is projected to turnaround by 2.3% from -5.1% in 1H09. For the whole of 2009 we maintain our GDP forecast of -1.3%.**

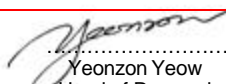
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