

Malaysia Industrial Production

Fell 6.0% YoY in Sep, worst-than-expected

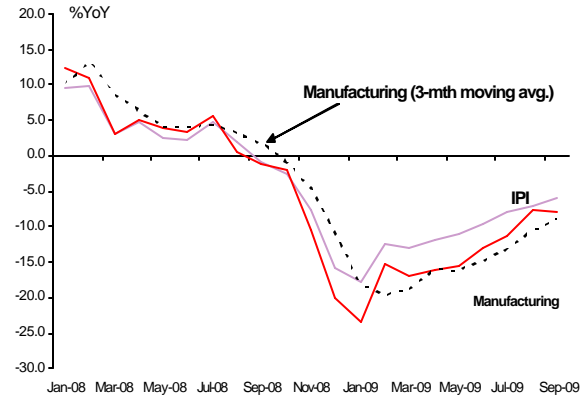
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HIGHLIGHTS

- Malaysia's Industrial Production Index (IPI) fell the sharpest in seven months, which could further temper down GDP growth estimates for 3Q09. **Dragged down by manufacturing the IPI dropped 2.4% MoM to yield a contraction of 6.0% YoY.** Though the annual contraction was the smallest in 11 months, the contraction was larger than our estimate (-3.0%) and the consensus' median of -3.8%.
- Manufacturing led the overall IPI decline. **It fell 3.6% MoM, the worst since December last year, re-accelerating the YoY decline to 8.0% from -7.0% in August.** Mitigating the IPI fall was mining's 1.5% MoM gain. Further aided by the lower base effect, it helped to lower IPI's YoY contraction.
- Following weaker-than-expected August and September data, overall IPI declined 7.0% in 3Q09. Though better than 2Q09 (-10.9%), the contraction was higher than what we had earlier anticipated. Nonetheless, we expect output to turn positive in 4Q09 backed by improved domestic demand and global economic recovery. **After four consecutive quarters of contraction, we expect manufacturing output to rebound by 1.1% in 4Q09. This would support our 4Q09 GDP growth turnaround forecast of 2.8%. Hence, the 2H09 growth outlook remains promising and is projected to grow by 0.9% after contracting 5.1% in 1H09. As a result, our whole year GDP projection is now adjusted to -2.1% from -1.3%.**

IPI fell further. Malaysia's industrial activity took a dive again in line with the general regional output and lower external demand trend in September. The Industrial Production Index (IPI) fell the sharpest in seven months, which could further temper down GDP growth estimates for 3Q09. **Dragged down by manufacturing the IPI dropped 2.4% MoM to yield a contraction of 6.0% YoY.** Though the annual contraction was the smallest in 11 months, the contraction was larger than our estimate (-3.0%) and the consensus' median (of 17 economists compiled by *Bloomberg*) of -3.8%. In the first nine months of this year, the IPI fell 10.8% compared with a growth of 4.1% in the same period a year ago.

Industrial Activity and Manufacturing On The Mend



Source: Department of Statistics, Kenanga Research

Manufacturing led IPI drop. Manufacturing led the overall IPI decline followed by a sharp fall in electricity output. **Manufacturing output fell 3.6% MoM, its worst since December last year, re-accelerating the YoY decline to 8.0% in August.** This was manufacturing's second straight month of decline after six months of uninterrupted MoM expansion. The contraction of the manufacturing output was due to decreases in the groups, Electrical and Electronics Products (-22.2%); Wood Products, Furniture, Paper Products, Printing (-12.0%); and Non-metallic Mineral Products, Basic Metal and Fabricated Metal Products (-7.2%). Electricity output fell 5.7%, its sharpest monthly drop since February last year, but yielded a positive 1.8% YoY growth, largely helped by a lower base last year.

Stronger mining mitigates IPI fall. Mitigating the IPI fall was mining's 1.5% MoM gain. As a result, its YoY contraction decelerated to -3.0% from -7.8%. Further aided by the lower base effect, it helped to lower IPI's YoY contraction.

Turnaround remains intact Going forward, we believe that sustain pick up in global semiconductor sales along with recovery in domestic demand may support expansion in manufacturing output. With signs of imports of intermediate goods remains intact it **bodes well for exports as it's a strong indication of a buildup in inventory to cater for anticipated higher orders going forward.** This is in line with the Semiconductor Industry Association (SIA) sanguine global chip sales outlook as intermediate goods largely comprise of E&E components.

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

	Weight	2006	2007	2008	Sep-08	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Jan-Sep08	Jan-Sep09
IPI	% MoM				-3.4	5.7	-0.7	1.6	-0.3	7.7	-1.9	-2.4		
	100.00 % YoY	4.8	2.3	0.5	-0.9	-13.0	-11.8	-11.0	-9.7	-7.8	-7.0	-6.0	4.1	-10.8
	3mma				1.9	-14.6	-12.5	-11.9	-10.9	-9.5	-8.2	-7.0	5.1	-11.6
Manufacturing	% MoM				-3.4	3.5	0.9	0.6	3.0	7.2	-0.2	-3.6		
	70.67 % YoY	8.9	2.2	0.6	-1.1	-17.0	-16.1	-15.6	-13.0	-11.2	-7.7	-7.9	4.8	-14.2
	3mma				21.3	-18.7	-16.2	-16.2	-14.9	-13.2	-10.6	-9.0	2.6	-15.2
Mining	% MoM				-3.5	10.9	-5.8	3.3	-7.1	9.9	-5.9	1.5		
	23.37 % YoY	-3.8	2.2	-0.1	-0.5	-4.4	-3.3	-2.0	-4.3	-1.8	-7.8	-3.0	2.8	-4.5
Electricity	% MoM				-3.7	4.1	8.8	4.0	0.2	3.5	-0.8	-5.7		
	5.96 % YoY	5.1	3.9	1.2	0.2	-8.9	-3.0	-2.1	2.5	3.1	3.9	1.8	2.8	-2.3

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

Outlook

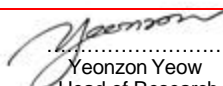
A moderate recovery ahead Following weaker-than-expected August and September data, overall IPI declined 7.0% in 3Q09. Though better than 2Q09 (-10.9%), the contraction was higher than what we had earlier anticipated. As a result, **the 3Q09 GDP could fall by no less than 1.0% as oppose to our earlier forecast of a flat or slightly positive growth**. However, it would definitely be less severe than the preceding two quarters of -6.2% (1Q09) and -3.9% (2Q09) respectively.

Maintain 2010 outlook despite 2009 growth revision. Nonetheless, we expect output to turn positive in 4Q09 backed by improved domestic demand and global economic recovery. **After four consecutive quarters of contraction, we expect manufacturing output to rebound by 1.1% in 4Q09. This would support our 4Q09 GDP growth turnaround forecast of 2.8%. Hence, the 2H09 growth outlook remains promising with average growth projected to grow by +0.9% after contracting 5.1% in 1H09. As a result, our whole year GDP projection is now adjusted to -2.1% from -1.3%. With the general overview of an uncertain global economic outlook we project Malaysia's economy to grow below its potential at between 3.0% to 4.0% in 2010.**

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