

# Malaysia Industrial Production

## Up 0.7% YoY in Oct on strong manufacturing rebound

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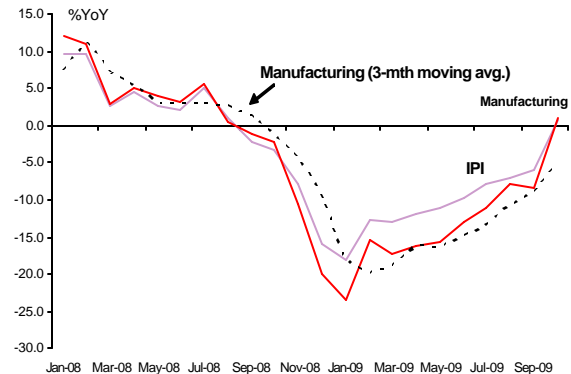
### HIGHLIGHTS

- Malaysia's Industrial Production Index (IPI) posted a marginal growth of 0.7% YoY for the first time since September 2008 on the back of a strong rebound in manufacturing.** It was surprisingly higher than consensus median estimate of -3.8% and our estimate of -3.7%.
- On a MoM basis, the IPI rebounded strongly by 5.8% supported by a broad-based increase in manufacturing, mining and electricity. Manufacturing led IPI rebound by rising 7.0% MoM to yield a positive 1.0% YoY gain after thirteen months of YoY contraction.** This was largely sparked by improvement in export-oriented industries and pick up in domestic demand.
- The stronger-than-expected factory output in October led by manufacturing affirms our expectation that output will continue to remain positive in 4Q09. Hence, manufacturing output is expected to rebound to about 9.0% YoY in 4Q09 after four quarters of contraction. Similarly, this would support our expectation that GDP would rebound in 4Q09 and may outpace our forecast of 2.8% rebound. Nonetheless, we maintain our GDP forecast of -2.1% for the whole of 2009. On the back of uncertainty in the global financial market and the weak US economic recovery, we maintain our GDP growth projection for 2010 at 3.0-4.0%.**

**IPI rose!** Surprise, surprise. After 14 months of contraction, **Malaysia's Industrial Production Index (IPI) posted a marginal growth of 0.7% YoY on the back of a strong rebound in manufacturing.** It was surprisingly higher than consensus median estimate of -3.8% (compiled by *Bloomberg News*) and our estimate of -3.7%. It signaled the end of the industrial output downcycle and moving progressively away from recovery mode towards growth.

**Manufacturing led IPI increase.** On a MoM basis, the IPI rebounded strongly by 5.8% supported by a broad-based increase in manufacturing, mining and

### Industrial Activity and Manufacturing On The Mend



Source: Department of Statistics, Kenanga Research

electricity. **Manufacturing led IPI rebound by rising 7.0% MoM to yield a positive 1.0% YoY gain after thirteen months of YoY contraction.** This was largely sparked by improvement in export-oriented industries and pick up in domestic demand. Electronics & electrical (E&E) exports, which is largely co-related to manufacturing, surged 16.7% MoM, resulting in an enlarged YoY increase of 18.5%, the highest since September 2004.

**October good month for semiconductor sales.** Stronger pick up in global 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. Globally, according to Semiconductor Industry Association semiconductor sales rose US\$21.7b in October, a 5.1% increase from the prior month. This is largely due to electronic equipment manufacturers ramping up production for the holiday season. Certainly this has and will continue to rub off on domestic factory output. Going forward, we believe it will provide the momentum for Malaysia's E&E output to expand beyond the 4Q09.


**Mining and electricity remains strong.** Meanwhile, mining and electricity output gained MoM by 2.3% and 7.7% respectively. While electricity output surged 13.4% YoY, mining fell 2.7% YoY due to the high base affect. We expect both mining and electricity to gain in tandem with the pick up in domestic demand and the global economic recovery.

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

	Weight	2006	2007	2008	Oct-08	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Jan-Oct 08	Jan-Oct 09
IPI	% MoM				-1.3	-0.7	1.6	-0.3	7.7	-1.9	-2.4	5.8		
	% YoY	4.8	2.3	0.5	-2.7	-11.8	-11.0	-9.7	-7.8	-7.0	-6.0	0.7	3.4	-9.7
	3mma				-0.6	-12.5	-11.9	-10.9	-9.5	-8.2	-7.0	-4.2	4.5	-10.8
Manufacturing	% MoM				-2.7	1.0	0.6	3.1	7.1	-0.2	-3.9	7.0		
	% YoY	8.9	2.2	0.6	-2.1	-16.1	-15.6	-13.0	-11.2	-7.7	-8.2	1.0	4.1	-12.8
	3mma				-0.9	-16.2	-16.2	-14.9	-13.2	-10.6	-9.1	-5.1	2.2	-14.2
Mining	% MoM				2.0	-5.8	3.3	-7.1	9.9	-5.8	1.4	2.3		
	% YoY	-3.8	2.2	-0.1	-4.2	-3.3	-2.0	-4.3	-1.9	-7.7	-3.0	-2.7	2.0	-4.3
	% MoM				-0.5	8.8	4.0	0.1	3.5	-0.8	-2.9	7.7		
Electricity	% YoY	5.1	3.9	1.2	-1.6	-2.9	-2.1	2.5	3.1	3.9	4.8	13.4	2.4	-0.5

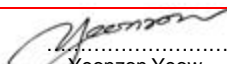
Source: Dept of Statistics preliminary release, Kenanga Research, 3mma=3-month moving average %YoY growth

**Outlook**

**Recovery picking up momentum.** The stronger-than-expected factory output in October led by manufacturing affirms our expectation that output will continue to remain positive in 4Q09. Hence, manufacturing output is expected to rebound to about 9.0% YoY in 4Q09 after four quarters of contraction. **Similarly, this would support our expectation that GDP would rebound in 4Q09 and may outpace our forecast of 2.8% rebound. Nonetheless, we maintain our GDP forecast of -2.1% for the whole of 2009.** On the back of uncertainty in the global financial market and the weak US economic recovery, **we maintain our GDP growth projection for 2010 at 3.0-4.0%.** 

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