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Industrial production for April outpaces expectations

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THE SARS (Severe Acute Respiratory Syndrome) outbreak hardly dented Malaysia's manufacturing activities, as industrial production grew at its fastest pace in over two years in April.

In the same month as the virus attack peaked in the region and widespread fear battered the services industry, the Industrial Production Index (IPI) in the country jumped 11.8 per cent to beat market expectations by more than four times.

Manufacturing (70 per cent of IPI) led total output to the strongest growth since December 2000 when it registered a 12.7 per cent increase. The mining index rose 9.8 per cent to 129.5, while the electricity index increased 7 per cent to 241.5, the Statistics Department said in a statement.

Earlier yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad said he was confident Malaysia would be able to surpass the targeted 4.5 per cent growth this year, now that the economic stimulus package was in place.

And with the stronger-than-expected production number, economists may increasingly agree with him.

"I am still a bit sceptical about surpassing last year's growth, but I am sure and more convinced now than I was this morning," said MMS International regional economist Dave Cohen in Singapore yesterday.

To recap, in a half year sabotaged by a war and an epidemic, the outlook for a trading nation such as Malaysia is hazy at best. Electronic and electrical items, which constitute half of the country's exports, fell for five straight months amid sluggish global growth.

The second biggest foreign exchange earner, the tourism industry, was virtually crippled with the onset of SARS, infecting related services such as hotel, retail and leisure. Many research houses downgraded Malaysia's growth forecast not once, but twice, between March and April.

But while the impact of the virus is damaging some sectors of the economy, it looks like on the whole, "Malaysia is fully immunised against the SARS outbreak," said DBS Bank Ltd economist Wong Chee Seng.

"The stronger-than-expected number threw all market-watchers out of equilibrium. Considering the immunity of industrial production to the SARS outbreak in April, Malaysia is likely to throw in another surprise for the second-quarter growth," he said.

Exports exhibited resilience, growing 5.7 per cent in April despite slumping electronic product sales. Malaysia's performance seems to buck cooling production activities in neighbour Singapore, South Korea and

Taiwan, but it is in line with China, the country worst affected by SARS.

China still shows strong growth in its trade and manufacturing numbers, said economists, proving that disruptions in some economies with a strong domestic market may be limited.

Still, does this mean Malaysia is out of the woods? IPI numbers, although the closest measure for the gross domestic product (GDP), are known to be erratic.

"While one-month number is only one piece of data, April has record numbers. More importantly though, we have to see how export demand will be like in the second half of the year," said Cohen of MMS.

For now, actual signs of an export pick-up are still missing. Intermediate imports, the leading indicator of export performance, fell for the first time in April over 10 months. They contracted 3.4 per cent.

The Semiconductor Industry Association said global sales eased to 9.7 per cent during the month, significantly slower than the 22.1 jump recorded at the beginning of the year.

Meanwhile, the US book-to-bill ratio, which tracks the number of orders coming in during the month to the number of goods actually shipped, slid back to 0.86 time from 0.91 time in March, its lowest in seven months.

According to an economist from Maybank, the US ISM Manufacturing Activity Index has a high correlation with the Malaysian production on a four-month lag. The index fell from the demarcation level of 50 points for three consecutive months since February before rising to 49.4 in May.

"Therefore, we expect production growth to decelerate in the next three months," he said.

But as long as the IPI for May and June remains in positive territory, which it mostly likely will, economists said, Malaysia is set to be stronger.

"It may be time for us to revise upwards our current GDP projection of 2.8 per cent. Coupled with May's RM7.3 billion stimulus package, this has effectively put a floor to (Malaysia's) growth at 4 per cent this year," said Wong of DBS.