

HSBC Indonesia Manufacturing PMI™

Manufacturing business conditions improve for fourth month running in December

Summary

December data indicated that manufacturing operating conditions in Indonesia improved for the fourth successive month. Underpinning the latest expansion was a renewed growth of output and increased new order levels. Export demand broadly stabilised, after contracting in each of the previous six months.

Up from 50.3 in the previous month to 50.9 in December, the seasonally adjusted *HSBC Indonesia Purchasing Managers' Index™ (PMI™)* posted above the crucial 50.0 threshold for the fourth consecutive month. The latest reading was consistent with only a slight improvement in operating conditions, but one that was more pronounced than in November. Furthermore, the PMI average for the last quarter of 2013 was above that seen for Q3.

Output increased in December, amid evidence of higher levels of incoming new work. However, the overall rate of expansion was only fractional as panellists reported competitive pressures and a difficult economic climate. New orders rose in December, marking a three-month sequence of growth. Although moderate and slower than in November, the rate of expansion was above the series average. Evidence suggested that the domestic market remained the key source of new order growth.

After dropping in each of the previous six months, export business stabilised in December. This was indicated by the index measuring overall export orders posting only fractionally below the 50.0 no-change mark. Manufacturers signalling higher new orders from abroad commented on stronger demand from Japan, Pakistan and Arab countries. Those firms indicating a reduction largely cited increased external competition.

Indonesian goods producers signalled no change in employment levels during December. This followed a four-month period of job cuts. Meanwhile, backlogs of work fell in the latest month, following a marginal accumulation recorded in November. Anecdotal evidence highlighted a general lack of pressure on operating capacity.

On the price front, higher input costs and output charges were signalled in December. Purchase prices rose at a sharp rate, but one that was the slowest since August. Survey respondents continued to report higher import costs as a result of a weaker currency. The latest rise in charges was also the slowest in four months and much weaker than that seen for costs.

Indonesian manufacturers increased their buying activity in December, stretching the current period of growth to four months. Despite being moderate, the

pace of expansion was greater than its average. Concurrently, holdings of raw materials and semi-finished goods rose. The overall rate of growth was, however, only slight.

Comment

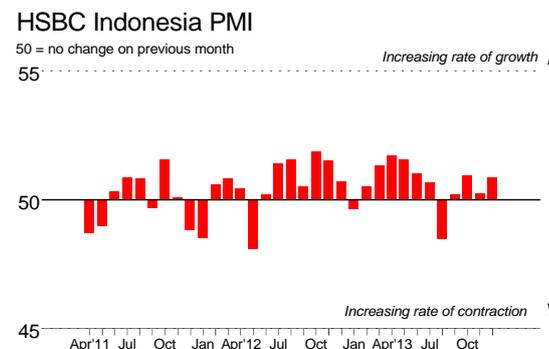
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"The moderate improvement in manufacturing conditions in December continues to reflect stronger domestic rather than external demand, as new export orders have remained broadly unchanged from the previous month. Nevertheless, anecdotal evidence continues to point to a general lack of pressure on operating capacity; this is good news for the current account deficit as overall demand-pull pressures are continuing to moderate. It is also good news for inflation; in December the gains in both input and output prices continued to cool. Bank Indonesia has likely delivered sufficient monetary policy tightening for now, and we expect policy to remain on hold in the coming quarters."

Key points

- PMI at 50.9, marginally higher than November's 50.3
- Manufacturing production increases, albeit fractionally
- New order growth sustained, while export business stabilises

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Indonesia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indonesian GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*[™] (*PMI*[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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