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IHS Markit Indonesia Manufacturing PMI™

Manufacturing PMI slips to three-month low in December

Key findings

Output growth accelerates to third-fastest on record...

...but overall new work expands at softer pace

Business confidence improves regarding 12-month outlook for output

Data were collected 6-16 December 2021.

Operating conditions across the Indonesian manufacturing sector continued to improve in December, according to the latest IHS Markit PMI™ data, though the pace of improvement softened since November. Output growth accelerated slightly, but growth of demand softened for the second month running, despite a strong rebound in foreign demand. Encouragingly, business confidence regarding the year ahead improved, and purchasing activity picked up. Employment levels were stagnant, however. Price pressures meanwhile persisted with input prices rising sharply as lead times continued to deteriorate.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) posted 53.5 in December, down from 53.9 in November. This represented a fourth straight month of improving business conditions across the Indonesian manufacturing sector, though the rate of improvement was the slowest since September.

Demand for Indonesian manufactured goods and production both expanded for the fourth consecutive month in December, with output growth accelerating from November to the third-fastest on record. The continued improvement in economic conditions following the easing of COVID-19 restrictions in previous months supported manufacturing sector activity growth, according to panellists. In contrast, the expansion in total new work eased for the second straight month in December and was much slower than October's all-time high. The slowdown was despite a rebound in new export business.

To meet the increase in demand and greater output requirements, Indonesian manufacturers ramped up their buying activity in December, which also contributed to higher levels of pre-production inventories. Increased purchasing activity was also linked to expectations of higher customer demand in the months ahead. Indeed, the Future Output Index

continued...

Indonesia Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“The pace of recovery across the Indonesian manufacturing sector slowed in December, according to the latest IHS Markit Indonesia Manufacturing PMI. Although the output sub-index showed a sharper rate of growth for production, there was a further slowdown in growth of demand, with total new work expanding at the softest pace for four months.”

“Persistent supply constraints remain a key concern for the Indonesian manufacturing sector, as vendor performance deteriorated further and companies reported steeper price pressures, which had affected production at some firms. It will be important to monitor if this continues to affect production, or even affect the current growth momentum moving forward.”

“Nonetheless, overall sentiment remained highly positive, with the level of business confidence above the long-run average to suggest that Indonesian manufacturers remain optimistic for continued growth in production over the course of 2022.”

reflected that Indonesian manufacturers held a more positive view towards the 12-month outlook for production in December with hopes that economic conditions will improve as COVID-19 disruptions ease.

Meanwhile, employment levels were unchanged in December with resignations and redundancies balancing out any additional hiring done to accommodate higher production requirements. However, backlogs of work increased only marginally in December.

On the prices front, both input costs and output prices rose further in December. The rate of input price inflation rose to the highest in just over eight years while output charges climbed more slowly in December. Survey respondents often commented on higher costs across a range of raw materials and also increased shipping fees, which led them to partially share these expenses with their clients.

Adding to signs of sustained supply chain pressure was a further lengthening of lead times for inputs in December. Suppliers' delivery times increased at a sharper rate than the previous month, driven by shipping delays and supplier shortages.

Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit Indonesia Manufacturing PMI™ is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

December 2021 data were collected 6-16 December 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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