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IHS Markit Indonesia Manufacturing PMI™

Manufacturing conditions worsen in September amid renewed COVID-19 curbs

Key findings

Output and new orders fall back into decline

Job shedding persists

Purchasing activity and inventories fall further

Data were collected 11-23 September 2020.

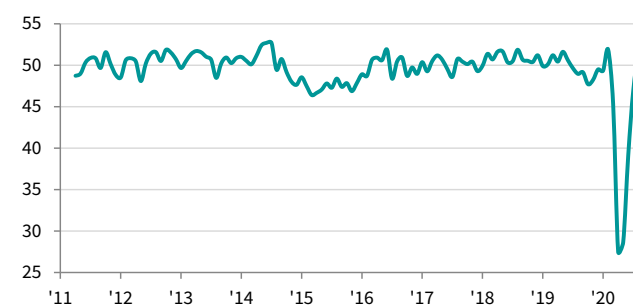
Latest PMI survey data indicated a renewed deterioration of Indonesian manufacturing conditions during September amid a return of stricter coronavirus disease 2019 (COVID-19) containment measures. After solid increases in August, output and new orders both fell solidly at the end of the third quarter. Firms consequently stepped up their efforts to scale back on capacity and overheads, with employment and purchasing activity falling further. Inventories were also depleted, while inflationary pressures moderated.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) fell nearly four points from 50.8 in August to 47.2, to mark the first decline in the index since April, at the height of the global pandemic. By registering below the neutral 50.0 threshold, the latest figure indicated a deterioration in the health of the sector and represented a setback to the gains made by the PMI in recent months.

The re-imposition of large-scale social restrictions (PSBB) in Jakarta in mid-September amid rising virus infections had adversely impacted manufacturing sales and production. Having risen solidly in August, inflows of new orders fell markedly in September, albeit at a rate that was slower than the severe contractions seen between March and June, at the height of the pandemic. Output also fell back into decline. Respondents highlighted that the re-tightening of containment measures had disrupted factory activity.

The reduction in sales contributed to a further development of spare capacity, as reflected by another decline in backlogs of work. This dampened hiring. Employment shrank for a seventh straight month, with the pace of job shedding accelerating as layoffs were widely reported among firms.

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Amid rising virus infection cases, large-scale social restrictions (PSBB) were reimposed in Jakarta, dealing a setback to the Indonesian manufacturing recovery. Latest PMI data indicated a renewed deterioration in factory conditions in September, with sales and production falling solidly at the end of the third quarter after marked increases in August."

"Firms continued to scale back on capacity and overheads as part of efforts to control costs and to remain viable. Employment shrank further while purchasing activity continued to contract. Inventories were also depleted."

"The latest PMI numbers suggest that the Indonesian manufacturing sector faces challenging operating conditions in the months ahead. Whether a robust recovery will take root depends to a large extent on the country's ability to bring the pandemic under control. Expectations about the year-ahead outlook remain positive, but optimism hinges on an improvement in the COVID-19 situation."

continued...

Companies also scaled back their purchasing activity and inventories as part of efforts to control costs. Input purchases fell solidly, albeit at the slowest rate in the current seven-month period of decline. Input inventories were depleted for the ninth month running, while stocks of finished goods contracted for the third successive month.

On the prices front, inflationary pressures eased at the end of the third quarter. A weaker rupiah reportedly drove cost inflation, though total input costs rose at the slowest pace since March. Output charges increased only marginally, as anecdotal evidence showed some firms providing price discounts to stimulate sales.

Renewed COVID-19 restrictions also constrained the ability of suppliers to make timely deliveries. Average lead times lengthened for the eighth month running in September.

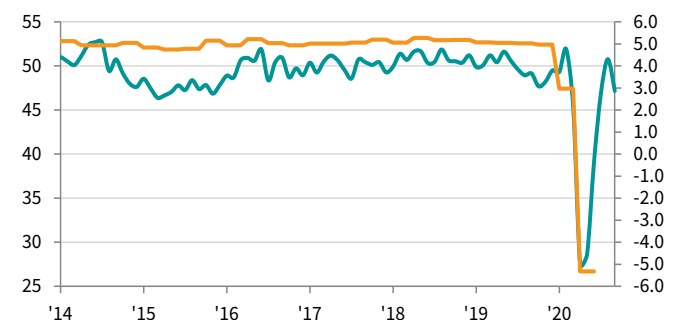
Finally, expectations regarding output over the coming year remained elevated, but optimism was mostly pinned on hopes that the pandemic will be brought under control.

PMI headline Index

sa, >50 = growth since previous month

GDP growth

%yr/yr



Sources: IHS Markit, Statistics Indonesia (BPS).

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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.

September 2020 data were collected 11-23 September 2020.

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

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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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