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# IHS Markit Indonesia Manufacturing PMI™

## Factory output slumps further in May as COVID-19 pandemic hits demand

### Key findings

Output and new orders both fall sharply due to COVID-19 measures

Record fall in employment amid evidence of layoffs

Input costs rise further due to material shortages and weak rupiah

Data were collected 12-21 May 2020.

The Indonesian manufacturing economy saw a further sharp deterioration in operating conditions in May due to ongoing measures taken to halt the spread of the coronavirus disease 2019 (COVID-19) outbreak, according to latest PMI data. Production volumes and new orders fell sharply after record contractions in April. Firms raised concerns about excess capacity and subsequently reduced staff numbers at the fastest rate on record, alongside steep cuts to purchasing activity and input inventories. Meanwhile, input costs rose solidly again due to material shortages and a weak exchange rate.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) rose slightly from an all-time low of 27.5 in April to 28.6 in May. By remaining well below the 50.0 no-change level, the latest figure continued to indicate a severe rate of deterioration in the health of the sector, and marked the second-lowest level ever recorded since the survey started in April 2011.

The COVID-19 pandemic was again the most common cause of the manufacturing downturn, resulting in widespread closures of non-essential businesses, transport bottlenecks, and hitting demand for manufactured goods.

Output continued to fall at a severe rate in May, accompanied by a further substantial drop in total new orders, which was dragged down in part by a sharp reduction in export sales. Rates of decline in these variables eased slightly from April, but were nonetheless the second-fastest in the series history in all cases.

Consequently, jobs were cut at an unprecedented rate as firms sought to cut capacity in line with weaker demand. Excess capacity continued to build up in May, as indicated by a further steep fall in the level of backlogs.

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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:

*"Indonesia saw a further collapse of manufacturing activity in May, with signs that the factory downturn has hit the labour market hard.*

*"Production and new orders continued to fall at severe rates, pushing manufacturers to cut jobs, purchases and inventories in an effort to contain costs amid widespread business closures. In particular, a record rate of job losses was reported in the latest survey.*

*"Second quarter GDP is expected to be notably worse than the opening three months of 2020, reflecting emergency measures taken to control the COVID-19 pandemic.*

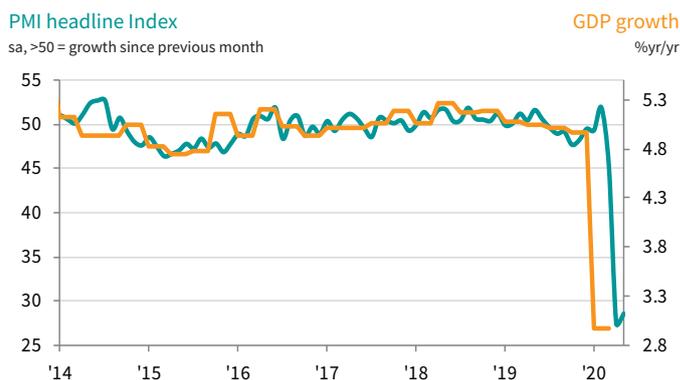
*"With the government mulling over re-opening the economy in phases from June, the PMI may rise in coming months, though it will take commensurately higher readings to recoup the severe losses seen in recent months."*

Purchasing activity also declined further, with the rate of decrease the second-fastest on record and severe overall. This contributed to input inventories depleting sharply again in May. Meanwhile post-production stocks accumulated as a number of firms indicated that goods, particularly consumer products, were unsold.

Measures to control the COVID-19 pandemic also disrupted supply chains. Delivery times lengthened to the greatest extent since the survey started just over nine years ago. More stringent customs inspections, material shortages amid business closures and disrupted transport routes were all reasons cited for delivery delays.

Raw material shortages and a weak rupiah led to a further increase in input costs in May. Though slightly slower than in April, the rate of inflation was among the fastest for one-and-a-half years and solid overall. As a result, average prices charged for goods rose at the fastest rate for a year, as firms partly passed on higher costs to customers.

Expectations of output over the year ahead remained positive, though the level of confidence dipped from April. While optimism was linked to hopes that the COVID-19 situation will improve in a year's time, firms that were pessimistic mentioned concerns around the longevity of any restrictions on business operations.



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.

May 2020 data were collected 12-21 May 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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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