

Nikkei Indonesia Manufacturing PMI™

PMI edges down to three-month low in October

Key points:

- Output expands modestly, but new orders decline
- Inflationary pressures at three-year high
- Firms remain upbeat towards the business outlook

Data collected October 12-24

Manufacturing conditions across Indonesia improved at a slower rate at the start of the fourth quarter. Higher output and employment boosted the headline PMI in October, while firms continued to raise purchasing activity and build input inventories.

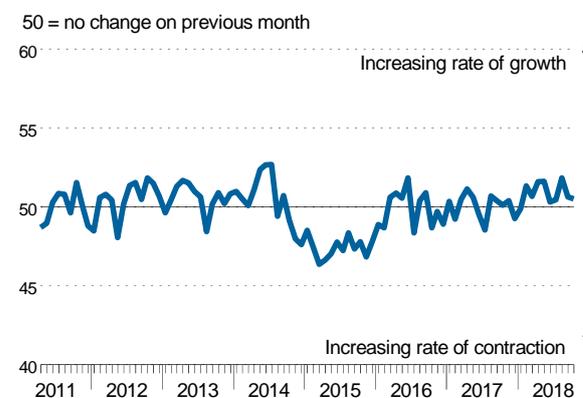
However, the survey also brought signs of softer client demand, with declines seen in both total new orders and export sales. At the same time, inflationary pressures intensified, driven by a weak rupiah. That said, firms remained generally positive about the longer-term business outlook.

The headline seasonally adjusted **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** edged down to 50.5 in October, from 50.7 in September, representing a marginal improvement in the health of the sector. This was below the average reading seen over the first nine months of the year. The headline PMI provides a snapshot of the manufacturing performance in the country and derives from questions on output, new orders, employment, inventories and delivery times.

The latest survey indicated softer demand conditions at the start of the fourth quarter. Overall new order intakes fell for the first time since January, which was partly driven by a steeper decline in export sales. However, weaker demand conditions did not adversely affect production volumes in October. On the contrary, output continued to expand modestly at the start of the final quarter of the year.

Firms took on more workers to cope with increased production requirements. That said, the pace of job creation was only slight. The level of unfinished work was meanwhile unchanged in October, thereby ending a 52-month sequence of falling backlogs.

Nikkei Indonesia Manufacturing PMI



Sources: IHS Markit, Nikkei

In response to greater output, Indonesian factories stepped up purchasing activity for a ninth consecutive month during October which, in turn, contributed to a further build in input stocks. Greater appetite for inputs added pressure to supply chains. Vendor performance deteriorated again at the start of the fourth quarter. There were reports of transportation issues and problems with shipping documentation as factors behind delivery delays.

Inventories of finished products meanwhile fell further, with anecdotal evidence suggesting that faster completion of deliveries was a primary reason for lower stocks.

Because of a weaker exchange rate and rising raw material prices, Indonesian manufacturers faced greater cost pressures. Notably, input price inflation accelerated to the fastest for over three years. This led companies to raise their output charges at the quickest rate since October 2015.

Finally, business sentiment towards the year ahead remained positive. The Future Output Index rose to a five-month high in October. Reasons for optimism included higher sales forecasts, new products, planned capacity expansion, marketing and promotional activities.

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Bernard Aw**, Principal Economist at IHS Markit, which compiles the survey, said:

“Indonesia’s manufacturing sector lost further momentum at the start of the fourth quarter, reflecting signs of softer demand conditions, according to the latest Nikkei PMI survey.

“New order intakes fell for the first time since January, accompanied by a further decline in exports, suggesting that demand from both domestic and foreign markets had waned. There were some reports of recent earthquakes affecting sales, which warranted paying closer attention to subsequent PMI reports.

“However, other survey indicators were generally more encouraging. Output continued to expand, while firms continued to beef up their input stocks by raising purchasing activity. Business confidence about longer-term prospects also remained upbeat.

“That said, an area of concern is intensifying inflation. Both input and output price inflation accelerated to three-year highs, driven by a weak rupiah. While the rupiah has stabilised against the US dollar during the month, the relatively weak exchange rate means manufacturers may continue to face greater cost pressure in the months ahead due to greater prices for imported items.”

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Notes to Editors:

The Nikkei Indonesia Manufacturing PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

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'. 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.

The Nikkei Indonesia Manufacturing 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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