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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing PMI weakens to near four-year low in October

Key findings

Both output and new orders fall at fastest rates in almost four years

Inventories accumulate amid lower sales

Employment declines at quickest pace for two years

Latest PMI data showed that the deterioration in Indonesian manufacturing conditions extended into October. Output and new orders both declined at accelerated rates, while employment fell amid renewed signs of spare capacity. Lower sales contributed to a further accumulation in stocks of finished goods and prompted firms to reduce purchasing activity. Meanwhile, selling prices fell, which was supported by a decline in input costs.

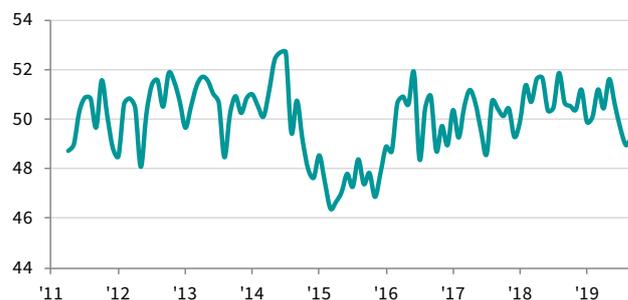
The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index*™ (PMI™) fell to 47.7 in October, down from 49.1 in September, signalling the sharpest deterioration in the health of the sector for nearly four years. The headline index is a single-digit indicator that provides a quick snapshot of business conditions in the manufacturing sector, and derived from questions on orders, output, employment, suppliers' delivery times and inventories.

Overall demand for Indonesian manufactured goods weakened at a faster rate at the start of the fourth quarter. Inflows of new orders fell for a third straight month in October and at the steepest pace since late 2015. Export sales also declined during the month, albeit at a slower rate. Consequently, backlogs of work decreased during the month.

Reduced sales led firms to again scale back production in October. Output shrank for a fourth month running and at the quickest extent for almost four years.

Facing weaker demand, manufacturers adjusted their hiring and purchasing activity. Staff numbers decreased for a fourth month in a row during October, with the rate of decline the fastest in two years. Input purchases meanwhile contracted at the quickest pace for nearly four years which in turn contributed to a meagre rise in input stocks. There were also reports that lower sales

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's manufacturing malaise deepened further in October, with the headline PMI falling to a near four-year low at the start of the fourth quarter.

"Overall demand conditions continued to weaken, as indicated by an accelerated fall in new order inflows which in turn led to a further decline in production. There were also reports of rising inventories of unsold stocks, which could dampen output volumes in the months ahead.

"Other survey indicators pointed to challenges in the coming months: firms cut back on purchasing activity, reduced staff levels and lowered selling prices due to the deteriorating business environment. Business confidence also dipped to the lowest for six months.

"At 47.7, the October PMI reading is consistent with GDP expanding just below 5% at the start of the fourth quarter."

continued...

had underpinned a further increase in stocks of unsold goods. Inventories of finished goods rose for a sixth successive month in October, accumulating at the fastest rate since June 2016.

On the price front, the survey signalled weaker cost pressures. Input costs fell for the first time since April amid reports of lower prices for raw materials such as food and paper. Lower cost burdens also helped firms to reduce their factory gate prices for a second month in a row to boost sales. Though only slight, the rate of decrease was the fastest since the survey began over eight-and-a-half years ago.

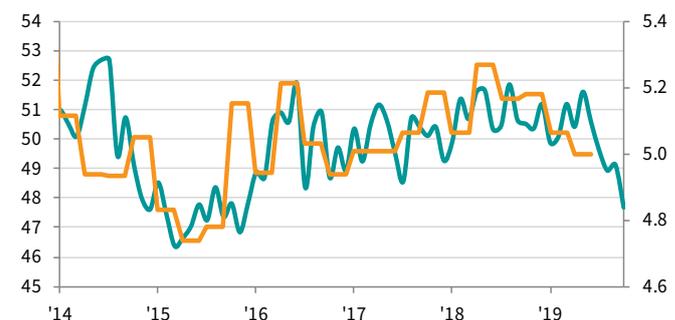
Meanwhile, business confidence dipped to a six-month low, though the Future Output Index, a gauge of sentiment, remained well above the no-change 50.0 level.

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.

October 2019 data were collected 11-24 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.