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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing conditions deteriorate at the end of 2019

Key findings

Job losses and lack of supply chain pressure weigh on headline PMI...

... but output, new orders and input stocks all rise slightly

Business sentiment hits highest for six months

December saw a further deterioration of Indonesian manufacturing conditions, but the rate of decline was the slowest for five months. This reflected a modest recovery in production, new sales and input inventories. Firms were also more optimistic, as indicated by business confidence rising to a six-month high, while purchasing activity returned to growth. Meanwhile, inflationary pressures remained muted.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) rose from 48.2 in November to 49.5 in December, signalling the softest rate of deterioration in the health of the sector since July. Nonetheless, December's figure has now brought the average PMI reading for the fourth quarter to 48.5, indicating the weakest quarter recorded since 2015.

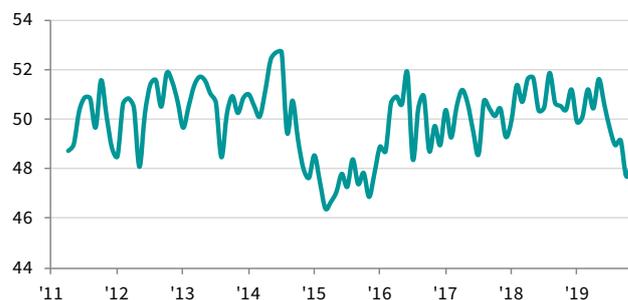
The headline index is a single-digit indicator that provides a quick snapshot of business conditions in the manufacturing sector, and derived from questions on orders, output, employment, suppliers' delivery times and inventories.

The latest survey data showed tentative signs of improved demand conditions at the end of the year. Inflows of overall new business rose for the first time since July, fuelled primarily by domestic demand, as new export orders declined in December. The upturn in sales was accompanied by the first increase in production volumes for six months, albeit only marginal.

Business confidence also improved during December. The Future Output Index, a gauge of sentiment for output in the year ahead, not only remained elevated, but rose to the highest level for six months. Firms expect planned market expansions, efficiency gains, quality improvements, marketing activities and higher sales forecasts to drive production growth. In a further sign of greater business confidence, firms stepped up purchasing activity for the first time since June which, in turn,

continued...

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 downturn persisted at the end of the year, with PMI data signalling a further deterioration in operating conditions during December. However, the latest survey also hints at a potential turnaround in the situation heading into the new year.

"The return to growth of output, new orders and input inventories indicated that a recovery could be around the corner. Indeed, the headline PMI, while still below the neutral 50.0 level, rose to the highest for five months. In addition, business confidence was the highest seen in the second half of 2019.

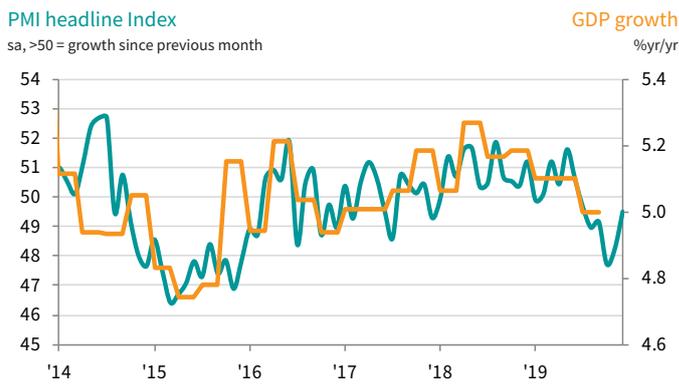
"However, any hopes of a strong pick-up in factory activity need to be tempered as other survey indicators, including falling backlogs, lower employment and muted inflation, suggest that the road to recovery remains challenging amid a global slowdown. In particular, there were reports that subdued sales and shipment delays led to a further accumulation of inventories."

contributed to a rise in input inventories.

Higher sales failed to put pressure on operating capacity, however. On the contrary, backlogs of work fell for a third straight month during December, providing further evidence of spare capacity which, in turn, dampened hiring. Job shedding was reported for a sixth month in a row at the end of 2019.

Stockholdings of finished products accumulated for an eighth consecutive month in December. There was evidence that subdued demand and delayed shipments contributed to the build-up of goods at warehouses.

Finally, inflationary pressures remained muted. While input costs rose for the first time in three months, the rate of inflation was only marginal. Meanwhile, competitive pressures and weak sales pushed firms to provide discounts on their goods, reducing selling prices at the fastest pace since the survey started over eight-and-a-half years ago.



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.

December 2019 data were collected 5-16 December 2019.

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