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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing conditions deteriorate further in September

Key findings

Declines in both output and new orders

Firms cut back further on purchasing activity

Inventories accumulate amid weak sales

Indonesia's manufacturing sector ended the third quarter on a weak note, with operating conditions deteriorating for a third straight month in September. Production and new orders both fell further. This saw firms cut back on staff numbers and purchasing activity. Inventories of both inputs and finished goods rose amid lower output and sales. With mild cost pressures, companies discounted selling prices for the first time in just over three years.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index*™ (PMI™) edged up from 49.0 in August to 49.1 in September, to signal a further slight deterioration in the health of the sector. Nevertheless, the average PMI reading for the third quarter (49.2) is the lowest seen since the end of 2016.

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 conditions continued to weaken at the end of the third quarter. Inflows of total new orders declined for a second straight month in September, and at the same rate as in August, which was the steepest since July 2017. Survey data indicated that both domestic and external demand remained weak. New export orders fell again in September.

Consequently, production was scaled down further as manufacturers adjusted operations amid lower sales. The fall in output was the most marked for 21 months, albeit modest overall. Firms also reduced staff numbers, with factory employment declining for a third month in a row, and at the fastest rate since December 2017.

On the price front, goods producers lowered their selling prices to boost sales. Output charges fell for the first time in just over

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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:

"Latest IHS Markit PMI data indicate that Indonesian manufacturers remained stuck in a challenging environment in September. The headline PMI was close to a two-year low and pointed to a third straight month of deterioration in manufacturing conditions, causing firms to cut back on hiring and purchasing activity.

"The survey also signalled an increase in the level of finished goods amid weak sales. Price pressures have also eased, with output charges falling for the first time in just over three years as firms turned to offering discounts to boost sales.

"While the short-term outlook looks gloomy, longer-term prospects remained more positive, with the majority of respondents expecting higher output over the next 12 months.

"At 49.2, the average PMI reading for the third quarter is consistent with GDP expanding at 5% in the three months ending September."

three years during September. Overall cost pressures remained muted, as input prices rose marginally at the end of the third quarter. Anecdotal evidence highlighted higher prices for raw materials such as plastics, paper, fabric and some food items.

After falling in the previous two months, backlogs of work were unchanged in September.

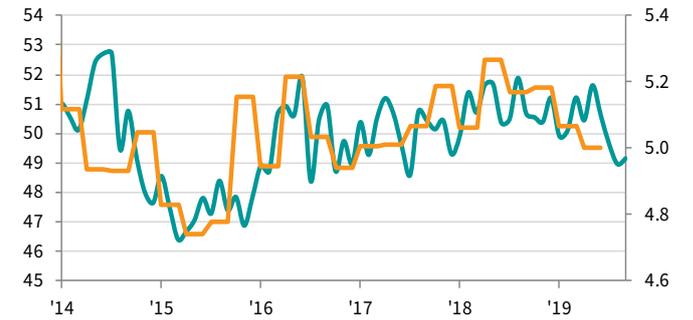
While short-term prospects were dim, the longer-term outlook was more positive. Business expectations for output in the year ahead remained buoyant, with the overall level of business confidence strongly positive. Optimism was supported by promotional activities, planned market expansions, new product models and higher sales forecasts, according to anecdotal evidence.

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 2019 data were collected 12-23 September 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.