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IHS Markit Indonesia Manufacturing PMI™

Manufacturing downturn moderates in June as COVID-19 measures ease

Key findings

Production and new orders both fall at slower rates

Business confidence improves to five-month high

Accelerated rise in input costs due to weak rupiah

Data were collected 12-23 June 2020.

Business conditions in the Indonesian manufacturing sector weakened further at the end of the second quarter. However, the rate of deterioration cooled markedly since May as the coronavirus disease 2019 (COVID-19) containment measures were gradually eased throughout June. Nevertheless, the latest headline PMI figure was still the third-lowest since the survey started over nine years ago. The drops in both output and new orders, while falling at notably slower rates than in May, were still substantial. Firms also reduced employment and purchasing activity at marked rates.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) rose by over 10 index points from 28.6 in May to 39.1 in June. However, despite the rise in the index, the latest reading remained well below the 50.0 no-change level and indicated a substantial deterioration in the health of the sector.

The easing of the nationwide COVID-19 measures provided some relief to the manufacturing sector but was insufficient to stem a further decline in production. Output fell for a fourth straight month in June, albeit at a notably weaker pace than those recorded in the previous two months. Lower production volumes were widely linked to a weakening demand trend.

Inflows of new orders fell further during June. Despite easing further from April's record, the rate of decrease remained substantial. Overall sales decline was also weighed down by a further severe fall in export orders.

With rising spare capacity amid weak sales, firms sought to contain costs by cutting back further on staffing levels. Employment fell for a fourth month running, with the rate of decline the third-quickest in the series history.

Purchasing activity was also reduced at a marked rate, albeit not as severely as in the previous two months. Firms instead tapped

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:

"Latest PMI data showed a marked easing in the decline in Indonesia's manufacturing sector during June as the country relaxed restrictions designed to control the COVID-19 pandemic.

"With expectations of further easing of the PSBB and a return to normality, business sentiment rose sharply to the highest seen since January before the pandemic escalated, as firms generally expect output to rise in the year ahead.

"However, the recovery in the coming months will be challenging. Survey data showed manufacturing output and sales still falling at substantial rates, despite rates of reductions easing notably since April and May. Factories also continued to retrench workers in June amid further signs of spare capacity. Purchasing activity was also reduced further as firms sought to control costs in response to weak demand.

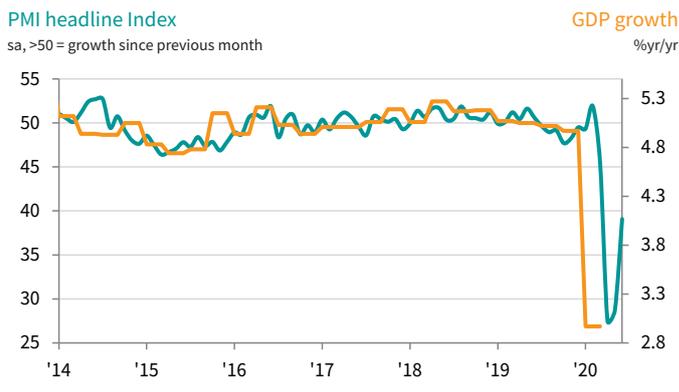
"Indonesian manufacturers also faced rising input costs driven by greater raw material prices, supply shortages and a weaker rupiah, while their ability to raise their selling prices remained limited amid a weakening sales trend."

into existing inventories wherever possible to meet production requirements. As a result, input inventories fell steeply again in June. At the same time, stocks of finished goods rose for a second straight month amid reports of unsold products due to weak demand.

Supply chains remained under pressure during June. Longer delivery times were reported for a fifth consecutive month, although the rate at which lead times lengthened eased notably from May. Anecdotal evidence suggested that the PSBB measures and regional travel restrictions continued to hinder transport services.

Meanwhile, firms continued to face rising input prices during June, with the rate of inflation accelerating to the fastest for just over one-and-a-half years. Higher costs were connected to greater raw material prices and a weaker exchange rate. Firms only partially passed on increased costs to customers. Output charges were raised modestly, and at a far softer rate than the rise in costs.

Finally, the gradual easing of COVID-19 containment measures boosted the confidence of the manufacturing sector. The Future Output Index, a gauge of business sentiment, jumped to the highest since January, with 73% of respondents anticipating higher output over the next 12 months.



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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.

June 2020 data were collected 12-23 June 2020.

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.
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