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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing conditions deteriorate further in October

Key findings

Output and new orders fall again, albeit at slower rates

Job shedding continues amid spare capacity

Purchasing activity and inventories decline further

Data were collected 12-23 October 2020.

Indonesian manufacturing conditions worsened further at the start of the fourth quarter, according to latest PMI survey data. Production and new orders fell again amid ongoing containment measures to control the spread of the coronavirus disease 2019 (COVID-19) virus. Facing reduced demand, firms shed their workforce numbers further, with widespread reports of redundancies. Purchasing activity and inventory levels were also consequently reduced. Prices data pointed to a greater squeeze on margins, as input prices rose further while output charges fell for the first time in seven months.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) edged up from 47.2 in September to 47.8 in October. By remaining below the 50.0 no-change level, however, the latest reading marked a further deterioration in the health of the sector.

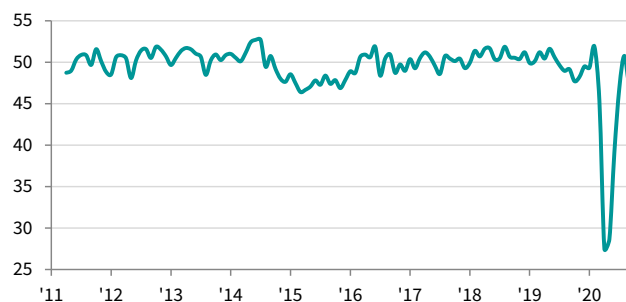
The large-scale social restrictions (PSBB) in Jakarta were loosened in mid-October and therefore provided only a limited boost to the manufacturing sector. Production volumes contracted for a second straight month in October, though the rate of decrease eased to a modest pace. Similar to output, inflows of new orders fell at a slower pace. External demand meanwhile continued to weaken at a substantial rate. Respondents highlighted that the impact of the pandemic continued to dampen overall demand conditions.

With weakening sales and reduced production requirements, firms highlighted excess capacity, as reflected by a further decline in backlogs of work. Seeking to control costs in order to remain viable, companies cut their staff numbers further in October. Employment shrank for the eighth month running, with the pace of job shedding accelerating as redundancies were widely reported among firms. Purchasing activity and inventories were similarly cut back in response to falling sales.

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 indicated a further deterioration in Indonesian manufacturing conditions at the start of the fourth quarter, with production and sales both decreasing further.

"Indonesian goods producers continued to struggle against weak demand, rising overheads and ongoing COVID-19 restrictions. Consequently, they cut back on capacity and investment in order to remain viable. Headcounts, input purchases and inventories were all reduced further in October.

"The impact of a loosening of the PSBB in mid-October may only be seen in November, but even then, the uncertainty of the pandemic trajectory as well as an absence of an effective vaccine, could keep demand and economic activity subdued in the coming months."

Input buying fell at the weakest rate in the current eight-month period of decline, however. Stocks of purchases were depleted again, which has been the case in each month so far during 2020. Post-production inventories shrank for the fourth consecutive month.

Supply chains remained under pressure. Delivery times lengthened for a ninth month in a row, with the rate of lengthening similar to September and modest overall. The distribution of inputs was reportedly affected by COVID-19 measures, inclement weather and labour protests.

Meanwhile, input prices continued to rise in October, with the rate of inflation accelerating from September. Anecdotal evidence indicated greater prices for raw materials, including base metals, chemicals, plastics and some food items, drove expenses higher. Firms reduced their selling prices, however, to mark the first decline in output charges since March.

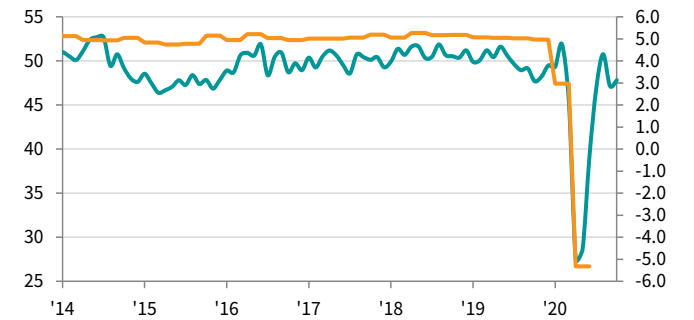
Finally, expectations regarding output over the coming year improved to the strongest for nearly one-and-a-half years, with confidence mainly based on hopes that market conditions will return to normal.

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 2020 data were collected 12-23 October 2020.

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.
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