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IHS Markit Indonesia Manufacturing PMI™

PMI signals further deterioration in operating conditions during November

Key findings

Both output and new orders fall, albeit at slower rates

Stronger rise in stocks of finished goods amid lower sales

Input and output prices both fall at quickest rates on record

Indonesian manufacturing conditions deteriorated further in November. Declines in both output and new orders weighed on the headline PMI. Lower sales led to a further accumulation of inventories of finished goods, while falling backlogs of work prompted firms to once again reduce employment and scale back purchasing activity. Meanwhile, selling prices fell, underpinned by another decline in input costs and a weakening sales trend.

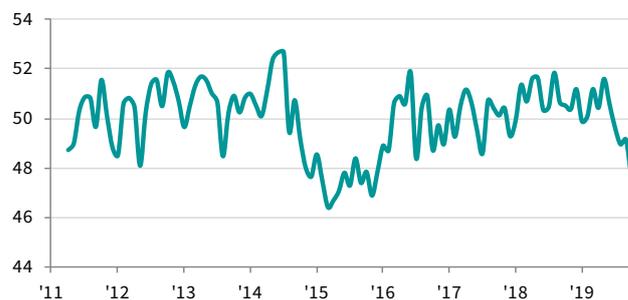
The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index*™ (PMI™) rose from 47.7 in October to 48.2 in November, signalling a deterioration in the health of the sector for the fifth month in a row. The headline index is a single-digit indicator that provides a quick snapshot of business conditions in the manufacturing sector, and derived from questions on orders, output, employment, suppliers' delivery times and inventories.

While higher than in October, the headline index nonetheless was the second-lowest seen since the end of 2015. At 48.0, the average PMI reading so far for the fourth quarter signals that the manufacturing economy is on track for its weakest quarter in four years.

Overall demand conditions continued to weaken midway through the fourth quarter. Inflows of new orders fell for a fourth consecutive month in November. Though the rate of decline in new business softened since October, it was the joint-fastest for over two years. As a result, backlogs of work fell further, pointing to a further development of spare capacity.

Lower sales weighed on production. Output declined for a fifth straight month, with the pace of contraction the second-fastest since July 2017. Job shedding was reported for a fifth month in a row, though the rate of decrease was the slowest since August. In a further sign of manufacturing weakness, firms cut back

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 weakness extended into November, with PMI data signalling that the economy is on course for a slower pace of growth in the fourth quarter. At 48.0, the average PMI reading for October and November combined is consistent with GDP expanding at 4.9% in the fourth quarter."

"The survey showed overall demand for Indonesian manufactured goods remained subdued in November. New order intakes fell further and at one of the fastest rates in over two years. The weakening sales trend contributed to a further accumulation of unsold goods as well as a decline in backlogs of work. This in turn saw Indonesian manufacturers cutting back employment and reducing purchasing activity, suggesting that output volumes will likely remain subdued in coming months."

"However, there were tentative signs of the manufacturing malaise bottoming out, as reflected by an easing in the rate of deterioration in operating conditions and business confidence rising to a five-month high."

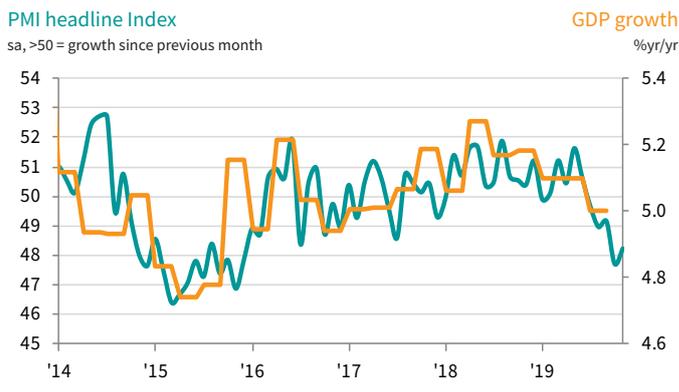
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on input purchases. Purchasing activity fell for a fifth month running in November. The reduced appetite for inputs enabled vendors to improve their lead times. Suppliers' delivery times shortened at the fastest rate since the survey started in April 2011.

Lower purchasing activity also contributed to the first depletion of input inventories for four months, with the rate of decline the steepest for nearly a year. Meanwhile, stockholdings of finished goods rose further and at the quickest pace for nearly three-and-a-half years amid reports of unsold goods accumulating at warehouses.

The survey continued to signal weaker cost pressures. Both input and output prices fell further and at the quickest rates in the survey history. Anecdotal evidence highlighted that decreased prices for raw materials such as textiles and food were linked to lower cost burdens.

Finally, longer-term prospects appeared brighter. The Future Output Index, a gauge of business confidence, rose to a five-month high, as two-thirds of the panel expect higher output in a year's time. According to anecdotal evidence, optimism was driven by planned market expansions, promotional activities and product quality improvements.



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.

November 2019 data were collected 12-22 November 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.