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Nikkei Indonesia Manufacturing PMI™

Manufacturing production rises in August

- Output returns to growth after slight decline in July
- Fastest rise in new business since July 2014
- Employment growth quickens to survey-record high

Key points:

Data collected August 13-23

August data signalled that operating conditions across Indonesia's manufacturing sector improved at the fastest pace in over two years, reflecting the strongest gain in new orders since July 2014. Subsequently, manufacturers reported a renewed rise in production. In response to greater demand, firms raised their staffing levels further, and at the quickest rate since the inception of the survey in April 2011.

At the same time, the rate of input cost inflation quickened to the sharpest since September 2015. Subsequently, firms raised their output charges at a marked pace that was the strongest since October 2015. Looking ahead, sentiment regarding future output strengthened to a three-month high but remained much weaker than seen earlier in the year.

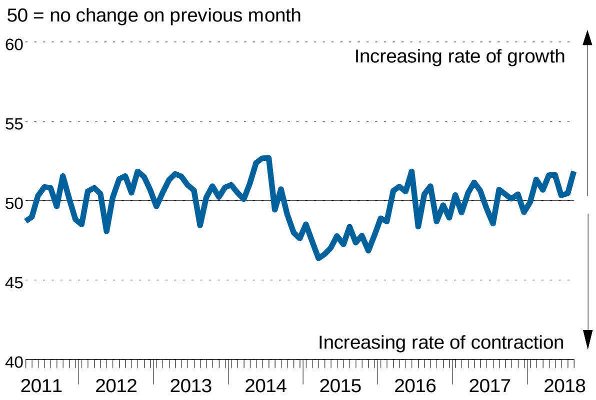
The headline seasonally adjusted Nikkei Indonesia *Manufacturing Purchasing Managers' Index™ (PMI™)* rose from 50.5 in July to 51.9 in August. The latest reading indicated that operating conditions across Indonesia's manufacturing sector strengthened at the joint-strongest rate since July 2014.

The upward movement in the headline index was driven by solid growth in total new orders that was the fastest recorded since July 2014. Stronger client demand was cited as the key factor by panellists behind the latest rise. In contrast, new export orders declined for the ninth consecutive month in August.

In response to greater new business, manufacturers raised output in August. Moreover, the rate of expansion was the strongest since May, albeit modest overall.

Amid reports of strong underlying demand, firms raised their staffing levels for the third consecutive month in August. Moreover, the rate of jobs growth was the strongest seen in nearly seven-and-a-half years of data collection.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Purchasing activity across Indonesia's manufacturing sector rose for the seventh consecutive month in August. The rate of growth remained modest, however, despite accelerating from the prior month. Meanwhile, growth of pre-production inventories slowed to a fractional pace.

Amid reports of limited raw material availability, lead times for inputs lengthened to the greatest extent since April. That said, the rate of deterioration in vendor performance remained modest.

Inflationary pressures intensified further during August. Moreover, the rate of input cost inflation accelerated to the sharpest in nearly three years. Panellists widely reported that currency weakness contributed to the latest rise in input costs. Subsequently, firms raised their output charges at the quickest pace since October 2015. Stronger demand conditions enabled firms to pass on higher cost burdens to clients, according to anecdotal evidence.

Sentiment towards the 12-month outlook for production strengthened to a three-month high during August. That said, the latest reading remained much weaker than the historical average.

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Aashna Dodhia,** Economist at IHS Markit, which compiles the survey, said**:**

"August survey data signalled that the health of Indonesia's manufacturing sector improved to the greatest extent in over two years, driven by the strongest gain in new orders since July 2014 and a survey-record rise in employment levels. The PMI data suggested that the latest upturn was led by stronger domestic demand.

"However, other PMI indicators showed that the economy faces a number of challenges. Firstly, demand for Indonesian goods from international markets fell further during August. Secondly, input costs rose at the sharpest pace in nearly three years as the Indonesian rupiah remains under pressure due to the US dollar strength. On the bright side, stronger demand conditions enabled firms to raise output charges to help alleviate pressures on margins."

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Notes to Editors:

The Nikkei Indonesia Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Indonesia Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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About PMI

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