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IHS Markit Indonesia Manufacturing PMI™

PMI points to slower manufacturing sector growth in June

Key findings

Slower rises in both new orders and output

Job creation at softest rate for one year

Business confidence still elevated

Indonesia's manufacturing growth eased in June, dragged down by softer expansions in both production and new orders. Firms reacted to the slowdown by raising purchasing activity and input stock levels at slower paces, while job creation was the weakest seen for a year. Inflationary pressures eased. That said, business optimism remained elevated.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) fell from 51.6 in May to 50.6 in June, indicating only a mild improvement in the health of the sector. 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.

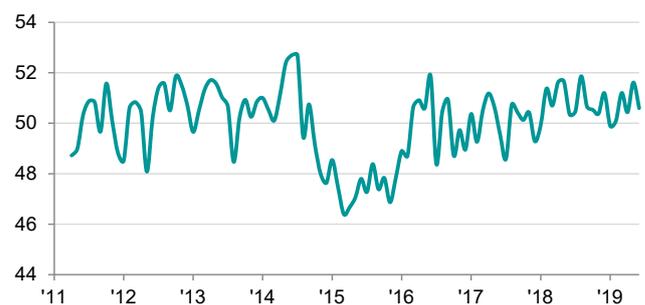
The PMI sub-indices also brought signs of a manufacturing slowdown midway through the year. Demand conditions moderated in June as indicated by a softer rise in new orders. Backlogs of work also accumulated at a slower rate compared to the previous month. Firms responded to softer demand by slowing down the pace of production in May.

Indonesian goods producers also became more cautious towards capacity investments and stock-holdings. Employment rose at the slowest pace for a year while purchasing activity softened, resulting in a weaker rate of accumulation in input inventories. Holdings of finished products rose further amid reports of an increase in unsold goods.

With softer demand, the average time distributors took to deliver inputs to Indonesian factories improved in June. This marked a fifth successive month of improved vendor performance. A number of firms also commented that smoother shipping expeditions contributed to faster deliveries.

Despite the slowdown in manufacturing expansion, buoyant
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:

"Growth in the Indonesian manufacturing sector lost some ground midway through the year as goods producers reported slower expansions in both production volumes and new sales during June."

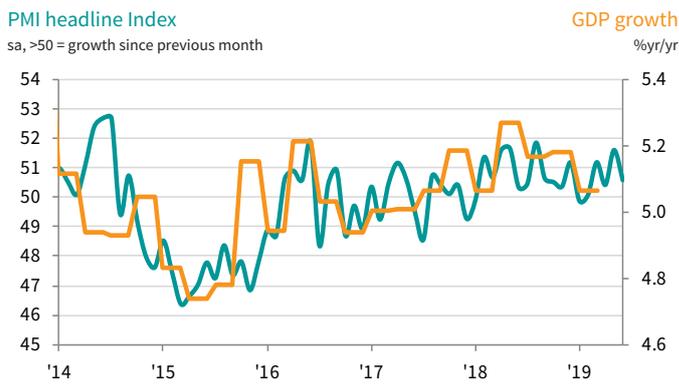
"Softer demand conditions weighed on hiring as the PMI survey signalled the weakest rate of job creation for a year. Firms also dialled down the pace of increase in input purchasing and stock holdings."

"However, other PMI indicators implied that the slowdown could be temporary, with a further rise in backlogs of work while business expectations regarding the year-ahead outlook for output remained buoyant."

"The latest PMI data are consistent with annual GDP growth of just over 5%."

sentiment among Indonesian manufacturers was maintained. The Future Output Index remained among the highest levels seen for two-and-a-half years, with goods producers expecting production growth to stem from planned business expansions, increased production capacity, promotional activity and greater client demand.

On the price front, inflationary pressures moderated in June. Cost increases rose at a slower rate from May, and firms also raised selling prices at a softer pace. Inflation was primarily connected to higher costs for food items and beverages, furniture and textiles. There were also reports of material shortages contributing to higher prices.



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.

June 2019 data were collected 12-21 June 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.