News Release

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IHS Markit Indonesia Manufacturing PMI™

Manufacturing conditions deteriorate for first time in six months during July

Key findings

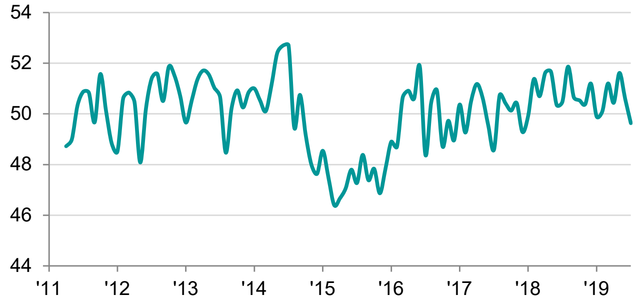
Production volumes decline amid higher holdings of finished goods

Employment falls for first time in 14 months

New order growth remains subdued

Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

The start of the third quarter saw the first deterioration in Indonesian manufacturing conditions since January. Mild growth of overall new orders, a build-up in stocks of final goods and signs of spare capacity prompted firms to cut back on production volumes. Staff numbers were meanwhile cut at the quickest rate for 19 months.

Factories also reduced their purchasing activity and cut their input inventories. Meanwhile, input cost inflation was only modest while selling prices were broadly unchanged.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* fell from 50.6 in June to 49.6 in July, signalling the first deterioration in the health of the sector in six months. 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.

Overall demand conditions remained subdued in July, as indicated by only a slight rise in total new orders despite rising exports. Notably, new export sales rose at the fastest pace since October 2017.

Consequently, the survey pointed to signs of spare capacity. Backlogs of work fell for the first time in three months. This in turn weighed on hiring. Lower employment was reported for the first time since May 2018. Inventories of final goods also accumulated for a third straight month.

In response to muted demand conditions and rising inventories, Indonesian goods producers cut back on production in July, marking the first reduction of output since February. Though marginal, the rate of contraction was the steepest for a year.

Indonesian manufacturers also decreased their purchasing activity, which fell at the fastest rate in three years.

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Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Indonesia's manufacturing sector faced subdued domestic demand conditions at the start of the third quarter, according to the latest IHS Markit PMI data.

"Firms cut back on output, adjusting to an environment of mild order book growth, falling backlogs and rising inventories of finished goods. They also pared back on purchasing activity, preferring to tap into existing input inventories to meet production requirements.

"However, the July PMI is still indicative of manufacturing helping drive the annual pace of economic growth of just over 5%.

"Encouragingly, firms remained optimistic about the business outlook for the year ahead. Though the Future Output Index, a gauge of business confidence, dipped in July, it remained elevated and well above the 2018 average, suggesting that the current soft patch could be temporary."

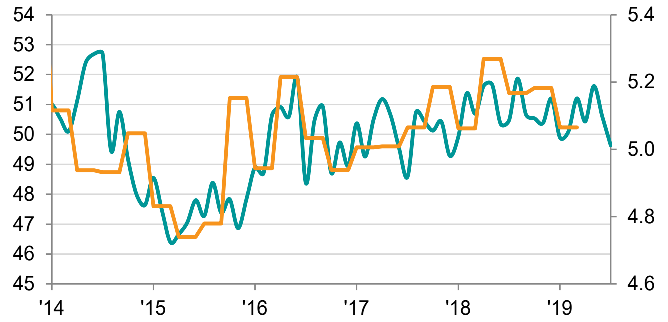
PMI™ By IHS Markit

With firms tapping into existing stocks to meet production requirements, input inventories shrank for the first time in six months, albeit only marginally.

Meanwhile, reduced demand for inputs enabled vendors to improve on their performance, with delivery times shortening for a sixth consecutive month in July. Faster shipping and strict adherence to schedules were reasons for timely deliveries.

On the price front, input cost inflation remained modest, with higher prices for raw materials and greater transport fees driving inflation. Meanwhile, prices charged for Indonesian manufactured goods were largely unchanged amid reports of subdued demand.

Sentiment towards the year ahead outlook for output remained buoyant, though the level of optimism dipped to a three-month low. Firms generally forecast higher sales, planned business expansions, promotional activities and post-election stability to drive future production.



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.

July 2019 data were collected 12-24 July 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

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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.

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