

# Nikkei Indonesia Manufacturing PMI™

## Input cost inflation at survey-record low in January

### Key points:

- Output broadly unchanged while new orders decline...
- ... but business confidence remains positive
- Cost inflation hits lowest in the survey history

Data collected January 11-24

The year started on a disappointing note for Indonesia's manufacturing sector, with survey data indicating broadly stagnant business conditions during January. Output volumes were largely unchanged while new orders fell. Input purchases and employment grew marginally. Inventories declined further amid weak sales. Supply chains remained stretched.

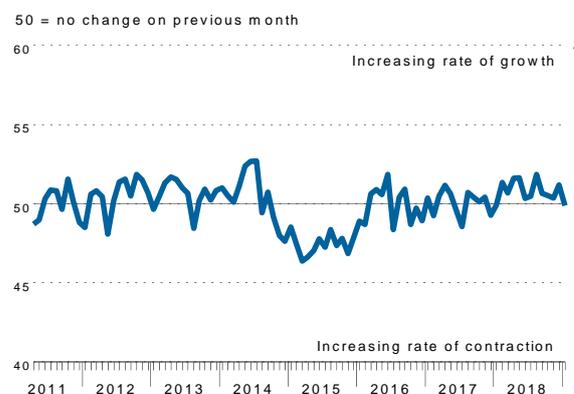
Price pressures meanwhile eased noticeably, with input cost inflation at a survey-record low. That said, business confidence remained buoyant, pointing to upbeat sentiment towards the year ahead.

The headline seasonally adjusted **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** fell from 51.2 in December to 49.9 in January, representing largely unchanged conditions in the sector. This was the first time in a year that an improvement had not been registered. The headline PMI provides a snapshot of the manufacturing performance in the country and derives from questions on output, new orders, employment, inventories and delivery times.

Survey data indicated that demand conditions weakened at the start of the year. Having increased in December, new order intakes declined in January. Not only did domestic sales suffer, overseas demand remained weak, with export orders falling for a fourteenth consecutive month. Consequently, backlogs continued to fall, underlining the surplus of operating capacity.

Softer sales also weighed on production, which stalled in January after five months of growth. The rate of job creation decelerated to the weakest since last June. While firms raised input purchases further, the rate of increase remained marginal.

### Nikkei Indonesia Manufacturing PMI



Sources: IHS Markit, Nikkei

The survey brought further signs of destocking activity. Inventories of both inputs and finished goods were down in January. Anecdotal evidence suggested that a lack of output growth, higher costs and efforts to maintain lean stocks were reasons behind the depletion.

Pressures on supply chains meanwhile intensified at the beginning of the year as material shortages continued to disrupt delivery schedules. Industrial metal, paper and plastics were reportedly in short supply. Longer delivery times have now been reported for just over one-and-a-half years.

The appreciation of the rupiah reportedly helped to contain the extent to which prices were rising. While Indonesian manufacturers reported higher prices in both costs and charges, rates of inflation were noticeably weaker compared to recent months and mild overall. Notably, input cost inflation was the weakest in the survey history. Many highlighted a stronger exchange rate, according to anecdotal evidence.

While shorter-term prospects dimmed, the longer-term outlook remained positive. Business confidence was high, with nearly half of the respondents (47%) projecting higher output in the year ahead.

## Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Bernard Aw**, Principal Economist at IHS Markit, which compiles the survey, said:

*“The start of 2019 proved disappointing for the Indonesian manufacturing sector as growth was not seen for the first time in a year, according to January Nikkei PMI survey data.*

*“More worrying was the softening of demand conditions, particularly in the domestic market. New orders fell at the steepest rate in one-and-a-half years. Foreign demand remained weak. The continued surfeit of operating capacity, as indicated by lower backlogs, could adversely impact output in the coming months, particularly if demand doesn’t revive. This in turn could weigh on factory employment. January data pointed to the weakest pace of job creation for seven months.*

*“However, the soft start to the year could be transient. Survey data showed that business confidence remained elevated with nearly half of panellists expecting higher output in the year ahead.*

*“Meanwhile, the recent appreciation of the rupiah was instrumental in bringing down cost pressures. Input price inflation reached the lowest since the survey started nearly eight years ago, which contributed to a mild rise in output prices.”*

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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](mailto:economics@ihsmarkit.com).

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