Nikkei Indonesia Manufacturing PMI™

PMI signals stagnant manufacturing conditions

Key points:

- Output declines slightly, but new work stabilises
- Purchasing activity cut back for first time in over a year
- Cost inflation hits lowest in the survey history

Data collected February 12-21

Indonesian manufacturing conditions remained broadly stagnant midway through the first quarter. While new order inflows stabilised, and employment rose, output fell slightly in February. Firms cut back on purchasing activity and reported a further fall in stocks of finished goods.

Inflationary pressures remained subdued, with both input costs and output charges rising only mildly. Encouragingly, manufacturers remained generally positive towards the business outlook.

The headline seasonally adjusted **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** rose from 49.9 in January to 50.1, indicating largely unchanged conditions in the sector. The first quarter so far shows a broad stagnation in the manufacturing economy. 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.

There were signs of stabilisation in overall demand conditions in the middle of the opening quarter. After falling in January, new order intakes were unchanged from the previous month, even though export sales continued to decline. Subdued client demand nonetheless contributed to a slight fall in production in February.

Despite lower output, firms took on more workers, which enabled them to keep on top of backlogs. The level of unfinished work fell for the fourth month in a row, and at the quickest rate since December 2017.

Firms were cautious towards inventories, scaling back on purchasing activity for the first time in just over a year, due to reasons linked to sufficient stocks and reduced production requirements.

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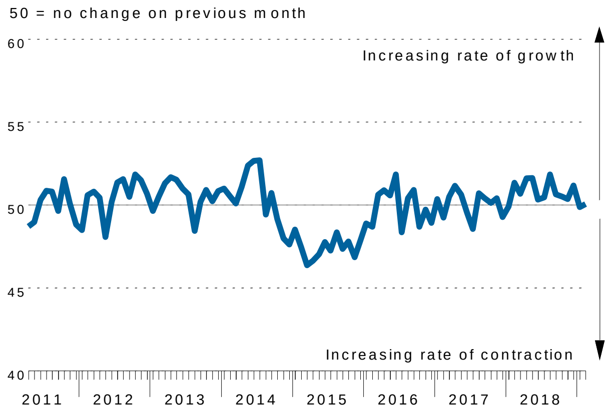

Sources: IHS Markit, Nikkei

Stocks of purchases rose mildly in February, having declined for the past three months. Meanwhile, inventories of finished goods fell for a fifteenth straight month in the middle of the first quarter.

Weaker appetite for inputs eased the pressure on supply chains. Shorter delivery times were reported for the first time since June 2017, which some panel members connected to expedited shipping services.

On the price front, inflationary pressures were relatively mild, largely due to a stronger exchange rate, according to anecdotal evidence. Input costs rose at the weakest rate in the survey's near eight-year history during February. Firms also raised output prices marginally.

Finally, respondents were generally upbeat about the year-ahead business outlook. Reasons for optimism included more product varieties, new marketing strategies, capital investment and planned business expansions.

Comment:

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

"The Indonesian manufacturing sector remained at broad stagnation in February, setting the scene for a disappointing first quarter. Production volumes continued to decline, while new business intakes were subdued.

"Soft demand conditions contributed to an ongoing decrease in backlogs, which may weigh on output in coming months. Inflationary pressures meanwhile were well-contained, with input costs and output prices rising only marginally, and at much weaker rates than seen during last year. A stronger exchange rate was commonly mentioned as a reason for slower inflation."

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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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