

Nikkei Indonesia Manufacturing PMI™

Indonesia PMI rises to nine-month high

Key points:

- Stronger output growth and renewed expansion in new orders
- Backlogs increase for first time in five years
- Business optimism at highest since early-2017

Data collected May 14-23

Business conditions faced by Indonesian manufacturers improved further midway through the second quarter, according to PMI data. Driving the upturn was a stronger expansion of output and renewed growth in new orders. Business confidence surged while firms raised employment, stepped up purchasing activity and built inventories in response to strengthening demand conditions. However, input costs rose solidly, driven by currency depreciation.

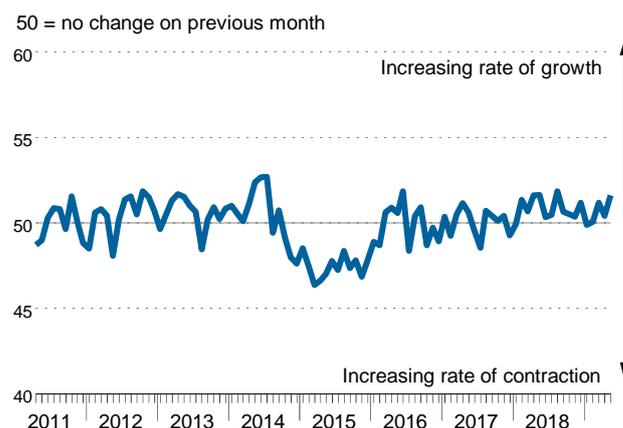
The headline seasonally adjusted **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** rose from 50.4 in April to 51.6 in May. Though signalling only a modest improvement in the health of the sector, the PMI was at its highest level since August 2018.

The headline PMI provides a snapshot of the manufacturing performance in the country, deriving from questions on output, new orders, employment, inventories and delivery times.

May brought signs of a pickup in client demand. Following a fractional fall in April, new order inflows rose at the fastest rate for nine months during May. Stronger demand conditions drove manufacturers to ramp up production, with output increasing at the quickest pace for a year.

In response to higher production requirements, firms raised their purchasing activity and accumulated input stocks. Faster output growth also contributed to a build in inventories of finished goods for the first time in one-and-a-half years during May. Employment growth also continued at a steady pace.

Nikkei Indonesia Manufacturing PMI



Sources: IHS Markit, Nikkei

The rise in new orders saw backlogs of work accumulate for the first time in five years, and at a pace not seen since February 2013.

Despite greater appetite for inputs, supply chains did not come under pressure. On the contrary, distributors improved their delivery times, owing to accelerated shipping and greater efficiency, according to anecdotal evidence.

Business confidence surged in May, reaching its highest level since February 2017. Reasons for optimism included new product releases, higher sales forecasts, product quality improvements, greater marketing activity and anticipated post-election stability.

On the price front, input costs rose for the first time since February, and at the fastest rate for six months. Consequently, output charges also increased at an accelerated rate. The depreciation in the rupiah and greater prices for raw materials were the main reasons for inflation, according to anecdotal evidence.

Comment:

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

“Growth in the Indonesian manufacturing sector gathered momentum midway through the second quarter, according to the latest Nikkei PMI survey. Output growth accelerated, aided by a renewed expansion in new orders.”

“Firmer demand conditions saw backlogs rise for the first time in five years, suggesting that firms may continue to scale up production in coming months. The sustained upturn also generated greater confidence among Indonesian manufacturers. The Future Output Index, a gauge of business expectations, surged to its highest for over two years, seeing the largest monthly increase (15.6 points) recorded in the survey history.”

“The latest PMI data remain consistent with annual GDP growth of just over 5%.”

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Notes to Editors:

The early June releases of May data from the Asia PMI series will be the final releases to carry Nikkei branding.

The Nikkei Indonesia Manufacturing PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 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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