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IHS Markit Indonesia Manufacturing PMI™

PMI signals first improvement of business conditions for eight months

Key findings

Solid order book growth drives quicker expansion of output

Suppliers' delivery times lengthen notably due to heavy rain and shortages

Input cost inflation rises to nine-month high

Indonesian manufacturing conditions improved for the first time in eight months during February, according to the latest PMI data. Driving the headline index higher was a renewed upturn in new business and a faster expansion in output. Consequently, firms raised both employment and purchasing activity while business confidence remained positive. However, input costs rose at a notably faster pace amid supply chain disruptions.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) rose from 49.3 in January to 51.9 in February, indicating the first improvement of business conditions since last June. The average first quarter reading so far (50.6) sees the manufacturing sector poised for its first quarterly expansion since the second quarter of 2019. 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.

Demand conditions improved midway through the first quarter. Following a contraction in January, new business inflows rose at the fastest pace for just over five-and-a-half years, primarily driven by domestic demand. Export sales declined for a third straight month.

In response to higher sales, firms scaled up production at a quicker rate during February. Output increased for a third consecutive month, expanding at the fastest pace since May last year. Firms also added more workers in the month, the first rise in factory employment for eight months.

A combination of greater production and additional staff led to a further fall in the level of outstanding orders despite increased sales. However, the rate of backlog depletion was the slowest for five months and only marginal.

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:

"Indonesia's manufacturing sector showed a tentative recovery in February, with the latest PMI data signalling an improvement in operating conditions for the first time in eight months. The rise in the headline index was however impacted by negative shocks to supply chains.

"Nevertheless, client demand picked up notably, as reflected by a renewed (and solid) rise in new orders which, in turn, encouraged factories to ramp up production.

"Output growth lagged behind the rise in sales, however, and firms tapped into existing stockholdings of finished goods to help meet demand.

"Meanwhile there were some concerns with regards to supply chains. Survey data showed the steepest deterioration of vendor performance for nearly three years, which was often linked to heavy rain and shortages at mainland Chinese suppliers due to the coronavirus outbreak. If this situation persists, firms may struggle to increase production volumes due to a lack of inputs."

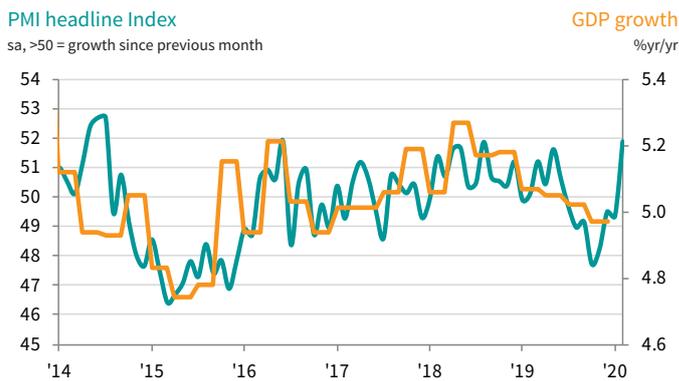
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Indonesian manufacturers raised purchasing activity to meet higher production requirements, but the rate of growth was insufficient to keep up with production usage. As a result, input inventories contracted for a second straight month. Meanwhile, stocks of finished goods continued to rise, albeit at the slowest rate for five months. Firms attributed the slower accumulation of final stocks to higher sales.

Firms reported longer delivery times in February. The rate at which vendor performance deteriorated was the fastest for nearly three years. Supply chains were affected by heavy rain and the coronavirus outbreak, according to anecdotal evidence.

Business expectations of output in a year's time remained strongly positive. Optimism was linked to planned company expansions, higher sales forecasts and new product releases.

Finally, price developments were mixed. Input price inflation accelerated to a nine-month high and was solid overall. Higher costs were linked to shortages at mainland Chinese suppliers and local distributors, plus higher raw material prices such as food products, paper and basic metals. However, output charges were lower on average. Anecdotal evidence suggested that lower selling prices stemmed from greater competition and customer requests for discounts.



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.

February 2020 data were collected 12-21 February 2020.

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

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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.
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