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# IHS Markit Indonesia Manufacturing PMI™

## Manufacturing sector sinks into contraction as virus wave worsens

### Key findings

Output and new orders fall in July

Manufacturers reduce workforce numbers

Price pressures intensify as supply chain delays worsen

Data were collected 12-23 July 2021.

Indonesia's manufacturing sector slipped into contraction in July amid a rise in COVID-19 cases, which brought about PPKM Level 4 and greater restrictions around mobility. The effects of this are twofold, with the resurgence dampening overall economic conditions through demand, production and employment, while also aggravating supply chains and costs for manufacturers.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) posted 40.1 in July, posting below the no-change mark of 50.0, having fallen from 53.5 in June. July's reading signalled the first contraction for Indonesia's manufacturing sector in nine months, with the rate of decline the fastest since June 2020.

Manufacturing output and new orders both shrank at the fastest pace since May 2020 according to the latest data, thereby ending an eight-month growth streak. Panellists highlighted the increase in disruptions arising from the second COVID-19 wave having dampened production and demand. Export orders were also affected and fell for the first time in four months and at a rate quicker than the drop in overall new work.

Amid the uncertainties brought about by the second COVID-19 wave, Indonesian manufacturers switched to lowering their employment levels in July. Anecdotal evidence from panellists suggested that the layoffs took place due to the implementation of PPKM Level 4 restrictions, although many of these were expected to be temporary.

Manufacturers also reduced their purchasing activity and stocks of inputs in July given the slowdown in demand and production. Stocks of purchases declined and at a faster rate compared to June as firms expected lower output, although instances of raw materials shortages also contributed to a depletion of input

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Indonesia Manufacturing PMI  
sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

*"The second COVID-19 wave hit Indonesia's manufacturing sector hard and fast in July, according to the latest IHS Markit PMI survey, sinking both output and new order indices deep into contraction territory.*

*"Layered on top of the disruptions to demand and output was the aggravation of supply constraints and price pressures for Indonesian manufacturers.*

*"The increased uncertainty also led firms in the manufacturing sector to shed jobs at the fastest pace since June 2020, although the good news is that many of these appear temporary amid the PPKM Level 4 restrictions.*

*"Overall, manufacturers remained positive with regards to future output despite the severe COVID-19 disruptions, carrying hopes for recovery and the possibility of a boost from pent-up demand."*

stocks.

Indeed, supply constraints persisted in July, with suppliers' delivery times worsening to the greatest extent since May 2020. COVID-19 related disruptions were reported to have aggravated the situation even as demand slowed in July. In turn, the mix of a slowdown in demand and longer lead times saw the level of backlogged work remain almost unchanged on the month.

As for the level of post-production inventories, panellists reported that outbound shipping constraints and weaker demand led to a rise in stocks of finished goods. The seasonally adjusted Stocks of Finished Goods Index rose above the 50.0 no-change mark for the first time since January.

On prices, COVID-19 related disruptions drove further increases in both input costs and output charges. The rate of input price inflation was the quickest since February 2014, leading firms to continue to partially pass on higher cost burdens to clients.

Overall, Indonesian manufacturers were more positive about the outlook for production in the next 12 months in July compared to June. Panellists hoped for the COVID-19 situation to improve, which is expected to unleash some pent-up demand.

### Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

## Contact

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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 2021 data were collected 12-23 July 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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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