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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing sector growth slows amid second virus wave

Key findings

New order and production indices both slip from record highs

Rates of input and output price inflation accelerate

Employment conditions remain broadly stable

Data were collected 11-23 June 2021.

Indonesia's manufacturing sector expansion slowed in June amid a renewed rise in COVID-19 cases. Rates of output and new order growth eased from the highs seen in May, leading to a slight moderation in optimism among firms. Hiring conditions were broadly stable, but supply disruption and higher raw material costs contributed to stronger increases in input costs and selling prices.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* posted 53.5 in June, down from May's record high of 55.3 to a three-month low. Nonetheless, business conditions have now strengthened in each of the past eight months, with the latest upturn strong overall.

An expansion of production was likewise recorded for an eighth consecutive month, but growth moderated from the record rate in May. This was in line with a softer increase in new business amid the second wave of COVID-19 infections to hit the Indonesia economy.

Foreign demand also softened, with growth in new export work easing to a three-month low. Firms cited that the pandemic situation led to a drop in overseas orders.

The climb in COVID-19 cases also led to a lengthening of lead times for Indonesian manufacturers, with supplier performance deteriorating at the fastest rate since January. At the same time, price pressures continued to build with both input and output price inflation quickening in June. Rising raw material prices remained a key driver of inflation, and many firms sought to pass these costs on to their clients.

Higher costs and a generally more cautious attitude also saw the sector slowing their purchasing activity. However, with the continued growth of production, this led to a stronger depletion of raw materials and semi-finished items.

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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:

"Growth of the manufacturing sector slowed in June, as shown by the latest IHS Markit PMI survey, and reflects the impact of the second COVID-19 wave upon the Indonesian manufacturing sector.

"That said, both production and sales growth remained at strong levels and it would be important to see the pandemic situation come under control soon so as not to further affect the performance of manufacturing firms.

"On inflation, price pressures continued to build amid disruptions stemming from the second COVID-19 wave. Input price inflation accelerated at a much faster pace compared to output charges and this suggests that firms could be under pressure as a result, and is an important area worth watching.

"Broadly, firms remained optimistic with regards to future output despite pandemic-related disruption, which is a heartening sign."

Employment conditions were meanwhile relatively stable in June, as firms continued to expand their workforce numbers at a marginal pace.

Even though operating capacity rose further, disruptions stemming from the virus meant that the level of backlogged work continued to rise. The rate at which outstanding work accumulated did slow from May, in line with the trend for new orders.

The level of post-production inventories declined in June, and at a slightly faster rate, as a number of Indonesian manufacturers used current holdings to fulfil new orders.

Overall, firms maintained an optimistic outlook with regards to production in the next 12 months, with sentiment holding above the survey's historical average. Overall optimism did ease marginally from May, however, amid concerns over the second wave of COVID-19 and subsequent disruption across the sector.

Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: IHS Markit.

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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.

June 2021 data were collected 11-23 June 2021.

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

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About PMI

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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