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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing conditions continue to deteriorate at start of 2020

Key findings

Order book volumes fall into decline while output rises only slightly

Employment, purchasing activity and input stocks all fall

Business sentiment improves to highest for eight months

The latest PMI data indicated that Indonesian manufacturing conditions continued to deteriorate at the start of the year. New order inflows declined, contributing to a further fall in backlogs of work. Manufacturers also trimmed their staffing levels, reduced purchasing activity and their input stocks. Price pressures remained subdued. However, production rose slightly on the month, while firms remained optimistic about output in a year's time.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* fell from 49.5 in December to 49.3 in January, indicating a marginal deterioration of business conditions. The latest reading marked the seventh straight month of decline in the health of the sector. 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 softened at the start of the year. Following a short-lived rise in sales during December, inflows of new orders fell in January, albeit only marginally. Total new business volumes were also dragged down by a second successive month of falling export sales. Foreign orders fell at the fastest rate for four months in January.

Reduced order book volumes enabled firms to work through their previous orders, contributing to another decline in backlogs, which fell at the quickest rate since July last year. The presence of spare capacity in turn weighed on hiring. Employment fell for a seventh month in a row at the beginning of the first quarter.

Indonesian manufacturers also cut back on input purchases and pre-production inventories amid the weakening sales

Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Indonesia's manufacturing downturn extended into the start of the new year, with PMI data signalling a further deterioration in operating conditions during January.

"Furthermore, demand conditions appeared to have weakened as 2020 began. New sales declined, contributing to a further build-up of spare capacity in the sector which, in turn, weighed on hiring.

"The weakening sales trend saw firms hold back on purchasing activity and accumulate input stocks. Indonesian manufacturers also had to eat into earlier-placed orders to sustain production.

"Longer-term expectations meanwhile remained positive, with the Future Output Index, a gauge of confidence, rising to the highest for eight months. However, this optimism could quickly fade if client demand deteriorates further in the coming months."

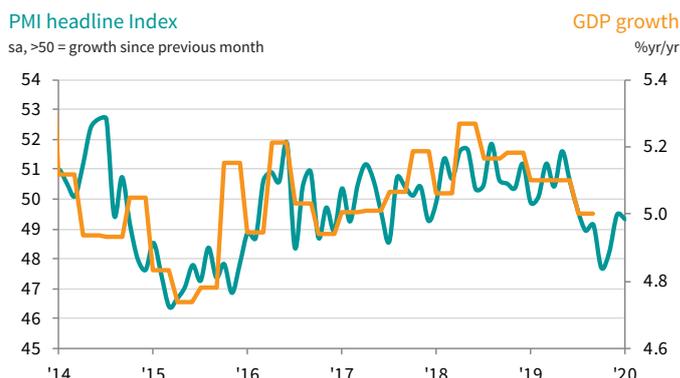
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trend. Purchasing activity contracted marginally while the rate of depletion in input stockholdings was the steepest for over two years. The lack of appetite for inputs saw the time taken to deliver purchases to firms shorten for a twelfth consecutive month in January.

On the price front, inflationary pressures remained muted. While input costs rose again during January, attributed to higher prices for raw materials, the rate of inflation was only marginal. Meanwhile, competitive pressures, subdued sales and a weaker dollar pushed firms to provide discounts on their goods. Selling prices fell at one of the fastest rates since the survey started nearly nine years ago.

However, the downturn in sales failed to dampen production. Output rose for a second straight month in January, albeit at a marginal pace.

Encouragingly, business expectations of output in a year's time improved to the highest for eight months. Optimism was often attributed by panel members to planned company expansions, rising sales forecasts and greater efforts to boost productivity.



Sources: IHS Markit, Statistics Indonesia (BPS).

Contact

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1-781-301-9311
katherine.smith@ihsmarkit.com

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.

January 2020 data were collected 13-24 January 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. To learn more go to ihsmarkit.com/products/pmi.html.