News Release

Embargoed until 0730 WIB (0030 UTC) 1 September 2020

IHS Markit Indonesia Manufacturing PMI™

PMI signals improved factory conditions for first time in six months during August

Key findings

Output and new orders both expand at quickest rates for six years...

... but job losses persist amid signs of spare capacity

Purchasing activity falls at softer, but still marked, rate

Data were collected 12-21 August 2020.

Indonesian manufacturing firms reported solid increases in both production and new orders in August, contributing to the first improvement in business conditions since February, according to PMI survey data. Business confidence also rose to the highest since May 2019 as companies adjusted to the gradual easing of the coronavirus disease 2019 (COVID-19) restrictions.

Despite the upturn in output and sales, firms continued to reduce employment and purchasing activity amid efforts to control costs. Input prices rose sharply again, accompanied by a much more modest rise in output charges.

The IHS Markit Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* rose from 46.9 in July to 50.8 in August, rising above the neutral 50.0 threshold for the first time since February, and indicated an improvement in the health of the sector. The average PMI reading (48.8) so far for the third quarter signalled a much-improved picture for manufacturing when compared to the second quarter.

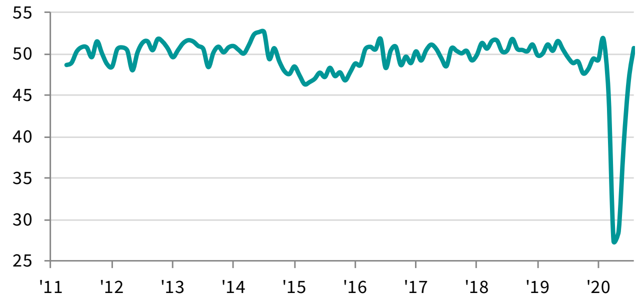
Driving the headline PMI reading higher was solid growth in both production volumes and new order inflows in August, as business operations continued to recover amid an easing of COVID-19 restrictions. Both output and new orders rose at the fastest rates in just over six years. Companies commonly stated that strong output and sales growth stemmed from the gradual reopening of the economy. Underlying data suggested that the improvement in client demand was driven primarily by the domestic market, with external demand remaining subdued. New export orders fell markedly again in August.

The rise in production failed to bring about greater pressure on capacities, however. On the contrary, the level of backlogs fell further, signalling that spare capacity had persisted across the sector and in turn led to a further decline in staff numbers. That

continued...

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:

"For the first time since February, Indonesian manufacturers reported an improvement in business conditions in August, with output growing at the fastest rate for just over six years as businesses continued to adjust to a loosening of COVID-19 restrictions.

"Demand also showed signs of reviving, helping to dampen the pace of job losses. Business confidence improved from July. The latest data therefore add to signs that the economy should see a stronger rebound after the collapse in the second quarter.

"However, other survey indicators such as backlogs of work and employment continue to warn of downside risks to the outlook. The concern is that the recovery stems primarily from the release of pent-up demand brought about by the lockdown measures and could falter after the initial rebound.

"Demand therefore needs to continue to recover in the months ahead, but the fear is that rising unemployment and the ongoing need to maintain social distancing may undermine the recovery."

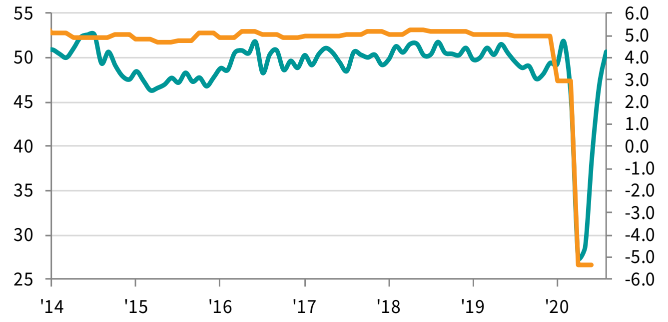
said, the rate of job shedding eased from July.

The upturn in sales engendered only some firms to raise their purchasing activity in August. On balance, input buying levels declined from July, albeit at the weakest rate in the current sequence of contraction. Consequently, input inventories were depleted further as firms tapped into existing stocks to meet demand. Stockholdings of finished goods also declined, in part due to the prompt fulfilment of orders, according to anecdotal evidence.

The survey also indicated another modest increase in average delivery times. Firms often commented on supply shortages at distributors, as well as freight transport delays.

On the price front, the rate of input cost inflation quickened in August, as respondents suggested higher prices for raw materials and an unfavourable exchange rate had driven up operating expenses. Higher costs were only partially passed on to customers as firms raised their selling prices modestly.

Finally, expectations regarding output over the coming year rose from July, with the Future Output Index reaching a 15-month high. Companies remained optimistic that the pandemic will come to an end, and market conditions will return to normal.



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.

August 2020 data were collected 12-21 August 2020.

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

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.
ihsmarkit.com/products/pmi.html.