News Release

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IHS Markit Indonesia Manufacturing PMI™

PMI plunges to all-time low in April amid factory closures and slumping demand

Key findings

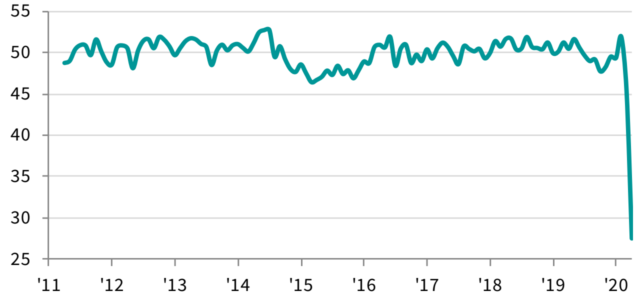
Output and new orders both collapse

Company closures and entry restrictions disrupt supply chains

Input costs rise solidly due to material shortages and weak rupiah

Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Data were collected 7-23 April 2020.

Indonesian manufacturing conditions deteriorated sharply in April, as reflected by the headline PMI falling at a rate never before seen in the nine-year survey history. With stricter measures to contain the coronavirus disease 2019 (COVID-19) pandemic leading to factory closures and slumping demand, output and new orders collapsed. This caused spare capacity to surge, contributing to the steepest fall in employment on record. Firms also cut back sharply on their purchasing activity and inventories of inputs. On the price front, input costs rose solidly as a result of the weaker rupiah and supply shortages.

The IHS Markit Indonesia *Manufacturing Purchasing Managers' Index™ (PMI™)* plunged from 45.3 in March to 27.5, indicating the steepest deterioration of operating conditions since the survey started in April 2011.

Large-scale restrictions imposed in many parts of Indonesia to fight the coronavirus pandemic weighed heavily on production as many firms had to close temporarily. The Output Index plunged to an all-time low, indicating by far the largest monthly decline in production recorded in over nine years of data collection. This was accompanied by a similarly severe drop in total new orders, which was partially driven by a collapse in export orders.

The substantial decline in demand contributed to a marked increase in excess capacity, as reflected by an unprecedented fall in manufacturing backlogs. This was, in turn, joined by an all-time record reduction of employment. Survey data showed that jobs were cut sharply for a second successive month, with widespread reports of layoffs.

With factory closures and dwindling sales, firms scaled back

continued...

Comment

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

"April saw the Indonesian manufacturing economy suffering the most severe deterioration of operating conditions ever recorded as a result of stricter measures imposed to contain the COVID-19 outbreak, according to latest PMI results.

"The headline PMI plunged from 45.3 in March to 27.5 in April, marking an all-time low in the nine-year survey history. The latest reading is approximately indicative of GDP growth slowing sharply to an annual rate approaching 3%.

"Factory closures and tighter social distancing rules led to a collapse of production and demand. Both output and new orders fell at record rates. Consequently, factory layoffs were also widely reported. Firms also faced greater cost burdens as a combination of material shortages and the weaker rupiah fuelled inflation.

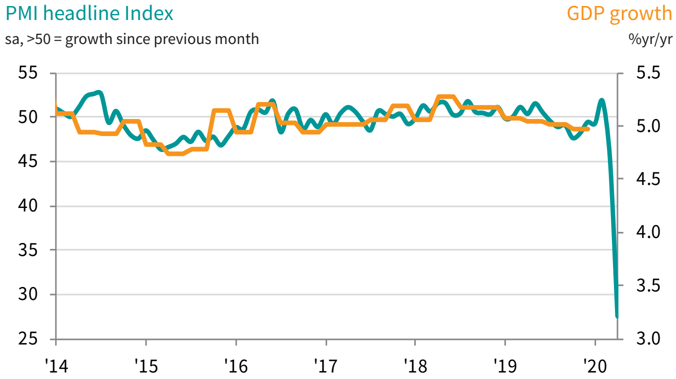
"The survey underscores the unprecedented damage to the Indonesian economy from emergency public health measures to curb the spread of the virus, which has contributed to slumping global demand and shortages of input materials."

purchasing activity and instead tapped into existing stocks. Input buying sank to the greatest extent in the survey's history, which contributed to a record fall in input inventories. Stocks of finished goods meanwhile fell for a second straight month, albeit marginally.

Supply chains also came under greater pressure due to a combination of supplier factory shutdowns and transportation restrictions. Survey data showed the most severe lengthening of delivery times since the series started just over nine years ago.

Material shortages and the depreciation of the rupiah led to a further rise in input costs. Higher prices for food items, fabric, base metals, chemicals and paper products were reported. Overall business expenses rose at the fastest rate since December 2018. Greater cost burdens pushed firms to raise prices charged for the first time in eight months, though only fractionally.

Despite the severe deterioration of factory conditions, longer-term prospects remained positive, with optimism generally linked to higher sales projections ahead of the Eid al-Fitr holiday as well as hopes that businesses will be able to operate as normal once the global pandemic situation improves. Nonetheless, the Future Output Index, a measure of confidence, continued to track below the long-term average, with pessimistic firms expressing concerns of extended factory closures in coming months.



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.

April 2020 data were collected 7-23 April 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.