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IHS Markit Indonesia Manufacturing PMI™

PMI hits highest for six-and-a-half years

Key findings

New order growth accelerates

Output rises at near-record pace

Business confidence at four-year high

Data were collected 12-22 January 2021.

The recovery in the Indonesian manufacturing sector continued in January as both output and new orders expanded at accelerated rates and business confidence hit a four-year high. The extent of the disruption caused by the coronavirus disease 2019 (COVID-19) pandemic meant that spare capacity remained evident, however, and firms lowered employment again.

Issues in supply chains became more pronounced, with shortages of materials contributing to the steepest increase in input costs since October 2018.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) rose for the fourth successive month in January, up to 52.2 from 51.3 in December. Moreover, the latest improvement in the health of the sector was the most marked for six-and-a-half years, and one of the greatest since the survey began in April 2011.

A solid and accelerated expansion in new orders was recorded during January, with the third successive rise in total new business the strongest since July 2014. The increase in new orders reflected a further recovery in customer demand. That said, new export orders declined again as the COVID-19 pandemic continued to impact export trade. The fall in new business from abroad was the fourteenth in as many months.

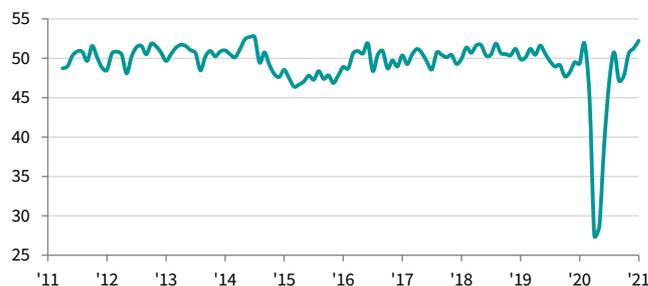
The improvement in total new orders supported a further increase in manufacturing production at the start of 2021. Moreover, the rate of growth was the second-fastest in the survey's history, just behind November 2020's record.

Business confidence also strengthened in January, with optimism fueled by hopes of an end to the pandemic and further new order growth. In fact, sentiment reached a four-year high as around three-quarters of respondents predicted a rise in output over the coming year.

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Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said:

"The Indonesian manufacturing sector remained on the path to recovery at the start of 2021, with growth of output and new orders among the best in the decade-long survey so far. These trends have given a further boost to confidence, which was at the highest in four years at the start of the year."

"One negative aspect of the survey remains employment, however, which stubbornly continued to fall in January. This highlights that while progress on the road to recovery has been made, there is still some way to go before the lost activity from last year can be made up."

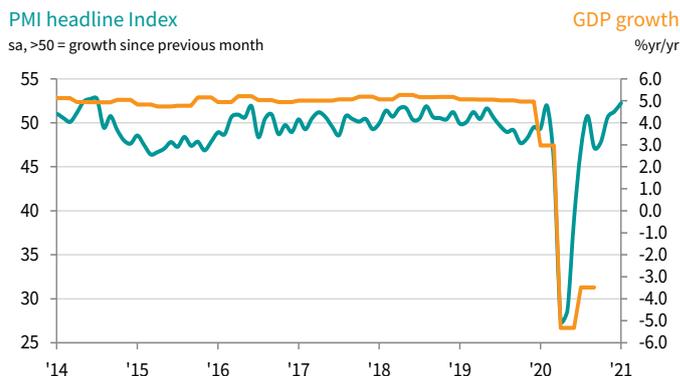
While the sector remained in recovery mode, there was again evidence that the extent of the disruption caused by the COVID-19 pandemic last year meant continued spare capacity. Backlogs of work decreased solidly again. Employment also continued to fall, although the latest reduction in staffing levels was the softest in the current 11-month sequence of decline.

Suppliers' delivery times lengthened to the greatest extent since May 2020, with restrictions due to COVID-19, issues with shipping and raw material shortages all contributing to delays in January.

Shortages in the supply of raw materials fed through to higher input costs. Input prices increased sharply, and at the fastest pace since October 2018.

Some firms passed on higher raw material costs to their customers, resulting in a third successive monthly rise in output prices. That said, efforts to attract clients meant that the rate of inflation was only modest and much weaker than that seen for input costs.

Purchasing activity dipped following a stabilisation at the end of 2020, again linked to difficulties sourcing raw materials. Stocks of purchases also fell, but the rate of depletion softened to a marginal pace that was the weakest in the current 13-month sequence of decline. Finally, stocks of finished goods increased for the first time in seven 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.

January 2021 data were collected 12-22 January 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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