NIKKEI

IHS Markit

News Release

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Nikkei Indonesia Manufacturing PMI™

Strongest rise in manufacturing production since mid-2016

Key points:

- Faster expansion in new work boosts output growth
- Employment continues to fall, albeit at softer rate
- Input cost inflation climbs to one-and-a-half year high

Data collected April 11-20

The health of Indonesia's manufacturing economy improved for the second straight month in April as a further expansion in order books encouraged companies to step up production. Latest data also pointed to a rise in new export business and ongoing growth of buying levels. Meanwhile, the relatively-weaker rupiah against the US dollar reportedly exerted upward pressure on input prices, with cost inflation reaching an 18-month peak. Subsequently, output prices rose at an accelerated pace.

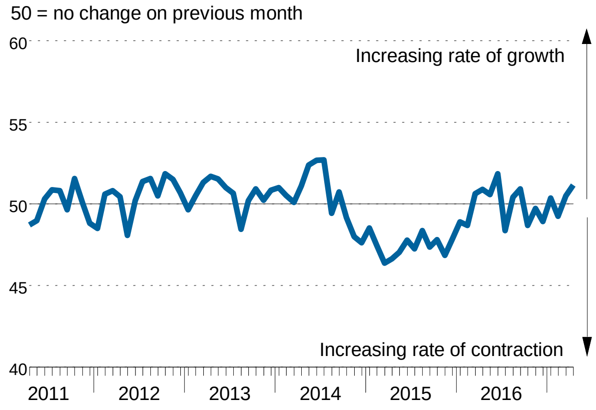
Adjusted for seasonal factors, the headline **Nikkei Indonesia Manufacturing *Purchasing Managers' Index*™ (*PMI*™)** increased from 50.5 in March to a ten-month high of 51.2 in April. This pointed to a more marked improvement in manufacturing operating conditions, with the upward movement in the PMI reading reflecting stronger contributions from four of its five sub-components, the exception being suppliers' delivery times.

Amid reports of an improved demand environment and the launch of new products, order books rose for the second month running in April. The rate of expansion accelerated to the fastest since last September, but was slight overall. New export orders also increased, thereby ending a six-month sequence of contraction.

Ongoing growth of total new work resulted in another upturn of manufacturing production. Furthermore, output expanded to the greatest extent since June 2016.

In spite of this, holdings of finished goods declined further, which survey participants associated with the fulfilment of orders from stocks. That said, post-production inventories decreased only modestly and at a slower pace than in March.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Growth of order books combined with stock-building efforts led some firms to scale up their input buying during April. Quantities of purchases rose for the second successive month, though marginally. Concurrently, pre-production inventories increased in April, ending a five-month sequence of contraction.

Anecdotal evidence indicated that the non-replacement of voluntary leavers and retirees caused another reduction in headcounts during April. Nonetheless, the pace of job shedding slowed to the weakest since last November.

Input costs increased again, with survey participants mentioning higher prices paid for chemicals, metals, oil, plastics and textiles. In part, greater cost burdens were associated with the weaker rupiah (against the US dollar). The overall rate of inflation climbed to an 18-month high. Output charge inflation also gathered speed, reaching its highest mark since December 2015.

Meanwhile, machinery upgrades and attempts to complete unfinished business at some units resulted in another monthly decline in backlogs of work across Indonesia's manufacturing industry.

Finally, overall sentiment remained positive as two-thirds of survey participants foresee production growth in the year ahead. However, the degree of optimism recorded in April was the lowest since July 2014.

compiled by markit

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Pollyanna De Lima,** Economist at IHS Markit, which compiles the survey, said**:**

"Indonesian manufacturers started the second quarter of 2017 on a strong footing as ongoing growth of new work urged businesses to step up production. Another positive development shown by the PMI survey came from a turnaround in new export orders, which increased in April for the first time since last September.

"The upswing in output was, however, insufficient to generate jobs, while there remained evidence of spare capacity. But, with output growth gathering speed, firms will look to hire more workers in the near-term should the rise in demand be sustained.

"Posing a threat to the outlook is an intensification of inflationary pressures, which mostly stemmed from the depreciation of the rupiah against the US dollar. Goods producers sought to share with their clients the additional cost burden, as highlighted by the strongest increase in factory gate charges for 16 months."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)
Pollyanna De Lima, Economist
Telephone +44 1491 461 075
Email pollyanna.delima@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei Indonesia Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Indonesia Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ *(PMI*™*)* surveys are now available for over 30 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 www.markit.com/product/pmi.