Nikkei Indonesia Manufacturing PMI™

Employment falls at fastest pace in survey history amid sustained drop in new work

Key points:

- Payroll numbers decrease sharply
- Tenth consecutive monthly reduction in new orders
- Output contracts further

Summary:

July data highlighted a further deterioration in manufacturing business conditions across Indonesia. Continued reductions in new orders led companies to scale down production and trim employment again. In fact, staffing levels were cut at the sharpest pace since data collection began in April 2011.

Down from 47.8 in June to 47.3 in July, the seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™ (PMI)™* – a composite single-figure indicator of manufacturing performance – pointed to another deterioration in business conditions across the sector. Among the five sub-components of the headline index, employment and stocks of purchases both contributed to the downward movement in the PMI. Despite still signalling contraction, the individual indices for output and new orders rose in July, as did that for supplier delivery times.

Manufacturing production contracted for the tenth consecutive month, amid falling new orders. Despite being solid, the rate of reduction moderated to the weakest since January. The latest drop in incoming new work was also the tenth in as many months. According to panellists, the fall in new business inflows reflected deteriorating client confidence and a fragile economic situation. That said, the overall rate of contraction eased to the weakest since October 2014. Concurrently, new business from abroad declined in July, with companies reporting weaker demand from fellow Asian clients as well as those based in Europe.

Both input costs and factory gate charges increased further in July. Higher prices paid for metals, chemicals, food and oil were reported, along with indications that unfavourable exchange rate movements had resulted in rising import costs.

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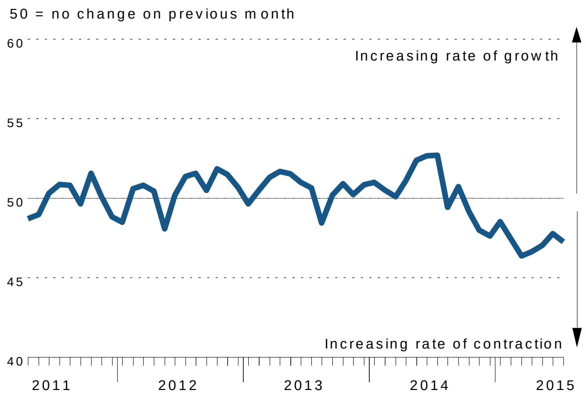

Sources: Nikkei, Markit

Led by decreasing new business inflows and consequently falling production requirements, Indonesian manufacturers lowered their buying levels further in July. Subsequently, holdings of raw materials and semi-finished goods contracted. The respective index dipped to its lowest mark in the history of the series and was indicative of a sharp pace of reduction.

Despite easing pressure on suppliers, vendor performance continued to deteriorate in July. Slower delivery times were associated with shortages of raw materials, traffic congestion and heavy rain. Meanwhile, latest data indicated that Indonesian manufacturers worked through their backlogs in July. However, outstanding business fell at a moderate pace that was the slowest since March.

Job shedding was recorded for the twelfth month running in July, with the rate of reduction accelerating to the sharpest since data collection started in April 2011. Anecdotal evidence highlighted falling production requirements as the main reason underlying the drop in workforce numbers.

Comment:

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

"Latest PMI data indicate that Indonesia's manufacturing downturn extended into July. Weak economic conditions and falling client confidence resulted in a further contraction in new orders, with both domestic and foreign demand declining over the month.

"As a consequence, goods producers reduced output levels for the tenth month running and, worryingly, cut workforce numbers at the sharpest pace since PMI data were first collected in April 2011.

"On the price front, July saw input costs and output charges increase at weaker rates. Softer inflation rates combined with falling production provide the BI with scope for loosening policy in the coming months, with the next meeting scheduled for August 18th."

-Ends-

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Markit (About PMI and its comment)

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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 Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. 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@markit.com.

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