HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Indonesia Manufacturing PMI™

Operating conditions continue to improve at record pace in July

Summary

According to latest data, there was a solid improvement in operating conditions in the Indonesian manufacturing sector in July. A further expansion in new orders caused firms to raise production levels, which led to some job creation. Moreover, purchasing activity continued to rise, while inflationary pressures remained muted in comparison with historical data.

The headline *HSBC Purchasing Managers' Index™ (PMI™)* – a composite figure designed to give an accurate overview of business conditions in the manufacturing sector – posted 52.7 in July, matching June's survey peak. The reading indicated that operating conditions continued to improve at a solid rate.

Output increased for a third successive month in July, and the rate at which companies scaled up production was the highest recorded since the survey began in April 2011. Anecdotal evidence linked rises in production to strengthening order books.

Amid reports of improving demand, July saw new orders received by Indonesian manufacturers rise, extending the current sequence of growth to ten months. The rate of expansion of new business remained solid overall, just dipping below the record pace registered in the previous two months.

In contrast, new export orders fell for a second month running in July, with the index posting fractionally below the 50.0 no-change threshold. A number of panel members attributed falling overseas business to a drop in demand from key export clients.

Purchasing activity expanded for an eleventh consecutive month in July. Furthermore, the rate of increase was solid and the second highest of that period. Survey participants commented on rising demand and subsequent production requirements as the principal factors behind increased buying activity.

Consequently, pre-production inventories rose for a fourth month in succession in July, although the rate of accumulation was moderate. Similarly, post-production stocks held by manufacturing firms increased marginally in July. Survey responses indicated that delayed collection of goods by clients and anticipation of further growth in demand were commonly associated with increased stock holdings.

Meanwhile, July data showed that employment levels rose for a second month running. Although the pace of job creation was modest, it was the largest rise in workforce numbers since July 2013. Anecdotal evidence highlighted increased demand for labour as a result of expansions in output and new orders.

Price pressures continued in July as input costs and output charges increased solidly, although the rate of cost inflation was well below the series average. Surveyed firms reported that raw material costs were being pushed upwards by an appreciation of the US dollar compared with the Indonesian rupiah.

Comment

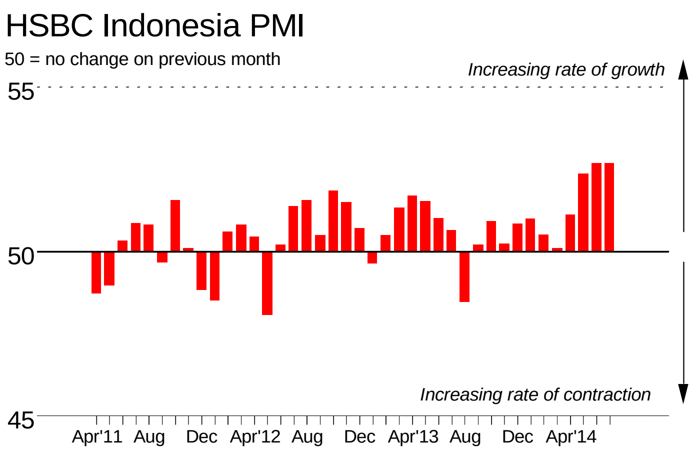
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"The PMI is once again in record territory, primarily due to strong domestic rather than external demand. New export orders continued to shrink, albeit by a smaller extent than in June. Slack in the manufacturing sector therefore continues to diminish gradually, as suggested by further modest gains in the employment sub-index. Given the ongoing pressures on Indonesia's trade and current account deficits, this pick-up in domestic activity is not a positive sign. Further adding to our concerns are indications that inflation may be edging higher again, with both the input and output price indices up on the month. Bank Indonesia needs to remain vigilant and maintain a hawkish stance."

Key points

- Record expansion in output
- New orders increase at solid rate
- Employment growth reaches 12-month high

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Indonesia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indonesian GDP. 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'.

The *Purchasing Managers' Index™ (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.

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.

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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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 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/economics