

## Nikkei Indonesia Manufacturing PMI™

### Operating conditions improve in March

#### Key points:

- PMI rises from 49.3 in February to 50.5
- Both new orders and output expand
- Rates of input cost and output charge inflation accelerate

Data collected March 13-23

Having deteriorated in February, the health of Indonesia's manufacturing economy improved during March. Higher levels of incoming new business encouraged companies to scale up production and purchase greater quantities of inputs. That said, the upturn in new work was insufficient to generate jobs. Survey data also showed an intensification of inflationary pressures in the sector.

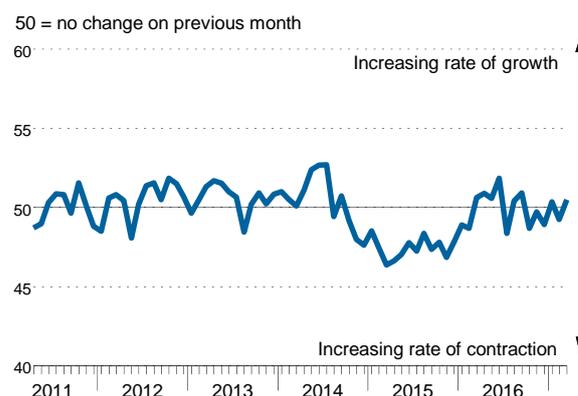
Edging above the no-change mark of 50.0 in March, the headline **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** pointed to improving business conditions in the goods-producing industry. The PMI was up from 49.3 in February to 50.5, reflecting growth of order books and output.

Production increased for the second time in the past three months during March, but the rate of expansion was only marginal. The overall upturn was supported by a return to growth of new business inflows. Around one-in-five panellists signalled higher order books, which they associated with strengthening demand conditions. On the other hand, new export orders decreased again, thereby stretching the current sequence of contraction to six months. Moreover, the rate of reduction was sharp and the most pronounced in the year-to-date.

March data pointed to spare capacity among Indonesian manufacturers as unfinished business declined for the thirty-fourth month running. Having slowed to the weakest since June 2016, the pace of backlog depletion was modest.

Manufacturing employment decreased in March, as has been the case since last October. Although moderate, the pace of job cuts picked up to the quickest since December 2015. According to anecdotal evidence, lower workforce numbers reflected weak gains in new business and relatively subdued demand.

#### Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Buying levels rose in March for the first time since November 2016, though only marginally. While panellists indicated that quantities of purchases were raised due to greater output needs and efforts to build up inventories, shortages of raw materials at vendors as well as steep cost increases reportedly weighed on growth.

On the stock front, both holdings of finished items and pre-production inventories fell during March. The former saw the third-fastest monthly drop in the six-year survey history.

Amid reports of a lack of raw material availability at suppliers, US dollar strength and rising commodity prices, average cost burdens facing Indonesian manufacturers increased at the sharpest rate since October 2015. Some companies sought to pass on to their clients the rise in input costs by raising selling prices. Charge inflation was at a 13-month peak in March.

Manufacturers remained upbeat towards the year-ahead outlook for production. The launch of new products, greater advertising and improved productivity were among the factors highlighted by panellists as likely to support output growth. That said, optimism was at a 32-month low.

*Continues...*

## Comment:

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

*“PMI survey data for March show improvements in the Indonesian manufacturing sector, with new orders and output rising after decreasing in February. Rates of expansion were only marginal, however, with growth hampered by strong cost increases. Higher global commodity prices and the weaker rupiah versus the US dollar discouraged suppliers from building up their stocks, and subsequently resulted in shortages of some raw materials. In many cases, manufacturers also indicated the postponement of input purchasing given inflationary pressures.*”

*“The first quarter was bumpy for businesses, but the Q1 average for the PMI (50.0) is above that seen in the final quarter of 2016 (49.1). Looking ahead, IHS Markit expects GDP growth to hold steady at 5% in 2017 as a whole.”*

-Ends-

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**Notes to Editors:**

The Nikkei Indonesia Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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](mailto:economics@ihsmarkit.com).

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