Nikkei Indonesia Manufacturing PMI™

Manufacturing conditions improve at slower pace

- Headline PMI eases to 50.7 in September
- Slower rises in output and new business
- Input prices increase at quickest pace for three years

Key points:

Data collected September 12-21

September data indicated that Indonesia's manufacturing sector lost some growth momentum, with firms signalling slower rises in output, new orders and employment. At the same time, reports of currency weakness against the US dollar contributed to a sharper rise in average input costs. Subsequently, companies raised their output charges solidly.

The headline seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* fell from August's 26-month high of 51.9 to 50.7 in September. This pointed to only a marginal improvement in manufacturing conditions across Indonesia.

Manufacturing output rose across Indonesia for the second consecutive month during September. Strong market demand underpinned the latest expansion, according to anecdotal evidence. That said, the rate of growth was marginal, having eased from the previous survey period.

Meanwhile, new orders rose for the eighth consecutive month during September. That said, the rate of expansion eased to the slowest in three months and was marginal. Underlying data indicated that weaker foreign demand contributed to subdued overall sales, as new export business continued to decline at the end of the third quarter.

Reflecting greater output requirements, Indonesian firms raised their staffing levels during September. However, the rate of jobs growth was only slight.

On the price front, Indonesian manufacturing companies faced higher input costs during September. Moreover, the rate of inflation accelerated to the sharpest since September 2015. Panellists generally commented on currency weakness against the US dollar.

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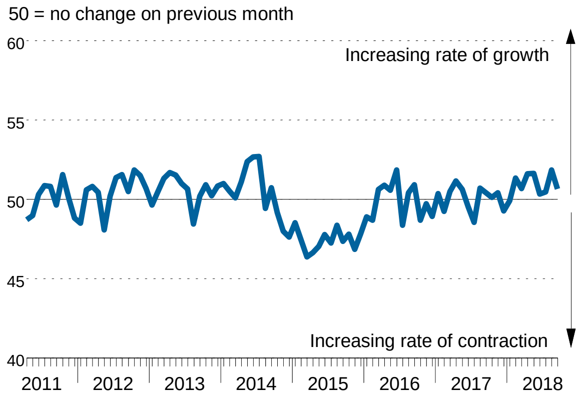

Sources: Nikkei, IHS Markit

September data also signalled that firms continued to raise their output charges. There were reports that firms increased their selling prices to pass on higher cost burdens to clients. The rate of inflation eased from August's near-three year high but remained solid overall.

Indonesian manufacturing companies expanded their purchasing activity during September, thereby stretching the current period of growth to eight months. However, the latest rise was marginal and the weakest since March.

Meanwhile, divergent trends were recorded for both pre- and post-production stocks during September. The former rose at a marginal rate, while inventories of finished goods declined at the fastest pace since last March.

Confidence towards the 12-month outlook for output strengthened to the strongest in four months in September. Positive forecasts for output were linked to plans for product diversification and enhanced marketing initiatives, according to panellists. That said, the latest reading remained below the historical average.

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Aashna Dodhia,** Economist at IHS Markit, which compiles the survey, said**:**

"Indonesia's manufacturing sector lost some growth momentum during September, reflecting slower rises in output, new business and employment. Nevertheless, there were reports that the latest upturn was driven by strong underlying demand.

"Prices data signalled warning signs, amid reports of currency weakness relative to the US dollar, as input cost inflation accelerated to the sharpest since September 2015.

"Despite margins being squeezed, the level of sentiment strengthened to the highest since May. Company plans of pursuing enhanced marketing initiatives and product diversification were the key factors behind positive projections for output over the year ahead, according to anecdotal evidence."

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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 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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