

HSBC Indonesia Manufacturing PMI™

PMI at four-month high in October, as output growth accelerates

Summary

The Indonesian manufacturing economy gained momentum in October, with the PMI rising to its highest level in four months. Production growth accelerated to the fastest since April, driven by a rebound in new work.

October's HSBC Indonesia *Purchasing Managers' Index™ (PMI™)* rose from 50.2 in September to 50.9, highlighting a moderate improvement in operating conditions across Indonesia. The upturn in the headline index reflected positive contributions from two major sub-components, namely output and new orders.

Manufacturing production rose for the second month running, amid evidence of new order growth. The rise in output was moderate, but the joint-fastest (on par with April) in the year-to-date. Nevertheless, the growth rate was fractionally weaker than the average over the second half of 2012.

Stronger domestic demand and the launch of new product lines both resulted in higher levels of new orders placed at Indonesian manufacturers during October. The rise in incoming new work was slight, although the first in four months. Foreign demand, however, remained weak and export orders fell for the fifth consecutive month. Furthermore, the rate of contraction was the most pronounced since July 2012.

Despite the upturn in new business inflows, Indonesian manufacturers continued to reduce their workforce numbers in October. Employment fell for the third consecutive month, albeit marginally. Some panellists reported caution towards additional hiring as a reflection of weaker demand in previous months, while a few firms commented that recent leavers had not been replaced.

Meanwhile, a further deterioration in supplier performance contributed to an overall decline in pre-production stocks during October. The rate of inventory depletion was, however, only fractional. Similarly, holdings of manufactured goods decreased at a fractional pace.

Inflation rates remained high in October, despite easing from September's record. Average purchase costs rose sharply, with manufacturers reporting that a depreciation of the rupiah against the US dollar resulted in higher prices paid for imported raw materials. Concurrently, factory gate charges were raised further in the latest month. Input and output prices have both increased in each month since the survey started in April 2011.

In line with new order growth, Indonesian manufacturers increased their buying activity in October. The rise in quantity of purchases was moderate, but the strongest since June.

Comment

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

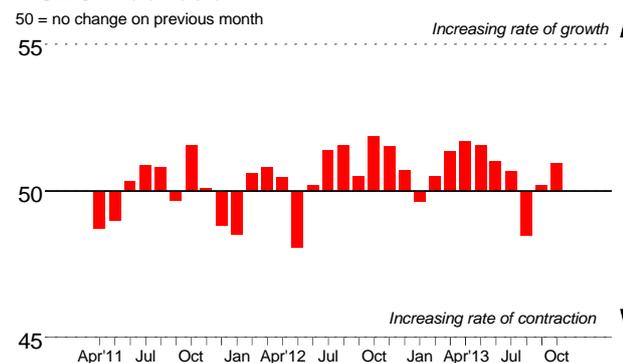
"The moderate improvement in manufacturing conditions in October appears to have resulted from stronger domestic rather than external demand, as new export orders were very weak. But the ongoing contraction in work backlogs suggests that overall demand-pull pressures in the economy continue to weaken. Hopefully this remains the case in the next few months; economic activity needs to cool if Indonesia's current account deficit is to narrow."

Key points

- PMI rises from 50.2 in September to 50.9
- Manufacturing production expands at fastest pace in six months
- New orders increase for first time since June

Historical Overview

HSBC Indonesia PMI



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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