HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Indonesia Manufacturing PMI™

Manufacturing economy continues to improve, despite drop in output

Summary

The Indonesian manufacturing sector remained in expansion territory at the start of 2014. Although output levels fell, incoming new business grew at the joint-fastest pace in the history of the series and new export orders increased for the first time since May 2013.

Adjusted for seasonal influences, the *HSBC Indonesia Purchasing Managers' Index™ (PMI™)* registered 51.0 in January, up from December's 50.9 and above the series average. The latest reading pointed to a slight improvement of manufacturing operating conditions across Indonesia. Boosting the PMI was a solid rise in incoming new work.

New orders placed at Indonesian manufacturers increased for the fourth successive month in January, with companies commenting on stronger demand. The pace at which order book volumes expanded was solid and the joint-fastest in the series history (on par with November 2012). New business from abroad also rose, amid reports of new contract wins from clients in Asia, Europe and North America. Although marginal, the latest increase in export orders ended a seven-month sequence of contraction.

Notwithstanding the solid growth of new orders, output fell in January. That said, the rate of decline was only slight. Among other factors, panellists indicated that lower production levels reflected raw material shortages. Indeed supplier delivery times lengthened further in January. Moreover, vendor performance deteriorated to the greatest extent since last August. Firms largely linked longer lead times to recent heavy rain and floods.

January data indicated that both input costs and output prices rose at rates above their respective series averages. Purchase cost inflation hit a three-month high, with survey participants reporting unfavourable exchange rates. Firms correspondingly raised their tariffs at the strongest rate since October 2013.

Indonesian manufacturers signalled buying activity growth in January, stretching the current expansionary period to five months. Subsequently, holdings of pre-production materials were accumulated. The rate of inventory building was, however, fractional and little-changed from that seen in December. Conversely, post-production stocks were depleted as firms reportedly met orders directly from existing inventories. The rate of reduction was solid and the fastest in five months.

Meanwhile, payroll numbers fell in January, following stagnation recorded one month previously. Companies reporting lower employee headcounts noted that voluntary leavers had not been replaced.

Finally, unfinished business levels decreased for the second consecutive month. Nonetheless, the rate of backlog depletion was modest.

Comment

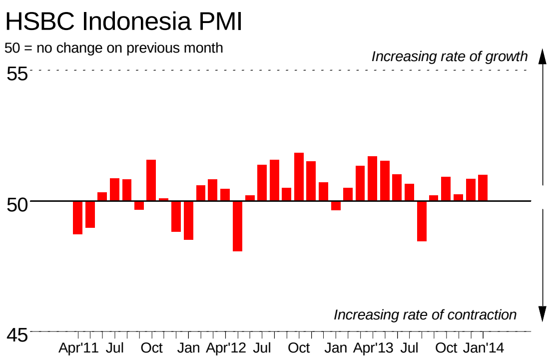
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"The ongoing moderate improvement in the PMI bodes positively for the manufacturing sector. But it also raises concerns that Bank Indonesia's policy tightening efforts since May 2013 may not be working as expeditiously as hoped for. In particular, the surge in January new orders appeared to be driven by domestic rather than external demand, with new export orders still sluggish. Manufacturers also continue to pass on higher costs to consumers, resulting in a rise in factory gate prices. BI will need to remain watchful of these developments."

Key points

- PMI rises marginally from 50.9 in previous month to 51.0 in January
- Production levels contract at slight pace
- New order growth joint-strongest in survey history

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