Nikkei Indonesia Manufacturing PMI™

Manufacturing sector growth weakens in June

- Marginal increases in output and new orders
- Business confidence lowest since October 2012
- Employment rises for first time in three months

Key points:

Data collected June 6-22

The Indonesian manufacturing sector saw a loss of growth momentum in June amid slower rises in output and new orders. Firms were also less confident regarding the 12-month outlook. On a more positive note, employment increased for the first time in three months (albeit only slightly).

As well as seeing slower growth in output and new orders, firms also noted weaker inflationary pressures at the end of the second quarter.

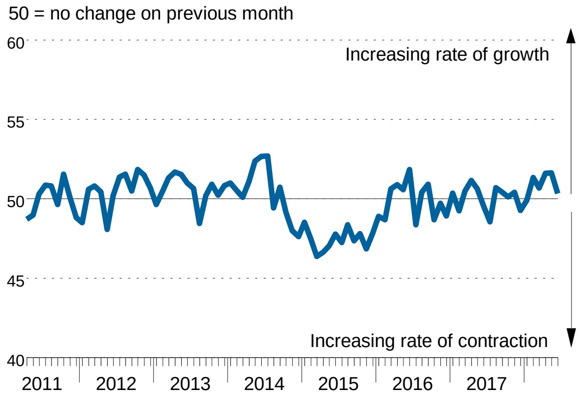
The headline seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* posted 50.3 in June, down from 51.7 in May and signalled a marginal strengthening in the health of the manufacturing sector. The latest improvement was the weakest in the current five-month sequence of strengthening operating conditions.

Although manufacturing output rose for the fifth month running, the rate of expansion in June was only marginal and the weakest since March. Where production increased, panellists reported stronger client demand.

Positive demand was also signalled by a rise in new business. That said, as was the case with output, the rate of expansion in new orders was only marginal. Meanwhile, new export business decreased for the seventh successive month.

Manufacturers responded to higher output requirements by taking on extra staff, the first time this has been the case in three months. Rising staffing levels and relatively weak growth of new business meant that firms were able to work through outstanding business again in June.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Increased production requirements also encouraged firms to expand their purchasing activity. Input buying has now risen in each of the past five months, but the latest expansion was the weakest since March. Furthermore, the increase in purchasing was not sufficient to prevent a reduction in stocks of inputs, the first in three months. Stocks of finished goods also decreased.

Input prices continued to increase in June. Although marked, the rate of inflation eased to the weakest since January. Output prices also rose at a slower pace as the rate of inflation eased from May's 29-month high. Where charges increased, panellists linked this to the passing on of higher input costs to customers.

Suppliers' delivery times lengthened amid reports of transportation issues. That said, the rate of deterioration in vendor performance was the weakest in the current 12-month sequence of longer lead times.

Although manufacturers expect output to rise over the coming year, business confidence dropped to the lowest since October 2012 and was one of the weakest since the series began in April of that year.

Comment:

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

"PMI data signalled that the improvement in operating conditions in June was the weakest since the start of the year, thereby highlighting a loss of momentum since May. This reflected slower expansions in output and new business.

"Another key finding was that input cost inflation moderated to the weakest since the start of 2018. Higher cost burdens were widely linked to currency weakness relative to the US dollar.

"Latest data indicate that the recent interest rate hikes by Bank Indonesia to protect the rupiah appeared to have hindered consumption. This suggests it will be challenging for policy makers to ensure financial stability without compromising economic growth over the coming months. Notably, business sentiment eased to the weakest since October 2012 at the end of the second quarter."

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For further information, please contact:

IHS Markit (About PMI and its comment)

Aashna Dodhia, Economist
Telephone +44 1491 461 003
Email aashna.dodhia@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

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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