Nikkei Indonesia Manufacturing PMI™

Output expands only slightly in March

Key points:

- Headline PMI falls to 50.7 in March
- Output and new orders both rise at slower rates
- Business confidence hits lowest level since December 2012

Data collected March 12-22

Operating conditions across Indonesia's manufacturing sector improved further in March, but at a softer pace. Notably, latest data signalled softer expansions in both output and new orders. Nevertheless, firms increased their staffing levels again in response to increased new order volumes. Meanwhile, cost pressures intensified, with input prices rising to the sharpest extent since October 2015, while output charges rose at a slower pace.

The headline seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* fell from February's 20-month high of 51.4 to 50.7 in March. Although the improvement in business conditions was only marginal, the latest PMI reading remained above the long-run average.

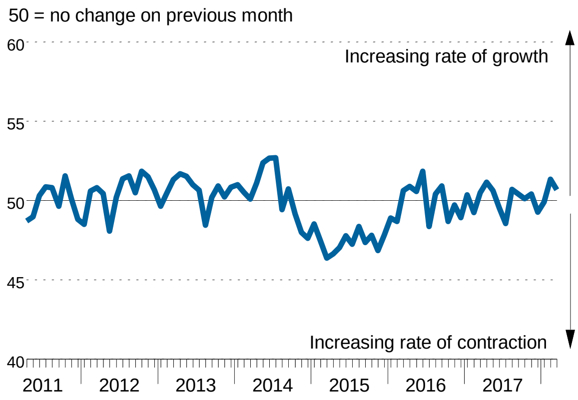
The improvement in operating conditions was supported by another rise in output during March. Anecdotal evidence pointed to favourable economic and demand conditions. That said, the rate of growth eased to a marginal pace.

A back-to-back monthly increase in new business was observed during March. Improved domestic demand contributed to higher sales, according to panellists. In line with the trend for production, however, the rate of expansion was only slight.

In contrast, new export orders declined for the fourth consecutive month. There were reports from panellists that uncompetitive prices weighed on demand from international markets.

In response to greater production requirements, firms raised their staffing levels in March. However, the pace of job creation softened since February and was marginal.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Alongside higher employment, firms raised their purchasing activity to support output growth, albeit only slightly. Meanwhile, stocks of both finished goods and purchased items declined at the end of the first quarter.

Amid reports of raw material shortages across Indonesia's supply chain, average vendor performance deteriorated in March. However, the rate at which average lead times lengthened was only modest overall.

Input prices rose in March, thereby continuing the trend that has defined this series so far. Survey panellists reported that currency weakness relative to the US dollar continued to contribute to higher costs. Moreover, the rate of inflation accelerated to the sharpest since October 2015. Firms generally passed on higher cost burdens to clients by raising their output prices in March. However, charges increased at only a modest pace, to suggest that firms' margins remained under pressure.

Although manufacturers remained optimistic towards the 12-month outlook for output, the level of positive sentiment was the weakest since December 2012.

Comment:

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

"The recovery in Indonesia's manufacturing sector lost some momentum during March, driven by softer expansions in output, new orders and employment. PMI data suggested that any improvements in demand stemmed from domestic markets, while sales in international markets reportedly fell due to uncompetitive prices.

"Input cost inflation intensified to the sharpest since October 2015, predominantly driven by higher raw material costs stemming from currency weakness relative to the US dollar. Amid monetary policy tightening and heightened global uncertainty, the Indonesia rupiah remains vulnerable to capital outflows. Subsequently, business sentiment was at the lowest level since December 2012.

"Bank Indonesia's decision to keep policy rates unchanged and its efforts to stabilise the exchange rate may help support the recovery in credit growth and domestic consumption as we head into the second quarter."

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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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