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HSBC Indonesia Manufacturing PMI™

New export orders drop at fastest pace in survey history

Summary

The downturn in Indonesia's manufacturing economy extended into April, with output, new orders and new export business all dropping for the seventh month in succession. Moreover, new work from abroad decreased at the sharpest pace in the 49-month survey history. Consequently, companies reduced their workforce size again and buying levels contracted further. Whereas pre-production stocks declined, holdings of manufactured goods were accumulated. On the price front, input cost inflation firmed and charges were raised further.

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* posted 46.7 in April (March: 46.4). Deteriorating operating conditions across the sector have now been recorded for seven months running.

Indonesian manufacturers indicated that production decreased in April, marking a seven-month sequence of contraction. Little-changed from March's survey-low, the respective index was consistent with a sharp rate of reduction. Where output fell, this was attributed by survey respondents to lower levels of incoming new work and unfavourable weather conditions.

As has been the case since last October, new orders dropped in April. Despite easing since the prior month, the latest fall in incoming new work was marked. Anecdotal evidence highlighted weaker demand, increased competition for new work and a difficult economic climate.

New export business declined further in April, thereby extending the current period of reduction to seven months. Furthermore, the latest drop was the most pronounced since data collection began in April 2011. According to surveyed firms, demand from African, Asian and American clients weakened. Some companies also reported challenging global competition, amid cheaper prices charged by Indian and Chinese manufacturers.

In line with lower production needs, Indonesian manufacturers reduced employment levels further in April. Nonetheless, the pace of job shedding eased since March and was moderate overall. Meanwhile, there was evidence of spare capacity, as unfinished business declined for the eleventh consecutive month.

There were divergences with regards to inflation rates in April. While input costs increased at a sharper rate, charge inflation softened during the month. Higher cost burdens were associated with rising fuel costs and the stronger US dollar.

Purchasing activity decreased further in April, with companies linking this to falling output requirements. As a consequence, holdings of raw materials and semi-manufactured goods continued to contract. Conversely, post-production stocks increased, with the respective index climbing to its second-highest reading in the history of the series.

Comment

Commenting on the Indonesia Manufacturing PMI™ survey, Pollyanna De Lima, Economist at Markit said:

"April's PMI survey highlights the current fragility of the Indonesian manufacturing sector, with both the domestic and export markets sources of weakness. Despite the weaker rupiah, businesses struggled to price competitively at a global level as the cost of imported raw materials increased.

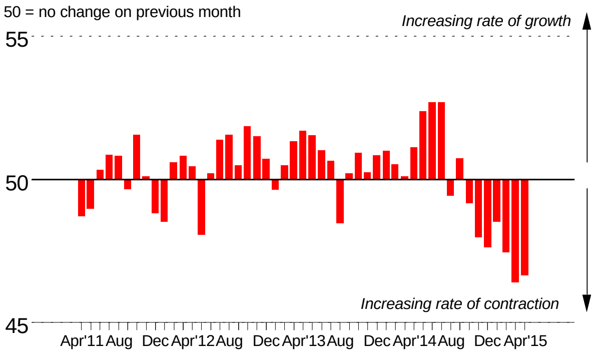
"Companies continued to trim employment, buying levels and pre-production inventories, highlighting an expectation that conditions will remain tough in the near future."

Key points

- Sharp reduction in new business from abroad
- Output contracts at second-quickest rate since data collection began
- Input price inflation accelerates

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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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