Nikkei Indonesia Manufacturing PMI™

Manufacturing sector returns to growth in August

Key points:

- Renewed increase in order books supports output growth
- New export business rises at second-fastest pace in survey's history
- Rates of inflation for input costs and output charges accelerate

Data collected August 12-22

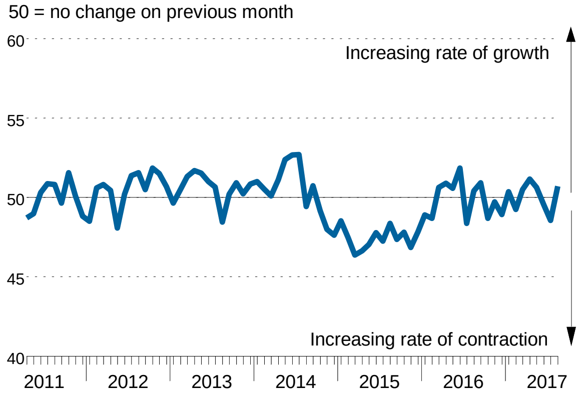
After having deteriorated in each of the previous two months, operating conditions in Indonesia's manufacturing economy improved in August. Companies scaled up production in line with a return to growth in total new business. At the same time, new export work rose at the second-quickest pace in the survey's near six-and-a-half year history. Business confidence improved from July, while additional inputs were purchased. Stronger increases in input costs and output charges were seen, though in both cases rates of inflation remained below their respective long-run averages.

Rising from July's one-year low of 48.6 to 50.7 in August, the headline seasonally adjusted **Nikkei Indonesia Manufacturing *Purchasing Managers' Index*™ (*PMI*™)** pointed to the first improvement in the health of the sector since May. The above-50.0 reading mainly reflected renewed increases in order books and output, the index's largest sub-components.

Manufacturing production increased in August for the first time since May, albeit at a slight pace overall. Where growth was signalled, this was often associated with higher levels of incoming new work. Indeed factory orders rose, thereby ending a two-month period of contraction. Despite being moderate, the rate of expansion was the strongest in one year. Anecdotal evidence highlighted better demand conditions in the domestic as well as external markets. The upturn in new export orders was the second-fastest in the history of the survey.

Indonesian manufacturers purchased greater quantities of raw materials and semi-finished goods during August. The increase in buying levels reversed the contraction seen in July, but the pace of growth was slight overall.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Payroll numbers decreased further in August, taking the current sequence of job shedding to 11 months. Nevertheless, the pace of contraction in headcounts softened since July and was only marginal.

Outstanding business volumes were broadly unchanged over the month. Those panellists signalling higher backlogs commented on raw material scarcity and new business growth. On the other hand, machinery upgrades supported the clearing of work-in-hand at some firms.

Shortages of raw materials, combined with list price adjustments at some vendors, caused another monthly increase in purchasing costs. Part of the additional cost burden was passed on to clients, as highlighted by a further rise in selling prices. Rates of inflation accelerated since July, but were below their respective long-run averages.

Some of the goods produced were held in inventories, with firms indicating that stocks of finished goods rose amid delayed deliveries to clients. Conversely, holdings of inputs decreased again in August.

Goods producers remained strongly confident towards the year-ahead outlook for production, with optimism boosted by efficiency improvements, promotional activities, capital investments and new product launches.

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Pollyanna De Lima,** Principal Economist at IHS Markit, which compiles the survey, said**:**

"Business conditions in Indonesia improved mid-way through the third quarter as companies benefited from stronger demand for their goods from domestic and externally-based clients. In response to higher inflows of new work, manufacturers stepped up production and purchased greater quantities of inputs in August. The rebound from July's downturn lifted spirits among firms, who are more cheerful about the year-ahead outlook then they were in the prior survey period."

-Ends-

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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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