Nikkei Indonesia Manufacturing PMI™

Manufacturing conditions in Indonesia improve further

Key points:

- PMI at 50.4 during September
- Output falls marginally, but new orders rise again
- Business confidence weakest in 57 months

Data collected September 12-22

Business conditions across Indonesia's manufacturing economy improved for the second consecutive month on the back of another increase in new orders. That said, output declined marginally during September. In response to lower output requirements, firms reduced their staffing levels, albeit fractionally. On a positive note, new export orders continued to rise, although the rate of expansion slowed from August's 57-month high. On the price front, firms faced sharp cost pressures, but were unable to fully pass these on to consumers due to competitive pressures.

The headline seasonally adjusted Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) fell from 50.7 in August to 50.4 in September. This was consistent with another marginal improvement in the health of the manufacturing sector.

Order books volumes increased for the second consecutive month during September. That said, the rate of growth slowed to a marginal pace. Where increases were registered, firms commented on strong underlying demand. In line with the trend for total new work, new export orders rose during September. That said, the rate of growth slowed from August's 57-month high to a slight pace.

After having risen in August for the first time in three months, production fell during September. The rate of reduction was only fractional, however. The decrease in output was associated with subdued demand conditions and, in some cases, a limited supply of raw materials.

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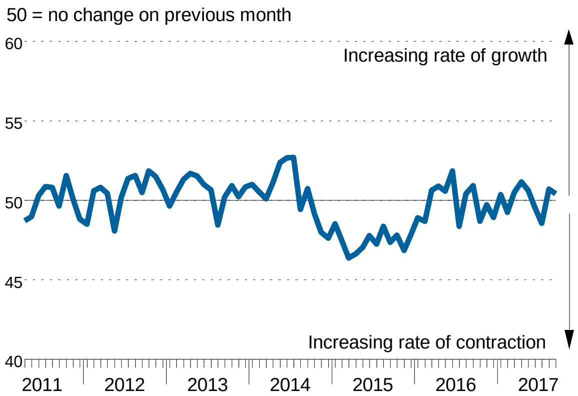

Sources: Nikkei, IHS Markit

Manufacturing companies across Indonesia decreased their payroll numbers at the end of the third quarter. Although falling for the twelfth month in a row, the rate of job shedding was fractional and the joint-weakest in this sequence.

Quantities of purchases increased amid reports of efforts to replenish stocks in line with forecasts of further improvements in demand. That said, pre-production inventories declined further. Conversely, stocks of finished goods rose during the month. However, the rate of increase was only slight. Meanwhile, there were signs of pressures on supply chains as delivery times lengthened. Longer lead times stemmed from a lack of raw materials among vendors, according to anecdotal evidence.

Firms faced greater cost burdens again during September. The rate of inflation was sharp overall. Currency weakness was reportedly the main reason leading to higher input costs. Amid reports of the passing on of higher cost burdens to clients, firms raised their output charges for the thirteenth successive month in September. That said, the rate of inflation slowed to the weakest since May and was modest.

The degree of confidence towards the 12-month outlook for output eased to the weakest since December 2012, but firms remained optimistic overall. Survey respondents indicated that business expansions and promotional activities would lead to further improvements in demand.

Comment:

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

“Manufacturing conditions across Indonesia sustained its tepid recovery from July’s deterioration (strongest in 12 months) at the end of the third quarter. PMI data suggested that expansions in new work emanated from both the domestic and foreign markets.

“On the downside, output fell fractionally due to raw material shortages. Meanwhile, concerns regarding future business prospects echoed a note of caution, with confidence dipping to the lowest level since December 2012.

“Firms felt some respite around inflationary pressures, as input cost inflation slowed to the weakest since December 2016, alleviating some doubts that the recent interest rate cut would intensify inflation. For 2017 as whole, IHS Markit revised down their CPI forecast to +4.0%.”

-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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