

Nikkei Indonesia Manufacturing PMI™

Strongest rise in output since July 2014

- Headline PMI rises to a 22-month high of 51.6
- Steeper increase in output supported by fastest rise in new orders since June 2016...
- ...but confidence towards the business outlook weakens

Key points:

Data collected April 12-23

Operating conditions across Indonesia's manufacturing sector improved at the strongest pace since June 2016 in April. This reflected the strongest growth of output and new orders since July 2014 and June 2016, respectively. Despite reports of improving domestic demand conditions, employment stagnated while exports fell at a solid pace. At the same time, business confidence regarding the year ahead outlook for production dipped to the lowest since December 2012.

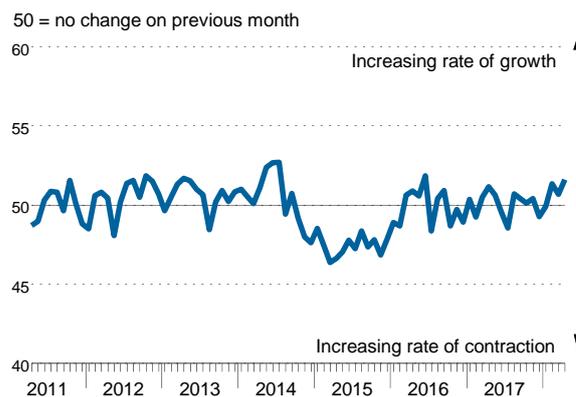
The headline seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™* (PMI™) rose from 50.7 to 51.6 in April. Though modest, this indicated the strongest improvement in manufacturing conditions since June 2016.

Indonesia's manufacturing sector registered increased production for the third consecutive month during April. Moreover, growth accelerated to the sharpest since July 2014. According to panellists, stronger demand conditions supported the latest upturn.

The upward movement in the headline PMI was also supported by greater inflows of new work. Notably, the rate of expansion was the sharpest since mid-2016. There were reports of increased client demand, particularly from domestic markets. However, new orders from overseas fell for the fifth consecutive month during April. Furthermore, the rate of contraction quickened to the fastest in just over a year.

April also saw a further pick-up in manufacturers' purchasing activity, with the rate of growth accelerating to the fastest since July 2014. Firms reported that improvements in new order books prompted firms to engage in input buying.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Subsequently, pre-production inventories rose slightly in April.

Backlogs of work declined for the forty-seventh consecutive month in April. According to panellists, there were sufficient resources to enable the timely completion of work.

Meanwhile, staffing levels stagnated at the start of the second quarter. This contrasted with increases in the prior two months.

On the price front, input cost inflation softened from March's 29-month high but remained sharp overall. The strength of the US dollar against the Indonesian rupiah was the primary driver behind higher input costs, according to panellists.

The sustained increase in firms' costs led to a further rise in factory gate charges. That said, the rate of inflation was slight and the weakest for six months.

Despite the stronger improvement in operating conditions, manufacturers were less optimistic about the year ahead. Notably, the level of positive sentiment was the weakest recorded for 64 months and below the historical average.

Comment:

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

“Latest PMI data indicated that stronger demand conditions had helped to shift Indonesia’s manufacturing sector onto a higher growth trajectory in April, with output and new orders rising at the fastest rates since July 2014 and June 2016, respectively. However, demand in international markets remained relatively subdued, with new orders from overseas falling at the fastest pace in just over a year.

“Prices data suggest that inflationary pressures, that stemmed from the strength of the US dollar against the Indonesian rupiah, subsided slightly as input cost inflation softened from March’s 29-month high to register below the historical average.

“Looking ahead, there was a note of caution, as business confidence moderated to the lowest level seen since the end of 2012. The dip in optimism partly reflected concerns of a potential market slowdown in the year ahead. At the same time, IHS Markit anticipates that widening interest rate differentials will lead to a further depreciation of the rupiah this year.”

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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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