HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Indonesia Manufacturing PMI™

Buying levels drop at fastest pace in survey history amid falling new business

Summary

A further deterioration in Indonesian manufacturing operating conditions was recorded in May. Although output and new orders both fell at weaker rates, reductions in foreign orders and purchasing activity accelerated to new survey records. Meanwhile, input cost and output charge inflation softened during the month.

Despite rising from 46.7 in April to 47.1 in May, the seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* continued to signal worsening business conditions across the sector.

Output decreased further in May, amid reports of a difficult economic climate and falling new orders. The rate of reduction was sharp overall, but moderated to the weakest in three months. Over one-quarter of survey respondents signalled lower production levels during the latest month.

May data highlighted an eighth consecutive monthly decrease in new orders placed with Indonesian manufacturers. Although the slowest since January, the rate of contraction was marked overall. Anecdotal evidence pointed to weaker demand, increased competition for new work and deteriorating economic conditions.

New business from abroad continued to fall in May, with the respective index dropping to a new survey-low. Almost 28% of monitored companies recorded declining foreign orders, which they commonly associated with weaker demand from European, Asian and American clients.

Lower production requirements led Indonesian goods producers to reduce their buying levels further. The quantity of items purchased decreased at a sharp rate that was the most pronounced since data collection began in April 2011.

Reflecting falling new work and attempts to reduce operating expenses, manufacturers shed jobs during May. Payroll numbers decreased for the tenth consecutive month, albeit only slightly. Meanwhile, suppliers' delivery times lengthened further, with panellists citing poor road conditions and unfavourable weather.

Faced with lower new orders, Indonesian manufacturers worked through their backlogs during May. The latest depletion in work-in-hand was sharp and the fastest in nine months.

Inflationary pressures moderated in May, with input cost and output charge inflation at two- and three-month lows respectively. Panel members blamed the dollar exchange rate and rising petrol costs for the overall increase in cost burdens.

Finally, diverging trends in stock holdings were noted in May. While pre-production inventories fell at the sharpest pace in the history of the survey, stocks of finished goods were accumulated.

Comment

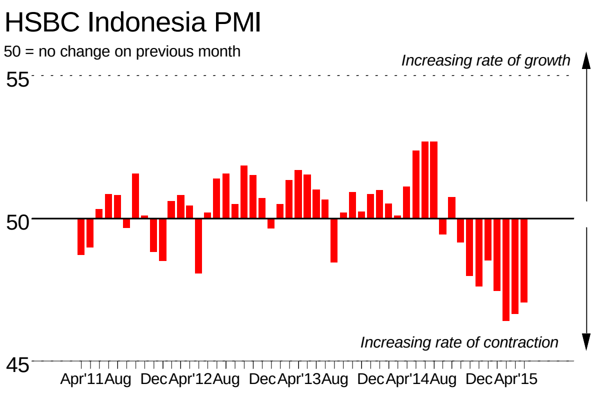
Commenting on the Indonesia Manufacturing PMI™ survey, Pollyanna De Lima, Economist at Markit said:

"The fact that May's Indonesian Manufacturing PMI recorded slightly higher than in April provides little consolation to the fact that the index continues to indicate worsening business conditions across the sector. With output, new orders and employment remaining in contraction territory, there is nothing to suggest that manufacturing will turn the corner and stabilise anytime soon, placing greater pressure on policymakers to act quickly to stimulate growth. Moreover, a survey-record drop in purchasing activity highlights the extent to which demand has plummeted in recent months. Manufacturing therefore appears to be acting as an increasing drag on the economy, raising the risk of a deepening contraction of GDP in the second quarter."

Key points

- Purchasing activity decreases sharply
- Eighth successive monthly reduction in incoming new work
- Contraction in new export orders steepest since data collection began

Historical Overview



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 over 30 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.