

HSBC Indonesia Manufacturing PMI™

Manufacturing sector business conditions improve for sixth month running in February

Summary

Factories across Indonesia indicated that business conditions continued to improve in February. However, growth waned on the back of recent floods and the eruption of the Mount Kelud volcano. While manufacturing production rose, the pace of expansion was only fractional. Furthermore, new orders increased at the weakest rate in the current five-month sequence of growth.

Down from 51.0 in January to 50.5 in February, the seasonally adjusted *HSBC Indonesia Purchasing Managers' Index™ (PMI™)* signalled a further, albeit slower, improvement in operating conditions across the country's manufacturing economy.

Following a contraction registered in January, output rose in the latest month. However, the rate of expansion was only fractional. Surveyed companies reported new business growth as the main factor leading to higher production. Nonetheless, firms indicated that the eruption of the Java volcano and flooding had weighed on growth.

New orders rose for the fifth month in succession during February. That said, the pace of expansion eased from January's peak to the weakest in this sequence. Export business increased further, amid reports of stronger demand from abroad. The rate of growth accelerated from that seen in the previous month, but was slight overall.

Concurrently, buying activity expanded in February. Nonetheless, the rate of growth was marginal and the slowest in the current six-month sequence of increase. Average lead times lengthened to the greatest extent in the history of the survey, with panellists reporting poor road conditions, floods and raw material shortages at vendors.

In attempts to free-up working capital, inventory holdings were depleted during February. Pre-production stocks fell for the first time in three months, while holdings of manufactured goods decreased for the second successive month. In both cases, the rates of depletion were slight.

Continuing the trend that has been observed in each month since the survey started in April 2011, input costs faced by Indonesian goods producers rose in February. Anecdotal evidence highlighted higher food, metals, chemicals, plastics, paper and textiles prices. The rate of inflation was robust and stronger than the series average. Subsequently, average selling prices were raised further.

Manufacturing employment fell for the second consecutive month in February. Those companies reporting lower payroll numbers reasoned that voluntary leavers had not been replaced. Meanwhile, backlogs of work decreased at a solid pace that was the quickest in the current three-month sequence of reduction. Monitored companies largely cited a lack of pressure on operating capacity.

Comment

Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

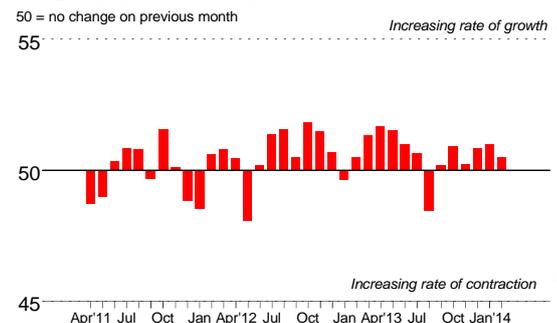
"To a degree, the marginal improvement in manufacturing conditions in February reflects the dampening effects that the floods and volcanic eruptions made on domestic demand. The expansion in overall new orders slowed noticeably, while new export orders improved for a second straight month, albeit only modestly. Hopefully some of the moderation in domestic demand also reflects the impact of aggressive monetary and macro-prudential policy tightening since mid-2013. Otherwise, inflation might prove to be sticky at currently elevated levels, as producers continue to face little resistance in passing on higher input prices to consumers. Although the gains in input and output prices were not as strong as compared to January, given that the floods were somewhat more widespread than usual we remain watchful of inflationary pressures going forward."

Key points

- PMI drops slightly from 51.0 in January to 50.5
- Output returns to expansion territory
- New order growth eases from January's record

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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