

HSBC Indonesia Manufacturing PMI™

Operating conditions improve as PMI rebounds from 12-month low

Summary

The latest PMI data highlighted an improvement in Indonesian manufacturing business conditions in September, following the modest deterioration observed in August. Expansions in both output and new orders reinforced the sector's overall improvement, although employment fell at the fastest rate since March. Meanwhile, the rate of cost inflation accelerated sharply over the month.

The headline seasonally adjusted *HSBC Purchasing Managers' Index™ (PMI™)* – a composite gauge designed to give an accurate overview of operating conditions in the manufacturing sector – rebounded to 50.7 in September, up from 49.5 in August. The latest reading was consistent with a modest improvement in business conditions, and was broadly in line with the long-run series average.

Production at Indonesian manufacturing companies expanded in line with the headline index in September, following the contraction recorded in the previous month. Panel members generally attributed output growth to stronger order books.

September data supported anecdotal evidence of increased demand, as new business rose over the month. The rate of new order growth was solid overall. Furthermore, overseas business expanded in September, marking the end of a three-month period of decline. Survey respondents commented on strengthening demand from key export clients.

Purchasing activity by Indonesian manufacturers also increased in September, reversing the reduction registered in August. That said, the pace of expansion was fractional overall. Surveyed firms suggested that input buying rose due to improvements in demand and subsequent production requirements.

As a result of rises in buying activity, stocks of raw materials and semi-manufactured goods held by Indonesian manufacturers expanded in September. Meanwhile, post-production inventories fell marginally during the month. A number of panellists linked changes in stock holdings to movements in demand.

Payroll numbers in the Indonesian manufacturing sector declined for the second successive month in September. Moreover, the rate of job shedding accelerated to the quickest since March. According to survey participants, some workers had left their posts due to changes in personal circumstances and had not been replaced.

Continuing trends observed throughout the survey's three-and-a-half year history, input costs and output charges rose in September. The respective rates of inflation both picked up from August, with the sharper

acceleration recorded on the cost-side. However, in both cases, price pressures remained muted in the context of historical data. Anecdotal evidence linked higher raw material costs to an appreciation of the US dollar against the Indonesian rupiah.

Comment

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

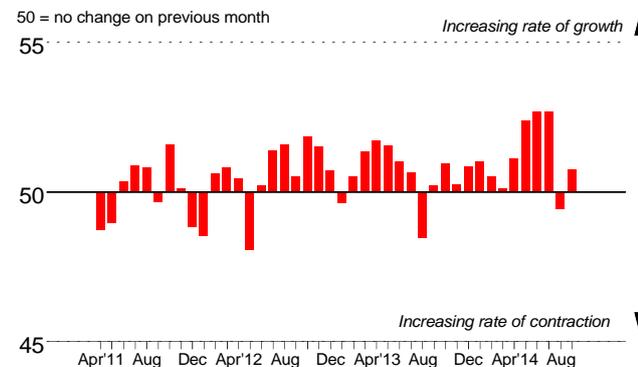
"The rebound in manufacturing sector conditions in September provides some relief, as it confirms that the contraction in the August PMI marked a temporary lull rather than a reversal of trend. That said, the expansion in the September PMI was only modest. A further deterioration in payrolls and an ongoing contraction in work backlogs suggest that manufacturing sector conditions could remain moderate over the near-term. Further pressure on the sector is emanating from rising input costs, which, judging by the smaller rise in output prices, are not being passed on as easily to consumers. Nevertheless, from a macro perspective the subdued pace of manufacturing expansion is positive news for the widening current account deficit."

Key points

- Output and new orders return to growth
- Staffing levels decline at quickest rate since March
- Inflationary pressures intensify following deceleration in August

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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