

# Nikkei Indonesia Manufacturing PMI™

## Business conditions stagnate in October

### Key points:

- Headline PMI registers just above the neutral 50.0 threshold
- Total new orders rise at a marginal pace, while exports increase solidly
- Output stabilises during October

Data collected October 12-24

October's survey of manufacturers pointed to a stagnation in business conditions in Indonesia. Total new order growth was only slight, despite the fastest increase in new export orders since November 2012. Moreover, employment decreased at the fastest pace since March. Meanwhile, output stabilised over the month.

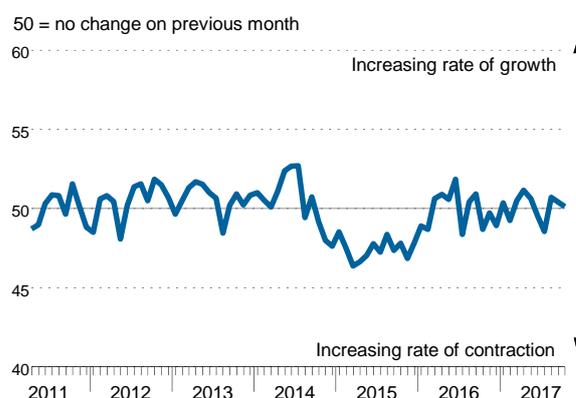
On the price front, manufacturing firms continued to face marked cost pressures, but inflation eased to the weakest in ten months. Output prices were raised at a marginal pace as firms were unable to fully pass on higher cost burdens to their clients due to competitive conditions.

The headline seasonally adjusted Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) fell from 50.4 in September to 50.1 in October. Posting close to the neutral 50.0 threshold, the latest reading indicated a broad stagnation in the health of the manufacturing sector in October.

New business increased for the third consecutive month during October. That said, the rate of growth eased to the slowest in the current sequence of expansion and was only marginal. The latest increase in new orders was mainly driven by stronger demand from international markets for Indonesian goods, according to anecdotal evidence. Furthermore, new export orders rose at the fastest pace since November 2012. In contrast, output stabilised at the start of the fourth quarter, following a marginal decline in September.

Ongoing spare capacity was evident as backlogs

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Sources: Nikkei, IHS Markit

of work declined for the forty-first consecutive month in October. Moreover, the rate of depletion was the fastest in four months. In response to a lack of capacity pressure, firms continued to reduce their staffing levels. Furthermore, the pace of job shedding quickened to the fastest since March.

On the price front, firms continued to face marked cost pressures at the start of the fourth quarter. That said, the rate of input cost inflation eased to the weakest in ten months.

Reflecting higher input costs, manufacturing companies across Indonesia increased their output charges. That said, the rate of inflation was marginal overall.

Average delivery times continued to lengthen at the start of the final quarter. Moreover, the degree of deterioration in vendor performance was the strongest since March and solid overall.

Amid reports of companies using existing stocks, purchasing activity declined for the first time in three months. Subsequently, pre-production inventories declined in October. The rate of depletion was the strongest in 20 months. Where a decrease was registered, firms reported higher raw material prices discouraged them from adding to their inventory.

Optimism towards the 12-month outlook for output improved from September's 57-month low. Promotional activities and further improvements in demand were the key underlying factors behind business confidence.

**Comment:**

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

*“Indonesia’s manufacturing sector started the fourth quarter on a delicate foundation as manufacturing conditions stagnated in October. Slight growth in new business was reflective of stronger demand for Indonesian goods from external markets. In fact, growth in new export orders accelerated to the fastest since November 2012.*

*“On a negative note, firms reduced their payroll numbers at the strongest pace since March. That said, business confidence among manufacturers improved from September’s 57-month low.*

*“Although manufacturers faced marked cost pressures, they enjoyed some breathing space as input cost inflation eased to the slowest since December 2016.”*

-Ends-

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**Notes to Editors:**

The Nikkei Indonesia Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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](mailto:economics@ihsmarkit.com).

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