Nikkei Indonesia Manufacturing PMI™

December sees further fall in goods production as exports plunge

Key points:

- Manufacturing output down for third month running
- Exports show steepest fall since October 2015
- Inventory depletion continues amid faltering demand

Data collected December 5-14

Indonesia's manufacturers recorded a third straight monthly fall in production levels in December, amid a steep and accelerated reduction in new orders from abroad. Concurrently, employment and stock levels fell in line with the decline in workloads. On the price front, higher input costs led manufacturers to increase their output charges for the fourth month running, although the rate of inflation was the lowest in this sequence.

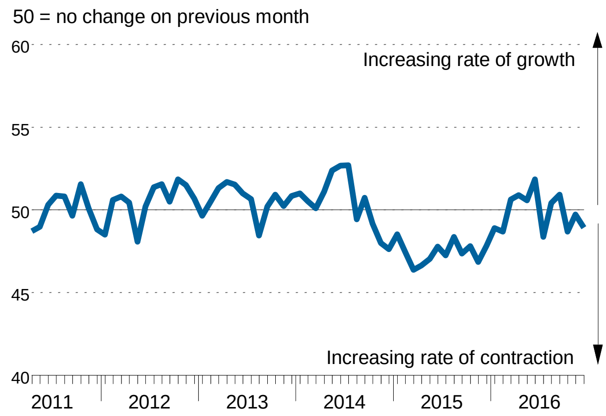
The seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index*™ (*PMI*™) dipped to 49.0 in December, down from November's 49.7. The index has registered below the neutral 50.0 level (signalling deteriorating business conditions) for three months in a row, and its average for the quarter as a whole was the lowest recorded in 2016.

Output levels at Indonesian factories fell at a faster rate in December, the quickest seen since July. Behind the latest drop in production – the third in as many months – was a further decrease in incoming new orders, which likewise showed an accelerated rate of contraction.

Manufacturers reporting a drop in order books commented on lower demand and a decline in consumer purchasing power. Furthermore, December's survey showed the steepest monthly fall in new business from abroad since October 2015, with the rate of contraction much faster than for total new orders.

A lack of new work led to the continued depletion of backlogs during December, while also contributing to further job losses across the sector. Employment has now fallen in five of the past six months, with December's decrease being the most marked since August.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Manufacturers showed a preference for lower stock levels in December, with both pre- and post-production inventories falling during the month. The drop in stocks of purchases – the steepest seen since February – was partly achieved through a renewed decrease in goods producers' buying levels.

Despite demand for materials falling during the month, December saw a slight increase in the average length of delivery times faced by manufacturers. Panel evidence suggested that some suppliers had postponed deliveries while awaiting more orders.

Average prices paid for purchases increased again in December, albeit at a slower pace than the month before. Firms cited higher cost for materials in general, as well as commenting on the impact of a strong US dollar on import prices.

Just part of the burden was passed on to customers by manufacturers, however, as average output charges rose only marginally and at the slowest rate for four months.

Continues…

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Pollyanna De Lima,** Economist at IHS Markit, which compiles the survey, said**:**

"December PMI data suggest that the Indonesian manufacturing industry moved away from stabilisation at the end of 2016, with further falls in inventories and employment indicating that companies remain on a cautious footing. A steep drop in new export orders contributed to a faster overall decline in new business, with the domestic market also a source of weakness. Subsequently, the sector's labour market continued to suffer as job cuts have now been seen for three months in a row."

-Ends-

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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.

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@ihsmarkit.com.

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