Nikkei Indonesia Manufacturing PMI™

Operating conditions stabilise in January

Key points:

- Headline PMI rises closer to the neutral 50.0 mark at 49.9 in January
- Output broadly stabilises but total new work falls slightly
- New export orders decline at a solid pace

Data collected January 12-24

Following a marginal deterioration in December, Indonesia's manufacturing economy broadly stabilised in January. While output was relatively stable at the start of 2018, new orders and employment fell only slightly. At the same time, input prices continued to rise sharply, but firms were restricted in their ability to fully pass on higher cost burdens to clients amid relatively subdued demand conditions.

The headline seasonally adjusted Nikkei Indonesia *Manufacturing Purchasing Managers' Index™ (PMI™)* rose from December's five-month low of 49.3 to 49.9 in January. This was consistent with a broad stabilisation of operating conditions across Indonesia's goods producing sector.

The upward movement in the headline index reflected broadly stable output, after a slight drop in December. Meanwhile total new orders declined for the second month in a row, albeit only slightly, amid reports of relatively lacklustre demand.

Indonesia's manufacturing sector observed a further reduction in new export orders during January. Moreover, the rate of contraction accelerated to the strongest since March 2017 and was solid overall. Panellists commented on falling demand for Indonesian goods from international countries.

In response to subdued market conditions, firms reduced their payroll numbers for the sixteenth consecutive month during January. That said, the rate of job shedding eased to a fractional pace that was the slowest since last September.

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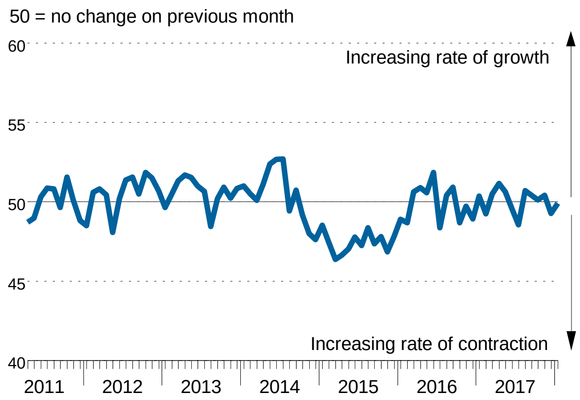

Sources: Nikkei, IHS Markit

Amid reports of stock shortages and difficulties in transporting raw materials, suppliers' delivery times continued to lengthen during January. However, the rate of deterioration in vendor performance was marginal.

Indonesian manufacturers signalled broadly unchanged buying activity at the start of 2018 after a slight decrease in December. At the same time, pre-production inventories fell fractionally.

A general rise in raw material prices continued to exert upward pressure on manufacturers' cost burdens in January. Although sharp, the rate of input cost inflation remained weaker than the series trend. In efforts to protect operating margins, firms raised their output charges. However, the rate of charge inflation eased to a three-month low and was marginal.

Lastly, the Future Output Index signalled sustained confidence towards the 12-month outlook for production, with more than half of the survey panel forecasting higher output. Expectations of an improvement in demand, enhanced marketing initiatives and planned company expansions were all cited as key factors driving confidence.

Comment:

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

"Following a marginal deterioration in December, there were tentative signs of stabilisation in Indonesia's manufacturing economy as output was relatively stable in January. However, new orders fell for the second consecutive month, albeit only slightly, amid reports of lacklustre client demand.

"Weak overseas demand continued to be a key factor driving the reduction in total new business. Furthermore, new export sales dropped at the fastest since March 2017. Overall, appreciation of the Indonesian rupiah relative to the US dollar may put further pressure on rejuvenating foreign demand for Indonesian goods.

"Input cost inflation eased to the weakest since last October, but remained sharp, affirming the central bank's stance to end monetary policy easing and shift its focus to inflationary risks. In fact, strong cost pressures continued to affect cost margins, with firms unable to fully pass on higher prices to clients amid subdued demand conditions."

-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.

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.

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