

## Nikkei Indonesia Manufacturing PMI™

### Manufacturing economy slips back into contraction

#### Key points:

- PMI posts below 50.0 for first time in four months
- Stagnation in order books causes output to fall
- Firms lower payroll numbers, but scale up buying levels

Data collected June 12-22

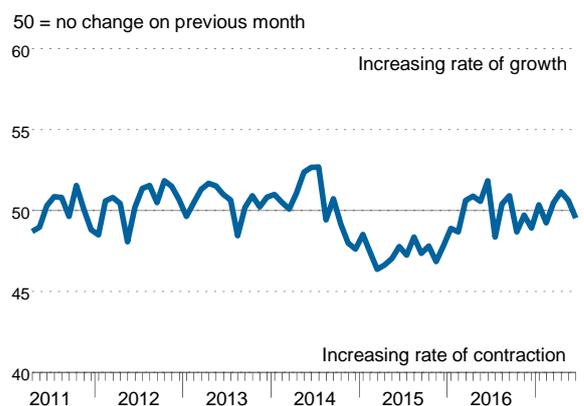
The health of the Indonesian manufacturing economy deteriorated in June as subdued demand conditions resulted in lower production volumes and job losses. Total new work was broadly unchanged over the month, while growth of new export orders picked up since May. Meanwhile, buying levels expanded, resulting in higher stocks of inputs. Further increases in input costs and output charges were noted, though in both cases the rates of inflation remained below their respective long-run averages.

At 49.5 in June (May: 50.6), the headline seasonally adjusted **Nikkei Indonesia Manufacturing Purchasing Managers' Index™ (PMI™)** recorded below the critical 50.0 mark for the first time since February. This signalled a marginal deterioration in operating conditions across the sector. That said, a relatively strong reading for April meant that the Q2 average (50.5) was higher than that seen in the opening quarter of 2017 (50.0).

Amid reports of weak demand for manufactured goods, order book volumes were broadly unchanged in June. This followed a three-month sequence of expansion. Concurrently, new business from abroad rose, with panellists mentioning Europe and America as sources of new work. The upturn in new export orders was solid and among the quickest in the survey's more than six-year history.

Businesses continued to purchase greater quantities of inputs in June, with anecdotal evidence highlighting efforts to replenish stocks. The rate of growth in purchasing activity was, however, marginal and eased since May.

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Sources: Nikkei, IHS Markit

Inventories of raw materials and semi-finished items indeed increased during June, thereby stretching the current period of accumulation to three months. That said, the pace of expansion was fractional and the weakest in this sequence. On the other hand, holdings of finished goods decreased. The latest fall was the fifth in as many months, but the rate of depletion slowed to the weakest in this sequence. Where post-production stocks declined, survey participants commented on the fulfilment of orders from inventories.

Both manufacturing production and employment decreased in June. The former fell for the first time in four months, though at a slight rate. Payroll numbers dropped for the ninth consecutive survey period, but the pace of contraction was only marginal. Panellists indicated the non-replacement of voluntary leavers.

Purchasing costs rose again in June, with chemicals, food, paper, plastics, rubber and textiles the main items reported to be up in price. The rate of inflation remained weaker than its long-run trend and was at a four-month low. Charges were also raised further but, as was the case for costs, the rate of inflation was below the series average.

Finally, goods producers maintained a positive view regarding the 12-month outlook for output. Factors listed as likely to support growth were: new product

launches, promotional activities and expansion into new markets.

**Comment:**

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

*“The upturn in manufacturing was interrupted during June as weak domestic demand triggered reductions in output and employment. These factors, combined with stagnant order books and a softer increase in input stocks, resulted in a PMI reading that was consistent with worsening operating conditions in the sector.*

*“That said, the PMI average for the second quarter of 2017 was in expansion territory and above the one seen in Q1. This indicates that manufacturing looks set to provide a stronger contribution to GDP than it did in the opening quarter. For 2017 as a whole, IHS Markit forecast economic growth to hold steady at 5.0%.*

*“Survey data brought about positive news regarding trade, with goods producers noting the fastest rise in new export orders since September 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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