Nikkei Indonesia Manufacturing PMI™

Output rises amid new business gains

Key points:

- Slight increase in order books supports production growth...
- ...but employment and buying levels decline again
- Rate of cost inflation at 14-month high

Data collected January 11-23

The health of Indonesia's manufacturing industry improved in January as a rebound in new work intakes led firms to scale up output. However, strong cost increases restricted companies' purchasing activity, while further job shedding was recorded. Survey data also highlighted ongoing spare capacity in the sector as backlogs decreased for the thirty-second consecutive month. Encouragingly, business confidence regarding the 12-month outlook for production improved.

Posting above the crucial 50.0 threshold for the first time in four months, the headline Nikkei Indonesia Manufacturing *Purchasing Managers' Index*™ (*PMI*)™ – a composite single-figure indicator of manufacturing performance – pointed to an overall improvement in operating conditions across the sector. The PMI was up from 49.0 in December to 50.4 in January.

Supporting the upward movement in the headline index were increases in new orders and output, both of which expanded for the first time in four months. The rise in order books was linked by survey participants to better marketing activities and improved client confidence. Data implied that the upturn was centred on the domestic market as new export orders contracted for the fourth straight month, with firms blaming the reduction on competitive pressures and subdued demand from international clients.

There was a mixed picture with regards to stock levels as holdings of manufactured goods were broadly unchanged and pre-production inventories fell. Where stocks of finished goods rose, panellists commented on lower-than-expected sales. Firms noting a decline indicated that orders were fulfilled directly from inventories. Concurrently, the contraction in stocks of purchases was blamed on lower input buying.

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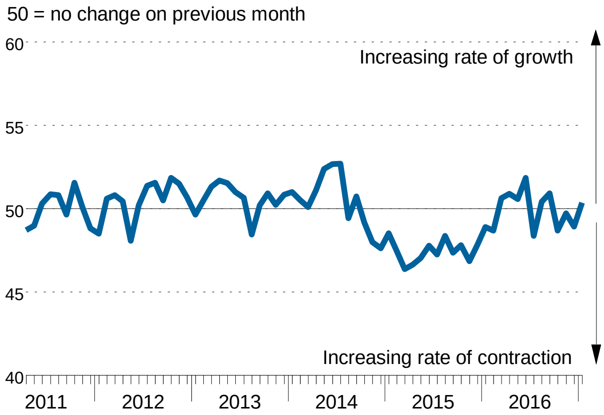

Sources: Nikkei, IHS Markit

Indeed, quantities of purchases decreased for the second month running, with the rate of contraction matching the slight pace seen in December. In many cases, survey members indicated that input buying had been postponed in line with sharp cost increases.

Amid reports of higher prices for petrol, paper, chemicals, textiles, metals and plastics, average input costs rose during January. Furthermore, the rate of inflation was sharp and the most pronounced since November 2015. Some companies passed on to their clients part of the additional cost burden, as highlighted by a further increase in output prices. Although modest overall, the rate of charge inflation was at an 11-month high.

In line with technological advancements in some factories, employment fell in January. The rate of contraction was only slight, but the fastest in the current four-month sequence of job losses. Another factor contributing to job shedding was spare capacity. Outstanding business decreased for the thirty-second consecutive month.

Manufacturers' sentiment improved in January, with almost 82% of survey participants expecting higher output in the year ahead. New product launches, business expansion plans and better marketing campaigns were among the reasons boosting optimism.

Continues…

Comment:

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

"The turn of the year saw an improvement in business conditions at manufacturers in Indonesia as a return to growth of new work led companies to scale up production. PMI data showed that the upturn was domestically driven as new export orders dipped again. Looking ahead, the trend for trade will remain challenging given so much uncertainty surrounding the global economy. On the other hand, recent moves by Bank Indonesia to lower interest rates are likely to fuel consumer spending."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)
Pollyanna De Lima, Economist
Telephone +44 1491 461 075
Email pollyanna.delima@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

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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