Nikkei Indonesia Manufacturing PMI™

Manufacturing economy back in contraction territory

Key points:

- After improving in January, business conditions deteriorate in February
- New orders, production and employment all fall
- Second-fastest rise in input costs since November 2015

Data collected February 9-20

Having improved in January for the first time in four months, operating conditions across Indonesia's manufacturing economy worsened in February. Falling new work led companies to scale back output and reduce payroll numbers. Stocks of pre- and post-post production items decreased, while buying levels were unchanged. On the price front, a further sharp increase in cost burdens was recorded, but factory gate charges were raised only slightly.

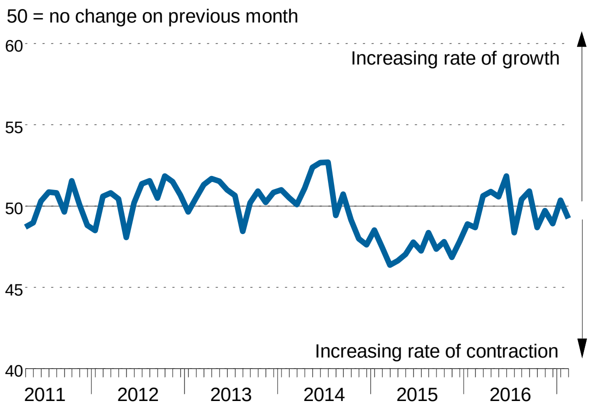
The headline Nikkei Indonesia Manufacturing *Purchasing Managers' Index™* (*PMI™*) fell from 50.4 in January to 49.3 in February, signalling an overall deterioration in the health of the manufacturing sector. The below-50.0 reading reflected contraction in four of the five PMI sub-components, namely output, new orders, stocks of purchases and employment. Concurrently, delivery times slowed over the month.

Amid reports of deteriorating purchasing power among consumers, total new orders received by Indonesian manufacturers fell in February. This followed an upturn in January. New export business decreased for the fifth straight month, which panel members blamed on challenging economic conditions at the global level.

These setbacks led manufacturers to lower production and employment in February. Output fell only moderately, but the latest downturn reversed the increase registered in January. Meanwhile, the contraction in payroll numbers was the fifth in as many months.

February data highlighted spare capacity among manufacturers as unfinished business decreased for the thirty-third straight month and to a greater extent than in January.

Nikkei Indonesia Manufacturing PMI



Sources: Nikkei, IHS Markit

Holdings of both post- and pre-production items fell in February. The latter declined for the fourth successive month, although only slightly. After being broadly unchanged in January, stocks of finished goods reportedly dipped in line with lower production volumes.

Input costs rose further, amid evidence of higher prices paid for a range of commodities. In part, this was attributed by panellists to the stronger US dollar. Overall, the rate of cost inflation was robust and the second-fastest in 15 months. Subsequently, factory gate charges were raised for the sixth successive survey period in February, though the rate of inflation was slight overall and remained much weaker than that seen for purchasing prices.

Buying levels were unchanged in February, having fallen in each of the previous two months. Those companies reporting higher quantities of purchases commented on efforts to build up stocks, whereas firms signalling contraction mentioned fewer production needs.

Hopes of better demand conditions, enhanced marketing campaigns and capacity expansion plans underpinned manufacturers' confidence towards the year-ahead outlook for production. Nevertheless, concerns regarding competitive pressures and an uncertain external environment weighed on sentiment, with the degree of optimism at a 21-month low in February.

Continues…

Comment:

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

"Following the economic rebound seen at the start of 2017, the Indonesian manufacturing industry is back in the red as output and new orders fell during February. A lack of domestic demand coupled with weakness in global markets meant that opportunities to capture new work were scarce. Meanwhile, there was further despair on the employment front as staffing levels declined for the fifth straight month.

"That said, IHS Markit expect Indonesian economic growth to pick up marginally to 5.1% in 2017, with domestic demand receiving support from both monetary policy stimulus implemented during the past year and government reforms, which should bolster foreign investment."

-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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