Nikkei Indonesia Manufacturing PMI™

Operating conditions deteriorate during December

Key points:

- Headline PMI at 49.3 in December
- Output and new orders decline
- Input prices rise at the fastest pace since June

Data collected December 5-14

Operating conditions across Indonesia's manufacturing economy deteriorated for the first time in five months during December. The downturn was partially driven by renewed declines in output and new orders. As a result, firms cut their staffing levels at a modest pace and reduced their inventory holdings. On the price front, input price inflation accelerated to the sharpest since mid-2017, which led to a further increase in output charges.

The headline seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index™ (PMI™)* fell from 50.4 in November to 49.3, which was indicative of a marginal deterioration in the overall health of the goods-producing sector. Notably, it was the first time the PMI had posted below the neutral 50.0 level since July.

The sub 50.0 PMI reading was partly due to a contraction in production for the first time in three months. Moreover, the rate of decline was the fastest recorded since July. Panellists generally commented on subdued demand conditions and raw material shortages.

The volume of new orders received by Indonesian manufacturers decreased for the first time in five months during December. However, the rate of contraction was marginal. Mirroring the trend seen for total new orders, new export work declined during December. That said, the rate of reduction was modest and broadly in line with the long-run series average.

Manufacturing companies in Indonesia continued to reduce their staffing levels in December. However, the pace of job shedding was unchanged from November and modest. Firms associated a decline in employment with lower production requirements.

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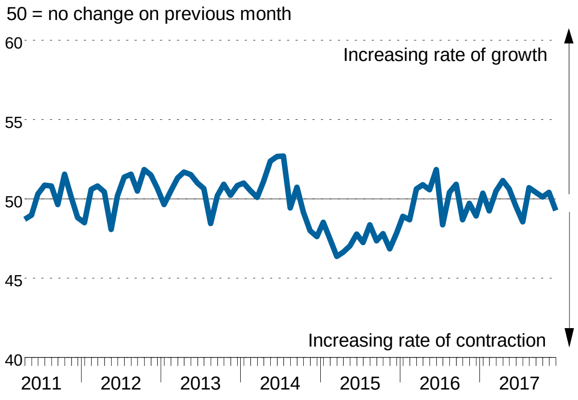

Sources: Nikkei, IHS Markit

Input prices increased at the fastest pace since June. Greater cost burdens were linked by panellists to higher imported raw material costs stemming from the weakness of the Indonesian rupiah. Subsequently, firms raised their average selling prices. That said, the rate of output charge inflation softened from the preceding month and was modest.

Amid reports of road repairs and flooding, suppliers faced difficulties in transporting raw and semi-finished items which led to slower average lead times.

Despite reduced new work, purchasing activity increased in December. That said, the rate of growth was marginal overall. At the same time, manufacturers decreased their stocks of both purchased and finished items amid reports of subdued client demand.

Finally, business sentiment towards future output expectations was the strongest since June. Forecasts of improved demand conditions, new products, new marketing strategies and planned business expansions were key factors behind business confidence, according to anecdotal evidence. Nevertheless, the respective index remained below the long-run series average.

Comment:

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

"Indonesia's manufacturing sector ended 2017 on a weaker footing, with the health of the sector deteriorating for the first time in five months. Latest data indicated that subdued client demand led to renewed falls in both output and new orders. Furthermore, new export orders declined for the first time since July amid reports of reduced international demand for Indonesian manufacturing goods.

"Input price inflation accelerated to the sharpest since June, linked to higher imported raw material costs emanating from the weakness of the Indonesian rupiah relative to the US dollar. In response to narrowing interest rate differentials from continued monetary policy tightening by the US Fed, currency depreciation is likely to continue over the coming months. Therefore cost pressures could intensify further as we head into 2018. At the same time, manufacturers were restricted in their ability to fully pass on higher cost burdens to customers as firms faced intensive market competition.

"On the jobs front, firms continued to reduce their staffing levels in response to weak demand conditions. On the bright side, the Future Output Index signalled the strongest degree of optimism towards the 12-month outlook since June. Nevertheless, the respective index remained below the long-run series average."

-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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