

HSBC Indonesia Manufacturing PMI™

Indonesian manufacturing sector expands at fastest pace for ten months

Summary

Operating conditions in the Indonesian manufacturing sector showed another modest improvement in August. Output increased at a sharper rate, underpinned by a further rise in new orders. Companies added to their staffing levels, while stocks of purchases grew at a faster pace. Supplier delivery times meanwhile lengthened marginally.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month while readings below 50.0 show a deterioration. The PMI is composed of five sub-indices tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases.

The PMI recorded 51.6 in August, up fractionally from 51.4 in July. Although indicative of only a moderate improvement overall, the latest reading was the highest for ten months.

New order growth was recorded for the third month running in August. Panellists commented on solid market demand and increased numbers of customers as factors supporting the rise in new work. Data suggested that domestic demand was the principal support to new order growth, as export sales decreased slightly.

Rising inflows of new business helped stabilise backlogs of work during August. This ended the sequence of contraction that had been observed since data collection started in April 2011.

Employment growth was sustained for a third consecutive month in August. That said, the rate of job creation was only marginal, with the vast majority of firms reporting unchanged staffing levels.

Purchasing activity by Indonesian manufacturers increased further during August. Moreover, the rate of expansion accelerated to a solid pace that was the strongest in five months. Stocks of purchases consequently rose for the second month running. Supplier delivery times lengthened slightly, with a number of respondents commenting on transportation difficulties.

Input prices continued to rise in August, amid reports of higher prices for a range of raw materials. However, the rate of cost inflation was the lowest for eight months and weaker than the survey's long-run average.

Indonesian manufacturers passed on part of the increase in their costs to clients in the form of higher selling prices during August. The rate of output price inflation was solid and faster than in the previous month,

although remained weaker than that signalled for input costs.

Finally, stocks of finished goods rose for a second successive month in August, as manufacturers expanded their inventories in anticipation of further new order gains. However, the rate of growth eased to only a marginal pace.

Comment

Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"Amid the ongoing contraction in PMIs around the region, the steady improvement in Indonesia's manufacturing sector is heartening. The smaller reduction in new export orders is also encouraging, and suggests that the decline in demand particularly from key Asian markets may be starting to bottom out."

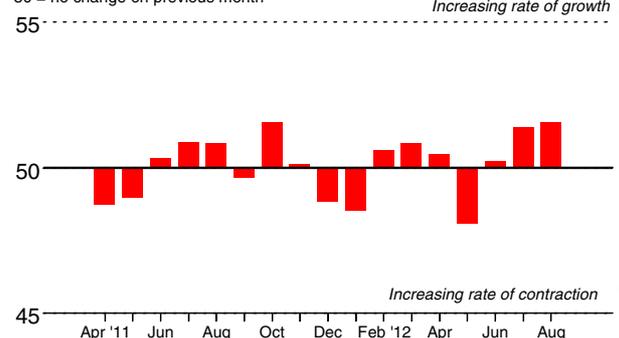
Key points

- Output growth quickens as new orders continue to rise
- Purchasing activity increases at stronger rate
- Input price inflation eases to eight-month low

Historical Overview

HSBC Indonesia PMI

50 = no change on previous month



Sources: Markit, HSBC.

For further information, please contact:

HSBC

Su Sian Lim, ASEAN Economist
Telephone +65-6658-8783
Email susianlim@hsbc.com.sg

Maya Rizano, Head of Group Communications
Telephone + (62-21) 5291 5110
E-mail mayasrizano@hsbc.co.id

Mutiara Asmara, SVP External Communication
Email mutiaraasmara@hsbc.co.id

Markit

Jack Kennedy, Senior Economist
Telephone +44-1491-461-087
Email jack.kennedy@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-78-1581-2162
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC Indonesia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indonesian GDP. 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'.

The *Purchasing Managers' Index™ (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.

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.

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@markit.com.

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