

HSBC Indonesia Manufacturing PMI™

Output increases for first time since December 2012

Summary

March data signalled an improvement in operating conditions across the Indonesian manufacturing sector. Underpinning this was a faster expansion in new orders, which in turn supported a slight rise in production. Export business and input buying both rose, while stocks of purchases were broadly unchanged from February.

The headline *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. The seasonally adjusted index remained above the no-change mark of 50.0 during March, posting 51.3 (up from 50.5 in February). The latest reading indicated only a slight improvement in business conditions, but was the highest posting in four months.

Incoming new work placed with Indonesian manufacturers rose for a tenth consecutive month in March. Furthermore, the rate of expansion was solid and accelerated to the fastest since last November. New business growth was supported by stronger domestic and foreign demand. This was highlighted by a rise in new export orders, albeit only slight.

The rise in new work resulted in a further accumulation in the level of outstanding business at Indonesian manufacturers during March. Backlogs of work increased for the fourth successive month, but the rate of accumulation was only slight and weaker than that seen in February.

Stronger demand for Indonesian manufactured goods encouraged firms to increase their post-production inventories. However, with 15% of panellists indicating an accumulation in their stocks of finished goods and 12% reporting a fall, the overall rate of increase was only slight.

Manufacturers signalled falling employment levels during March, the fifth consecutive monthly decline registered. Some panel members reported that the rise in the minimum wage had discouraged them from hiring, following staff resignations and retirement.

The quantity of inputs bought by Indonesian manufacturers rose solidly in March, and at the sharpest rate since November 2012. Nevertheless, stocks of raw materials held by firms were broadly unchanged from the previous month.

Meanwhile, average delivery times from suppliers lengthened further, but at the slowest pace in the current three-month sequence of worsening vendor performance.

Input costs continued to rise sharply in March, although the rate of inflation was broadly unchanged since June. Panel members reported higher prices paid for raw materials in general and unfavourable exchange rates. Manufacturers passed on to clients part of the cost inflation burden by increasing charges. Although solid, the rate of output price inflation was weaker than that recorded in February.

Comment

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

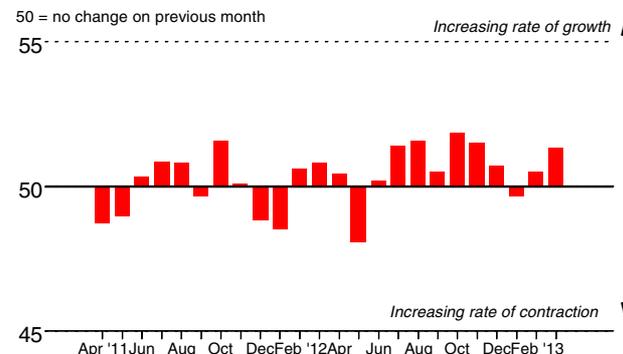
"There is ongoing recovery in manufacturing activity, even if moderate. Domestic rather than external demand seems to be the driver here, with new orders improving notably but new export orders seeing a smaller rise. As evidenced by both the input and output price indices, inflationary pressures also remain sticky. This is despite indications that weather-related disruptions to the supply chain had eased, as reflected by a less acute deterioration in suppliers' delivery times."

Key points

- Growth in total new orders fastest in four months
- New export orders expand slightly
- Solid rise in purchasing activity

Historical Overview

HSBC Indonesia PMI



Sources: Markit, HSBC.

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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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