HSBC Purchasing Managers' Index™ Press Release

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HSBC Indonesia Manufacturing PMI™

Operating conditions improve further with PMI at six-month high

Summary

Manufacturing operating conditions in Indonesia improved for the third month running in April. The headline HSBC *Purchasing Managers' Index™ (PMI™)* – a seasonally adjusted index derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – posted 51.7 in April, up slightly from 51.3 in March. The upward movement reflected stronger contributions from four of its five components. Despite being at a six-month high, the latest reading indicated that business conditions improved only moderately.

New orders expanded for the eleventh consecutive month in April, amid evidence of strengthening demand. The rate of growth was solid, but eased from March. Consequently, output rose further, but with approximately one-fifth of respondents indicating higher production levels and 16% noting a fall, the overall pace of increase was moderate. New business from abroad also expanded, albeit fractionally.

April data signalled that input buying in the Indonesian manufacturing sector rose. Almost 22% of panel members indicated a higher purchasing activity, citing strengthening demand. The pace of expansion was solid and little-changed from that seen in March. Correspondingly, pre-production inventories increased. The rise in holdings of raw materials and semi-finished goods was, however, only slight. Similarly, stocks of finished goods were accumulated for the second successive month. That said, the overall rate of expansion was only fractional. Anecdotal evidence suggested that post-production stocks were accumulated in tandem with output growth.

For the first time since October 2012, employee headcounts in the Indonesian goods-producing sector rose during April. The overall pace of job creation was, however, only fractional. Almost 8% of survey participants indicated higher employment levels, mentioning increased production requirements. Conversely, 7% of panellists reported job losses. Despite increasing workforces, backlogs of work were accumulated. That said, the volume of work-in-hand (but not yet completed) rose only fractionally and at the slowest pace in the current five-month sequence of expansion.

Continuing the trend that has been observed in each month since the survey started in April 2011, prices paid for inputs by firms operating in the Indonesian manufacturing sector increased. The overall rate of cost inflation was sharp, but eased to the slowest in four months. Around one-quarter of respondents indicated

higher purchasing costs, mentioning that leather, electricity, machinery tools and raw materials in general had all increased in price. Consequently, factory gate prices rose sharply and at a faster rate than that seen in March. Output prices have increased throughout the 25-month series history.

Comment

Commenting on the Indonesia Manufacturing PMI^{TM} survey, Leif Eskesen, Chief Economist for India & ASEAN at HSBC said:

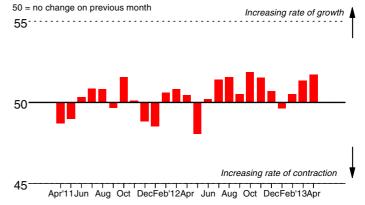
"Activity in the manufacturing sector firmed in April led by faster output and employment growth, which outweighed a deceleration in new order flows from, in particular, foreign clients. Input price inflation remained high, although it eased a tad. However, output prices rose at an accelerated pace, likely reflecting the passthrough of the previous months' run-up in cost pressures. The numbers suggest that the BI should stand ready to tighten monetary policy to contain inflation pressures and we are currently looking for the first salvo to be delivered around the middle of the year with a hike in the FASBI rate."

Key points

- Moderate expansion in manufacturing output
- New orders rise solidly, but growth eases
- Solid increase in purchasing activity

Historical Overview

HSBC Indonesia PMI



Sources: Markit, HSBC.





For further information, please contact:

HSBC

Leif Eskesen, Chief Economist for India & ASEAN Telephone +65-6239-0840 Email leifeskesen@hsbc.com.sg

Mutiara Asmara, SVP External Communication Telephone + (62-21) 5291 5385 Mobile + (62-87) 887570128 Email <u>mutiaraasmara@hsbc.co.id</u> Maya Rizano, Head of Group Communications Telephone + (62-21) 5291 5110 E-mail mayasrizano@hsbc.co.id

Markit

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@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' IndexTM (PMITM)* 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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