HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Indonesia Manufacturing PMI™

Manufacturing operating conditions improve for fourth consecutive month

Summary

May data pointed to a further improvement in operating conditions across the Indonesian manufacturing sector. 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 above the no-change level of 50.0 for the fourth month running. At 51.6, the PMI was broadly unchanged from April's six-month high (51.7) and indicated a moderate expansion in the country's goods-producing sector.

Output increased for the third consecutive month in May, amid evidence of higher levels of incoming new work. Growth in production remained moderate and eased slightly from April. New work intakes also expanded at a moderate pace, with 27% of monitored companies indicating higher order book volumes and 21% noting a decline. According to panellists, solid demand was maintained over the month.

New export orders in the Indonesian goods-producing sector rose for the third successive month during May. Although modest, the overall rate of growth was the fastest since last November. Monitored companies largely commented on improved demand from Chinese, Japanese and Vietnamese clients.

In line with higher volumes of new orders, manufacturers increased their input buying during May, taking the current period of rises to four months. The pace of expansion was solid, but the weakest since February. Consequently, holdings of raw materials and semi-manufactured goods were accumulated. However, with 19% of survey participants indicating higher stocks of purchases and 16% noting a depletion, the overall rate of inventory building was only slight.

Staffing levels in the Indonesian manufacturing sector rose for the second month running during May. The rate of job creation was, however, only slight and little-changed from April. Among those panel members that indicated additional hiring, this was mainly linked to higher production requirements.

Backlogs of work fell, ending a five-month period of accumulation. That said, the pace of depletion was only slight, with 12% of companies indicating lower unfinished business levels and 10% noting a rise. Meanwhile, post-production inventories decreased slightly during May. According to survey participants, stocks of finished goods were used to fulfil part of the increase in new orders.

Average purchase prices in the Indonesian manufacturing sector rose further during May. The overall rate of cost inflation was robust, but eased to the slowest in five months. Higher prices paid for raw materials and unfavourable exchange rates were mentioned by surveyed companies. As a result, goods producers increased their selling prices again. The rate of charge inflation eased from April, but remained solid. Input and output prices have both increased throughout the 26-month survey history.

Comment

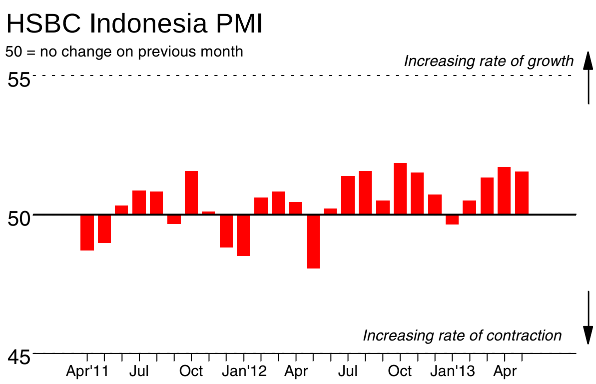
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"Manufacturing activity in Indonesia continued to expand in May. This time round, however, external rather than domestic demand seems to be the bigger driver of manufacturing activity, with new orders little-changed from April but new export orders significantly stronger. Rises in input and output prices eased, but the ongoing deterioration in suppliers' delivery times suggests that we cannot be too relaxed about the inflation outlook as structural factors continue to impede the bringing of goods to market."

Key points

- PMI little-changed from April's six-month high
- Both new orders and output expand moderately
- Growth in export orders fastest in current three-month sequence of rises

Historical Overview



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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