HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Indonesia Manufacturing PMI™

PMI signals slight improvement in operating conditions

Summary

Operating conditions in the Indonesian manufacturing sector improved for the fifth consecutive month in June. 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 51.0, down from 51.6 in May. Despite falling to the lowest level in four months, the PMI averaged 51.4 in the second quarter of the year, up from that seen in Q1 2013 (50.5).

Output increased for the fourth successive month, albeit only marginally and to the least marked degree in that sequence. Panel members linked the slowdown in production growth to weaker gains in incoming new work and adverse weather conditions.

Order book volumes in the Indonesian manufacturing sector rose for the thirteenth month running in June. The overall rate of expansion was, however, slight and the slowest since February. Anecdotal evidence suggested that demand was maintained, but sluggish orders from European clients and unfavourable exchange rates both had resulted in weaker new order growth.

June data pointed to falling export business at manufacturers in Indonesia, the first decline in four months. The latest contraction in foreign orders was commonly associated with increased competition, unfavourable exchange rates and weaker demand from European clients.

Evidence of spare capacity was signalled as outstanding business levels decreased for the second consecutive month. Nonetheless, the rate of contraction was only fractional and eased from May. Manufacturers signalling lower backlogs of work commented on additional hiring. Staffing levels rose slightly, but at the fastest pace in 20 months.

Encouragingly, companies increased their buying activity in June. The latest expansion was solid, and faster than in May. Meanwhile, average lead times lengthened for the sixth successive month, and to a greater extent than seen one month previously. Increased pressure at suppliers, combined with poor road conditions and adverse weather resulted in deteriorating vendor performance.

Pre- and post-production stocks were both depleted slightly in June. Evidence from panellists suggested that holdings of raw materials and semi-manufactured goods fell in line with delayed suppliers' deliveries and cost-cutting measures, whereas stocks of finished goods were used to fulfil demand.

Input costs increased again in the latest month, with survey participants commenting on higher raw material prices, in particular fuel and oil. The overall rate of cost inflation was, however, at a six-month low. Manufacturers meanwhile increased their tariffs further, although the pace of charge inflation also eased to the weakest in six months.

Comment

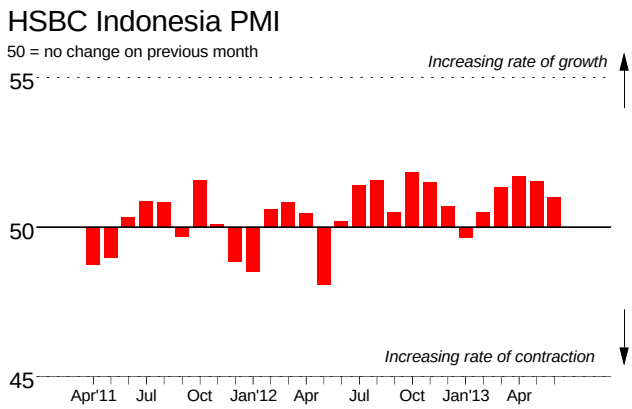
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"Manufacturing activity in Indonesia continues to expand, but at a moderate pace. The slight contraction in new export orders - the first in four months - points to external headwinds amid a fragile global economic recovery. Nevertheless the overall PMI reading suggests that robust domestic demand continues to more than offset this drag. Some domestic resources, such as labour, continue to remain stretched, as evidenced by the employment sub-index rising to a 20-month high."

Key points

- Manufacturing economy expands at slowest pace in four months
- Output growth eases
- Slight rise in total new orders, but export business falls

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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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics