HSBC Purchasing Managers' Index™ Press Release
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HSBC Indonesia Manufacturing PMI™

Manufacturing production stagnates as cost inflation hits series record

Summary

Output in the Indonesian manufacturing sector stagnated in July, ending a four-month expansionary sequence. Similarly, total new orders were unchanged, while export business fell for the second consecutive month. Meanwhile, a sharp increase in fuel costs resulted in the strongest rise in purchasing prices since data collection started in April 2011.

The headline HSBC *Purchasing Managers' Index™ (PMI™)* – a seasonally adjusted composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 50.7 in July, down slightly from 51.0 in June. Despite falling for the third consecutive month, the latest reading indicated that manufacturing business conditions in Indonesia continued to improve, although marginally. July data highlighted positive contributions from the employment, suppliers' delivery times and stocks of goods purchased sub-indices.

Production and new orders both stagnated in July. Monitored companies reporting lower output commented on a lack of new work to replace finished projects, while firms signalling higher output generally mentioned that demand was maintained. The stagnation in order book volumes followed a 13-month period of growth. Concurrently, new business from abroad decreased for the second successive month in July, amid reports of weaker demand from European clients and tough economic conditions globally. Despite being moderate, the overall rate of contraction was faster than that seen one month previously.

Input prices rose sharply in July. Furthermore, the rate of cost inflation accelerated to the quickest in the short 28-month series history. Anecdotal evidence suggested that fuel price hikes and increased raw material costs both fed through to the latest rise in overall purchase prices. Output charges were then increased further, as firms attempted to pass on higher cost burdens. The rate of charge inflation was sharp, and the second-fastest in the series history.

Manufacturers in Indonesia increased their input buying in July, as has been the case since February. That said, the rate of growth was only modest and eased to the weakest in five months. Panel members reporting higher purchasing activity mentioned that this was intended for inventory building. Correspondingly, stocks of both purchases and finished goods were accumulated, following contractions indicated in June. The rates of increase were, however, slight in both cases.

Backlogs of work in the Indonesian manufacturing sector rose in July, amid evidence of unfavourable weather, delayed delivery of raw materials and machinery repairs. Nonetheless, the pace of accumulation was only slight. As a result, firms hired additional employees for the fourth successive month. The rate of job creation was slight and little-changed from June. Meanwhile, average lead times lengthened, with companies commenting on arrangements with suppliers for later deliveries due to higher fuel costs.

Comment

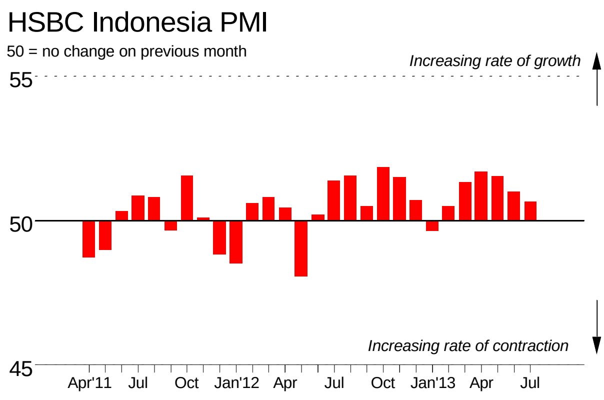
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"Manufacturing conditions in July improved only marginally, reflecting increasing external drag as new export orders contracted for a second straight month. Manufacturers' margins were also under pressure, with input prices rising at a record pace on the back of higher hike subsidized fuel prices. It remains to be seen if manufacturing activity will pick up to more robust levels in the near-term, with inventories for future production being accumulated at a slight pace."

Key points

- Output and new order levels both unchanged in July
- Export orders contract for second month running
- Input costs rise at strongest rate in survey history

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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