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# HSBC Indonesia Manufacturing PMI™

PMI rises to nine-month high as new order growth quickens

**Key findings:**

- Strongest rise in new work since October 2011
- Improved domestic demand offsets sharper fall in export sales
- Production increases for first time in four months

Latest data signalled an improvement in Indonesian manufacturing sector operating conditions during July. Underpinning this was a faster rise in new orders, which in turn supported a slight expansion of output. Employment and stocks of purchases also rose, while average supplier delivery times were broadly unchanged.

The headline figure derived from the survey is the *Purchasing Managers' Index™ (PMI™)*. Readings above 50.0 signal an improvement in business conditions on the previous month while readings below 50.0 show a deterioration. The PMI is composed of five sub-indices tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases.

The PMI registered 51.4 in July, up from 50.2 in June. That was its highest posting since October 2011, albeit indicative of only a modest improvement in business conditions in the Indonesian manufacturing sector.

The amount of new orders placed with Indonesian manufacturers rose for a second consecutive month in July. Furthermore, the pace of expansion quickened to the fastest since October 2011. Growth of new business was primarily supported by improved domestic demand. This was highlighted by the fact that new export orders fell for the fourth month running, and at the sharpest rate since April 2011.

The rise in new work was insufficient to prevent a further reduction

in the level of outstanding business at Indonesian manufacturers during July. Backlogs have decreased throughout the survey's short history, although the latest drop was weaker than that registered in the previous month.

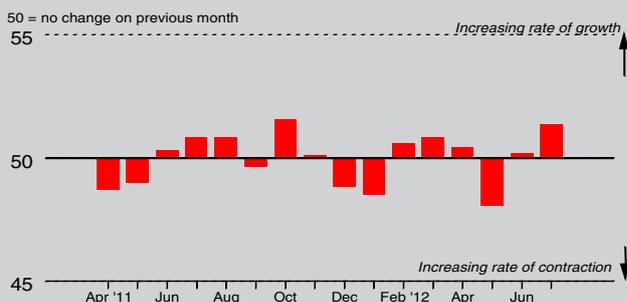
Stronger demand for Indonesian manufactured goods encouraged firms to boost their stocks of finished goods. Post-production inventories rose, albeit at a modest rate.

Employment in the Indonesian manufacturing sector increased for a second successive month in July, albeit at a marginal pace. The majority of panellists (87%) signalled no change in staffing levels since June.

The quantity of inputs bought by Indonesian manufacturers rose in July, and at the sharpest rate in four months. This contributed to an increase in stocks of raw materials held by firms. Average delivery times from suppliers were broadly unchanged compared with one month previously.

Input prices continued to rise strongly in July, although the rate of inflation eased slightly since June. There were reports from a number of panel members of higher prices paid for general raw materials. Prices charged by Indonesian manufacturers for finished goods continued to increase. That said, the latest increase in factory gate prices was modest and the weakest since December 2011.

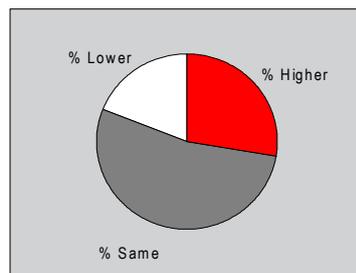
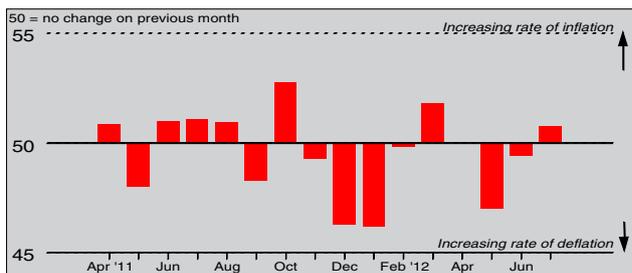
HSBC Indonesia Purchasing Managers' Index™ (PMI™)



The HSBC Indonesian *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI™ below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Output Index

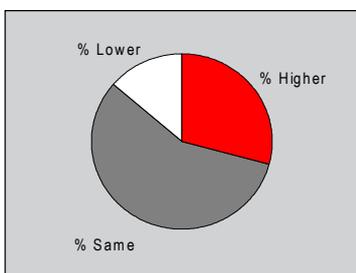
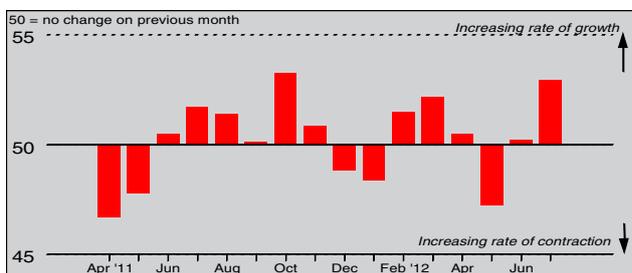
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Indonesia rose for the first time in four months in July. However, the rate of expansion was only marginal, as signalled by the seasonally adjusted Output Index posting fractionally above the 50.0 no-change level that divides growth from decline. Where an increase in output was recorded, this was generally attributed by panellists to higher new orders.

### New Orders Index

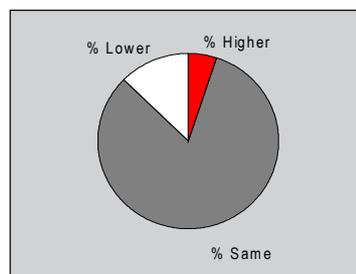
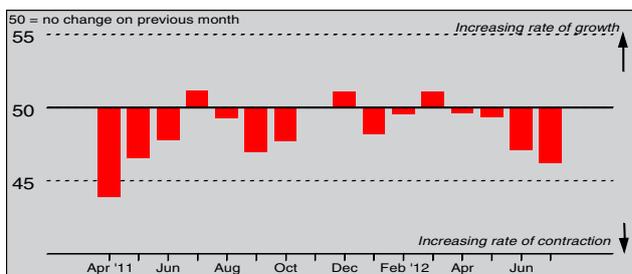
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



July data signalled a second consecutive monthly increase in new orders placed with Indonesian manufacturers. Moreover, the rate of growth quickened to the sharpest since October 2011. Anecdotal evidence suggested that the rise in new work was supported by stronger market demand and increased client activity levels.

### New Export Orders Index

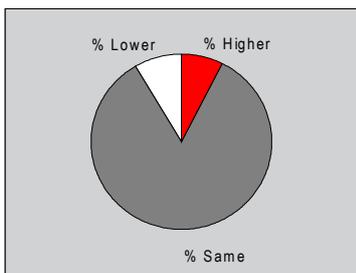
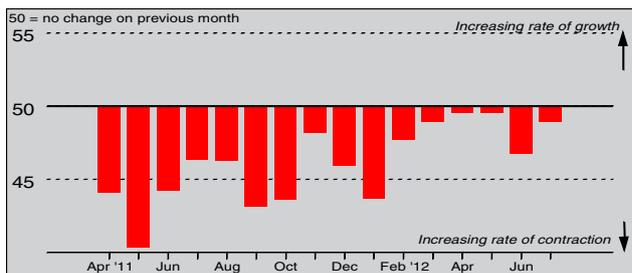
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders decreased further in July, extending the current period of contraction to four months. Moreover, the rate of decline accelerated to the sharpest since April 2011. Approximately 13% of panellists reported a decrease in new orders from abroad during the latest survey period, with some respondents citing weaker demand from clients based in Asia and Europe.

### Backlogs of Work Index

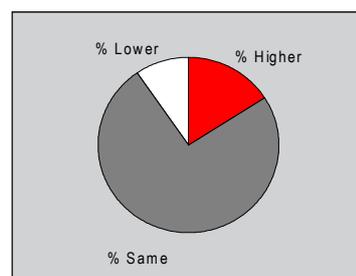
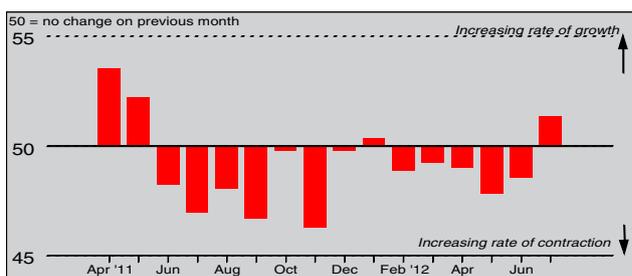
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Indonesian manufacturers decreased further in July, continuing the trend recorded since the start of the survey in April 2011. That said, the rate of decline was modest, having eased since the previous month. Anecdotal evidence suggested that companies' operating capacity was sufficient to deal with current workloads despite a rise in new orders during the latest survey period.

### Stocks of Finished Goods Index

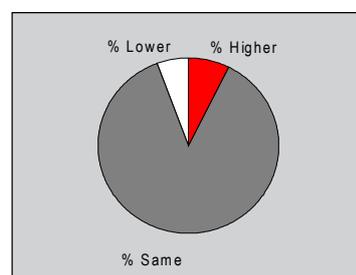
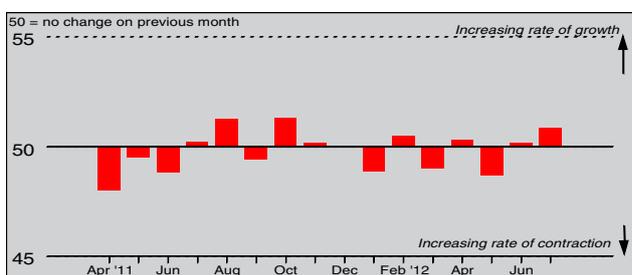
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories increased for the first time in six months during July. However, the rate of growth was modest. Around 16% of firms reported a rise in stocks of finished goods, which they attributed to higher output requirements and an increased inflow of new orders. Lower stock levels were recorded at just under 10% of panellists.

### Employment Index

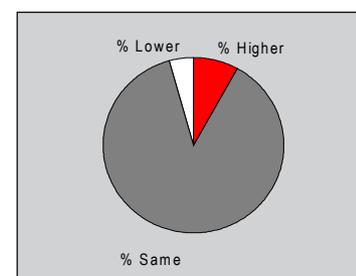
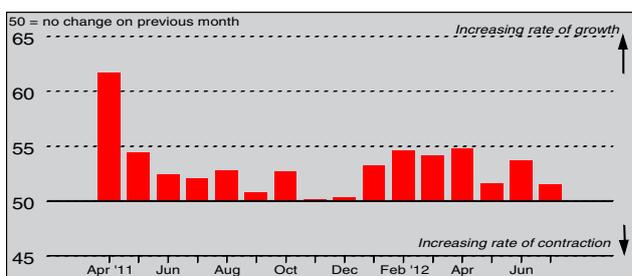
Q. Please compare the level of employment at your unit with the situation one month ago.



July data signalled a rise in staffing levels at Indonesian manufacturers for the second consecutive month. Although rising to its highest level since October 2011, the seasonally adjusted Employment Index pointed to only a marginal rate of job creation. The vast majority of companies (87%) reported no change in payroll numbers.

### Output Prices Index

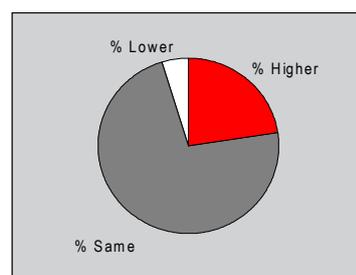
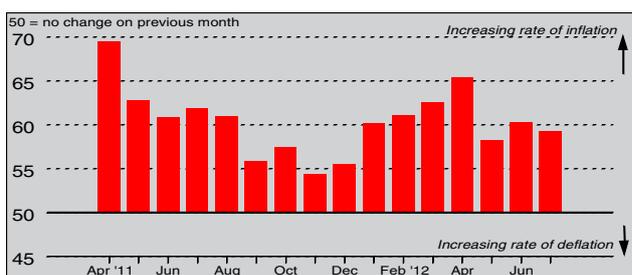
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices in the Indonesian manufacturing sector increased further in July, continuing the trend seen since the inception of the survey in April 2011. However, the rate of charge inflation eased to only a modest pace that was the weakest since December 2011, as indicated by the seasonally adjusted Output Prices Index dropping from 53.7 in June to 51.5.

### Input Prices Index

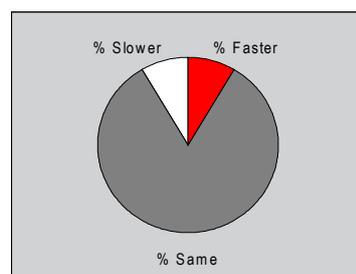
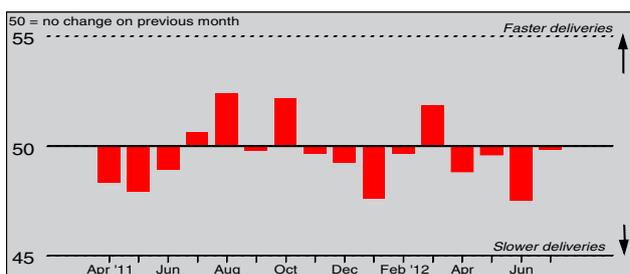
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by Indonesian manufacturers continued to rise at a strong rate in July, albeit one that was slightly slower than in the preceding month. The seasonally adjusted Input Prices Index posted 59.3, down from 60.3 in June. Higher purchasing costs were reported by around 23% of firms, compared with just under 5% that noted a decline. Survey respondents commented on higher prices paid for general raw materials.

### Suppliers' Delivery Times Index

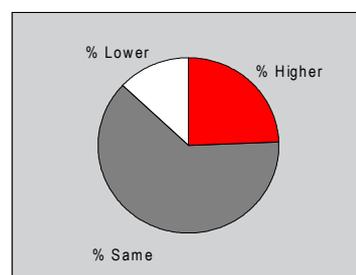
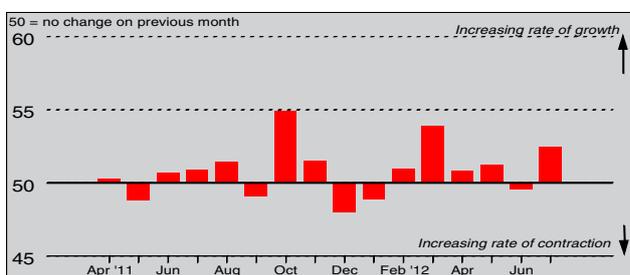
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times faced by Indonesian manufacturers from suppliers were broadly unchanged in July. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index posting only fractionally below the 50.0 no-change threshold. Those panellists that noted slower lead times cited higher demand for raw materials and transportation problems, while those that reported an improvement commented on specific requests for faster deliveries.

### Quantity of Purchases Index

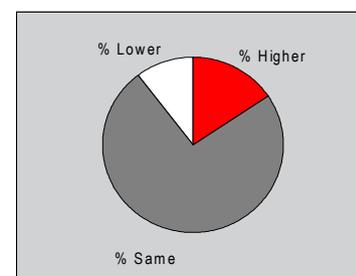
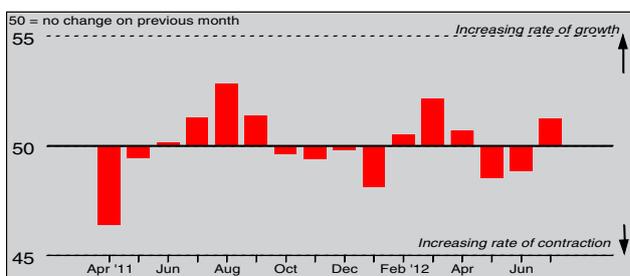
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity by Indonesian manufacturers rose in July following a slight drop the previous month. Although modest, the rate of growth was nevertheless the sharpest since March. Where a rise in input buying was recorded, this was generally attributed to increased new orders. Higher input buying was reported by around 24% of panellists, compared with 13% that noted a fall.

### Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Stocks of purchases held by Indonesian manufacturers increased for the first time in three months during July, albeit at a moderate pace. Higher pre-production inventories were recorded at around 16% of companies, and were generally attributed to increased quantities of inputs purchased. A fall in stocks was reported by approximately 10% of firms.

### Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified by Standard Industrial Classification (SIC) group and company size, based on industry contribution to Indonesian manufacturing value added. 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.

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