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HSBC Indonesia Manufacturing PMI™

Indonesian manufacturing sector expands at fastest pace for ten months

Key findings:

- · Output growth quickens as new orders continue to rise
- · Purchasing activity increases at stronger rate
- · Input price inflation eases to eight-month low

Operating conditions in the Indonesian manufacturing sector showed another modest improvement in August. Output increased at a sharper rate, underpinned by a further rise in new orders. Companies added to their staffing levels, while stocks of purchases grew at a faster pace. Supplier delivery times meanwhile lengthened marginally.

The headline figure derived from the survey is the *Purchasing Managers' Index* $^{\text{TM}}$ (*PMI* $^{\text{TM}}$). 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 recorded 51.6 in August, up fractionally from 51.4 in July. Although indicative of only a moderate improvement overall, the latest reading was the highest for ten months.

New order growth was recorded for the third month running in August. Panellists commented on solid market demand and increased numbers of customers as factors supporting the rise in new work. Data suggested that domestic demand was the principal support to new order growth, as export sales decreased slightly.

Rising inflows of new business helped stabilise backlogs of work during August. This ended the sequence of contraction that had been observed since data collection started in April 2011.

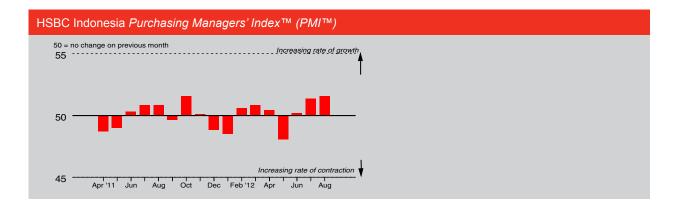
Employment growth was sustained for a third consecutive month in August. That said, the rate of job creation was only marginal, with the vast majority of firms reporting unchanged staffing levels

Purchasing activity by Indonesian manufacturers increased further during August. Moreover, the rate of expansion accelerated to a solid pace that was the strongest in five months. Stocks of purchases consequently rose for the second month running. Supplier delivery times lengthened slightly, with a number of respondents commenting on transportation difficulties.

Input prices continued to rise in August, amid reports of higher prices for a range of raw materials. However, the rate of cost inflation was the lowest for eight months and weaker than the survey's long-run average.

Indonesian manufacturers passed on part of the increase in their costs to clients in the form of higher selling prices during August. The rate of output price inflation was solid and faster than in the previous month, although remained weaker than that signalled for input costs.

Finally, stocks of finished goods rose for a second successive month in August, as manufacturers expanded their inventories in anticipation of further new order gains. However, the rate of growth eased to only a marginal pace.



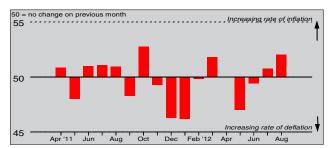
The HSBC Indonesian *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

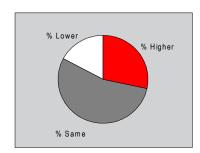




Output Index

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

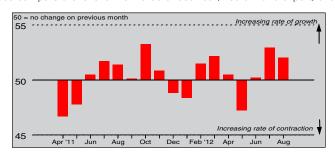


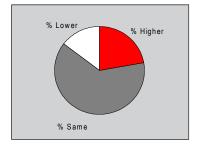


Indonesian manufacturing production continued to rise during August. The seasonally adjusted Output Index climbed to a ten-month high, although signalled a moderate rate of growth overall. Survey respondents indicated that higher production was supported by an increase in the level of incoming new orders.

New Orders Index

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

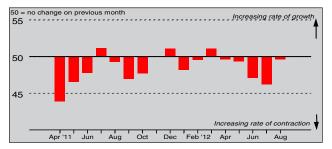


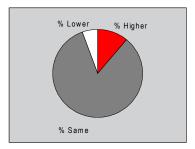


New orders received by manufacturers in Indonesia increased for the third month running during August. However, the rate of expansion was modest and weaker than that signalled in July. Around 22% of panellists reported a rise in new work during the latest survey period, which they linked to solid demand conditions and increased customer numbers.

New Export Orders Index

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

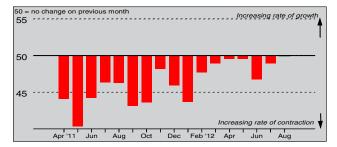


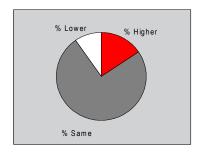


August data signalled a further reduction in new export orders in the Indonesian manufacturing sector, extending the current period of contraction to five months. However, the seasonally adjusted New Export Orders Index rose since the previous month, signalling that the rate of decline eased to only a marginal pace.

Backlogs of Work Index

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

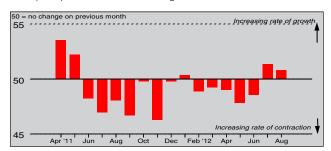


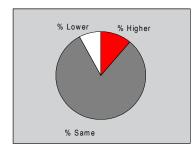


Backlogs of work in the Indonesian manufacturing sector were unchanged in August, ending the sequence of contraction that had been seen since the inception of the survey in April 2011. Where a rise in outstanding business was recorded, this was attributed by panellists to higher intakes of new business. Those respondents signalling a decline in backlogs cited sufficient operating capacity.

Stocks of Finished Goods Index

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

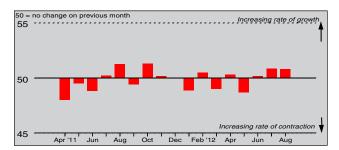


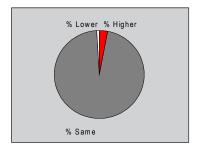


August data signalled a rise in stocks of finished goods at Indonesian manufacturers for the second consecutive month in August, albeit marginal. Approximately 11% of panellists reported an increase in post-production inventories, compared with just under 8% that noted a decline. Anecdotal evidence suggested that a number of firms raised stock levels in anticipation of further gains in new orders.

Employment Index

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

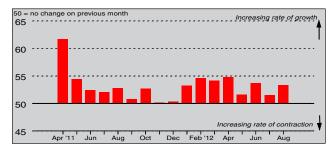


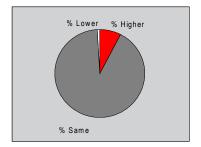


The seasonally adjusted Employment Index remained above 50.0 in August, signalling a further increase in staffing levels at Indonesian manufacturers. That said, the rate of job creation remained only marginal. Those panellists that hired additional employees generally did so in response to increased activity levels.

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.

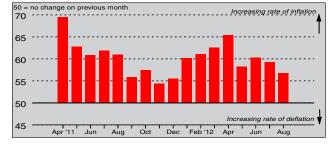


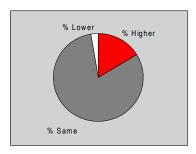


Output prices in the Indonesian manufacturing sector continued to increase in August. The rate of charge inflation was solid, having accelerated since July. Around 8% of panellists reported a rise in selling prices during the latest survey period, compared with just 1% that indicated a decline. The need to pass on higher input costs to customers was generally cited by those firms that raised output prices.

Input Prices Index

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

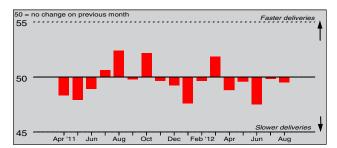


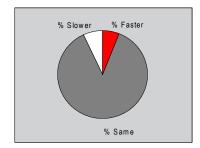


Input price inflation in the Indonesian manufacturing sector eased to an eight-month low in August, and was below the survey's historical average. That said, the latest increase was still marked, with around 16% of panellists reporting a rise versus fewer than 3% signalling a decline. Higher prices were reported for a range of raw materials during the latest month.

Suppliers' Delivery Times Index

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

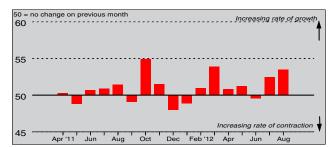


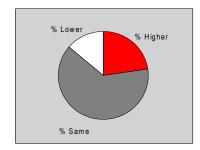


Supplier delivery times faced by Indonesian manufacturers lengthened on average for the fifth month running during August, albeit only marginally. Longer lead times were in many cases linked by panellists to transportation problems. Increased demand for inputs was also cited as a factor contributing to slower deliveries.

Quantity of Purchases Index

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



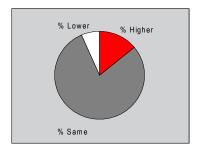


The quantity of raw materials and semi-manufactured goods ordered by Indonesian manufacturers increased further in August. Moreover, the rate of growth quickened to a five-month high, as signalled by a rise in the seasonally adjusted Quantity of Purchases Index. Increased purchase volumes were attributed by panellists to higher production requirements.

Stocks of Purchases Index

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





Latest data indicated a rise in stocks of purchases at Indonesian manufacturers for the second consecutive month during August. Although moderate, the rate of expansion was the sharpest since March. Around twice as many panellists noted an increase in pre-production inventories (14%) than signalled a decline (around 7%).

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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