Embargoed until: 1 November 2012

# HSBC Indonesia Manufacturing PMI™

Production rises at fastest rate in 12 months

## **Key findings:**

- · Fifth consecutive increase in new orders
- First expansion in new export orders since March
- · Workforces increase slightly

Output at Indonesian manufacturing firms increased further during October. New orders and new export orders both rose. Input and output price inflation was recorded, as has been the case since the survey began in April 2011. Meanwhile, pre- and post-production inventories were accumulated. Purchasing activity also increased, and at the fastest rate in 12 months.

The seasonally adjusted *Purchasing Managers' Index*<sup>TM</sup> (*PMI*<sup>TM</sup>) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.9 in October, up from the reading of 50.5 in September and pointing to a further improvement in the health of the manufacturing sector. The latest data pointed to the fastest improvement recorded in the 19-month series history so far.

Production at manufacturing companies in Indonesia increased during October at the fastest rate in 12 months. With almost one-quarter of the survey panel signalling higher output, the rate of expansion was solid. According to respondents, higher order intakes led to the latest increase in production.

Order book volumes at manufacturing companies in Indonesia rose for the fifth successive month, amid reports of stronger demand and higher purchasing power. The rate of expansion was solid and the fastest since October 2011. Meanwhile, new export orders increased for the first time in seven months. However, the rate of expansion was only slight. Anecdotal

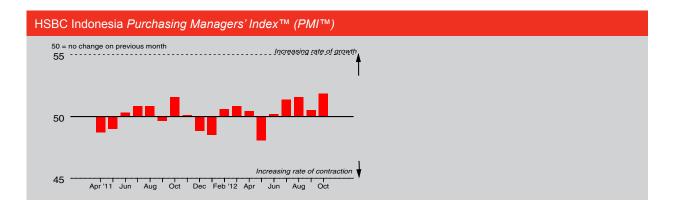
evidence suggested that stronger demand from international markets and the launch of new products both contributed to the latest expansion in new export orders.

With total new business increasing, manufacturers accumulated backlogs of work during October. Some firms also reported delays in the delivery of raw materials and insufficient capacity. That said, the rate of accumulation in outstanding orders was only moderate. Meanwhile, job creation was recorded (albeit marginal) as manufacturers faced higher new order intakes and some companies planned for the launch of new products.

Input costs in the Indonesian goods-producing sector increased, amid reports of higher yarn, fabric, coal and packaging costs. Moreover, firms cited general market inflation. The rate of input price inflation was strong and accelerated from September. The burden of purchase cost inflation was passed on to clients as charges rose again. That said, the pace of output price inflation was only slight and the slowest since December 2011.

Pre- and post-production inventories were both accumulated in October. However, rates of growth were only slight. Additionally, some companies forecast an increase in demand.

Purchasing activity increased solidly and at the fastest pace in 12 months. Meanwhile, average lead times lengthened, partially due to limited transportation and higher purchase quantities.



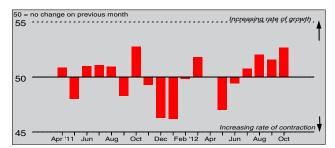
The HSBC Indonesian *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

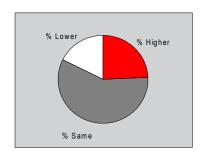




## Output Index

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

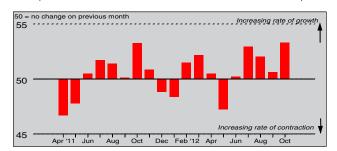


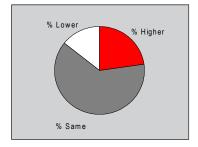


Production at manufacturing companies in Indonesia increased during October for the fourth successive month. The pace of expansion was solid and the fastest in a year, as indicated by the seasonally adjusted Output Index. Approximately 24% of the survey panel indicated increased output, citing higher order intakes.

### New Orders Index

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

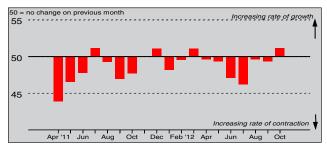


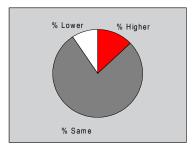


Manufacturing companies in Indonesia indicated higher order book volumes in October, marking a five-month sequence of growth. The rate of expansion was solid and the quickest since October 2011. Anecdotal evidence suggested that new order intakes increased in line with stronger demand. There were also mentions of rising purchasing power.

# New Export Orders Index

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

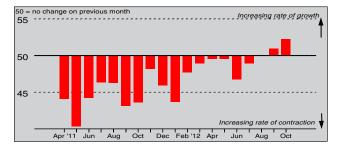


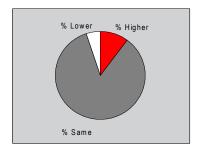


New export orders in the Indonesian manufacturing sector increased during October for the first time since March. With almost 13% of panellists signalling higher total export business but 78% indicating no change, the pace of expansion was only slight. According to panel members, the latest increase was linked to the launch of new products and rising demand from international markets.

# Backlogs of Work Index

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

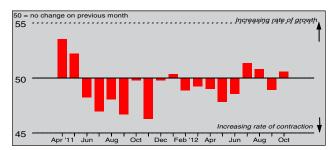


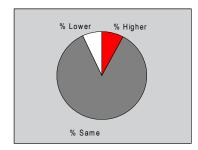


Backlogs of work in the Indonesian goods-producing sector increased in October. The rate of accumulation was moderate, but accelerated to the fastest throughout the 19-month series so far. According to survey participants, the volume of work-in-hand (but not yet completed) rose in line with higher order book volumes. Additionally, there were mentions of delayed delivery of raw materials and insufficient capacity.

## Stocks of Finished Goods Index

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

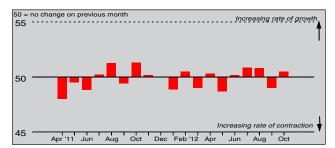


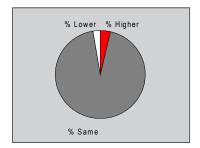


Manufacturing firms in Indonesia indicated an increase in their post-production inventories during October, amid reports of rising new orders. With almost 8% of monitored companies signalling higher stocks of finished goods but the vast majority (85%) reporting no change, the pace of accumulation was only slight.

### **Employment Index**

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

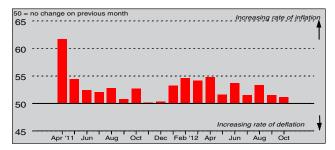


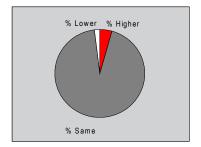


Job creation was signalled in the Indonesian goods-producing sector in October. Although the rate of expansion was only slight, the Employment Index adjusted for seasonal variations posted above the series average. Almost 4% of panellists signalled rising staffing levels, and linked the increase to higher order intakes and the launch of new projects.

# **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.

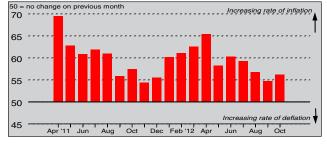


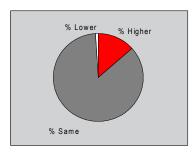


Charges in the Indonesian manufacturing sector increased further in October. Output price inflation has been recorded in each of the 19 months of data collection. That said, the rate of increase was only slight and the slowest since December 2011. According to survey respondents, factory gate prices were increased to reflect rising raw material costs.

# Input Prices Index

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

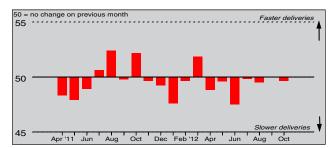


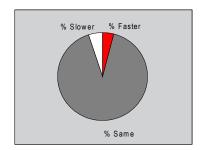


Input prices at manufacturing companies in Indonesia increased during October, amid reports of general market inflation and higher yarn, fabric, coal and packaging costs. The rate of inflation was sharp, although the Input Prices Index adjusted for seasonal factors posted below the series average. Whereas almost 14% of panellists signalled higher purchase costs, the majority reported no change. Input prices have risen throughout the 19-month history.

## Suppliers' Delivery Times Index

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

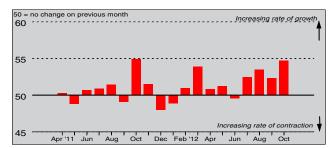


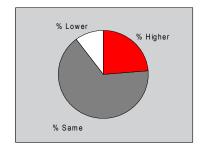


Manufacturing companies in Indonesia indicated that delivery times increased in October. However, the rate of lengthening was only slight, and the seasonally adjusted Suppliers' Delivery Times Index posted broadly in line with the series average. Data implied that limited transportation capacity, higher purchasing activity and unfavourable weather contributed to the latest deterioration in vendor performance.

# Quantity of Purchases Index

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



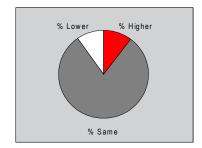


Purchasing activity in the Indonesian manufacturing sector increased during October, amid reports of higher new orders. The pace of expansion was solid and the fastest in 12 months. Whereas almost 24% of respondents stated that input buying at their units was higher, 10% said it was lower. Buying activity has increased in each of the past four months.

# Stocks of Purchases Index

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





Manufacturing companies in Indonesia indicated rising pre-production inventories during October. With approximately 10% of panellists signalling higher stocks of purchases but 80% reporting no change, the rate of accumulation was only slight. Anecdotal evidence suggested that input inventories were intentionally accumulated in order to meet an anticipated rise in demand.

## 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.

## Warning

The intellectual property rights to the HSBC Indonesian Manufacturing PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. 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.