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# HSBC Indonesia Manufacturing PMI™

Output contracts for first time in seven months

**Key findings:**

- New orders rise only fractionally
- Slight growth in new export orders
- Input and output price inflation accelerate

Production in the Indonesian manufacturing sector fell during January, the first contraction recorded since June 2012. New export orders rose, but total new business increased only fractionally. Meanwhile, raw material shortages resulted in firms lowering both their pre- and post-production inventories. Rising input and output prices were signalled, with the former increasing at a much faster pace.

The headline *HSBC Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. Readings above 50.0 indicate improvement and readings below 50.0 signal deterioration. After adjusting for seasonal factors, the index posted 49.7 in January, down from 50.7 in December. The latest reading indicated the first deterioration in the health of the manufacturing sector recorded since May 2012, albeit only fractional.

Output in the Indonesian goods-producing sector fell in January for the first time in seven months, but only at a slight pace. Among other factors, anecdotal evidence suggested that a scarcity of raw materials had hampered production.

The volume of incoming new work rose for the eighth consecutive month, but only fractionally and at the joint-weakest pace in the current sequence. New export orders continued to expand, with growth quickening to a moderate pace. Panel members

mentioned that demand from export clients had strengthened.

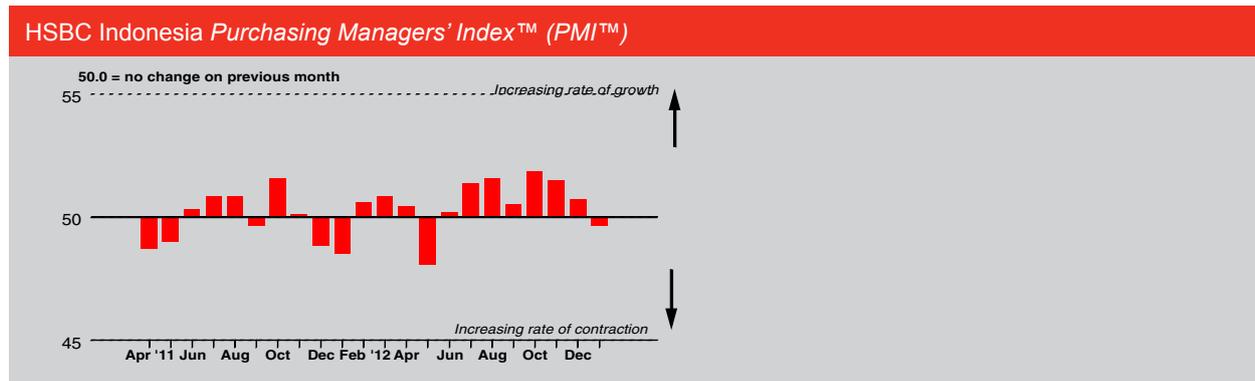
Payroll numbers contracted for the third month running, amid reports of the non-replacement of employee resignations and retirements. However, the overall rate of job losses was only modest, and unchanged from December.

In line with falling staffing levels, backlogs of work were accumulated during January. With almost 20% of monitored companies reporting higher volumes of work-in-hand (but not yet completed) and 11% noting a fall, the overall rate of increase was solid and the fastest recorded in the 22 months of data collection.

As has been the case since the survey started in April 2011, input and output prices both increased during January. The rate of cost inflation comfortably exceeded that of charges.

Pre-production inventories at manufacturers in Indonesia contracted solidly during January. Data implied that stocks of purchases fell in tandem with a scarcity of raw materials. Post-production inventories also decreased, but the rate of depletion was only slight.

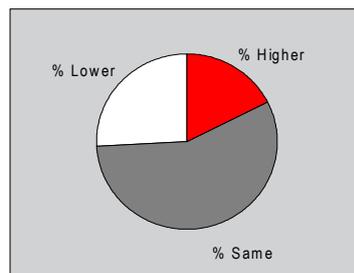
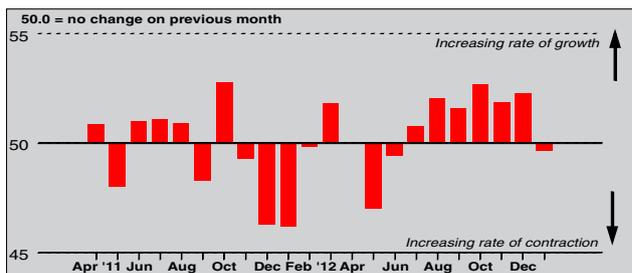
Meanwhile, a six-month sequence of rising input buying ended during January, as a slight contraction was recorded. Unfavourable exchange rates and a shortage of raw materials fed through to the latest decrease in the quantity of purchases.



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

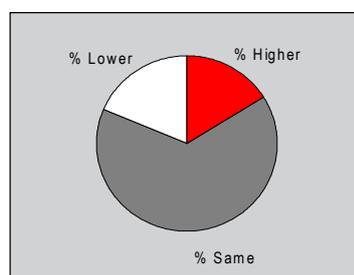
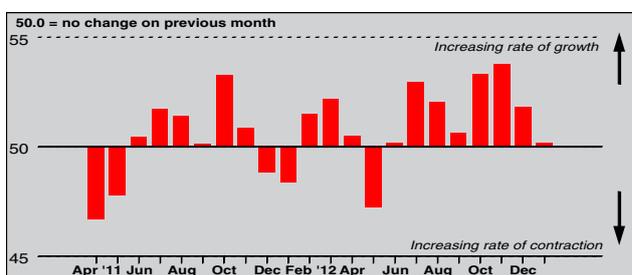
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing companies in Indonesia signalled falling output during January, ending a six-month sequence of expansion. However, the overall pace of contraction was only slight as indicated by the seasonally adjusted Output Index. Almost 26% of survey respondents reported lower output, citing shortages of raw materials and adverse weather conditions.

### New Orders Index

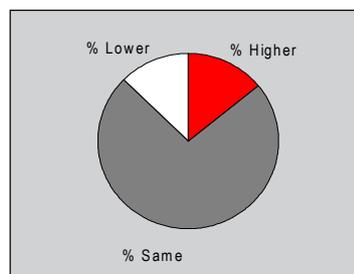
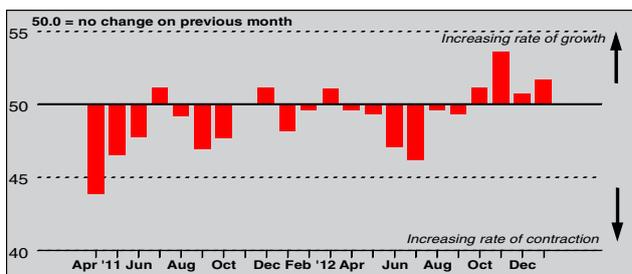
Q. Please compare the level of new orders received (Indonesia and export) this month with the situation one month ago.



January data indicated increasing volumes of incoming new work at goods-producing firms in Indonesia. The New Orders Index adjusted for seasonal factors posted above the no-change mark which separates expansion from contraction for the eighth successive month. That said, the rate of growth was only fractional and the joint-weakest in that sequence.

### New Export Orders Index

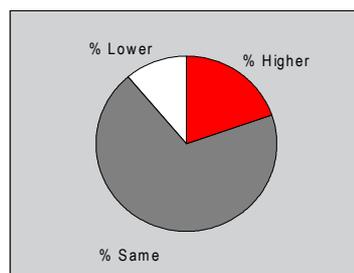
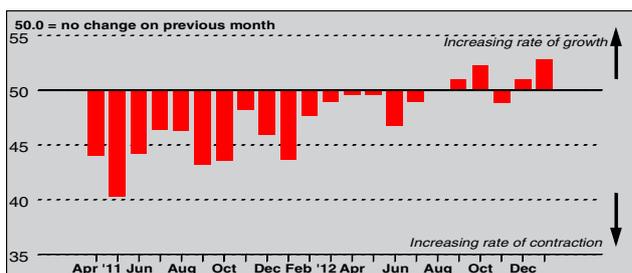
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Continuing the trend that started in October, new export orders in the Indonesian manufacturing sector rose during January. Although moderate, the pace of expansion accelerated from the previous month. Approximately 14% of monitored companies signalled higher total export sales, and linked growth to strengthening demand from export clients.

### Backlogs of Work Index

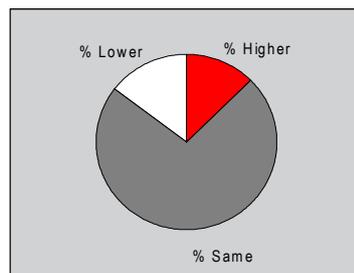
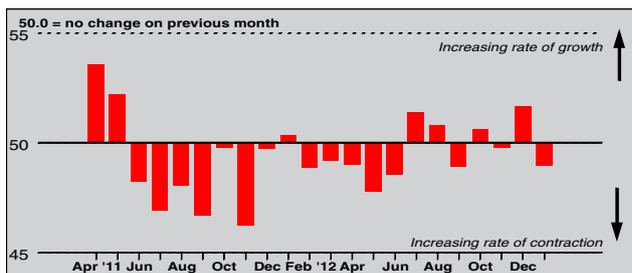
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Indonesia were accumulated in January, amid reports of delays in the delivery of raw materials and labour shortages. The rate of increase was solid, and the fastest since data collection began in April 2011. Almost one-fifth of panellists indicated higher volumes of work-in-hand (but not yet completed), while 11% reported decreases.

### Stocks of Finished Goods Index

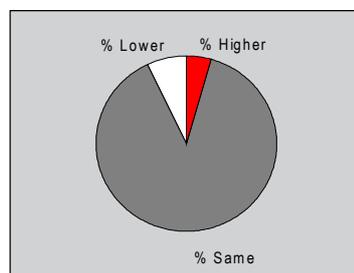
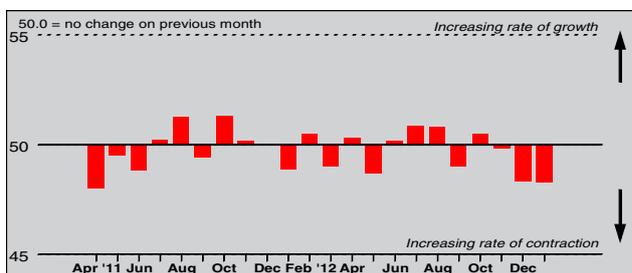
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to an accumulation registered in December, stocks of finished goods in the Indonesian manufacturing sector were depleted during January. But, with 15% of surveyed firms indicating lower post-production inventories and 13% noting a rise, the overall rate of contraction was only slight. Anecdotal evidence suggested that lower production, partly reflecting a shortage of raw materials, had resulted in falling stocks of finished goods.

### Employment Index

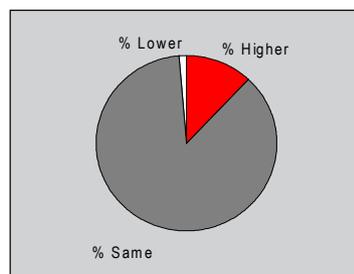
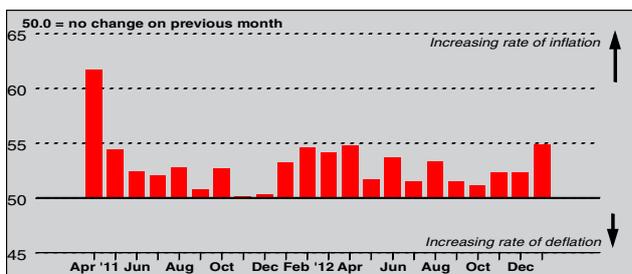
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing companies in Indonesia indicated falling staffing levels during January, marking a three-month sequence of contracting workforces. However, the overall rate of decline was only modest and unchanged from that recorded in December. According to manufacturers, employee headcounts fell as a result of the non-replacement of staff resignations and retirements.

### Output Prices Index

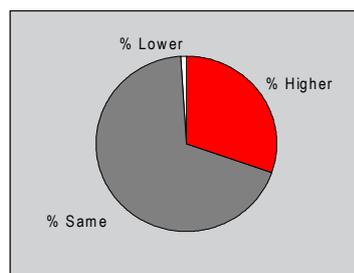
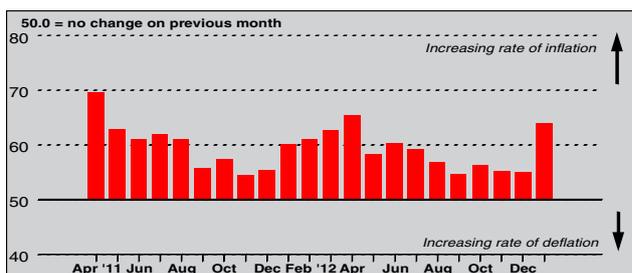
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



January data signalled persistent output price inflationary pressure in the Indonesian manufacturing sector. Average selling prices rose solidly, and at the joint-fastest rate in 21 months. Furthermore, the seasonally adjusted Output Prices Index posted above the historic series average. Exactly 12% of respondents indicated higher prices charged, mentioning rising input costs.

### Input Prices Index

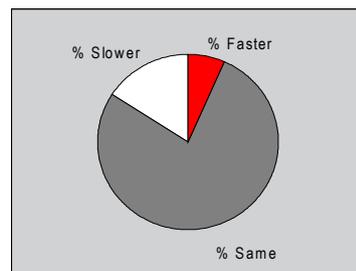
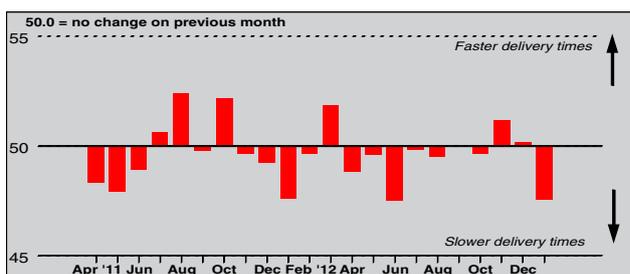
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



As has been the case throughout the 22 months of data collection, input prices at manufacturing companies in Indonesia rose during January. With around 30% of surveyed firms indicating higher purchase costs, the overall pace of inflation was sharp and the quickest in nine months. Monitored companies mentioned that electricity, metal and general raw material prices increased.

## Suppliers' Delivery Times Index

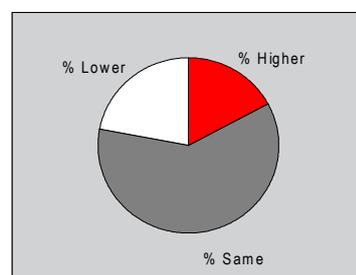
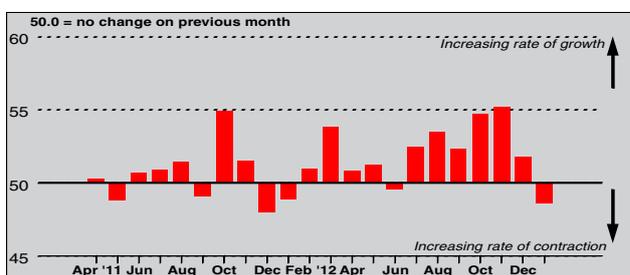
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times in the Indonesian goods-producing sector lengthened during January for the first time in three months. Vendor performance deteriorated at a modest rate, but the Suppliers' Delivery Times Index adjusted for seasonal variations posted below its historic average. More than twice as many respondents signalled worsening vendor performance as those that saw an improvement.

## Quantity of Purchases Index

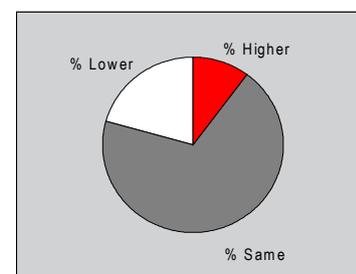
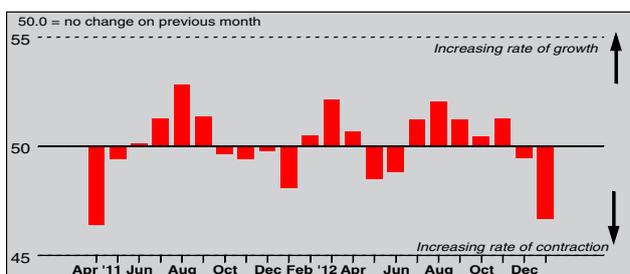
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturing companies in Indonesia fell during January, ending a six-month expansionary sequence. In contrast to 22% of panellists indicating a lower quantity of purchases, 17% signalled increases. Subsequently, the overall rate of contraction was only slight. Among other factors, monitored companies reported that unfavourable exchange rates and a shortage of raw materials resulted in falling input buying.

## Stocks of Purchases Index

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



January data signalled falling pre-production inventories at manufacturing firms in Indonesia, the second successive monthly decline recorded. Moreover, the overall rate of depletion was solid and the fastest in 21 months. Just over one-fifth of survey participants reported lower stocks of purchases, citing scarcity and rising costs of raw materials. In contrast, 10% of respondents reported higher pre-production inventories at their units.

## 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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