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# HSBC Indonesia Manufacturing PMI™

Indonesian manufacturing output stagnates as export orders slide

## **Key findings:**

- Slight rise in new orders
- Export orders fall at fastest rate since July 2012
- · Input and output prices both increase sharply

Manufacturing production in Indonesia stagnated during February. Whereas total new orders increased, weaker demand from European and American clients led to falling export business. Higher levels of new work led manufacturers to increase their input buying. Meanwhile, input and output price inflation both accelerated.

The headline HSBC Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. The seasonally adjusted index edged back above the no-change mark of 50.0 during February, posting 50.5 (up from 49.7 in January). The latest reading indicated an improvement in the health of the manufacturing sector, albeit only slight.

Firms operating in the Indonesian goods-producing sector indicated no-change in output during February. Of those respondents signalling increased production, this was linked to higher levels of new orders. However, the floods resulted in delayed delivery of raw materials and some firms were unable to fully meet demand requirements.

The volume of incoming new work at manufacturing companies in Indonesia increased during February, amid reports of stronger domestic demand and increased marketing. Despite rising for the ninth consecutive month, the rate of expansion in new orders was only slight. In contrast, new export orders fell, the first contraction

registered since September 2012. The overall rate of decline was solid, and the fastest recorded in seven months. Over one-fifth of monitored firms indicated lower levels of export business, citing weaker demand from European and American clients.

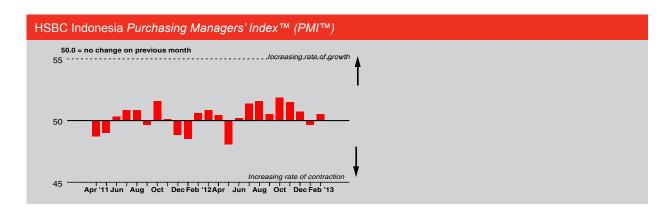
As has been the case since November last year, staffing levels fell during February, but only slightly. Manufacturers stated that the non-replacement of staff resignations and the rise in the minimum wage both fed through to the latest decrease in payroll numbers.

A further solid rise in backlogs of work was recorded during February. Exactly 17% of panellists signalled higher levels of unfinished business, citing delayed delivery of raw materials and labour shortages.

Input price inflation persisted during February, amid reports of higher plastic, oil, electricity and labour costs. Consequently, charges were increased again. Input and output prices have risen throughout the 23-month survey history.

Manufacturers increased their input buying during February, following a decline seen in January. However, the rate of expansion was only slight. Anecdotal evidence suggested that anticipated rises in demand led to higher quantities of items purchased.

The heavy rain seen over the month resulted in a further deterioration in vendor performance. Average lead times lengthened sharply, and at the fastest rate in the series history.



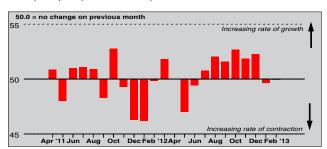
The HSBC Indonesian *Purchasing Managers' Index™* (*PMI™*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

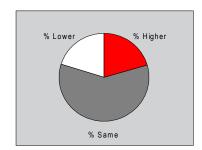




## Output Index

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

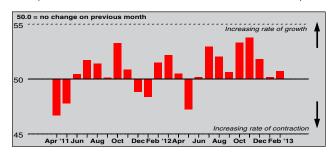


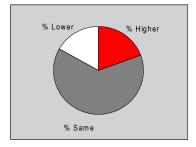


Following a contraction registered in January, output in the Indonesian manufacturing sector stagnated during February. The seasonally adjusted Output Index posted 50.0, to indicate no change from the previous month. Firms reporting higher production mentioned increased new orders whereas panel members indicating lower output cited delays in the delivery of raw materials, mainly caused by the floods. There were also reports of weaker export business.

#### New Orders Index

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

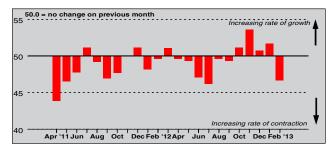


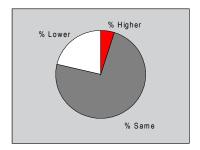


Firms operating in the Indonesian goods-producing sector signalled increasing order book volumes during February, marking a nine-month sequence of expansion. That said, new orders rose only slightly. Almost one-fifth of manufacturers reported higher levels of incoming new business, linking growth to stronger demand and increased marketing.

# New Export Orders Index

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

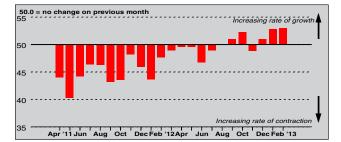


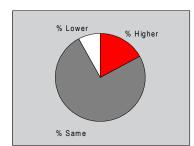


Ending a four-month sequence of expansion, new export orders at manufacturing companies in Indonesia fell during February. With approximately 21% of respondents indicating lower export business and only 5% noting a rise, the overall rate of contraction was solid and the fastest since July 2012. Anecdotal evidence suggested that demand from European and American markets was weaker.

# Backlogs of Work Index

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

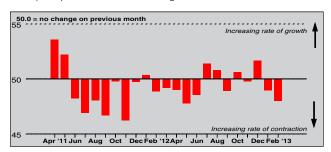


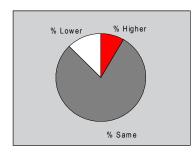


Backlogs of work in the Indonesian manufacturing sector rose in February, amid reports of labour shortages and the late delivery of raw materials caused by the floods. Unfinished business was accumulated at a solid pace, one that was the fastest in the 23-month series history. More than twice as many monitored companies signalled higher levels of outstanding business as those that noted a decline.

## Stocks of Finished Goods Index

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

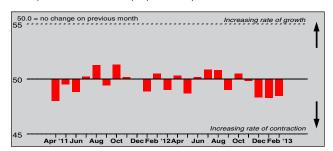


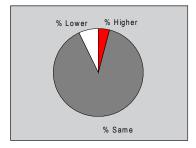


Post-production inventories in the Indonesian goods-producing sector fell for the second consecutive month during February. Although moderate, the rate of depletion was the fastest recorded since May last year. In contrast to 12% of manufacturers reporting lower stocks of finished goods, 8% signalled an accumulation.

#### **Employment Index**

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

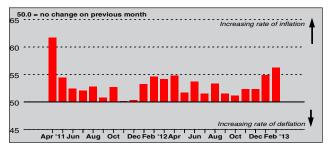


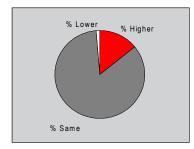


Continuing the trend that started in November 2012, staffing levels at manufacturing firms in Indonesia decreased during February. However, the pace of contraction was only slight and broadly similar to January. Panel members indicated that the rise in the minimum wage had contributed to lower employee headcounts. There were also reports of the non-replacement of staff resignations at some units.

# 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.



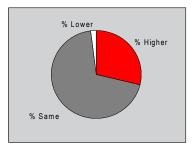


In line with rising input costs, average selling prices in the Indonesian manufacturing sector increased during February. The rate of charge inflation was sharp, and second-fastest in the series history. Approximately 14% of the survey panel indicated higher output prices, while only 1% noted a decrease. Prices charged have increased in each month since the survey started in April 2011.

# Input Prices Index

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

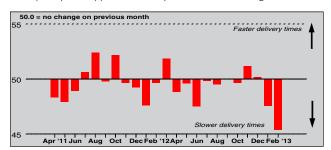


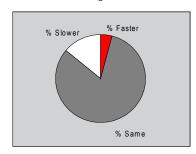


Prices paid by manufacturers in Indonesia rose during February, amid reports of higher raw material costs. There were particular mentions of increased plastic, oil, electricity and labour prices. The overall rate of inflation was sharp and the quickest in ten months. Input prices have risen throughout the 23 months of data collection.

## Suppliers' Delivery Times Index

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

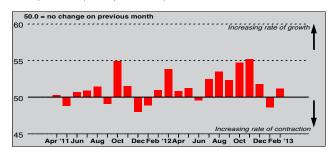


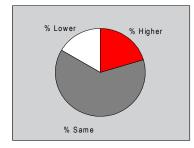


Suppliers' delivery times in the Indonesian goods-producing sector lengthened for the second month running during February, amid reports of heavy rain. Exactly 14% of the survey panel reported deteriorating vendor performance, whereas only 4% noted an improvement. Subsequently, the rate of lengthening was sharp and the fastest in the series history.

# Quantity of Purchases Index

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



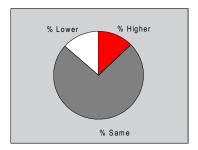


Following a decrease seen in January, Indonesian manufacturers increased their input buying during February. Over one-fifth of panellists reported a higher quantity of purchases, while around 17% signalled a fall. Consequently, the overall rate of expansion was only slight. Data implied that anticipated rises in demand resulted in increased purchasing activity.

# Stocks of Purchases Index

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





Pre-production inventories at manufacturing companies in Indonesia fell for the third month running during February. That said, the rate of depletion was only slight and eased from January. In contrast to 14% of survey participants reporting lower stocks of purchases, almost 13% signalled an increase.

#### 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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