HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Indonesia Manufacturing PMI™

Operating conditions improve further with PMI at six-month high

Key findings:

- Moderate expansion in manufacturing output
- New orders rise solidly, but growth eases
- Solid increase in purchasing activity

Manufacturing operating conditions in Indonesia improved for the third month running in April. The headline *HSBC Purchasing Managers' Index™ (PMI™)* – a seasonally adjusted index derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – posted 51.7 in April, up slightly from 51.3 in March. The upward movement reflected stronger contributions from four of its five components. Despite being at a six-month high, the latest reading indicated that business conditions improved only moderately.

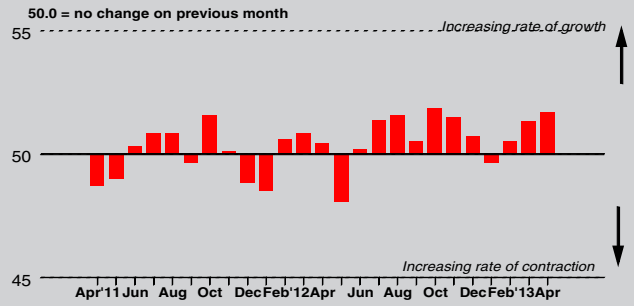
New orders expanded for the eleventh consecutive month in April, amid evidence of strengthening demand. The rate of growth was solid, but eased from March. Consequently, output rose further, but with approximately one-fifth of respondents indicating higher production levels and 16% noting a fall, the overall pace of increase was moderate. New business from abroad also expanded, albeit fractionally.

April data signalled that input buying in the Indonesian manufacturing sector rose. Almost 22% of panel members indicated a higher purchasing activity, citing strengthening demand. The pace of expansion was solid and little-changed from that seen in March. Correspondingly, pre-production inventories increased. The rise in holdings of raw materials and semi-finished goods was, however, only slight. Similarly, stocks of finished goods were accumulated for the second successive month. That said, the overall rate of expansion was only fractional. Anecdotal evidence suggested that post-production stocks were accumulated in tandem with output growth.

For the first time since October 2012, employee headcounts in the Indonesian goods-producing sector rose during April. The overall pace of job creation was, however, only fractional. Almost 8% of survey participants indicated higher employment levels, mentioning increased production requirements. Conversely, 7% of panellists reported job losses. Despite increasing workforces, backlogs of work were accumulated. That said, the volume of work-in-hand (but not yet completed) rose only fractionally and at the slowest pace in the current five-month sequence of expansion.

Continuing the trend that has been observed in each month since the survey started in April 2011, prices paid for inputs by firms operating in the Indonesian manufacturing sector increased. The overall rate of cost inflation was sharp, but eased to the slowest in four months. Around one-quarter of respondents indicated higher purchasing costs, mentioning that leather, electricity, machinery tools and raw materials in general had all increased in price. Consequently, factory gate prices rose sharply and at a faster rate than that seen in March. Output prices have increased throughout the 25-month series history.

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.

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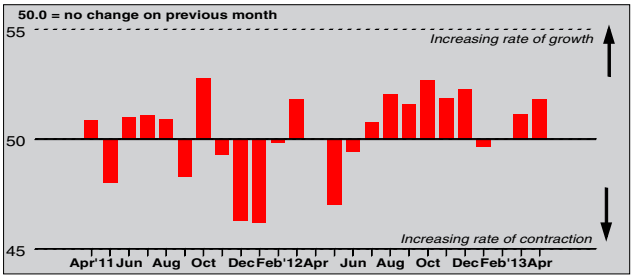
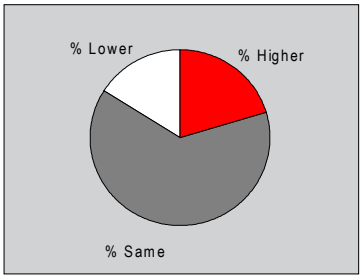
Output Index

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

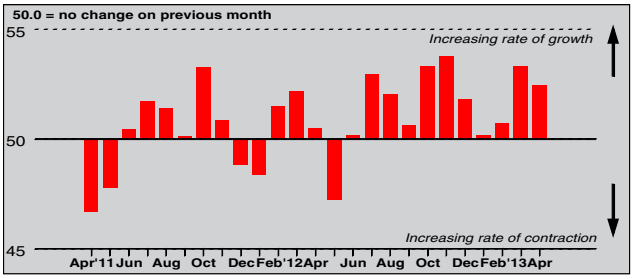


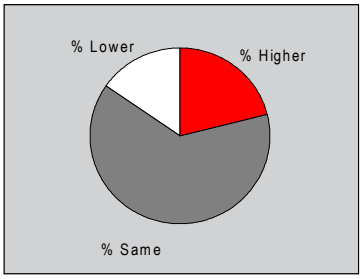


Output in the Indonesian manufacturing sector increased for the second consecutive month in April. The rise in production was modest, but slightly faster than that seen in March. Around one-fifth of panellists signalled output growth, mentioning higher new business inflows. In contrast, 16% of survey respondents indicated a lower level of output.

New Orders Index

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

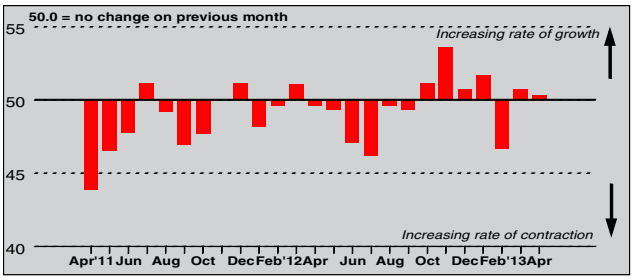


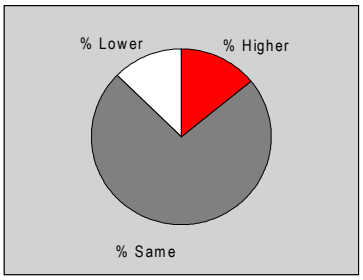


April data signalled that total new orders placed at goods-producing firms in Indonesia rose, marking an eleven-month sequence of expansion. Despite being solid, the overall rate of increase eased from March. Whereas 21% of respondents reported higher levels of incoming new work, approximately 15% noted a fall. Anecdotal evidence suggested that new order growth was supported by stronger demand.

New Export Orders Index

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

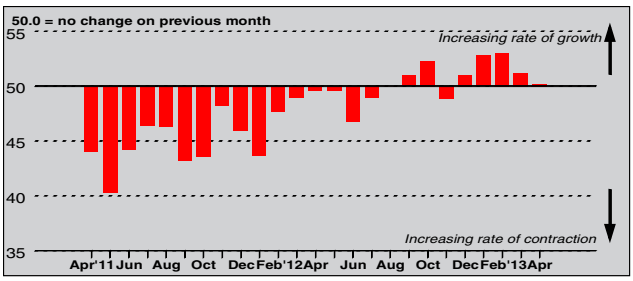


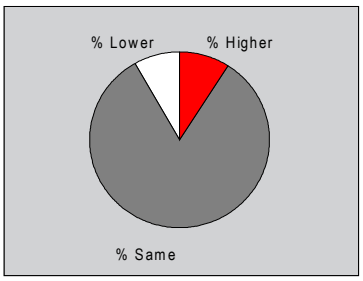


New export orders in the Indonesian manufacturing sector increased for the second month running during April. However, with 14% of monitored companies indicating higher export business and 13% noting a fall, the overall rate of expansion was only fractional and eased from March. Those panel members signalling higher levels of export orders cited stronger foreign demand.

Backlogs of Work Index

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

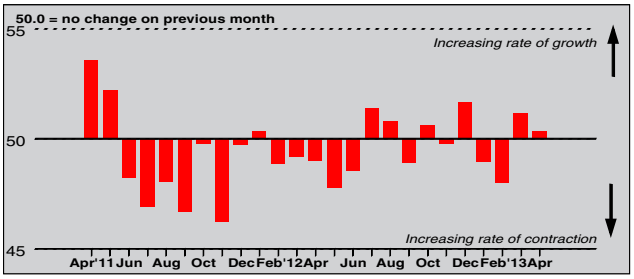


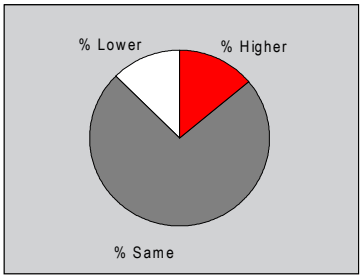


Extending the current sequence of accumulation to five months, the volume of work-in-hand (but not yet completed) at manufacturers in Indonesia rose during April. That said, backlogs of work increased only fractionally and at the slowest pace in that sequence. Approximately 9% of panellists indicated higher outstanding business levels, citing new order growth.

Stocks of Finished Goods Index

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

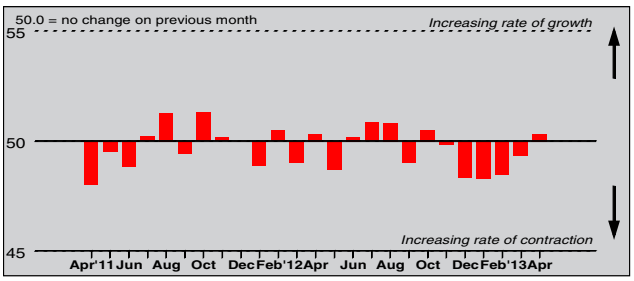


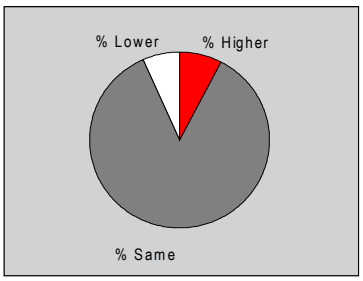


Post-production inventories in the Indonesian manufacturing sector rose during April, amid evidence of output growth. Almost 14% of survey participants reported increased stocks of finished goods, compared with 13% that indicated a depletion. Subsequently, the overall pace of accumulation was only fractional and slower than that seen in the previous month.

Employment Index

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

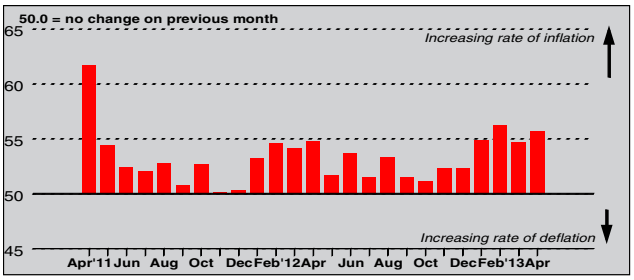


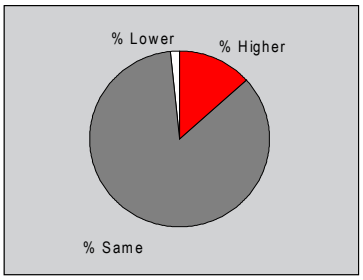


Ending a five-month sequence of job losses, employment levels rose during April. However, the rate of job creation was only fractional. Almost 8% of monitored manufacturers indicated that employee headcounts at their units rose, while the vast majority (86%) reported no change from one month previously. Evidence from panellists indicated that workforce levels rose in tandem with higher production requirements.

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.

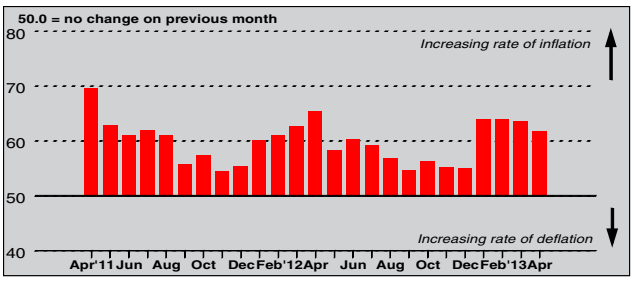


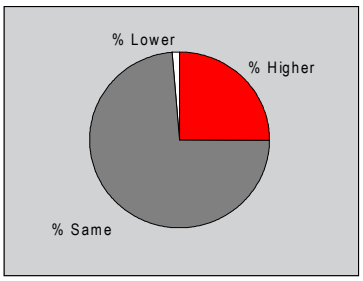


In line with higher costs, factory gate prices in Indonesia rose during April. Around 13% of respondents reported higher output prices, in contrast to 2% that indicated a fall. Consequently, the overall rate of charge inflation was sharp and the seasonally adjusted Output Prices Index posted above the short-series average. Prices charged have increased in each month since the survey began 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.

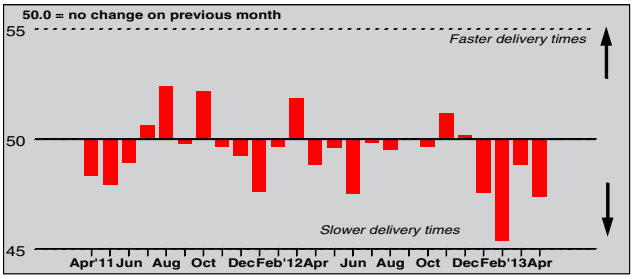


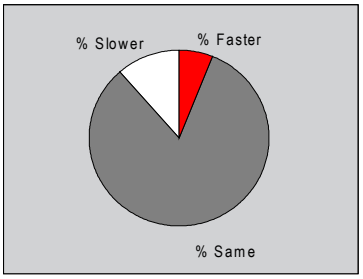


As has been observed in each month since the survey started two years ago, prices paid for inputs by manufacturers in Indonesia rose during April. Despite being sharp, the rate of cost inflation eased to the slowest in four months. Anecdotal evidence suggested that leather, electricity, machinery tools and raw materials in general all fed through to the latest increase in average purchase prices.

Suppliers' Delivery Times Index

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

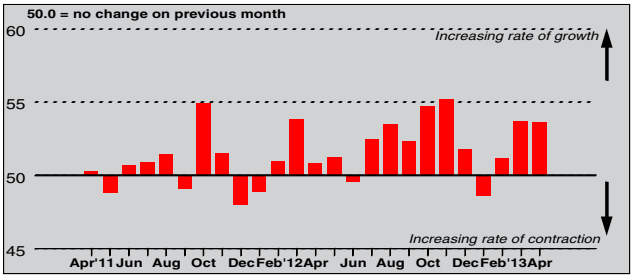


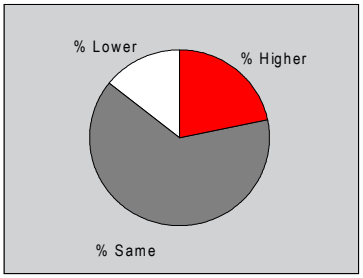


Average lead times in the Indonesian goods-producing sector lengthened for the fourth successive month in April. Vendor performance deteriorated at a solid rate, one that was sharper than that seen in March. Moreover, the Suppliers' Delivery Times Index adjusted for seasonal variations posted below the short-series history. In contrast to 11% of survey respondents indicating slower lead times, around 6% signalled that they were faster.

Quantity of Purchases Index

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

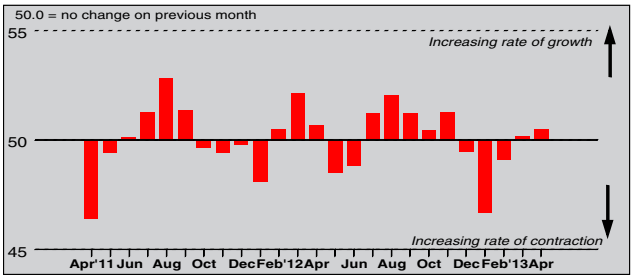


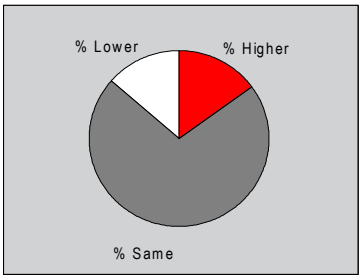


The quantity of items bought by manufacturing firms in Indonesia rose during April, amid reports of strengthening demand. The overall rate of expansion was solid and little-changed from March. Furthermore, the seasonally adjusted Quantity of Purchases Index was above the 25-month series history. Almost 22% of panellists reported higher input buying, while 14% noted a fall.

Stocks of Purchases Index

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





Stocks of raw materials and semi-finished goods at manufacturers in Indonesia increased during April. Exactly 15% of surveyed firms indicated higher stocks of purchases, in contrast to 14% that noted a decrease. Consequently, the overall rate of accumulation was only slight and broadly unchanged from March. Monitored firms reporting higher post-production inventories mentioned anticipated rises 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