

HSBC Indonesia Manufacturing PMI™

Manufacturing operating conditions improve for fourth consecutive month

Key findings:

- PMI little-changed from April's six-month high
- Both new orders and output expand moderately
- Growth in export orders fastest in current three-month sequence of rises

May data pointed to a further improvement in operating conditions across the Indonesian manufacturing sector. 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 above the no-change level of 50.0 for the fourth month running. At 51.6, the PMI was broadly unchanged from April's six-month high (51.7) and indicated a moderate expansion in the country's goods-producing sector.

Output increased for the third consecutive month in May, amid evidence of higher levels of incoming new work. Growth in production remained moderate and eased slightly from April. New work intakes also expanded at a moderate pace, with 27% of monitored companies indicating higher order book volumes and 21% noting a decline. According to panellists, solid demand was maintained over the month.

New export orders in the Indonesian goods-producing sector rose for the third successive month during May. Although modest, the overall rate of growth was the fastest since last November. Monitored companies largely commented on improved demand from Chinese, Japanese and Vietnamese clients.

In line with higher volumes of new orders, manufacturers increased their input buying during May, taking the current period of rises to four months. The pace of expansion was solid, but the

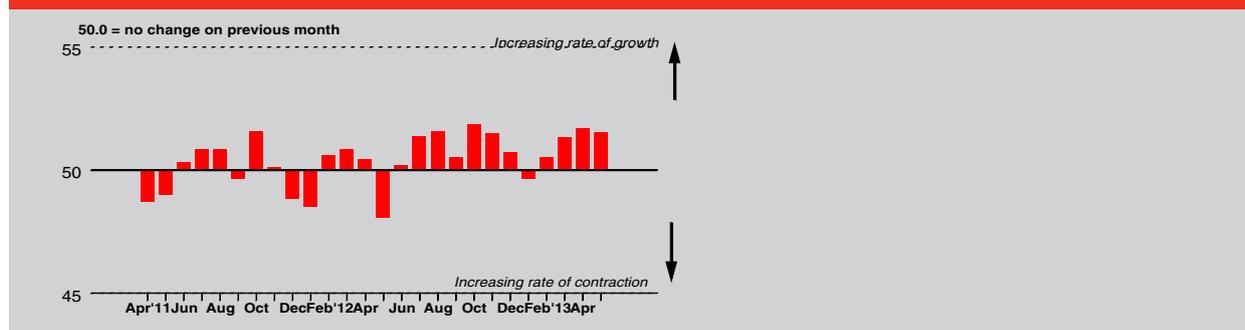
weakest since February. Consequently, holdings of raw materials and semi-manufactured goods were accumulated. However, with 19% of survey participants indicating higher stocks of purchases and 16% noting a depletion, the overall rate of inventory building was only slight.

Staffing levels in the Indonesian manufacturing sector rose for the second month running during May. The rate of job creation was, however, only slight and little-changed from April. Among those panel members that indicated additional hiring, this was mainly linked to higher production requirements.

Backlogs of work fell, ending a five-month period of accumulation. That said, the pace of depletion was only slight, with 12% of companies indicating lower unfinished business levels and 10% noting a rise. Meanwhile, post-production inventories decreased slightly during May. According to survey participants, stocks of finished goods were used to fulfil part of the increase in new orders.

Average purchase prices in the Indonesian manufacturing sector rose further during May. The overall rate of cost inflation was robust, but eased to the slowest in five months. Higher prices paid for raw materials and unfavourable exchange rates were mentioned by surveyed companies. As a result, goods producers increased their selling prices again. The rate of charge inflation eased from April, but remained solid. Input and output prices have both increased throughout the 26-month survey history.

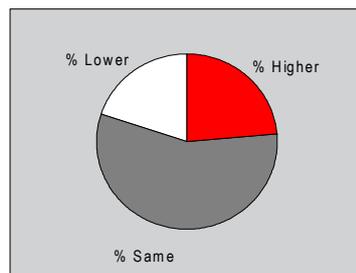
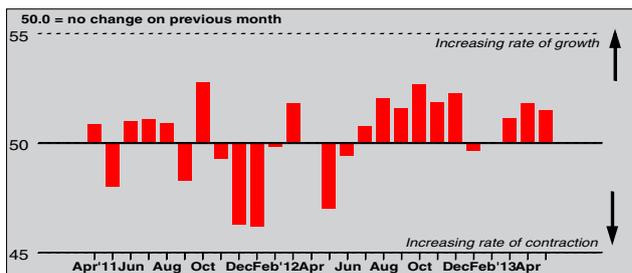
HSBC Indonesia Purchasing Managers' Index™ (PMI™)



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.

Output Index

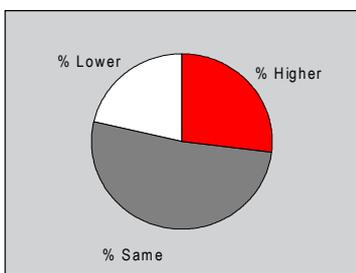
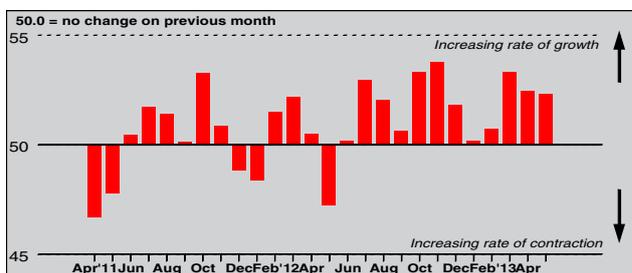
Q. Please compare your production/output this month with the situation one month ago.



Further output growth was signalled by manufacturing companies in Indonesia during May. The rise in production was moderate and eased slightly from April. Almost 24% of surveyed firms indicated higher levels of output, citing increased new orders from both domestic and export clients. Conversely, one-fifth of respondents reported lower production volumes.

New Orders Index

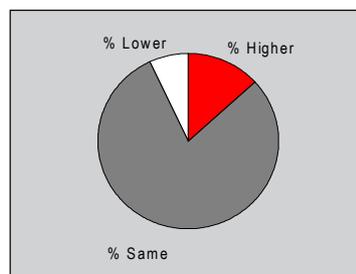
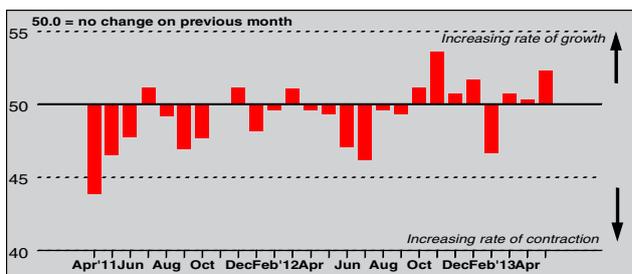
Q. Please compare the level of new orders received (Indonesia and export) this month with the situation one month ago.



New orders placed at manufacturers in Indonesia rose for the twelfth consecutive month in May. The overall rate of expansion was modest and little-changed from April. Nevertheless, the New Orders Index adjusted for seasonal factors posted above the short-series average (51.0). Evidence from panel members indicated that solid client demand was maintained.

New Export Orders Index

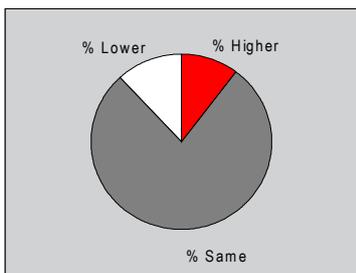
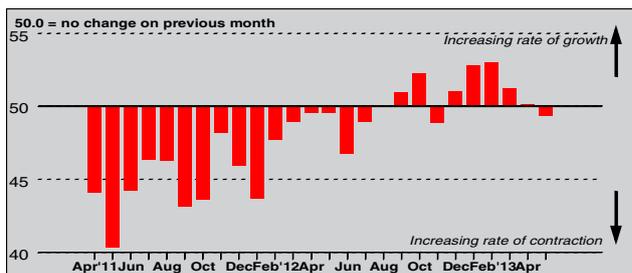
Q. Please compare the level of new export orders received this month with the situation of one month ago.



May data pointed to increased export orders in the Indonesian manufacturing sector, taking the current expansionary sequence to three months. The pace of growth was moderate, but accelerated to the fastest since last November. Approximately 13% of panellists indicated higher foreign orders, but 7% noted a fall. There were reports of strong demand from fellow Asian countries, with particular mentions of China, Japan and Vietnam.

Backlogs of Work Index

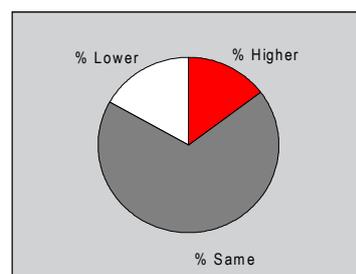
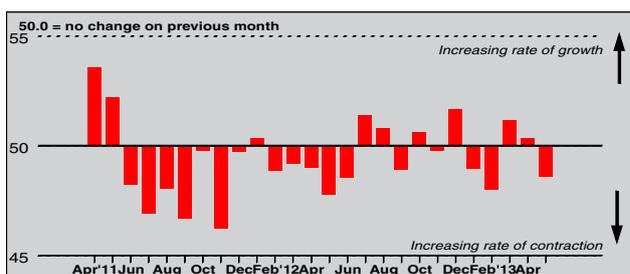
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Ending a five-month sequence of accumulation, backlogs of work in the Indonesian goods-producing sector fell in May. Almost 12% of monitored firms indicated lower levels of unfinished business, whereas 10% reported a rise at their units. Subsequently, the overall pace of depletion was only slight. Moreover, the seasonally adjusted Backlogs of Work Index posted above the series average.

Stocks of Finished Goods Index

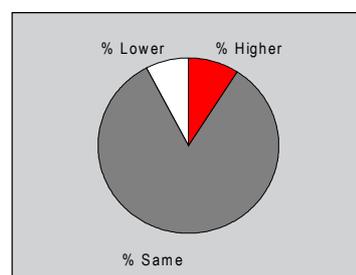
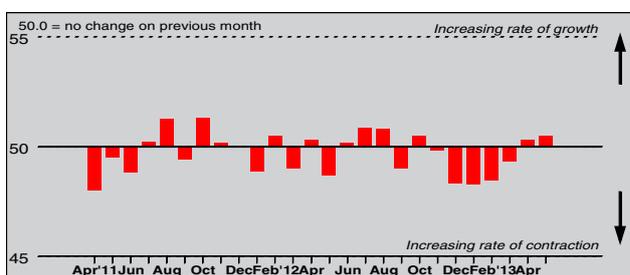
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturing companies operating in Indonesia indicated lower holdings of finished goods during May. The pace of depletion was, however, only slight. Around 17% of survey participants reported a reduction in their post-production inventories, in contrast, almost 15% signalled an accumulation. Respondents indicated that the latest fall partly reflected the use of stocks to fulfil demand.

Employment Index

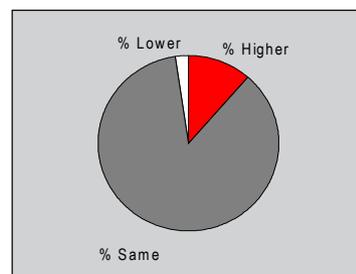
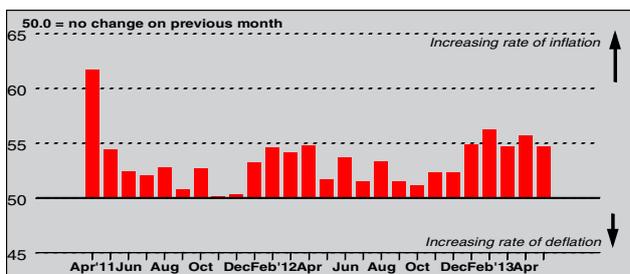
Q. Please compare the level of employment at your unit with the situation one month ago.



Payroll numbers in the Indonesian manufacturing sector rose for the second month running in May. That said, the rate of job creation was slight and broadly unchanged from April. Exactly 9% of surveyed firms indicated additional hiring and commonly associated this with higher production requirements. Conversely, around 8% of companies reported job cuts, citing the non-replacement of voluntary leavers.

Output Prices Index

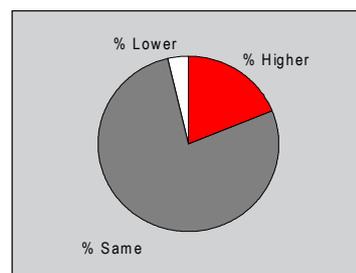
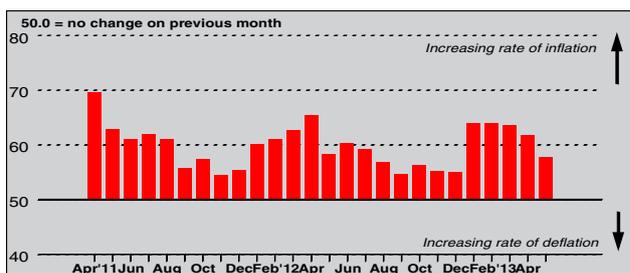
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Continuing the trend that has been observed in each month since data collection started in April 2011, factory gate prices in Indonesia rose in May. Despite being robust, the rate of charge inflation eased from that seen in April. Over 11% of monitored manufacturers indicated higher output prices, mentioning that they had passed on increased input costs over the month.

Input Prices Index

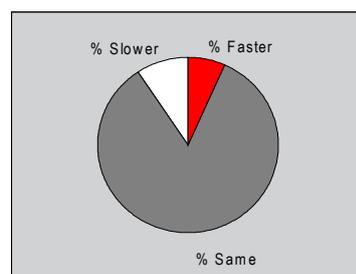
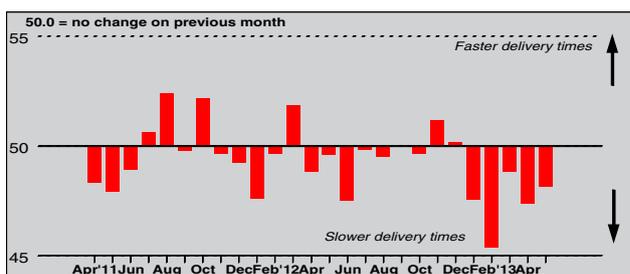
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



May data signalled a further rise in prices paid for inputs by manufacturers in Indonesia. The rate of cost inflation was strong, but eased to the weakest in five months. Furthermore, the seasonally adjusted Input Prices Index posted below the 26-month series average. Panel members largely commented on higher raw material costs, with some mentions of unfavourable exchange rates.

Suppliers' Delivery Times Index

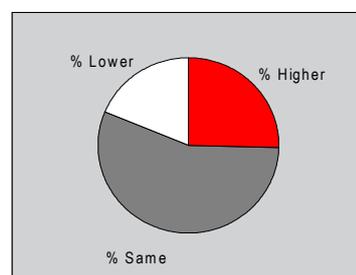
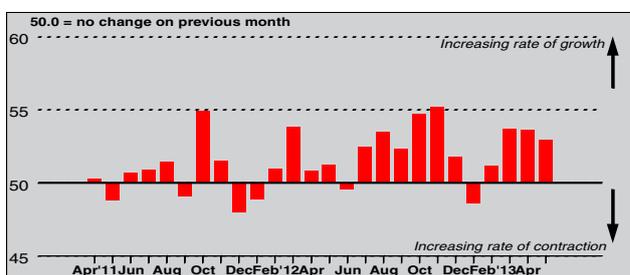
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the fifth successive month in May, amid reports of frequent rain and shortages of raw materials. Approximately 9% of the survey panel indicated deteriorating vendor performance, while 7% noted an improvement. Consequently, average lead times lengthened only modestly and to a lesser extent than that seen in April.

Quantity of Purchases Index

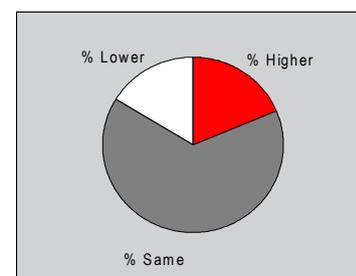
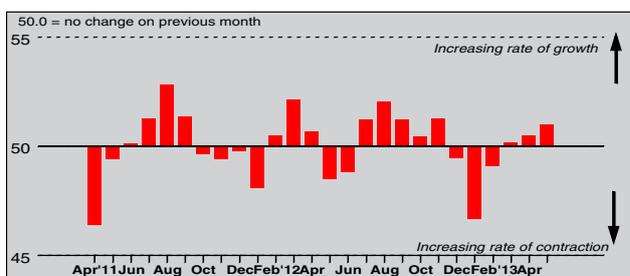
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The quantity of items purchased for production by manufacturing firms in Indonesia rose during May, marking a four-month expansionary sequence. Purchasing activity increased solidly, but at the slowest rate since February. Over one-quarter of panel members signalled growth in input buying and linked this to higher volumes of orders placed. In contrast, 19% of respondents reported a lower quantity of purchases.

Stocks of Purchases Index

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



Manufacturers in Indonesia indicated increased holdings of raw materials and semi-manufactured goods during May. The overall rate of accumulation was marginal, but the fastest in the current three-month period of rises. Additionally, the Stocks of Purchases Index adjusted for seasonal variations recorded above the series average. In contrast to 19% of firms that signalled higher pre-production inventories, around 16% noted a decline.

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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