

# HSBC Indonesia Manufacturing PMI™

PMI signals slight improvement in operating conditions

**Key findings:**

- Manufacturing economy expands at slowest pace in four months
- Output growth eases
- Slight rise in total new orders, but export business falls

Operating conditions in the Indonesian manufacturing sector improved for the fifth consecutive month in June. 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 51.0, down from 51.6 in May. Despite falling to the lowest level in four months, the PMI averaged 51.4 in the second quarter of the year, up from that seen in Q1 2013 (50.5).

Output increased for the fourth successive month, albeit only marginally and to the least marked degree in that sequence. Panel members linked the slowdown in production growth to weaker gains in incoming new work and adverse weather conditions.

Order book volumes in the Indonesian manufacturing sector rose for the thirteenth month running in June. The overall rate of expansion was, however, slight and the slowest since February. Anecdotal evidence suggested that demand was maintained, but sluggish orders from European clients and unfavourable exchange rates both had resulted in weaker new order growth.

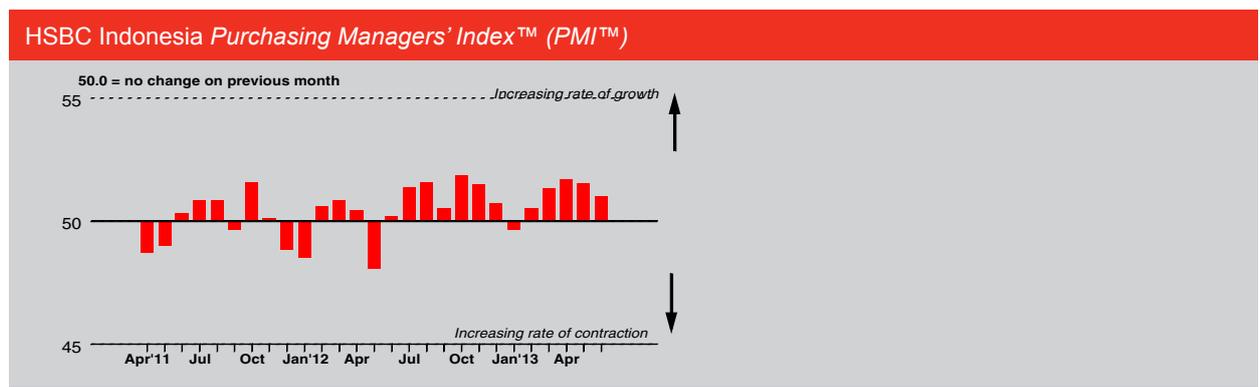
June data pointed to falling export business at manufacturers in Indonesia, the first decline in four months. The latest contraction in foreign orders was commonly associated with increased competition, unfavourable exchange rates and weaker demand from European clients.

Evidence of spare capacity was signalled as outstanding business levels decreased for the second consecutive month. Nonetheless, the rate of contraction was only fractional and eased from May. Manufacturers signalling lower backlogs of work commented on additional hiring. Staffing levels rose slightly, but at the fastest pace in 20 months.

Encouragingly, companies increased their buying activity in June. The latest expansion was solid, and faster than in May. Meanwhile, average lead times lengthened for the sixth successive month, and to a greater extent than seen one month previously. Increased pressure at suppliers, combined with poor road conditions and adverse weather resulted in deteriorating vendor performance.

Pre- and post-production stocks were both depleted slightly in June. Evidence from panellists suggested that holdings of raw materials and semi-manufactured goods fell in line with delayed suppliers' deliveries and cost-cutting measures, whereas stocks of finished goods were used to fulfil demand.

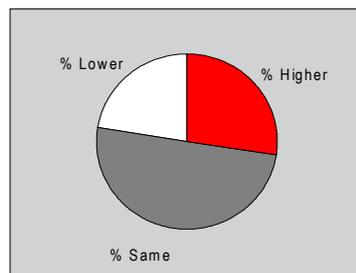
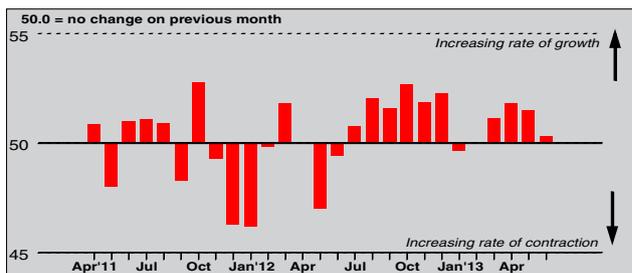
Input costs increased again in the latest month, with survey participants commenting on higher raw material prices, in particular fuel and oil. The overall rate of cost inflation was, however, at a six-month low. Manufacturers meanwhile increased their tariffs further, although the pace of charge inflation also eased to the weakest in six months.



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

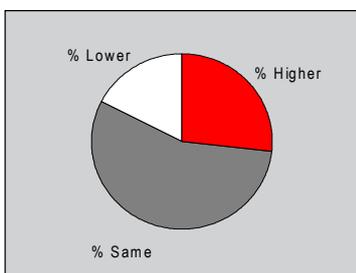
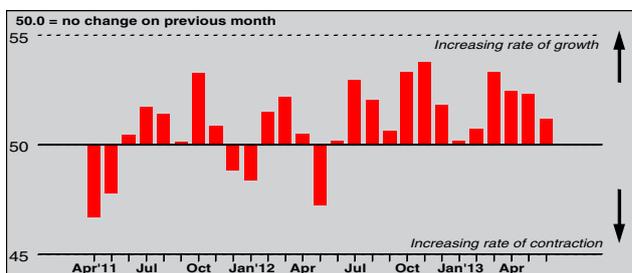
Q. Please compare your production/output this month with the situation one month ago.



Output growth was signalled by Indonesian manufacturers in June, taking the current expansionary sequence to four months. However, the seasonally adjusted Output Index indicated only a fractional rise, a rate that was the slowest in that sequence. Panel members reporting higher output commented that incoming new work increased, but to a lesser extent than seen in previous months. Unfavourable weather was also cited by panellists.

### New Orders Index

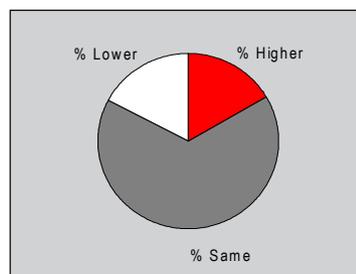
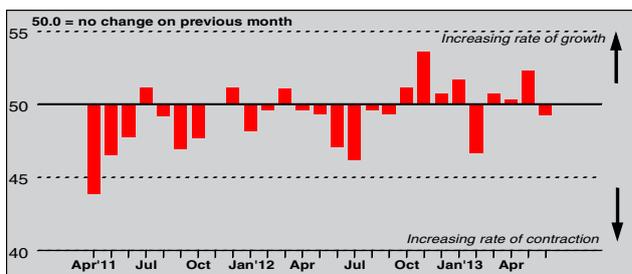
Q. Please compare the level of new orders received (Indonesia and export) this month with the situation one month ago.



Companies operating in the Indonesian goods-producing sector signalled new order growth in June, marking a 13-month period of expansion. The rise in new work intakes was, however, only slight and the New Orders Index adjusted for seasonal influences fell for the third month running. Monitored companies indicated that demand was maintained, but weaker gains in order book volumes were generally linked to frail demand from Europe and disadvantageous exchange rates.

### New Export Orders Index

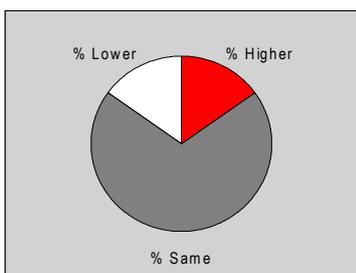
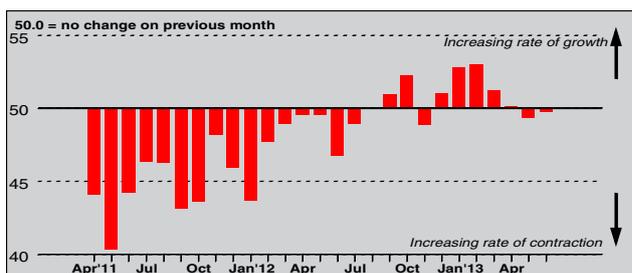
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Export orders in the Indonesian manufacturing sector fell for the first time in four months during June, amid reports of increased competition, unfavourable exchange rates and weaker demand from European clients. However, the overall rate of contraction was only marginal, with the seasonally adjusted New Export Orders Index posting slightly below the neutral 50.0 mark.

### Backlogs of Work Index

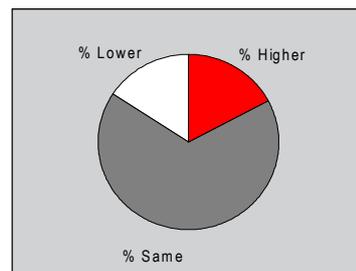
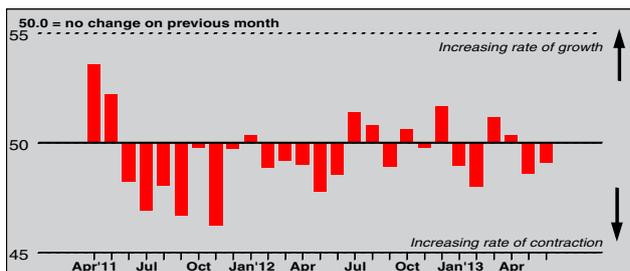
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



For the second consecutive month, outstanding business levels fell during June. The overall rate of contraction was, however, only fractional and eased from May. Manufacturers reporting lower backlogs of work indicated that additional hiring had supported the completion of unfinished business. Conversely, firms signalling higher volumes of work-in-hand commented on adverse weather conditions, job losses and shortages of raw materials.

### Stocks of Finished Goods Index

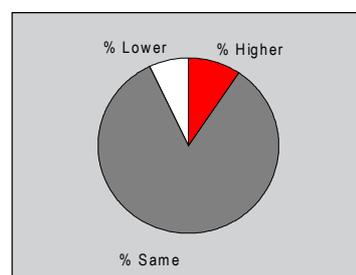
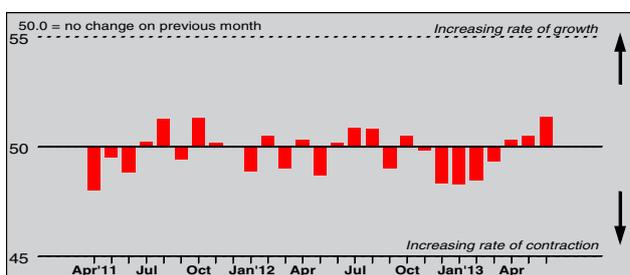
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories at manufacturing firms in Indonesia fell for the second month running in June. However, the rate of depletion as signalled by the seasonally adjusted Stocks of Finished Goods Index was only slight and eased from May. Monitored companies indicated that stocks of finished goods were used to fulfil demand.

### Employment Index

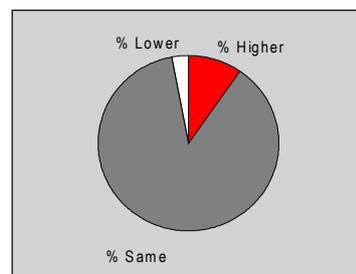
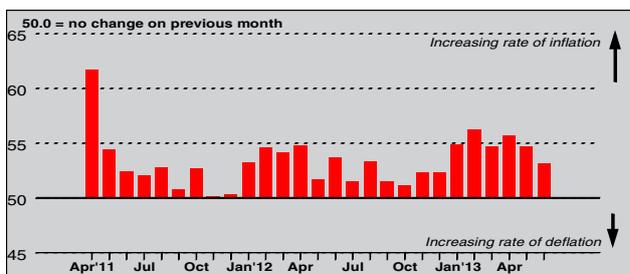
Q. Please compare the level of employment at your unit with the situation one month ago.



As has been the case since April, employment levels in the Indonesian goods-producing sector rose in June. The rate of job creation remained slight, but was the fastest since October 2011. Approximately 9% of panellists reported increased payroll numbers, citing higher production requirements, with a few mentions of business expansions. Conversely, around 7% of firms signalled job losses.

### Output Prices Index

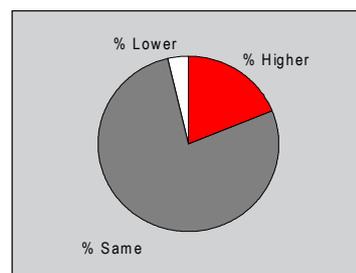
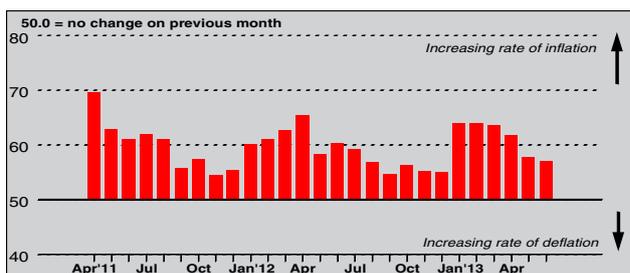
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Additional cost burdens were passed on to clients during June, with prices charged increasing for a further month. The Output Prices Index adjusted for seasonal variations, however, indicated a moderate increase, one that was the slowest since last December. Furthermore, the index averaged a lower reading for the second quarter of the year than in Q1.

### Input Prices Index

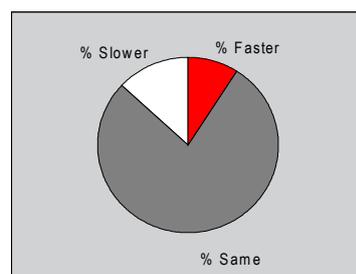
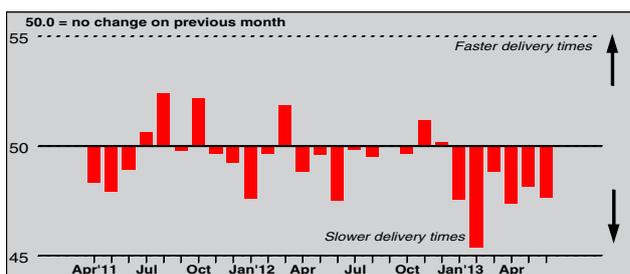
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Continuing the trend that has been registered in each month since the survey started in April 2011, prices paid for inputs by Indonesian manufacturers rose in June. Despite remaining robust, the rate of inflation eased to a six-month low. Higher raw material costs, with particular mentions of fuel and oil, were often commented on by companies that reported increased purchase prices.

## Suppliers' Delivery Times Index

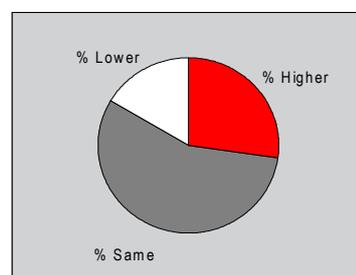
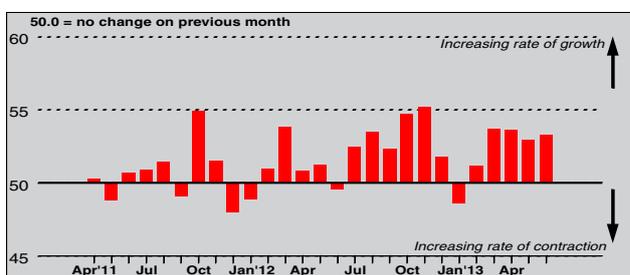
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



June data pointed to lengthening lead times at manufacturers in Indonesia. Moreover, vendor performance deteriorated to a greater extent than in May. Those panel members reporting longer suppliers' delivery times reasoned that this was due to unfavourable weather, poor road conditions and pressure at suppliers. Worsening vendor performance has now been recorded throughout the past six months.

## Quantity of Purchases Index

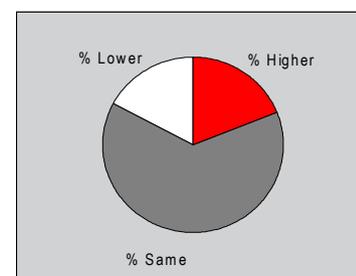
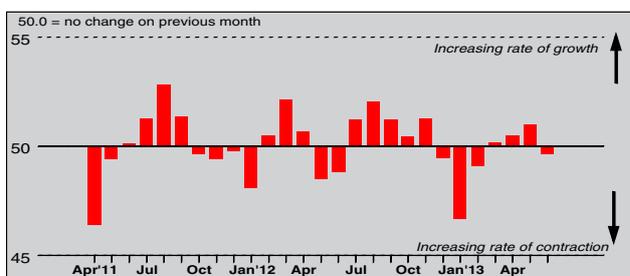
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Input buying in the Indonesian goods-producing sector rose for the fifth successive month in June. The overall rate of expansion was solid, and faster than that seen one month previously. Over one-quarter of survey participants reported higher purchasing activity, and commonly associated this with new order growth. In contrast, almost 17% of respondents signalled a lower quantity of purchases.

## Stocks of Purchases Index

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



Ending a three-month period of inventory building, pre-production stocks fell in June. The overall rate of depletion was, however, only fractional. This was signalled by the seasonally adjusted Stocks of Purchases Index posting below the no-change mark of 50.0. Panel members reporting lower holdings of raw materials and semi-manufactured goods mentioned cost-cutting measures and late deliveries.

## 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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