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HSBC Indonesia Manufacturing PMI™

Manufacturing production stagnates as cost inflation hits series record

Key findings:

- Output and new order levels both unchanged in July
- · Export orders contract for second month running
- · Input costs rise at strongest rate in survey history

Output in the Indonesian manufacturing sector stagnated in July, ending a four-month expansionary sequence. Similarly, total new orders were unchanged, while export business fell for the second consecutive month. Meanwhile, a sharp increase in fuel costs resulted in the strongest rise in purchasing prices since data collection started in April 2011.

The headline HSBC Purchasing Managers' Index™ (PMI™) – a seasonally adjusted composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 50.7 in July, down slightly from 51.0 in June. Despite falling for the third consecutive month, the latest reading indicated that manufacturing business conditions in Indonesia continued to improve, although marginally. July data highlighted positive contributions from the employment, suppliers' delivery times and stocks of goods purchased sub-indices.

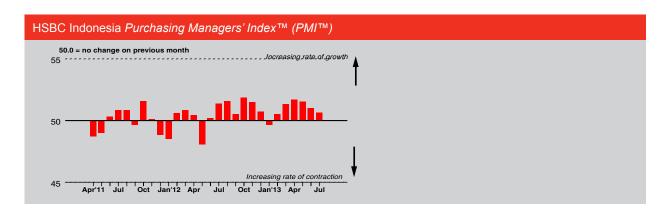
Production and new orders both stagnated in July. Monitored companies reporting lower output commented on a lack of new work to replace finished projects, while firms signalling higher output generally mentioned that demand was maintained. The stagnation in order book volumes followed a 13-month period of growth. Concurrently, new business from abroad decreased for the second successive month in July, amid reports of weaker demand from European clients and tough economic conditions globally. Despite being moderate, the overall rate of contraction

was faster than that seen one month previously.

Input prices rose sharply in July. Furthermore, the rate of cost inflation accelerated to the quickest in the short 28-month series history. Anecdotal evidence suggested that fuel price hikes and increased raw material costs both fed through to the latest rise in overall purchase prices. Output charges were then increased further, as firms attempted to pass on higher cost burdens. The rate of charge inflation was sharp, and the second-fastest in the series history.

Manufacturers in Indonesia increased their input buying in July, as has been the case since February. That said, the rate of growth was only modest and eased to the weakest in five months. Panel members reporting higher purchasing activity mentioned that this was intended for inventory building. Correspondingly, stocks of both purchases and finished goods were accumulated, following contractions indicated in June. The rates of increase were, however, slight in both cases.

Backlogs of work in the Indonesian manufacturing sector rose in July, amid evidence of unfavourable weather, delayed delivery of raw materials and machinery repairs. Nonetheless, the pace of accumulation was only slight. As a result, firms hired additional employees for the fourth successive month. The rate of job creation was slight and little-changed from June. Meanwhile, average lead times lengthened, with companies commenting on arrangements with suppliers for later deliveries due to higher fuel costs.



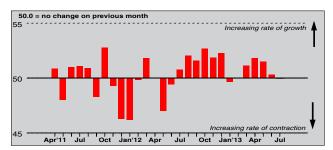
The HSBC Indonesian *Purchasing Managers' Index™* (*PMI™*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

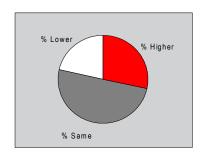




Output Index

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

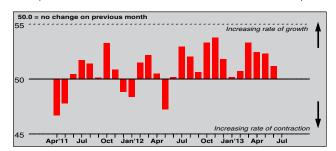


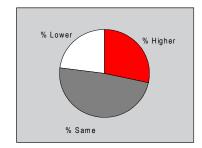


Ending a four-month sequence of expansion, manufacturing production at Indonesian firms stagnated in July. This was indicated by the seasonally adjusted Output Index posting 50.0 in the latest month. Companies signalling higher output mentioned stronger demand. Conversely, panellists reporting lower production commented on a lack of new projects to replace finished ones.

New Orders Index

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



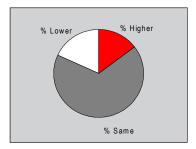


Incoming new work in the Indonesian manufacturing sector was unchanged in July. After adjusting for seasonal variations, the New Orders Index fell to its lowest reading since May 2012 and was below the series average. Where an increase was reported, this was mainly linked to strengthening client and consumer demand. Companies indicating lower order book volumes generally cited uncertain economic conditions and higher fuel prices.

New Export Orders Index

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

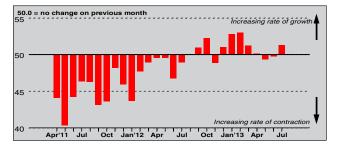


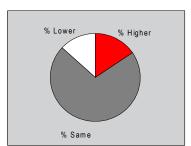


Foreign orders placed at Indonesian manufacturers fell for the second successive month in July. The overall rate of contraction was moderate, but accelerated since June. Approximately 18% of surveyed firms reported lower export orders, citing falling demand from European clients and a fragile economic situation worldwide. Some companies also commented on increased competition.

Backlogs of Work Index

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

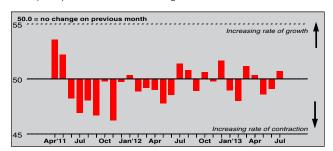


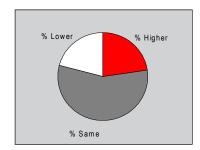


Unfinished business levels in the Indonesian goods-producing sector rose in July. Almost 16% of panel members reported higher volumes of work-in-hand (but not yet completed), while 13% noted a reduction. Subsequently, the overall rate of accumulation was only slight. Anecdotal evidence suggested that backlogs of work were accumulated as a result of unfavourable weather, late delivery of raw materials and machinery repairs.

Stocks of Finished Goods Index

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



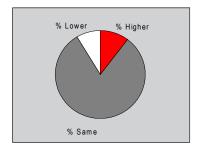


Holdings of finished goods were accumulated by Indonesian manufacturers in July, with the seasonally adjusted Stocks of Finished Goods Index posting above the no-change mark of 50.0 for the first time in three months. The overall rate of inventory building was, however, only marginal. Monitored firms indicated that delayed delivery to clients was the main reason behind the latest rise in post-production stocks.

Employment Index

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

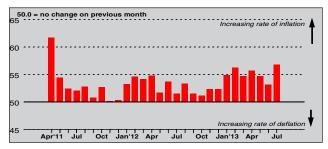


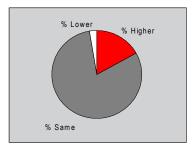


July data highlighted a further rise in staffing levels at Indonesian goods-producing firms. However, with around 10% of panel members signalling higher employee numbers and the vast majority (81%) reporting no change from one month previously, the overall rate of job creation was only slight and little-changed from that seen in June. Companies stated that additional hiring reflected attempts to complete unfinished work.

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.



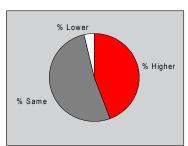


Prices charged by Indonesian manufacturers were increased for a further month in July, amid evidence of higher raw material, utility and fuel costs. The rate of charge inflation was sharp, and the second-strongest in the 28-month series history. Almost 17% of monitored companies reported higher factory gate prices, compared with only 3% that signalled a reduction.

Input Prices Index

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

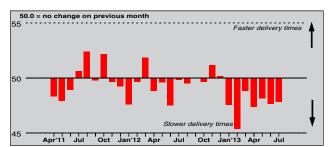


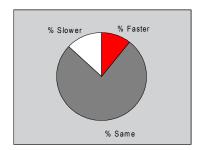


Input prices in the Indonesian manufacturing sector rose during July, as has been observed since data collection started in April 2011. The rate of cost inflation was sharp, and the fastest in the survey history. Manufacturers widely commented on fuel price hikes and higher raw material costs. In contrast to 44% of firms indicating increased purchase costs, almost 4% noted a decrease.

Suppliers' Delivery Times Index

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



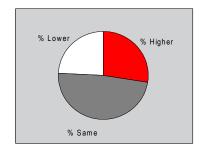


For the seventh consecutive month, suppliers' delivery times lengthened in July. Exactly 13% of manufacturers reported worsening vendor performance, while almost 11% noted an improvement. Slower lead times were generally associated with transportation difficulties, unfavourable weather and raw material shortages. Some firms indicated that arrangements had been made with suppliers for later delivery due to higher fuel costs.

Quantity of Purchases Index

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



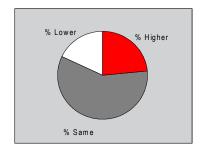


Purchasing activity in the Indonesian manufacturing sector rose for the sixth month running in July, amid evidence of attempts to build inventories for future production. In contrast to 28% of panellists that reported a higher quantity of items purchased, 24% noted a reduction. Consequently, the overall rate of expansion was only modest and the weakest since February.

Stocks of Purchases Index

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





In contrast to a decrease registered in June, pre-production inventories at manufacturers in Indonesia were accumulated during the latest month. The rate of expansion was only slight, but the Stocks of Purchases Index adjusted for seasonal variations posted above the series average and was at an eight-month high.

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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