HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 10:00 (Jakarta), 2 September 2013

HSBC Indonesia Manufacturing PMI™

Operating conditions across Indonesia deteriorate, as output and new orders contract

Key findings:

- PMI hits 15-month low in August
- Production decreases in line with weaker domestic and export demand
- Employment contracts at fastest pace in survey history

August data highlighted an overall deterioration in the Indonesian manufacturing sector, as output, new orders and export business all contracted. Similarly, payroll numbers fell and at the fastest rate in the survey history.

At 48.5 in August, down from 50.7 in the previous month, 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 – fell to a 15-month low and indicated a deterioration of business conditions across Indonesia. The downward movement reflected negative contributions from four of its five sub-indices, the exception being delivery times.

New export business contracted for the third month running in August, whereas the decline in total new orders was the first recorded since May 2012. Order book volumes fell solidly and at a rate that was the strongest since April 2011. Indonesian manufacturers suggested that both foreign and domestic demand was weaker.

Subsequently, companies reduced their production levels in August for the first time since January. The rate of contraction was, however, moderate. Input buying also fell during the latest month, ending a six-month period of growth. Purchasing activity contracted at a solid pace and one that was the fastest in the survey history. Monitored firms indicating a lower quantity of purchases generally commented that this reflected lower volumes of incoming new work.

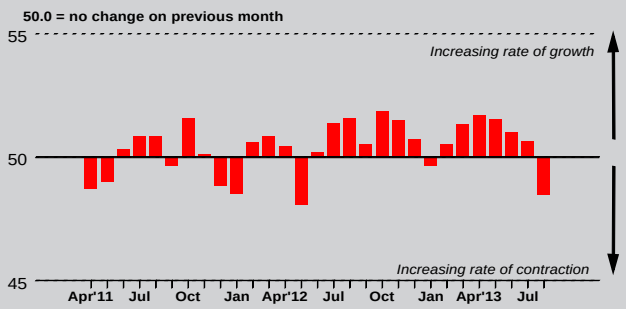
With both output and input buying contracting, stock holdings across the Indonesian manufacturing sector were depleted in August. Pre-production inventories fell solidly and at the fastest pace since April 2011. Holdings of finished goods also decreased at a solid pace and one that was the most marked in 21 months.

Subdued client demand and spare capacity resulted in lower volumes of work-in-hand (but not yet completed). Backlogs of work across the Indonesia goods-producing sector were depleted at the fastest rate since June 2012.

Workforce numbers in the Indonesian manufacturing sector fell in August for the first time in five months. The overall pace of job losses was moderate, although the fastest in the survey history. Some companies commented that voluntary leavers had not been replaced, while a few indicated that workforce numbers were reduced in tandem with lower order book volumes.

Average prices paid for raw materials and semi-manufactured goods increased in August, amid reports of higher fuel costs and the depreciation of the rupiah against the US dollar. The overall rate of cost inflation eased from July's peak, but remained robust. Consequently, prices charged by Indonesian manufacturers were raised for a further month. Nevertheless, the rate of charge inflation eased to the slowest in the year-to-date.

HSBC Indonesia *Purchasing Managers' Index™ (PMI™)*



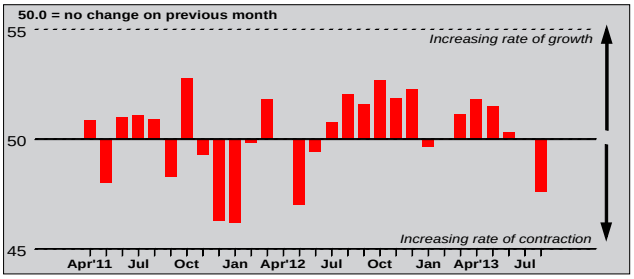
The HSBC Indonesia *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

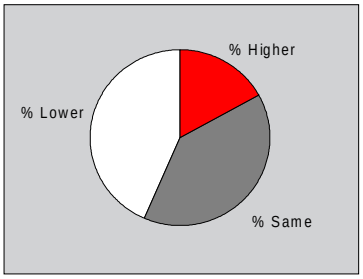
markit™

HSBC

Output Index

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

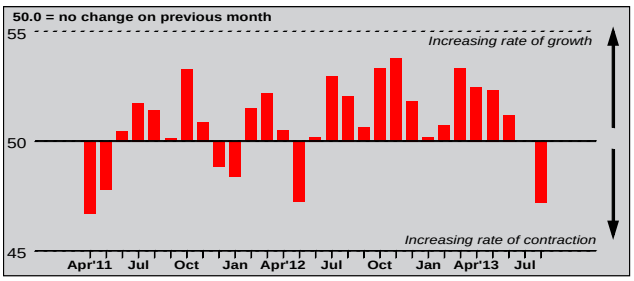


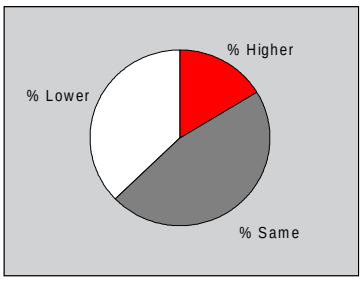


Manufacturing companies operating in Indonesia signalled lower production volumes in August. The seasonally adjusted Output Index registered below the 50.0 no-change threshold for the first time since January and indicated a moderate pace of contraction. Almost 44% of the survey panel reported lower production, citing falling levels of incoming new work from both domestic and export clients.

New Orders Index

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

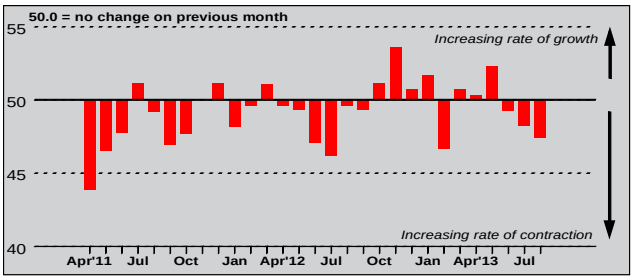


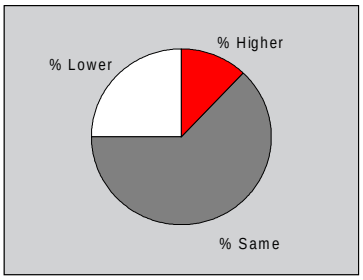


New orders placed at goods-producing firms in Indonesia fell for the first time in 15 months during August. The rate of contraction was solid with the seasonally adjusted New Orders Index dropping to a 28-month low. Whereas 37% of respondents indicated lower levels of incoming new work, approximately 16% signalled an increase. Panellists indicating a contraction suggested that both domestic and foreign demand was weaker.

New Export Orders Index

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

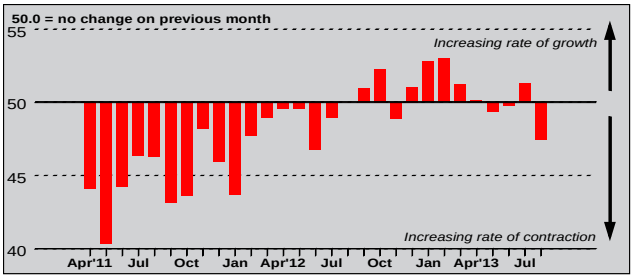


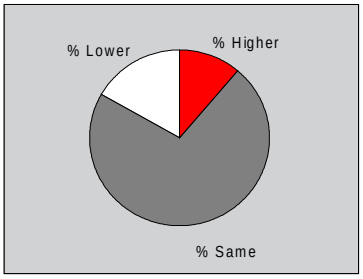


New orders from abroad fell for the third month running during August, amid evidence of weaker demand from key export clients. One-quarter of manufacturers signalled lower export orders, while 12% noted an expansion. Consequently, the overall rate of contraction was solid and the fastest since February. Furthermore, the New Export Orders Index adjusted for seasonal variations posted below the series average.

Backlogs of Work Index

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

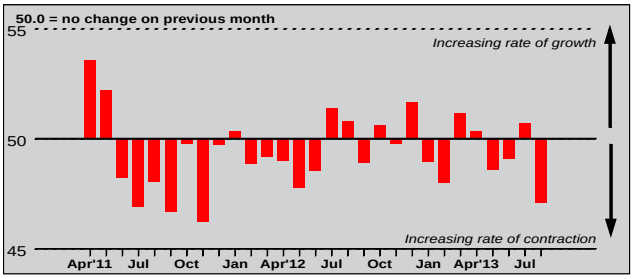


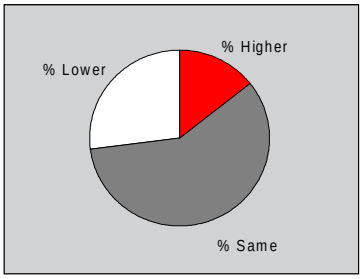


In contrast to an accumulation registered in July, backlogs of work in the Indonesian manufacturing sector fell in August. With almost 17% of monitored firms signalling lower unfinished business levels, the rate of depletion was solid and the fastest since June 2012. Panellists indicated that subdued client demand and spare capacity had resulted in lower outstanding business volumes.

Stocks of Finished Goods Index

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

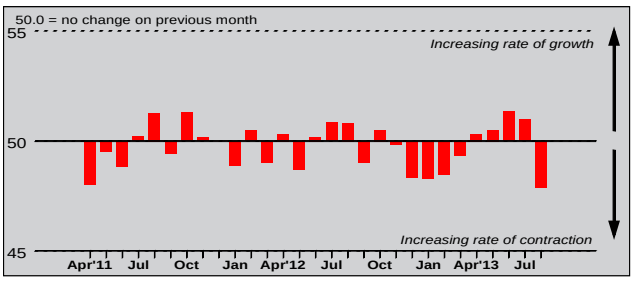


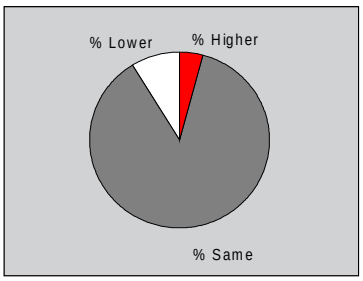


August data indicated that post-production inventories across the Indonesian manufacturing sector decreased in August. The rate of depletion was solid and the fastest since November 2011. Furthermore, the seasonally adjusted Stocks of Finished Goods Index posted well below the series average. Panellists stated that stock holdings fell in line with lower production levels.

Employment Index

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

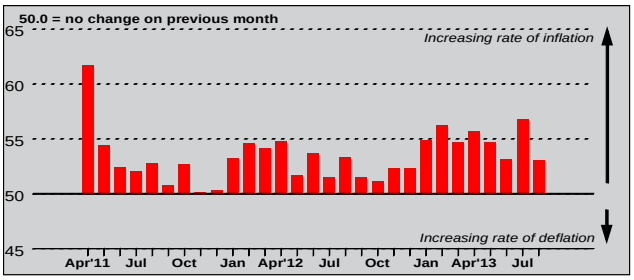


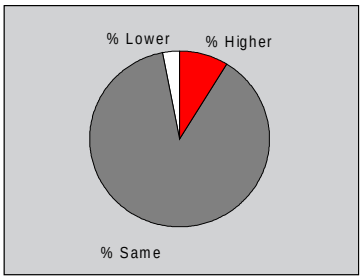


For the first time in five months, manufacturers in Indonesia reduced their workforce numbers in August. Although moderate, the rate of job cuts was the strongest in the survey history. Some companies commented that voluntary leavers had not been replaced, whereas a few indicated that payroll numbers were reduced in line with lower order book volumes.

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.

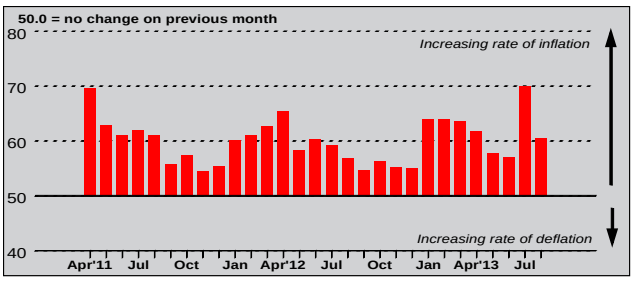


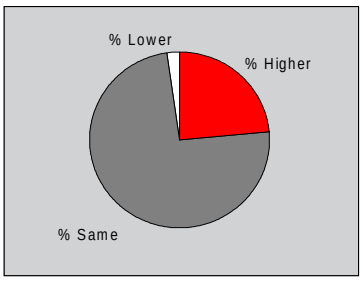


As has been observed throughout the survey history, prices charged by Indonesian manufacturers rose in August. That said, the rate of charge inflation was moderate and the slowest in the year-to-date. Almost 9% of survey participants reported higher factory gate prices, citing increased cost burdens. Conversely, 3% indicated lower output prices and commented that discounts were negotiated with clients in order to attract more business.

Input Prices Index

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

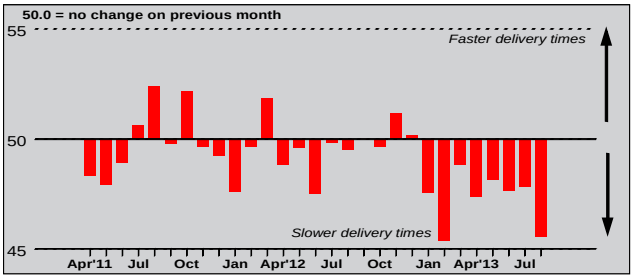


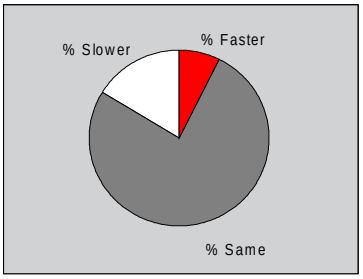


Input prices in the Indonesian goods-producing sector rose further in August. The rate of cost inflation remained robust, but eased from July's record. Manufacturers reported higher prices paid for imported raw materials, in particular due to the depreciation of the rupiah against the US dollar. There were also mentions of increased fuel costs.

Suppliers' Delivery Times Index

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

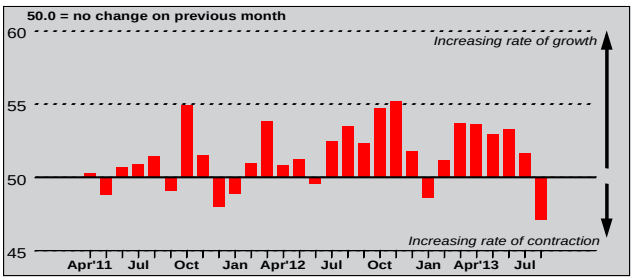


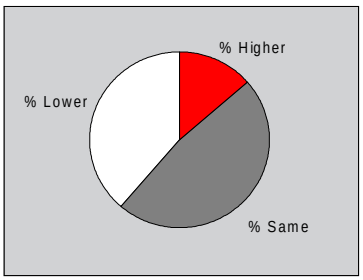


Vendor performance in the Indonesian manufacturing sector deteriorated for the eighth successive month in August, and to the greatest extent since February. Whereas 16% of panellists reported slower lead times, approximately 7% noted an improvement. Longer delivery times were linked by panellists to poor road conditions and raw material shortages at suppliers.

Quantity of Purchases Index

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

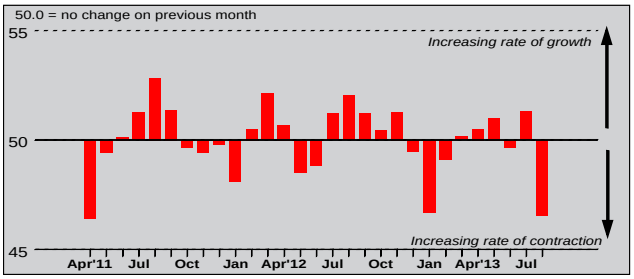


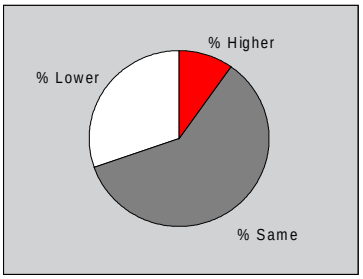


Purchasing activity in the Indonesian manufacturing sector fell during August, ending a six-month expansionary sequence. With around 39% of panellists reporting a lower quantity of purchases, the overall rate of contraction was solid and the fastest in the survey history. Anecdotal evidence suggested that input buying was reduced in tandem with falling new work intakes.

Stocks of Purchases Index

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





Reflective of a lower quantity of items purchased, holdings of raw materials and semi-manufactured goods were depleted in August. The rate at which stocks of purchases fell was solid and the fastest since April 2011. The seasonally adjusted Stocks of Purchases Index has registered below the 50.0 no-change mark twice in the past six months.

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