

HSBC Indonesia Manufacturing PMI™

At 50.2 in September, PMI returns to expansionary territory

Key findings:

- Output expands, while new orders fall at slower pace
- Downturn in export business accelerates
- Inflation rates reach survey-peak

The Indonesian Manufacturing PMI crawled above the neutral 50.0 threshold in September, reflecting a renewed growth of production volumes. Whereas total new orders fell at a slower pace, the contraction of export business accelerated to the fastest since February. On the price front, inflation of both input costs and output charges reached survey records.

Up from 48.5 in August to 50.2 in September, 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 – indicated a marginal improvement of business conditions in Indonesia. The above 50.0 reading reflected upward movements recorded for four of its five sub-components, the exception being delivery times (inverted).

Output in the Indonesian manufacturing sector rose for the first time in three months during September. This was reportedly achieved by firms working through their backlogs of work and successful product launches. That said, the overall rate of expansion was only marginal.

September data highlighted a second consecutive decrease of unfinished business levels. The latest decline was sharp and the quickest since January 2012. Anecdotal evidence suggested that outstanding business levels were depleted in line with lower new orders.

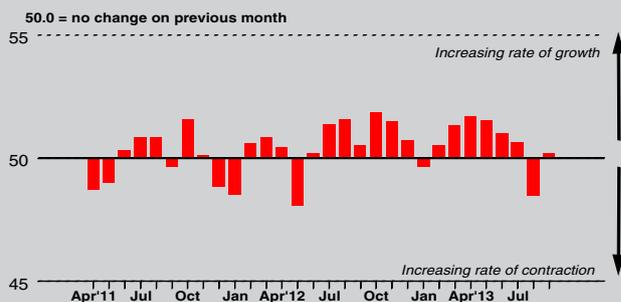
Despite falling for a second consecutive month, total new orders placed at Indonesian manufacturers contracted at a slight and slower pace in September. Conversely, export business decreased at a solid and accelerated rate. Panellists commented on weaker demand and a fragile economic situation globally.

Subsequently, workforce numbers were reduced further. The rate of job losses in September was, however, only fractional and eased since the previous month. While some panellists reported the non-replacement of voluntary leavers, some firms indicated that staffing levels were intentionally cut. There were a few mentions of a lack of skilled candidates at some plants.

Amid reports of a weaker currency (data were collected between 12th and 20th of September), Indonesian manufacturers paid higher prices for imported raw materials. Average input prices rose sharply in the latest month, with the rate of cost inflation reaching a survey record. Concurrently, selling prices were raised further and the overall rate of charge inflation was also the strongest in the history of the series.

Purchasing activity in the Indonesian goods-producing sector rose in September, following a contraction in the previous month. Consequently, holdings of raw materials and semi-manufactured goods were accumulated. Anecdotal evidence suggested that restocking attempts reflected the anticipation of stronger demand in the coming months.

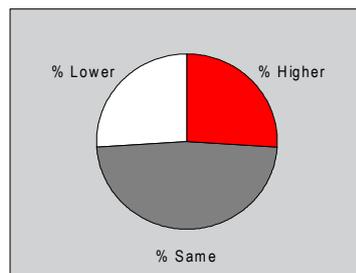
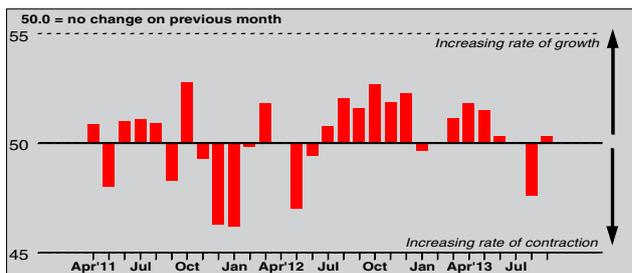
HSBC Indonesia Purchasing Managers' Index™ (PMI™)



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.

Output Index

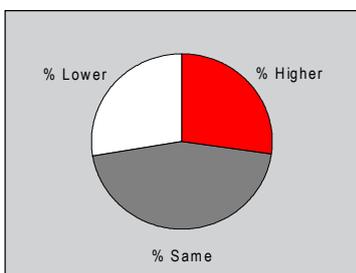
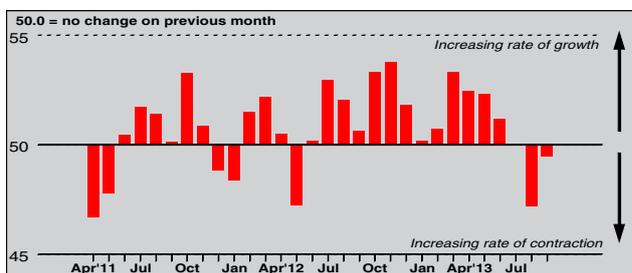
Q. Please compare your production/output this month with the situation one month ago.



Indonesian manufacturers recorded higher production in September. This was indicated by the seasonally adjusted Output Index posting above the 50.0 no-change mark for the first time in three months. The overall rate of expansion was, however, only marginal. Among companies reporting increased production, successful product launches and the completion of backlogs were cited. Panellists signalling lower output commented on competitive pressures, lower new business levels and higher input prices.

New Orders Index

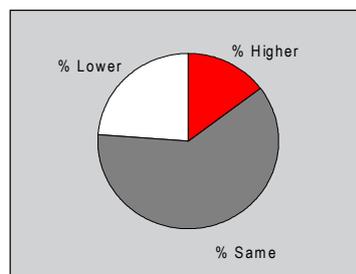
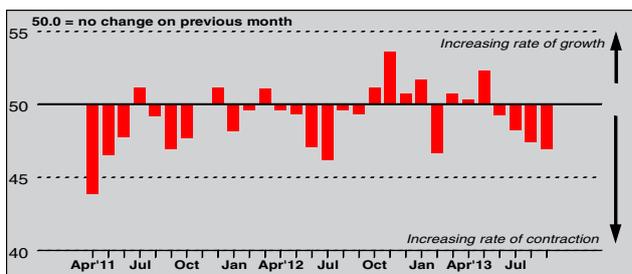
Q. Please compare the level of new orders received (Indonesia and export) this month with the situation one month ago.



New orders placed at Indonesian manufacturers fell for the second consecutive month in September, amid reports of weaker demand and a difficult economic climate. That said, order book volumes contracted only slightly and at a slower pace than in August, with almost 28% of respondents reporting lower levels of incoming new work and 27% noting growth.

New Export Orders Index

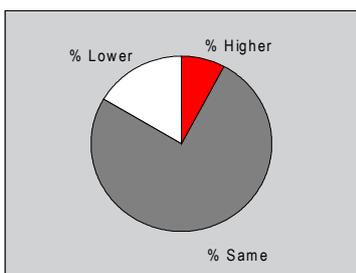
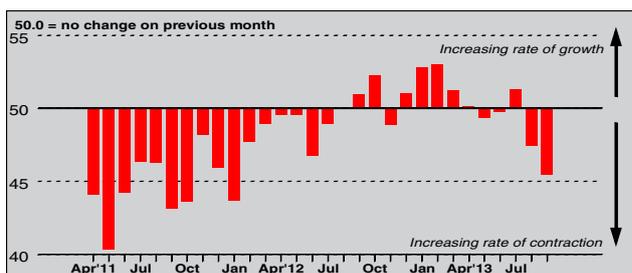
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New orders from abroad fell in September, as has been the case in every month since June. The rate of contraction was solid and accelerated to the fastest since February. Furthermore, the New Export Orders Index adjusted for seasonal influences posted below the series average. Around 24% of Indonesian manufacturers reported lower new export orders, citing weaker demand.

Backlogs of Work Index

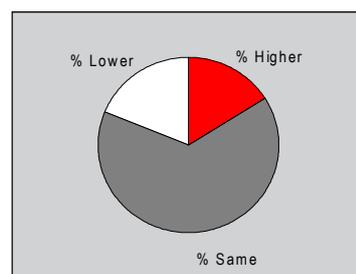
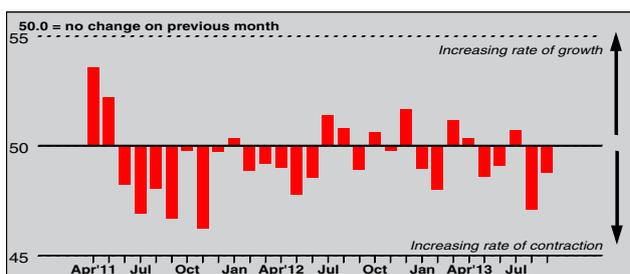
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



September data pointed to a marked and accelerated contraction of backlogs of work in the Indonesian manufacturing sector. Around twice as many panellists reported lower volumes of work-in-hand as those that noted an accumulation. Subsequently, the seasonally adjusted Backlogs of Work Index fell to its lowest level in 20 months. Anecdotal evidence suggested that unfinished business levels were depleted in line with falling order book volumes.

Stocks of Finished Goods Index

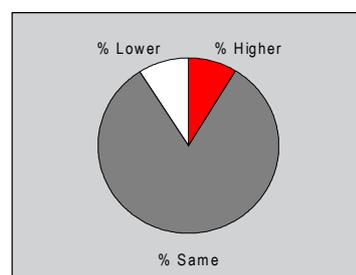
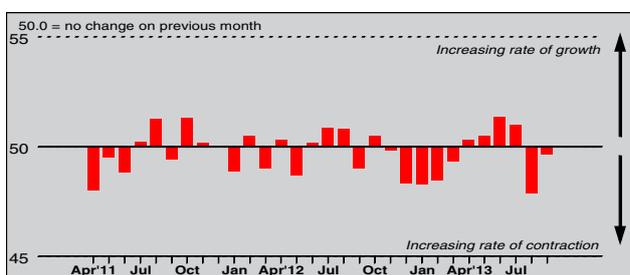
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



As indicated by the seasonally adjusted Stocks of Finished Goods Index posting below the 50.0 no-change mark for the second month running, post-production stocks fell in September. The overall rate of contraction was, however, only slight and eased since August. Panellists reporting lower holdings of finished goods attributed the latest decline to shortages of key raw materials. There were also reports that existing orders had been met directly from stocks.

Employment Index

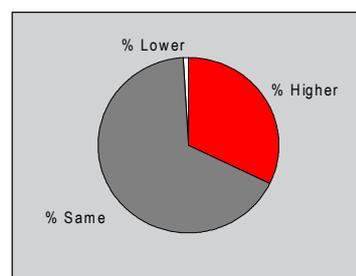
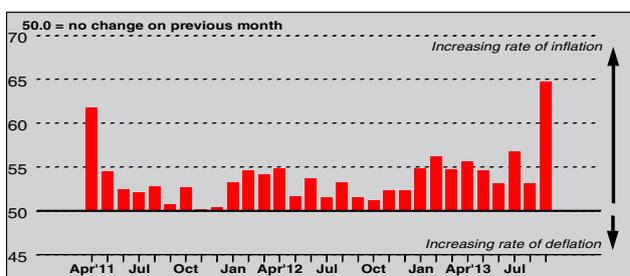
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels in the Indonesian goods-producing sector fell for the second successive month in September. The rate of job losses was, however, only fractional and slower than in August. Whereas some companies reported the non-replacement of voluntary leavers, other respondents commented on intentional workforce reduction. There were also mentions of a lack of skilled labour at some plants.

Output Prices Index

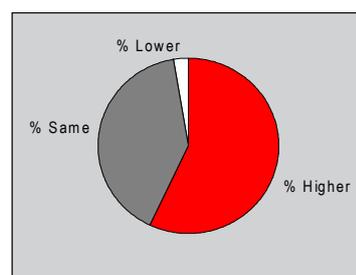
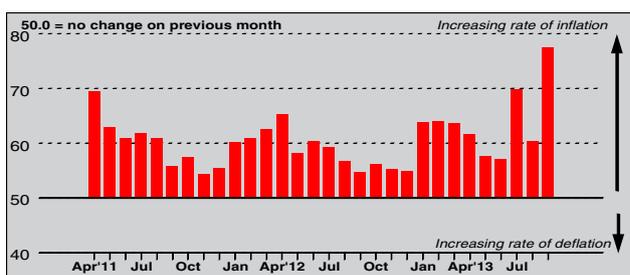
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Indonesian manufacturers rose sharply in September, amid evidence of higher input costs. Almost one-third of the survey panel reported higher factory gate prices, while only 1% noted a reduction. Subsequently, the Output Prices Index adjusted for seasonal factors climbed to its highest mark in the two-and-a-half year survey history.

Input Prices Index

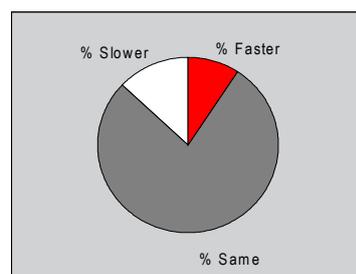
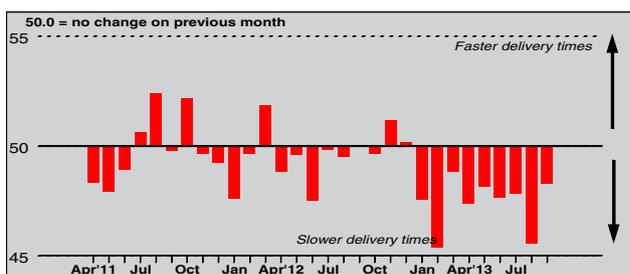
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Indonesian manufacturers reported increased input prices in September. The overall rate of cost inflation was sharp and the strongest in the survey history, with 57% of respondents indicating higher prices paid for inputs. Companies widely commented that unfavourable exchange rates resulted in a marked rise in imported raw material costs.

Suppliers' Delivery Times Index

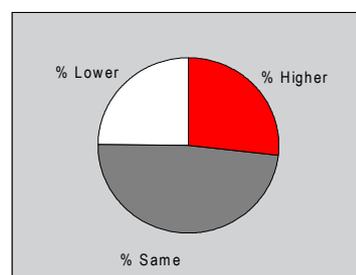
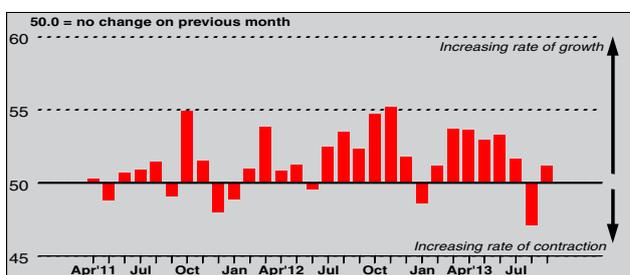
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



September data highlighted a further deterioration of vendor performance across the Indonesian manufacturing sector. However, average lead times lengthened to a lesser extent than those seen in the previous five months. Panellists indicating longer delivery times commonly associated this with poor road conditions and a reluctance to buy (linked to the depreciation of the rupiah against the US dollar) among suppliers.

Quantity of Purchases Index

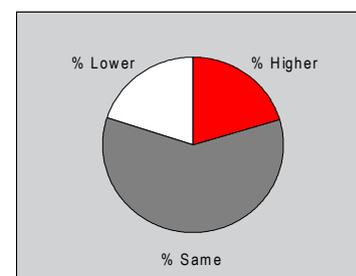
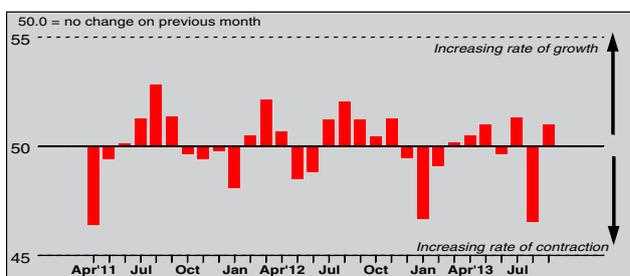
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In contrast to a decline registered in August, purchasing activity across the Indonesian manufacturing sector rose during September. But, with almost 27% of panellists reporting higher quantities of items bought and 25% noting a reduction, the overall rate of expansion was only slight. Those panel members signalling higher input buying reasoned that this reflected restocking attempts.

Stocks of Purchases Index

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



Pre-production inventories at Indonesian manufacturers rose in September, after falling in the previous month. Despite indicating slight growth, the seasonally adjusted Stocks of Purchases Index posted above the series average. Companies commented that restocking attempts reflected forecasts of stronger demand in the coming 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.

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