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HSBC Indonesia Manufacturing PMI™

PMI at four-month high in October, as output growth accelerates

Key findings:

- PMI rises from 50.2 in September to 50.9
- · Manufacturing production expands at fastest pace in six months
- · New orders increase for first time since June

The Indonesian manufacturing economy gained momentum in October, with the PMI rising to its highest level in four months. Production growth accelerated to the fastest since April, driven by a rebound in new work.

October's HSBC Purchasing Managers' IndexTM (PMITM) – a seasonally adjusted composite gauge designed to give a single-figure snapshot of operating conditions in the manufacturing sector – rose from 50.2 in September to 50.9, highlighting a moderate improvement in operating conditions across Indonesia. The upturn in the headline index reflected positive contributions from two major sub-components, namely output and new orders.

Manufacturing production rose for the second month running, amid evidence of new order growth. The rise in output was moderate, but the joint-fastest (on par with April) in the year-to-date. Nevertheless, the growth rate was fractionally weaker than the average over the second half of 2012.

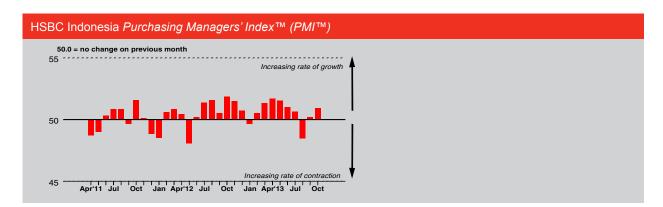
Stronger domestic demand and the launch of new product lines both resulted in higher levels of new orders placed at Indonesian manufacturers during October. The rise in incoming new work was slight, although the first in four months. Foreign demand, however, remained weak and export orders fell for the fifth consecutive month. Furthermore, the rate of contraction was the most pronounced since July 2012.

Despite the upturn in new business inflows, Indonesian manufacturers continued to reduce their workforce numbers in October. Employment fell for the third consecutive month, albeit marginally. Some panellists reported caution towards additional hiring as a reflection of weaker demand in previous months, while a few firms commented that recent leavers had not been replaced.

Meanwhile, a further deterioration in supplier performance contributed to an overall decline in pre-production stocks during October. The rate of inventory depletion was, however, only fractional. Similarly, holdings of manufactured goods decreased at a fractional pace.

Inflation rates remained high in October, despite easing from September's record. Average purchase costs rose sharply, with manufacturers reporting that a depreciation of the rupiah against the US dollar resulted in higher prices paid for imported raw materials. Concurrently, factory gate charges were raised further in the latest month. Input and output prices have both increased in each month since the survey started in April 2011.

In line with new order growth, Indonesian manufacturers increased their buying activity in October. The rise in quantity of purchases was moderate, but the strongest since June. Meanwhile, backlogs of work fell for the third consecutive month in October, with firms mentioning an easing of pressure on capacity.



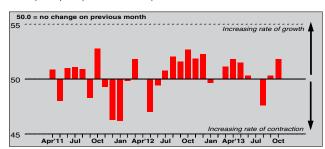
The HSBC Indonesia $Purchasing\ Managers'\ Index^{TM}\ (PMI^{TM})$ is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI^{TM} 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. $Purchasing\ Managers'\ Index^{TM}$ and PMI^{TM} 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.

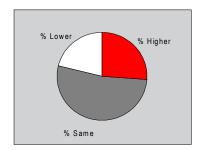




Output Index

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

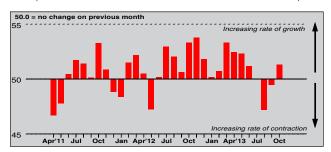


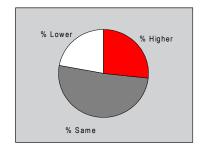


October data highlighted a second consecutive monthly expansion of manufacturing production across Indonesia. Despite being moderate, the overall rate of growth was joint-strongest in 2013 so far (on par with April). Moreover, the Output Index adjusted for seasonal influences posted above the series average. Panellists attributed the latest increase in output to new order growth.

New Orders Index

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

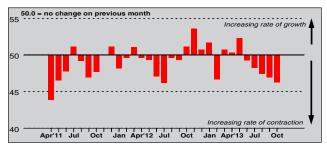


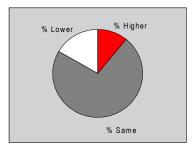


Ending a two-month sequence of contraction, incoming new work in the Indonesian goods-producing sector increased in October. But, with 27% of survey participants reporting higher levels of new orders and 22% noting a decline, the overall pace of growth was only slight. Evidence from panellists highlighted stronger demand from domestic clients and new product launches.

New Export Orders Index

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

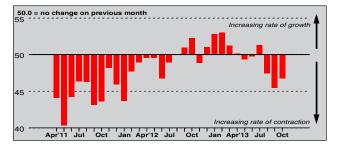


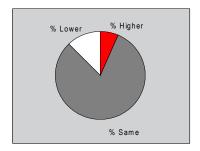


Indonesian manufacturers received fewer orders from abroad in October, as has been the case in each month since June. New export orders contracted at a solid rate, and one that was the fastest in 15 months. Almost 17% of survey respondents indicated lower foreign orders, while 11% noted growth. Anecdotal evidence suggested that overseas demand had weakened.

Backlogs of Work Index

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

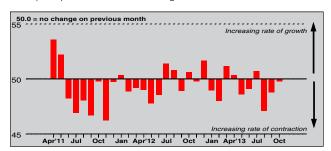


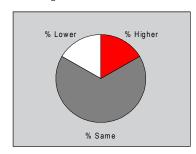


Unfinished business levels fell for the third successive month in October. Although slower than in September, the overall rate of contraction was solid. Furthermore, the seasonally adjusted Backlogs of Work Index posted below the series average. Indonesian manufacturers commented on an easing of pressure on operating capacity in recent months.

Stocks of Finished Goods Index

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



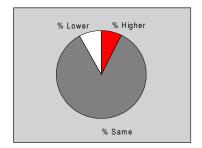


Post-production inventories in the Indonesian manufacturing economy fell in October, amid reports of cost-cutting measures and raw material shortages. However, the seasonally adjusted Stocks of Finished Goods Index rose to a three-month high and was consistent with only a fractional rate of depletion.

Employment Index

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

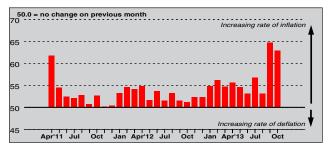


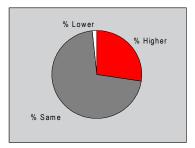


Manufacturing employment across Indonesia fell for the third month running in October. The overall pace of job shedding was, however, only fractional and unchanged from that seen in September. A combination of falling new orders in recent months and the non-replacement of voluntary leavers were cited by survey participants as reasons for the latest decline in payroll numbers.

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.

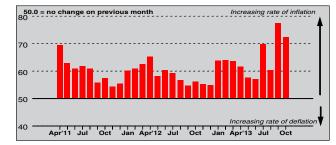


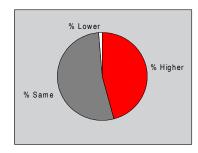


Adjusted for seasonal factors, the Output Prices Index fell slightly from September's record but was consistent with a sharp rate of charge inflation nevertheless. Around 27% of Indonesian manufacturers indicated higher selling prices, while less than 2% noted a reduction. According to survey participants, raw material, fuel and electricity costs all increased.

Input Prices Index

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

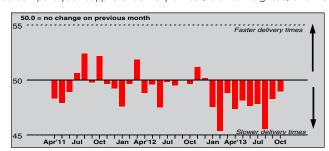


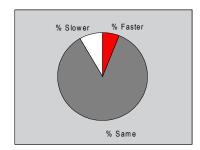


Average purchase costs in the Indonesian manufacturing sector rose in October, amid evidence of higher prices paid for metals, chemicals, plastics, paper and textiles. Most of the increase was attributed by panellists to a depreciation of the rupiah against the US dollar. Although slower than September's record, the rate of cost inflation remained sharp and above the series average.

Suppliers' Delivery Times Index

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



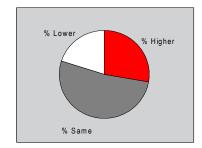


Average supplier delivery times across the Indonesian manufacturing sector lengthened in October, as has been observed throughout 2013 so far. However, vendor performance deteriorated to a lesser extent than seen in recent months. Anecdotal evidence pointed to raw material shortages at suppliers, poor road conditions and unfavourable weather.

Quantity of Purchases Index

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



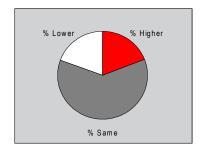


For the second month running, input buying in the Indonesian manufacturing sector rose in October. The rate of expansion was moderate, but the strongest in four months. Moreover, the seasonally adjusted Quantity of Purchases Index posted broadly in line with the 31-month series average. New order growth was reported by firms as the main reason behind the latest increase in purchasing activity.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index dipped below the neutral 50.0 level in October, indicating a depletion. That said, holdings of raw materials and semi-manufactured goods fell at a fractional pace. Whereas some companies linked the latest decline in pre-production inventories to longer lead times for raw materials, others commented on intentional stock reduction.

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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