

News Release

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S&P Global Indonesia Manufacturing PMI™

Indonesia's manufacturing sector continues to expand in October

Key findings

Demand and output growth slow

Inflationary pressures continue to soften

Business confidence improves sharply

Indonesia's manufacturing sector continued to expand at the start of the fourth quarter, though the rate of growth moderated from September. Both demand and output growth eased according to the latest PMI™ data which led to firms tapping their brakes on hiring and purchasing activities. Meanwhile supply constraints and cost pressures persisted for Indonesian manufacturers with a further lengthening of lead times, which had also contributed to a depletion of inventories. Overall business confidence improved in October.

The headline seasonally adjusted *S&P Global Indonesia Manufacturing Purchasing Manager's Index™ (PMI)* posted 51.8 in October, down from 53.7 in September. Having posted above the 50.0 no-change mark, the headline PMI was consistent with a fourteenth consecutive monthly improvement in the health of Indonesia's manufacturing sector. The rate of expansion eased to a two-month low, however.

Sustained growth in overall demand within the Indonesian manufacturing sector drove an increase in manufacturing production in October. The rates of growth in both new orders and output eased from the prior month, but remained solid.

On the other hand, foreign demand for Indonesian manufactured goods dipped again in October and at the fastest rate in the current five-month sequence. Anecdotal evidence suggested that weaker economic conditions abroad underpinned the decline.

In line with higher demand and output, Indonesian manufacturers also continued to expand their workforce capacity. The rate of growth was, however, the slowest recorded since May as firms pared back their hiring activity.

Higher production also led firms to continue acquiring inputs in October. That said, the rise in purchasing activity did not lead to higher stocks of purchases as shipment delays and depletion of inventories holdings underpinned the fall.

S&P Global Indonesia Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 October 2022.

Comment

Jingyi Pan, Economics Associate Director at S&P Global Market Intelligence, said:

"The latest survey data indicated that Indonesia's manufacturing sector continued to grow at a solid pace at the start of the fourth quarter, underpinned by robust demand conditions. While some supply constraints persisted, such as in the lengthening of lead times, overall growth appears unaffected."

"Inflationary pressures meanwhile further eased for Indonesian manufacturers, which was a positive sign. Input cost and selling price inflation dipped to 22- and 17-month lows, respectively, with selling price inflation now running below the long-run series average."

"Manufacturers' confidence also further improved to the highest since March as firms held hopes that economic conditions can improve to drive sales. Businesses also continued to acquire inputs and hire staff at the start of Q4, reflecting the positive expectations with regards to future output."

PMI™

by S&P Global

Indeed, suppliers' delivery times continued to lengthen at the start of the fourth quarter. Survey respondents reported that flooding as a result of heavy rainfall had contributed to the lengthening of lead times in October.

Stocks of finished goods meanwhile declined for a second straight month in October, the first back-to-back fall for a year. According to panellists, the depletion of post-production inventories was a result of both greater levels of demand and a slowdown in production growth.

Levels of backlogged work also declined for a second consecutive month in October, reflecting improvements in productivity.

Regarding prices, both input costs and output prices continued to climb in October. Higher raw material and fuel costs contributed to the rise in overall input prices according to panellists, which firms shared with their clients. That said, the rates of both input cost and output price inflation eased from September to signal a softening of inflationary pressures.

Overall sentiment in the manufacturing sector remained positive with the level of business confidence rising to the strongest since March. Indonesian manufacturers were generally hopeful that sales will improve with better economic conditions.

Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global.

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Survey methodology

The S&P Global Indonesia Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 2011.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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