

News Release

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S&P Global Indonesia Manufacturing PMI™

Manufacturing sector expansion accelerates at end of second quarter

Key findings

New orders return to growth in June...

...driving faster increases in production and employment

Average selling prices fall for the first time since October 2020

Indonesian manufacturing sector conditions improved at a faster rate in June on the back of a fresh increase in demand. This led to faster production growth and a rise in backlogs, even as firms acquired inputs and staff at quicker rates. While higher new orders and output added pressure to supply chains, cost inflation did not worsen. In fact, input cost inflation moderated further and factory gate prices declined for the first time in 32 months. Overall optimism also improved among Indonesian manufacturers.

The headline seasonally adjusted S&P Global Indonesia Manufacturing Purchasing Manager's Index™ (PMI) rose from 50.3 in May to 52.5 in June. This signalled an improvement in the health of the sector for the twenty-second consecutive month, with the latest improvement among the fastest seen over the past year-and-a-half and strong overall.

Underpinning the latest expansion was a renewed increase in new orders during June. Incoming new business rose solidly after falling slightly in May, as better underlying demand conditions supported growth. However, foreign demand continued to decline, albeit only marginally.

Production levels increased as a result of higher overall new orders. Furthermore, the rate of expansion was solid. However, manufacturers continued to see backlogs of work climb as the rise in demand exceeded their ability to fulfil orders in a timely manner.

At the same time, employment levels within the Indonesian manufacturing sector increased at the fastest pace in nine months as businesses expanded their workforce capacity to cope with higher workloads.

Purchasing activity was lifted in tandem with the growth in new work, which led to increased inventories of inputs at manufacturers. Post-production inventory levels declined, however, as the fulfilment of new orders depleted stocks.

Meanwhile, supply conditions worsened amid growing

S&P Global Indonesia Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 12-23 June 2023.

Comment

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

"Growth momentum across Indonesia's manufacturing sector re-accelerated in June, according to the latest S&P Global PMI data. The pace at which overall demand increased was solid overall, though the lack of external orders continued to dampen total sales growth.

"While supply conditions worsened marginally, cost pressures continued to recede and charges fell for the first time since late 2020. This reinforces Bank Indonesia's view that the monetary policy tightening cycle is now over, with weakening inflationary pressure across the goods producing sector.

"Overall business optimism remained historically subdued, which is a point of concern. It will be important to see demand, especially external demand, rise to inject greater confidence among manufacturers."

PMI™

by S&P Global

demand and greater production requirements. Lead times lengthened in June following four successive months of improvement, albeit only marginally. Anecdotal evidence also suggested that these delays contributed to the latest accumulation of backlogs in June.

That said, price pressures did not worsen at the end of the second quarter. Input cost inflation, while sharp, moderated from May to the lowest since October 2020. Panellists indicated that greater raw material prices were the main source of inflationary pressure. Concurrently, average selling prices declined for the first time in 32 months, with some firms keen to offer discounts in order to drive sales.

Overall sentiment within the Indonesian manufacturing sector remained positive in June. The level of business confidence edged up to the highest since April amid hopes of further improvements in business conditions and sales. However, the level of positive sentiment remained below the series average for the eighth straight month at the end of the second quarter.

Indonesia Manufacturing PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

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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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