

News Release

Embargoed until 0730 WIB (0030 UTC) 1 August 2023

S&P Global Indonesia Manufacturing PMI™

Solid manufacturing sector expansion at start of third quarter

Key findings

Output growth accelerates...

...driven by faster rise in new orders

Higher input costs lead to fresh rise in selling prices

Conditions across Indonesia's manufacturing sector strengthened again in July, supported by improvements in demand. Faster new order growth and efficiency gains contributed to a steeper increase in production at the start of the third quarter. As a result, firms continued to hire additional workers and raised their purchasing activity, which led to the fastest accumulation of input inventories on record. That said, input cost inflation reaccelerated, resulting in a renewed upturn in selling prices in the latest survey period. Overall optimism regarding the year-ahead meanwhile remained muted at the start of the second half of 2023.

The headline seasonally adjusted S&P Global Indonesia Manufacturing Purchasing Manager's Index™ (PMI) rose from 52.5 in June to 53.3 in July. This signalled an improvement in the health of the sector for the twenty-third consecutive month, with the latest improvement being the fastest recorded since last September.

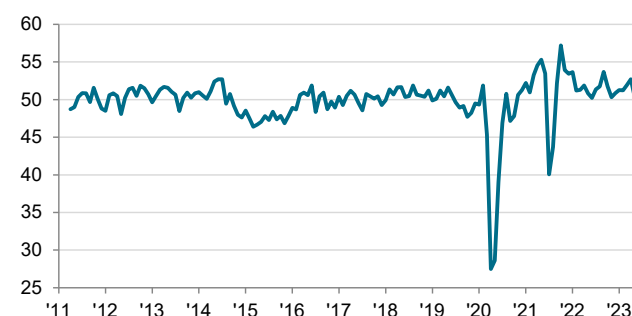
Production at Indonesian goods producers expanded at the fastest rate in ten months in July, underpinned by stronger inflows of new orders over the month. Better demand conditions led to the volume of new work to rise at a historically elevated rate overall. Foreign demand improved as well, as new export orders returned to growth, albeit marginally.

Greater capacity at suppliers meanwhile supported a renewed improvement in vendor performance in July, though the rate at which lead times shortened was only slight. Combined with higher production, this helped firms to reduce their levels of backlogged work in July.

To cope with higher production requirements, manufacturers raised their staffing levels for a sixth straight month. The pace of workforce expansion was mild, however, especially when compared to the rate at which firms increased their buying activity. The seasonally adjusted Quantity of Purchases

S&P Global Indonesia Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 12-24 July 2023.

Comment

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

"Indonesia's manufacturing sector continued to exhibit resilient growth momentum at the start of the third quarter, according to the latest S&P Global PMI data. An acceleration in total new order growth was driven not only by firmer domestic demand, but also a renewed increase in new business from abroad, to suggest a broad-based improvement in demand conditions."

"That said, input prices increased at a faster rate, signalling that inflation remains a key issue for private sector companies into the second half of 2023. This was despite better supply conditions as seen via a shortening of lead times over July."

"Business confidence also softened over the latest survey period, even though companies saw an improvement on the demand side, suggesting some lingering concerns over the outlook."

PMI™

by S&P Global

Index rose to a one-and-a-half year high as firms acquired greater volumes of raw materials and semi-finished goods. Concurrently, pre-production inventories accumulated at a record pace, while post-production inventory levels fell marginally as goods were shipped out to fulfil orders.

On prices, higher raw material costs reportedly pushed up operating expenses in July, though the rate of inflation remained well below the average recorded over the past two years. Manufacturers generally shared additional costs with their clients, resulting in a fresh increase in average output prices in July after a slight fall in June. The rate of charge inflation was mild and below the series long-run average, however.

Sentiment across Indonesia's manufacturing sector remained positive in July, indicating that firms were optimistic about production in the coming 12 months. That said, the level of confidence was below the series average for the ninth month running, despite better demand conditions in July.

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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