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IHS Markit Indonesia Manufacturing PMI™

Indonesian manufacturing downturn eases further in July

Key findings

Headline PMI reaches highest level since February

Production and new orders fall at much slower rates

Business optimism remains elevated

Data were collected 13-24 July 2020.

Indonesian manufacturing conditions deteriorated at a much weaker pace in July, according to PMI survey data, as the sector moved further towards stabilisation. After four months of severe falls, new order inflows were down only marginally at the start of the third quarter, while output dropped at a noticeably slower rate. Business confidence remained elevated based on hopes of the return to more normal market conditions.

Indonesian goods producers nevertheless continued to report the adverse impact of the coronavirus disease 2019 (COVID-19) on economic activity. Firms remained reluctant to invest in new capacity, with employment falling further and purchasing activity being reduced. Inventories also shrank.

The IHS Markit Indonesia Manufacturing Purchasing Managers' Index™ (PMI™) rose by almost eight points from 39.1 in June to 46.9 in July, its highest reading since February. The PMI continued to regain lost ground from April's record low, but the latest reading remained below the 50.0 no-change level and indicated a further deterioration in the health of the sector.

Dampening the headline PMI reading was a further drop in output in July, though the rate of decline was the slowest for five months. Lower production volumes were often linked to the adverse impact of the COVID-19 pandemic on demand. Where output growth was reported, manufacturers pointed to the gradual reopening of factories as containment measures were relaxed.

Gradual steps to restart the Indonesian economy also led to a much softer fall in overall demand. The downturn in total new orders was only marginal in July despite a substantial fall in export sales.

Average cost burdens rose sharply in July, with inflation driven by a weaker rupiah and rising prices for input materials. The

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Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"PMI data showed another marked easing in the downturn across Indonesia's manufacturing sector during July, adding to hopes that the worst of the impact of the COVID-19 pandemic was felt in the second quarter.

"Output, orders and employment indices all lifted from the lows seen in the second quarter, helped by a relaxation of COVID-19 containment measures. Firms also remained optimistic about their output in a year's time.

"However, the survey also points to a challenging recovery ahead. Firms continued to reduce factory employment at a sharp rate, with many seeking to control costs and remain viable. The ongoing decline in backlogs of work also extended into July.

"The need for ongoing social distancing at workplaces and public gatherings, as well as any potential surge in new infections, could also further delay output and sales from recovering to pre-pandemic levels."

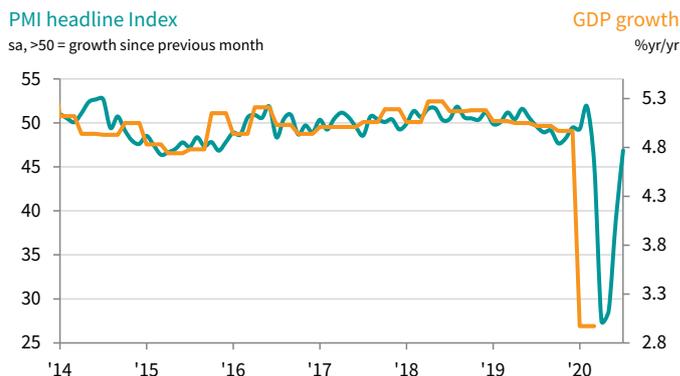
increase in expenses was partially passed on to customers via higher selling prices, though subdued demand conditions limited the extent to which firms could raise their output charges. Greater pressure on margins, alongside rising spare capacity, led to a further round of job shedding. Factory employment was reduced sharply, despite the rate of job cuts easing since June.

As part of efforts to contain costs, firms continued to cut back on their purchasing activity, preferring instead to tap into current inventories to meet production demand. Stocks of purchases dropped for a seventh straight month during July.

The survey also showed a decline in finished goods inventories in July, following two months of accumulation. The rate of depletion was also the fastest since September 2018. Indonesian factories often attributed lower stocks to reduced output, but there were some firms commenting on increased sales.

Supply chains remained under pressure, with ongoing COVID-19 related restrictions continuing to constrain vendors' ability to make deliveries. Manufacturers also highlighted supply shortages and a lack of sufficient transport services.

Finally, firms maintained their positive outlook about the year ahead, with almost two-thirds of panellists expecting a rise in output over the next 12 months. Optimism was primarily based on expectations that the COVID-19 situation will improve in the coming months.



Sources: IHS Markit, Statistics Indonesia (BPS).

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Methodology

The IHS Markit Indonesia Manufacturing PMI™ is compiled by IHS Markit from responses to monthly 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.

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.

July 2020 data were collected 13-24 July 2020.

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

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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