Indonesia Manufacturing PMI: 2 December 2024

- In line with our projection, the S&P Global Indonesia Manufacturing PMI remained below 50 in November 2024, although it managed to edge up to 49.6 from 49.2 in the previous two months. While the index stayed below the critical 50.0 threshold, indicating contraction, the softer pace of decline offered a glimmer of hope for the manufacturing sector. This marked the fifth consecutive month of contraction but suggested that the downturn might be easing. Notably, output and purchasing activity grew for the first time in five months, signaling some stabilization. However, the persistent decline in new orders indicated that both domestic and international demand remained fragile, presenting a mixed picture for the sector’s recovery.

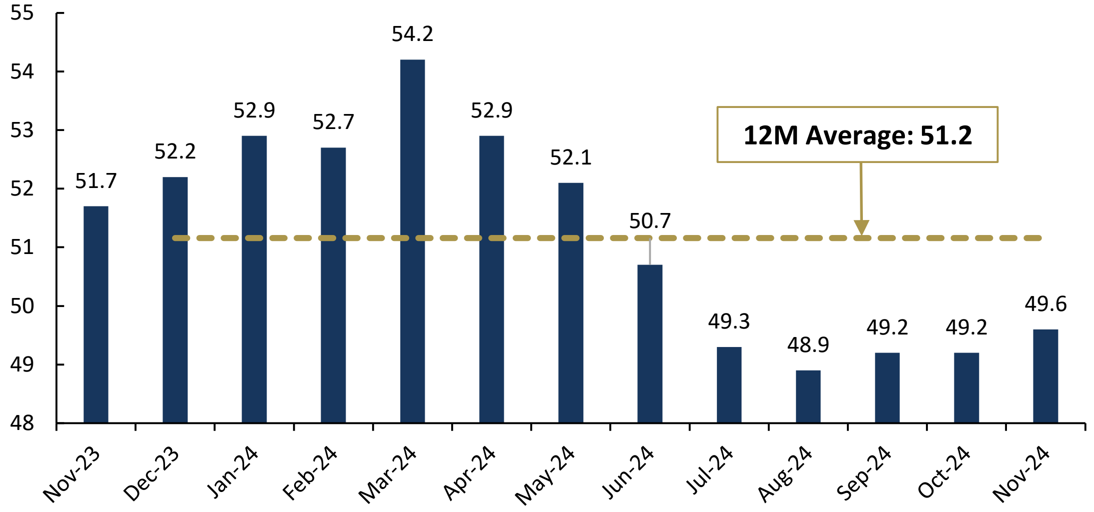
- External demand continues to weigh heavily on the manufacturing outlook. Foreign orders declined for the ninth consecutive month, and the pace of contraction accelerated further. This trend highlights challenges in Indonesia's export-oriented sectors, exacerbated by slowing global growth and geopolitical uncertainties. Manufacturers reliant on external markets will need to navigate these headwinds carefully, possibly through diversification and value-added strategies.

- The labor market also faced significant pressures, with employment levels declining at their sharpest rate in over three years. This reflects businesses' cost-cutting measures in response to weak demand and shrinking workloads. Backlogs of work fell for the sixth month, albeit marginally, underscoring the lack of sufficient demand to sustain current labor capacities. The sharp decline in employment could have wider implications for household consumption, further dampening domestic economic activity.

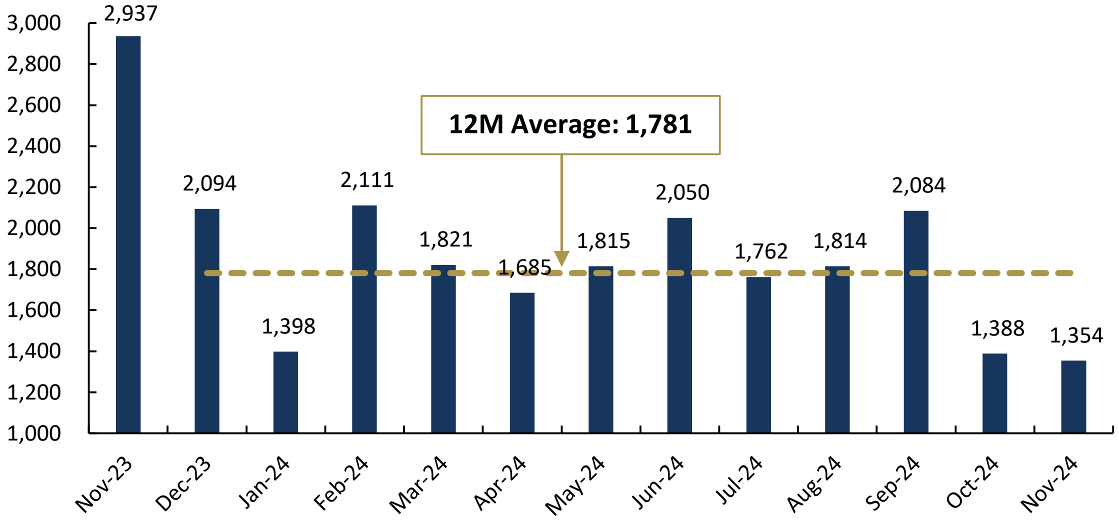
- On a more positive note, supply chain conditions showed modest improvement, with delivery times slightly shortening. This suggests some easing of logistical bottlenecks, though businesses must remain vigilant to potential disruptions given the volatile global environment. Meanwhile, input cost inflation edged higher but stayed below historical averages, driven by rising raw materials costs and currency-related pressures on imported goods. Foodstuffs, in particular, saw notable price increases, impacting both producers and consumers. While selling prices rose in response, the rate of inflation remained moderate, limiting the burden on end-users.

- The November PMI report paints a challenging picture for Indonesia's manufacturing sector, where subdued demand, geopolitical pressures, and tempered business sentiment continue to exert downward pressure on growth. With limited growth prospects both domestically and internationally, we anticipate Indonesia's PMI to hover around 49-50 until the end of year, aligning with our sub 5% economic growth projection of 4.95%.

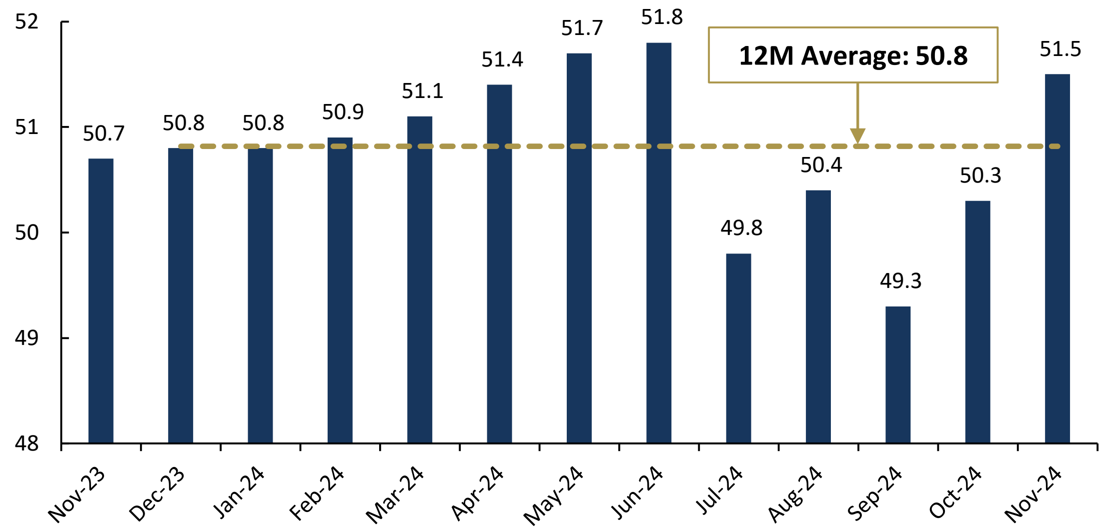
Indonesia Manufacturing PMI



Baltic Dry Index



China Caixin Manufacturing PMI



Sources: Bloomberg, SSI Research

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