Indonesia Manufacturing PMI: 2 June 2025

- Indonesia's May manufacturing sector showed tentative signs of stabilization, as the S&P Global Manufacturing PMI edged up to 47.4 from April's near four-year low of 46.7. While the index remained below the crucial 50-point threshold, the slower pace of decline suggests that the worst phase of the current industrial downturn have ended. This modest improvement reflects cautious sense of optimism among producers, even as economic headwinds continue to weigh on overall momentum.

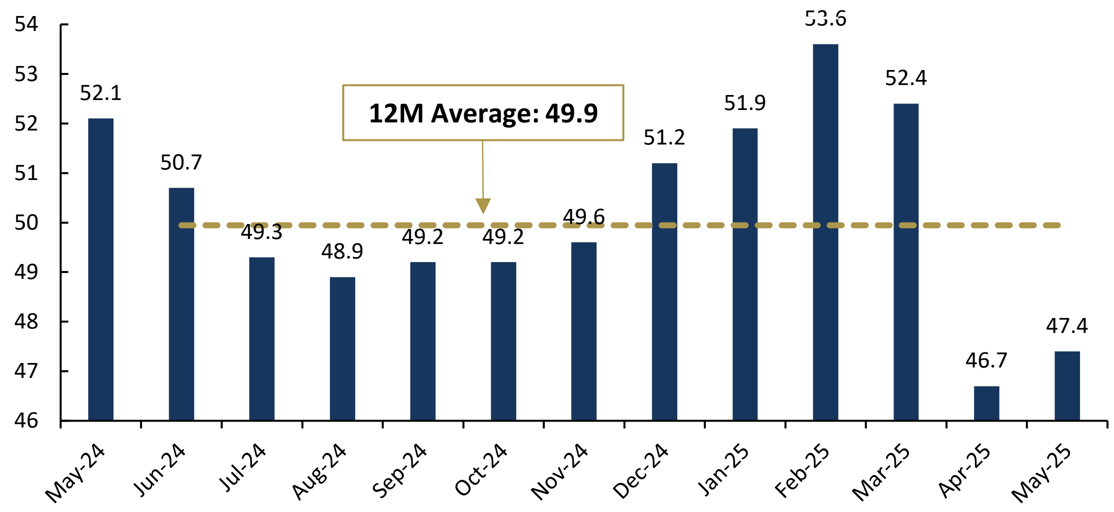
- Output levels continued to contract, though at a more moderate pace, signaling that production lines and supply chains are gradually recalibrating. However, the sharpest contraction in new orders since August 2021 points to persistent weakness in domestic demand. Export performance also remained under pressure, with foreign sales declining further—particularly to the United States—amid global trade disruptions and escalating tariff tensions. This external softness adds to the burden on local producers, who are increasingly operating in a demand-constrained environment.

- Manufacturers have responded to these conditions by curbing purchasing activity and reducing both pre- and post-production inventories, reflecting strategic shifts toward leaner operations. Interestingly, despite weaker order books, delivery times rose to a nine-month high due to logistical delays and adverse weather, further complicating supply-side planning. On the labor front, employment rose for the fifth time in six months, albeit at slower rate, as firms sought to reduce backlogs and prepare for potential recovery in 2H25.

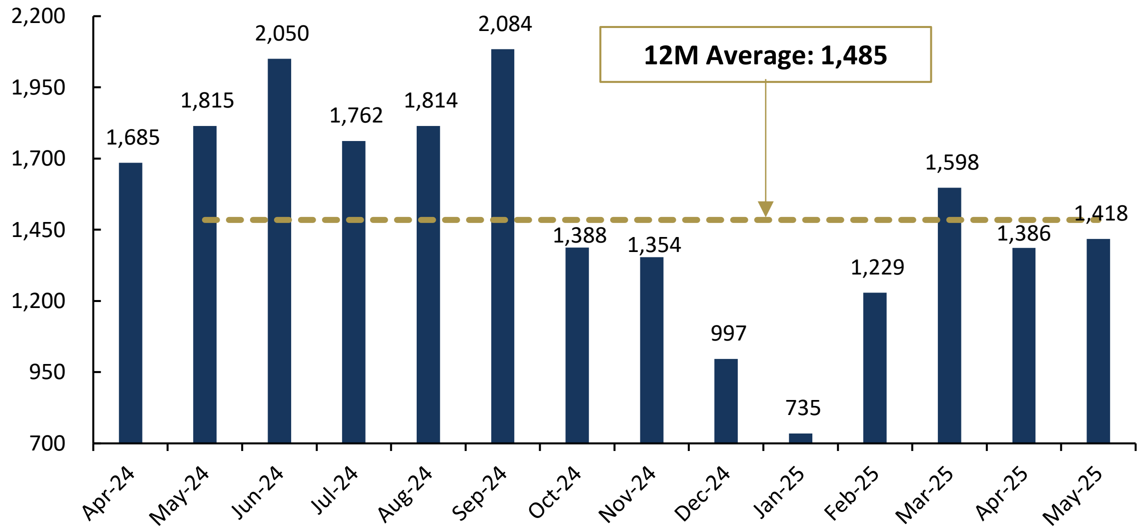
- Input cost inflation reemerged for the first time in three months, driven by broad increases in raw materials prices—particularly due to currency depreciation. Yet, in signs of market competitiveness and fragile demand, many firms chose to absorb the rising costs rather than pass them on. This led to only marginal increases in output prices, as companies focused on maintaining market share rather than expanding margins. Despite these challenges, business sentiment slightly improved, underpinned by hopes that supportive fiscal measures and improving global conditions could provide some lift in the coming months.

- Looking ahead, the outlook for Indonesia's manufacturing sector remains cautiously optimistic. The expected rollout of government stimulus measures in June could help revive household spending and, in turn, bolster factory orders. Export performance will hinge heavily on the pace of recovery in key markets such as China and the U.S., as well as on the trajectory of global trade tensions. Meanwhile, any sustained rise in input costs or further supply chain disruptions could limit recovery prospects. In summary, while May's PMI reading reflects continued contraction, the softer pace of decline, ongoing hiring, and mildly improved sentiment suggest that the sector may be entering a phase of consolidation. A return to expansionary territory is possible in 2H25, provided that policy support is timely and effective, and that external headwinds begin to ease.

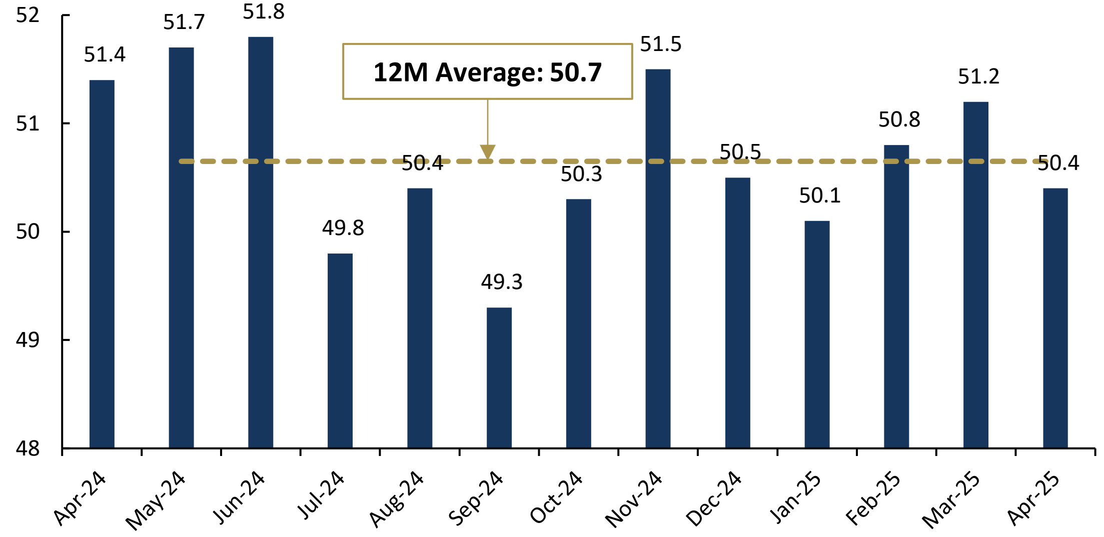
Indonesia Manufacturing PMI



Baltic Dry Index



China Caixin Manufacturing PMI



Sources: Bloomberg, SSI Research