ABSTRACT

The manufacturing industry is the main supporting sector for the economy considering its large contribution to Indonesia's national GDP when compared to other sectors. However, with the problems in the economy lately, this has resulted in a decline in Indonesia's economic conditions which is marked by a decline in national GDP and also a decrease in the output of the Indonesian manufacturing industry sector. Thus, this study aims to analyze the effect of the variables that are problematic in the current economy, namely inflation, exchange rates, labor, and the money supply on the manufacturing industry sector in Indonesia in the long and short term.

This study uses the ECM (error correction model) method in empirical testing. The data used is secondary time series data (quarterly) starting from 2011:Q1 – 2020:Q4, the data obtained comes from the Central Statistics Agency, Bank Indonesia and the Ministry of Trade of the Republic of Indonesia. This study uses the Eviews10 application as an analytical tool.

From the results of the analysis conducted, this study shows that the exchange rate and labor have a positive and significant influence on the manufacturing industry sector in the long and short term, and the money supply has a positive and significant effect on the manufacturing industry sector in the long term only. Meanwhile, inflation has a negative but not significant effect both in the long term and in the short term. Of these significant variables, labor has the greatest influence on the manufacturing industry sector. Therefore, the government needs to pay attention to policies related to labor as the main factor in increasing the output of the manufacturing industry.

Keywords: Manufacturing Industry, GDP, Inflation, Exchange Rate, Labor, Money Supply.