MONTHLY REPORT

∂R/1186/to/2015

**February 2015**

DANAREKSA RESEARCH INSTITUTE

TRADE OUTLOOK

## December Review: Better Trade Performance

- December exports climbed 7.4 percent MoM to US$ 14.6 bn, helped by strong oil and gas exports (+11.7 percent MoM), and non oil and gas exports (+6.6 percent MoM). Both volume and average aggregate prices rose - up 0.9 percent and 6.4 percent, respectively.

- Mineral fuels (HS 27) and animal and vegetable fats (HS 15) remained at the top of the list, and accounted for more than 28 percent of the non oil and gas exports. Compared to the previous month, exports of these two products fell by 2.6 percent and 2.9 percent, respectively.

- Shipments of Indonesia's non oil and gas export products to China were down (-1.1 percent MoM), while non oil and gas exports to Japan and the U.S. rose by 2.1 percent and 23.9 percent, respectively.

- Although oil and gas imports slipped 2.4 percent MoM in December, non oil and gas imports increased by 4.5 percent. In total, imports reached US$ 14.4 bn, or up 2.8 percent MoM. In volume terms, December's imports jumped 16.1 percent. Average aggregate prices, however, were 11.4 percent lower.

- By product type, imports of mechanical machinery and equipment (HS 84) were 0.5 percent lower, and electrical machinery and equipment imports (HS 85) fell by 7.8 percent. Shipments of non oil and gas products from China and Singapore increased by 12.2 percent and 4.6 percent, respectively. Meanwhile, imports from Japan were 0.2 percent lower.

- By classification of use, imports of capital goods dropped 3.5 percent while imports of raw materials and consumption goods rose 3.3 percent and 11.3 percent, respectively. For the full year of 2014, imports of raw materials accounted for 76.4 percent of Indonesia's total imports.

- Overall, Indonesia recorded a trade surplus of US$ 186.8 mn in December compared to a US$ 425.4 mn trade deficit in November. In FY14, Indonesia's trade deficit reached US$ 1.88 bn - or lower than the deficit of US$ 4.1 bn recorded in 2013.

**Forecast for January 2015**

| | |
|---|---|
| Exports | US$ 13.7 bn |
| Imports | US$ 13.6 bn |
| Trade Surplus | US$ 75.4 mn |

**Forecast for 2015**

| | |
|---|---|
| Exports | US$ 182.8 bn |
| Imports | US$ 180.3 bn |
| Trade balance | US$ 2.5 bn |


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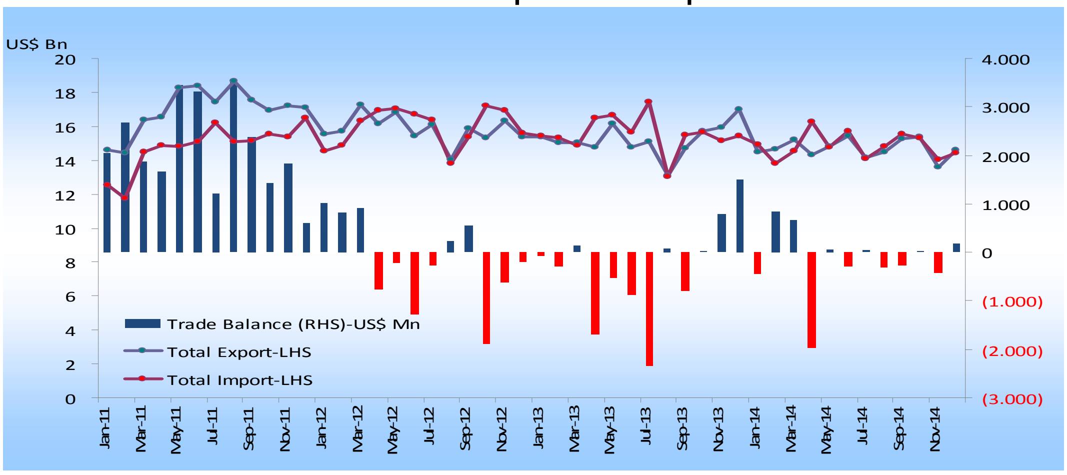
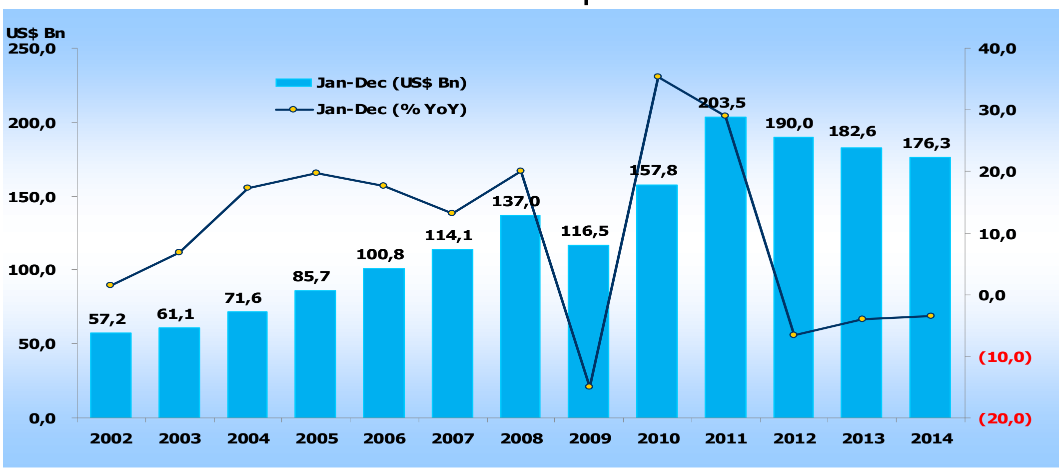
## Indonesia's Exports and Imports



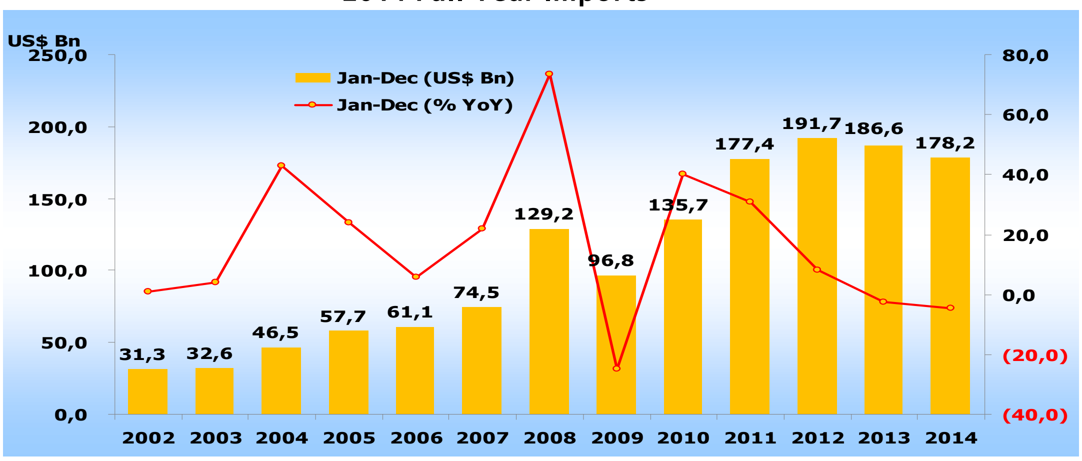

*Source: BPS*

## 2014 Full Year Exports



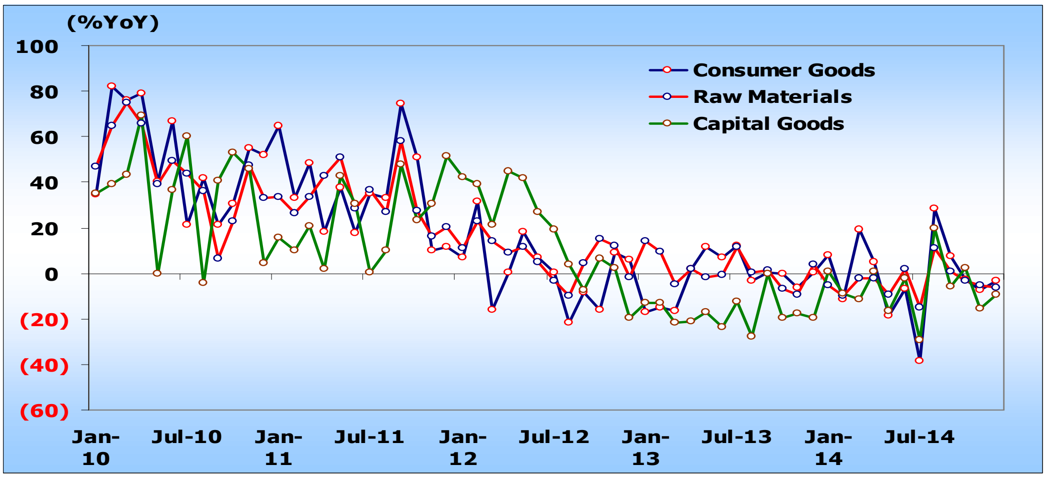

*Source: BPS, Danareksa Research Institute*

## 2014 Full Year Imports




*Source: BPS, Danareksa Research Institute*

YoY Change in Imports




*Source: BPS*

## January Outlook: Stable

In 2014, exports reached US$ 176.3 bn (-3.4 percent YoY), while imports totaled US$ 178.2 bn (-4.5 percent YoY). As a result, Indonesia recorded a trade deficit of US$ 1.88 bn, or 53.7 percent lower than in the previous year. Looking at the latest developments globally, the economic conditions of Indonesia's main trading partners appear mixed: the U.S. economy is predicted to grow at a faster pace, while growth in other economies (China, Japan) remains lethargic. All in all, the latest developments suggest that Indonesia's exports performance won't improve significantly in the near term. As such, we only foresee stable trade performance in January 2015.

### China

- The Coincident Economic Index (CEI), which gauges current economic conditions, increased 1.1 percent in December to 269.3, following a 0.1 percent increase in both November and October. China's Leading Economic Index (LEI) also increased. It rose 1.1 percent in December to 311.6, following a 0.8 percent increase in November and a 0.9 percent increase in October.

- China's consumer inflation recorded its slowest growth in more than five years in January 2015. Headline inflation climbed 0.8 percent on year, easing from 1.5 percent in December 2014. Falling energy prices, transportation costs and communication costs in addition to lower prices of several basic foodstuffs lessened the pressures on prices.

- The main gauge of China's manufacturing sector indicates that industrial sector growth contracted in January. The official purchasing managers index (PMI) slipped to 49.8 from 50.1 in December. A PMI reading above 50 indicates expansion in the manufacturing sector while a reading below 50 signals contraction. The lower PMI marks a softening in new orders received and production output in China's industrial sector.

- In view of the latest developments, we still expect Indonesia’s exports to China to grow moderately over the near term.

### Japan

- Japan's CEI rose 0.6 percent in December to 98.2, after dropping 0.2 percent in November. Meanwhile, the LEI decreased 0.2 percent to 103.2, following a 0.6 percent increase in November. These two indexes suggest a pickup in Japanese economic activity in the near term.

- Japanese households were more upbeat. This is reflected in the increase in the consumer confidence index, which climbed 0.3 points to 39.1 in January 2015. Consumers were more positive on employment conditions and also more willing to buy durable goods. A reading below 50 shows that pessimists outnumber optimists.

- Retail sales grew at a slow pace in December. The sales of retail goods and services grew by only 0.2 percent YoY, following 0.5 percent growth in the previous month. Weak consumer spending also led to easing pressures on prices. After reaching 2.7 percent in November, core consumer inflation slowed further to 2.5 percent YoY in December. Excluding the direct impact of April's consumption tax hike, the December core CPI rose only 0.5 percent, down from 0.7 percent in November.

- On the supply side, Japanese manufacturing activity remained stable. The final Markit/JMMA Japanese Manufacturing Purchasing Managers Index (PMI) was at a seasonally adjusted 52.2 in January, or slightly higher than December's level of 52. New orders and new export orders grew at a faster pace.

- The latest capital spending indicator showed positive number in December. Japan's core machinery orders rose 8.3 percent MoM, following 1.3 percent gain in November. As a leading indicator of capital spending 6-9 months ahead, this may suggest a possible strengthening in the capital expenditures of Japan companies.

- Against this backdrop, Indonesia’s exports to Japan are expected to remain stable going forward.

**The U.S.**

- The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.5 percent in December to 121.1, following a 0.4 percent increase in November, and a 0.6 percent increase in October. Furthermore, the Coincident Economic Index (CEI) for the U.S. edged up 0.2 percent in December to 111.4, following a 0.5 percent increase in November, and a 0.3 percent increase in October. This data indicates that U.S. economic expansion should be firm going forward.

- The Conference Board Consumer Confidence Index increased further to 102.9 in January, from 93.1 in December. This is its highest level since August 2007 and highlights improved sentiment toward the short-term outlook for the economy and labor market.

- The US inflation rate rose by 0.7 percent YoY in December eased from 1.3 percent in the previous month. This reflects falling energy costs and a decline in consumer prices to their lowest level since October 2009.

- The U.S. manufacturing PMI was recorded at 53.5 in January, lower from December's level 55.1. Improving economic conditions led to higher sales, but export demand and new orders slowed.

- Given these findings, Indonesia’s exports to the US are expected to be stable in the future.

**Indonesia**

- Danareksa's CEI grew 0.33 percent MoM to 124.2 . At the same time, the LEI posted an increase of 0.31 percent MoM to 136.9. Both indicators suggest that Indonesia's economy is currently growing at a moderate pace with faster growth likely in the future.

- The Indonesian economy expanded by 5.01 percent YoY in the fourth quarter of 2014. For the full year of 2014, GDP grew by 5.02 percent compared to 5.58 percent in the previous year. Private consumption expanded 5.14 percent and investment by 4.12 percent. Exports grew by 1.02 percent, with government spending up 1.98 percent and imports growth reaching 2.19 percent.

- Consumer prices unexpectedly fell in January 2015. A MoM comparison shows deflation of 0.24 percent, with YoY inflation reaching 6.96 percent. Declines in fuel prices, combined with lower inner city transportation and air transportation costs, underpinned the sharp declines in prices in the transportation component.

- In January 2015, Bank Indonesia maintained its benchmark BI rate at 7.75 percent, whilst the Lending Facility rate stood at 8.00 percent and the Deposit Facility rate at 5.75 percent. BI's rather cautious monetary policy takes into consideration not only the expectation of relatively benign inflation but also its aim to keep the current account deficit at a more sustainable level.

- The rupiah remained under pressure at the start of 2015. It weakened by 1.08 percent on an average basis relative to the US dollar, following 2.13 percent depreciation in December 2014.

- The commodity price index - which is a measure of the prices of Indonesia's major commodity exports - slumped 3.2 percent MoM in January, after rebounding 1.83 percent in the previous month. Also in January, average global oil prices fell another 11.1 percent MoM.

- Against this backdrop, we expect Indonesia's imports to grow at a moderate pace over the near term

All in all, we expect Indonesia's exports to reach US$ 13.7 bn in January 2015, with imports reaching US$ 13.6 bn. As a result, we foresee a trade surplus of US$ 75.4 mn in January 2015.

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