

April 2018

## TRADE OUTLOOK

**March Outlook: Edging Up**

- ❑ In February 2018, both exports and imports contracted on a monthly basis, albeit still growing on a yearly comparison. Exports reached US\$ 14.1 bn (-3.1% mom, +11.8% yoy) while imports amounted to US\$ 14.2 bn (-7.2% mom, +25.2% yoy). As a result, the trade deficit narrowed to US\$ 116 mn from US\$ 756 mn in the previous month. Furthermore, Indonesia has now posted a trade deficit for three straight months, owing largely to a low non oil and gas trade surplus and a rising oil and gas trade deficit. Year-to-date, the trade deficit has reached US\$ 872 mn. This compares to a surplus of US\$ 2.6 bn in the same period last year.
- ❑ Oil and gas exports rose by 5.1% mom to US\$ 1.4 bn in February 2018, while non oil and gas exports dropped by 4.0% mom to US\$ 12.7 bn. The monthly fall of exports stemmed from a slump in exports volume (-4.8% mom, +22.3% yoy), while average prices still grew (+1.7% mom, -8.6% yoy). By product type, the exports of Indonesia's top non oil and gas products declined: this included exports of mineral fuel (HS 27), machinery and electrical appliances (HS 85), and footwear (HS 64). By destination country, the value of non oil and gas exports to the U.S. and Japan weakened (down by 16.5% mom and 8.6% mom, respectively), whereas exports to China rose by 7.5% mom.
- ❑ Oil and gas imports grew slightly by 0.1% mom to US\$ 2.3 bn in February 2018, whereas non oil and gas imports fell 8.4% mom to US\$ 11.9 bn. The volume shipments of imports rose (+4.2% mom, +9.0% yoy) even though average prices were lower on a monthly comparison (-10.9% mom, +0.6% yoy). By product type, Indonesia's main non oil and gas imports declined. This included imports of machinery and mechanical appliances (HS 84), machinery and electrical appliances (HS 85), and iron and steel (HS 72). By country of origin, the imports of non oil and gas products from Japan and Thailand rose by 0.03% mom and 21.3% mom, respectively, while imports from China were 6.4% mom lower.
- ❑ By type of use, the imports of raw materials and capital goods fell by 7.7% mom and 9.2% mom in February 2018. By comparison, imports of consumption goods rose by 1.4% mom. In the first 2 months of 2018, raw materials accounted for 74.7 percent of non oil and gas imports, followed by capital goods (16.0%) and consumption goods (9.3%).
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to expand as expected. Economic activity continues to strengthen in the U.S. and Japan, while China's economy is stabilizing. Notably, in March 2018, the average prices of Indonesia's major commodity exports contracted by 1.53% mom, whereas global oil prices surged 5.6% mom.
- ❑ According to the latest update, the U.S. economy expanded by 2.6 percent yoy in the last quarter of 2017, or faster than in both Q3 2017 (+2.3% yoy) and Q4 2016 (+1.8% yoy). Compared to Q4 2016, growth in the following components accelerated: personal consumption-PCE (+2.8% yoy), exports (+5.0% yoy), imports (+4.7% yoy), gross private domestic investment (+3.6% yoy), and government expenditure (+0.7% yoy). In FY17, the U.S. economy expanded by 2.3%, exceeding its growth pace in 2016 (+1.5%). On the manufacturing side, expansion slowed in March 2018. The March ISM Manufacturing Index fell from 60.8 to 59.3, given softer growth of new export orders, production and employment. On the consumer

**Forecast for March 2018**

Exports	US\$ 14.7 bn
Imports	US\$ 14.6 bn
Trade Surplus	US\$ 0.1 bn

**Forecast for 2018**

Exports	US\$ 189.8 bn
Imports	US\$ 180.5 bn
Trade balance	US\$ 9.3 bn

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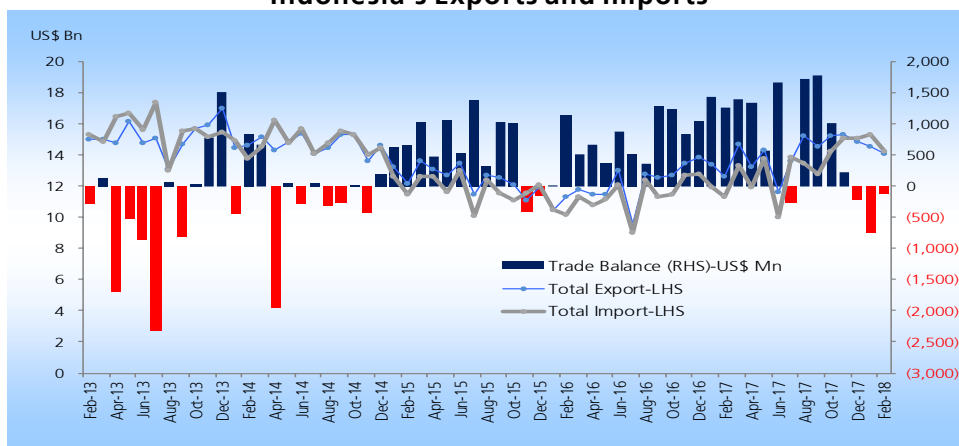
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side, U.S. household optimism fell. The consumer confidence index declined from 130.0 to 127.7 in March 2018. However, the index remained high despite the modest retreat, suggesting a bright economic outlook. Consumer spending fell on a monthly basis in February. Retail sales dipped by 0.1% mom (+4.0% yoy), following a 0.1% drop in January (+3.9% yoy), given lower sales of motor vehicles and parts, fuel, and furniture.

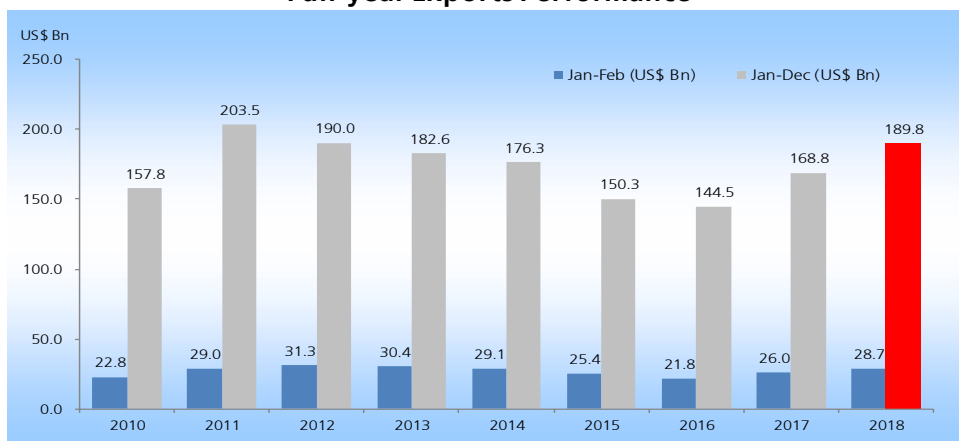
- ❑ China's economic outlook is expected to remain steady. On the manufacturing side, the official NBS Manufacturing PMI in China rose to 51.5 in March 2018 from 50.3 in the prior month. This is the highest reading since December 2017, indicating that manufacturing activity rebounded and expanded at a faster pace. On the consumer side, monthly retail sales rose by 0.8% mom (+9.7% yoy) in February. Sales of motor vehicles, building materials, and jewelry rose at a faster pace. In regard to price developments, consumer prices accelerated both on a monthly and annual basis in February (+1.2% mom, +2.9% yoy) from January (+0.6% mom, +1.5% yoy). This is the highest inflationary pressure since November 2013. The cost of both food and non food items increased.
- ❑ The Japanese economy continues to gather momentum, since the CEI and LEI rose further by 1.4% and 1.1% yoy, respectively in January 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) declined further from 54.1 in February to 53.1 in March 2018, owing to a slower increase in output, employment and new orders. On the consumer side, consumer spending increased. In February, retail sales increased both on a monthly and annual basis (+0.4% mom, +1.6% yoy) compared to the previous month (-1.6% mom, +1.5% yoy). The sales of food and beverages, fuel, and apparel edged up. In addition, February's annual consumer prices rose further (+0.1% mom, +1.5% yoy). Headline inflation reached its highest level since March 2015, driven by strong prices in the food and transportation component.
- ❑ The Fed increased the FFR target by 25 bps to 1.50%-1.75% during its March meeting, or inline with market expectations. The FOMC release reveals that the U.S. economic activity strengthened, supported by a robust job market and a solid pace of consumer spending and business fixed investment. Despite stable inflation, the Fed signalled that further FFR hikes are on the table this year. Annual inflation is predicted to stabilize at around 2 percent over the medium term. Meanwhile, other major central banks' policy was mixed. The People's Bank of China (PBOC) held its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent, whereas China's 7-day reverse repo rose by 5 bps to 2.55 percent. In Japan, meanwhile, the Bank of Japan (BOJ) left its key short term interest rate at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. In regard to long term interest rate policy, the purchase of Japanese Government Bonds will continue in order to keep the 10-year JGB yield at around zero percent.
- ❑ Indonesia's CEI (+1.3%) and LEI (+1.0%) strengthened further, indicating a brisker pace of economic activity. In regard to price developments, monthly headline inflation rose to 0.20% mom (+3.40% yoy) in March, from 0.17% mom (+3.18% yoy) in the previous month. Prices in most components grew at a slightly faster pace. More specifically, prices in the food and non food components rose by 0.20% mom and 0.18% mom, respectively. On the monetary side, BI kept the BI 7-day Reverse Repo rate unchanged at 4.25 percent with the Lending Facility rate and the Deposit rate at 5.00 percent and 3.50 percent, respectively. BI has kept rates low in consideration of several internal factors including the need to bolster economic growth and keep macroeconomic indicators stable (low inflation, solid exports, and a more manageable CAD). Externally, the considerations include the fact that the world's major economies are improving, the possibility of more aggressive hikes in the FFR than previously expected, and the increasing risk of weaker global trade due to the implementation of inward-oriented trade policy. Meanwhile, the rupiah depreciated further in March 2018 by 1.1% mom, following its decline in the previous month (-1.7% mom).
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.7 bn in March 2018, with imports reaching US\$ 14.6 bn. This will translate into a trade surplus of US\$ 148.6 mn in March 2018.

### Indonesia's Exports and Imports



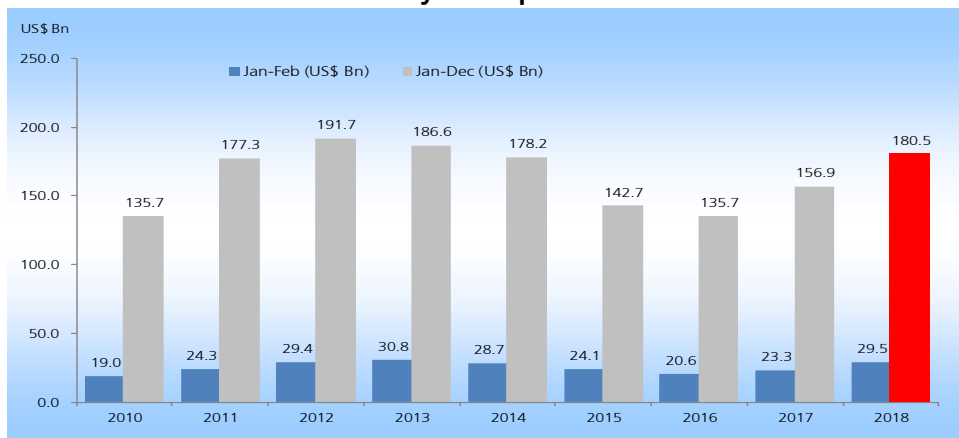
Source: BPS

### Full-year Exports Performance

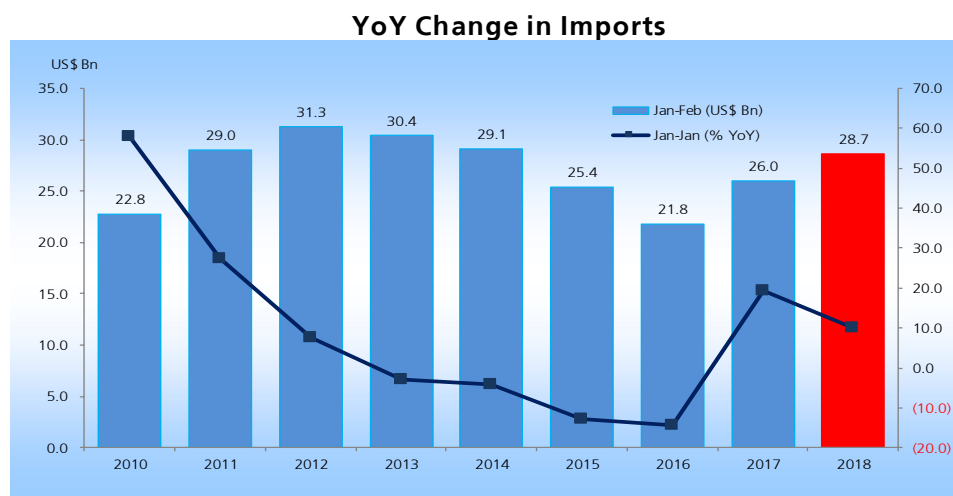


Source: BPS, Danareksa Research Institute

### Full-year Imports Performance



Source: BPS, Danareksa Research Institute



Source: Bloomberg, CEIC

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