

April Review: Wider Trade Deficit

- ❑ **Brisker imports growth has turned the previous trade surplus into a large deficit. Furthermore, exports declined 5.9 percent to US\$ 14.3 bn, dragged down by 7.1 percent lower non oil and gas exports. Exports were down 9.1 percent by volume, although average aggregate prices actually posted a 3.5 percent increase.**
- ❑ **Lower overall exports owed mostly to lower exports of two main products. In April, the exports of animal and vegetable fats (HS 15) and mineral fuels (HS 27) dropped by 45 percent and 9.8 percent MoM, respectively.**
- ❑ **Compared to March, Indonesia's non oil and gas exports to Indonesia's major trading partners showed mixed performance. While non oil and gas exports to the U.S. climbed 9.3 percent MoM, shipments to China and Japan dropped by 16.5 percent and 5.7 percent, respectively.**
- ❑ **April's imports jumped 11.9 percent MoM to US\$ 16.3 bn, pulled up by strong 19.3 percent non oil and gas imports. Imports volume was 13.6 percent higher, although average aggregate prices were 1.5 percent lower. By type of product, the imports of mechanical machinery and equipment (HS 84) and electrical machinery and equipment (HS 85) were up 17.9 percent and 17.8 percent, respectively.**
- ❑ **Non oil and gas imports from Indonesia's major trading partners increased. Indonesia's non oil and gas imports from China increased the most (up 28.8 percent), followed by non oil and gas imports from Japan (up 19.1 percent) and then Singapore (up 11.3 percent).**
- ❑ **Imports of all three types of goods posted increases. Imports of capital goods climbed the most (up 19.4 percent), followed by imports of raw materials (up 11.2 percent) and imports of consumer goods (up 4.5 percent). In the period January-April 2014, raw materials continued to account for the bulk of Indonesia's imports (76.5 percent).**
- ❑ **The surge in imports in April coupled with slowing exports resulted in a large trade deficit of US\$ 1.9 bn. In the January-April period, Indonesia's foreign trade recorded a deficit of US\$ 894 mn, or slightly less than last year's deficit of US\$ 1.9 bn.**

Forecast for May 2014

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|---------------|--------------|
| Exports | US\$ 14.4 bn |
| Imports | US\$ 14.3 bn |
| Trade Surplus | US\$ 80.1 mn |

Forecast for 2014

| | |
|---------------|---------------|
| Exports | US\$ 196.4 bn |
| Imports | US\$ 192.3 bn |
| Trade balance | US\$ 4.1 bn |

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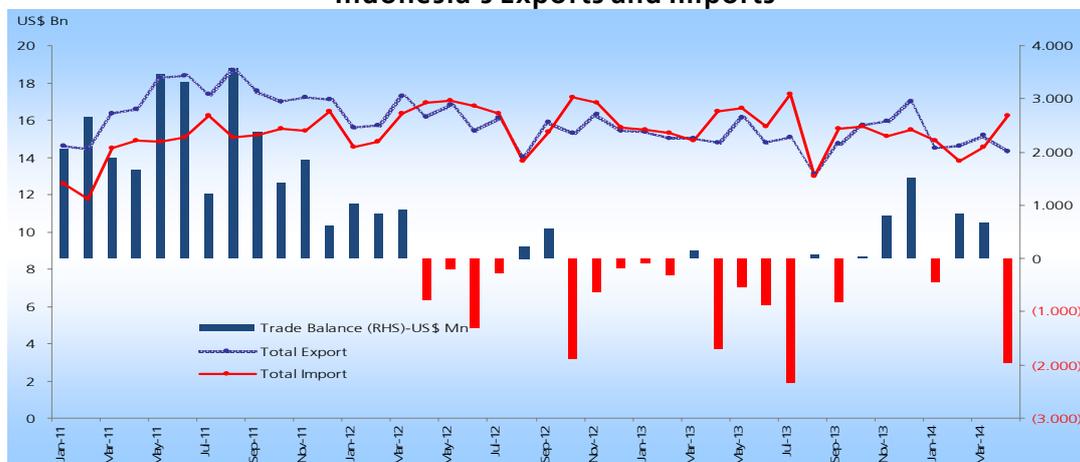
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Indonesia's Exports and Imports



Source: BPS

2014F Full Year Exports



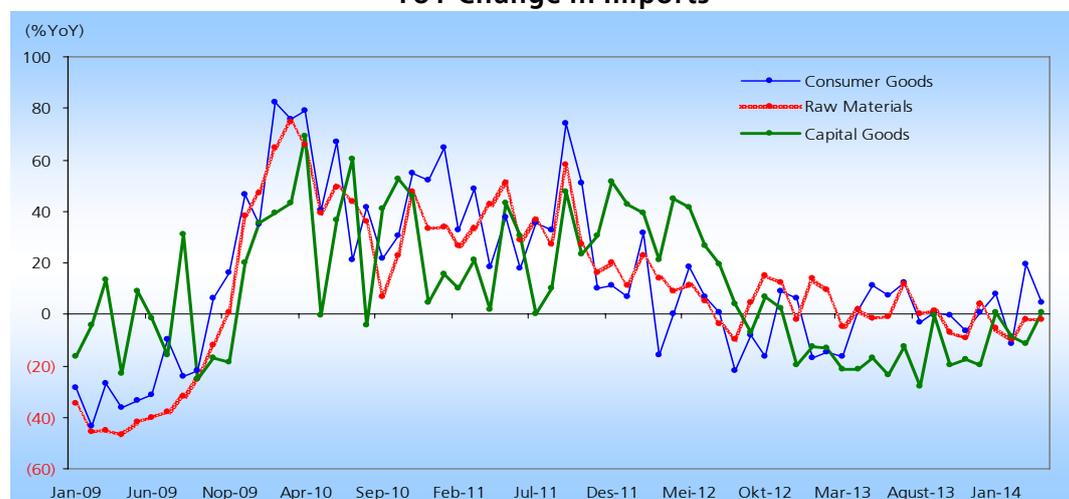
Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: BPS

May Outlook: To Remain Stable

Ahead of Ramadan - during which period demand for certain goods typically increases - imports increased significantly during April. Exports, meanwhile, declined. As a result, the trade deficit widened dramatically to US\$ 1.96 bn. Cumulatively, in the January-April period, Indonesia's trade balance recorded a deficit of US\$ 894 mn. Nonetheless, given improving economic conditions in some of Indonesia's main trading partners, the outlook for Indonesia's non oil and gas exports over the near term should improve.

China

- The Coincident Economic Index - which tracks current economic conditions - increased 0.7 percent in May to 259.7, following a 0.7 percent increase in April and 1.5 percent gain in March. China's Leading Economic Index (LEI) also rose: up 0.7 percent in May. This index now stands at 290.2, following a 1.0 percent increase in April and a 1.0 percent increase in March.
- The National Bureau of Statistics of China reported that May's retail sales rebounded: sales surged 12.5 percent YoY, after slowing 11.9 percent in April. Strong demand was also accompanied by rising general prices in the same month: May's inflation rate hit 2.5 percent, or up from 1.8 percent in the previous month.
- Domestic supply grew steadily in May. The industrial production index, which captures the changes in manufacturing output, grew by 8.8 percent compared to its 8.7 percent increase in April.
- Another positive development was the increase in the purchasing managers index (PMI). The PMI reached 50.8 in May, up from 50.4 in April. This is the highest reading so far this year, sustained by stronger output and new orders, and suggests that China's manufacturing growth is stabilizing. A PMI reading above 50 indicates expansion in the manufacturing sector while a reading below 50 signals contraction.
- From the latest developments, we still expect Indonesia's exports to China to grow moderately over the near term.

Japan

- The CEI, which tracks current economic conditions, contracted by 1.5 percent in April to 95.9, or down from 97.4 in March. The LEI also fell, dipping 1.6 percent to 99.6, after its 0.3 percent decline in March.
- The latest survey data shows a surprising improvement in the confidence levels of Japanese households. May's consumer confidence index rose to 39.3 from 37.0 in April, its first increase in six months. This suggests the negative impact on sentiment from April's sales tax hike could be short-lived.
- The hike in sales tax had an impact on April's retail sales and headline inflation. After recording an 11 percent YoY increase in March, consumer purchases fell 4.4 percent in April. April's inflation rate jumped to 3.4 percent, up from 1.6 percent in March.
- Another indication that domestic demand has quickly recovered from the sales tax increase is reflected in the latest PMI data. The Markit/JMMA Japanese Manufacturing Purchasing Managers Index (PMI) indicator rose to 51.1 in June, or up from 49.9 in May. Japan's manufacturing sector has entered an expansionary phase for the first time in 3 months, as new orders and output surged.
- On capital spending, Japan's core machinery orders fell 9.1 percent MoM in April, but were still 17.6 percent higher than a year earlier. Corporate investment spending remained in an upward trend and, going forward, it is expected to stay strong over the next 6-9 months.
- 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. rose by 0.5 percent in May to 101.7, following a 0.3 percent increase in April, and a 1.0 percent increase in March. Furthermore, the Coincident Economic Index (CEI) for the U.S. edged up 0.3 percent in May to 109.0, following a 0.2 percent increase in April, and a 0.4 percent increase in March. These developments point toward an expanding economy.
- After contracting in April, the US Consumer Confidence Index (CCI) improved in May. The CCI rose to 83.0 from 81.7 in the previous month. US households assess current economic conditions as more favorable, and expect their incomes to grow.
- The inflation rate headed higher in May. After increasing by 2 percent YoY in April 2014, the headline inflation rate rose by 2.1 percent in May, pushed up by rising food and energy prices.
- Stronger demand and an optimistic outlook continue to fuel US manufacturing activity. In May, the PMI rose to 55.4 from 54.9 in April.
- At the latest Fed meeting, there was agreement to make a further measured reduction in the pace of asset purchases. In early July, the Fed reduced its purchases of agency mortgage-backed securities to US\$15 billion per month from US\$20 billion per month, and longer-term Treasury securities to US\$20 billion per month from US\$25 billion per month. This policy reflects the further improvement in the US labor market coupled with the moderate pace of economic growth.
- Given these findings, Indonesia's exports to the US are expected to be steady in the future.

Indonesia

- Indonesia's CEI and LEI still indicate steady economic activity. Based on Danareksa's calculations, Indonesia's CEI increased by 0.33 percent MoM to 123.9 in April 2014, while the LEI strengthened by 0.35 percent MoM to 134.7. Both indicators confirm that Indonesia's economy remains in expansionary mode.
- Headline inflation rose to 0.16 percent MoM in May, after recording 0.02 deflation in April. On an annual basis, the inflation rate rose from 7.25 percent to 7.32 percent. The prices of several major commodities (red chilies and rice) declined in May on the back of the harvesting season, although the magnitude of the price declines was less.
- At its latest meeting, BI kept its benchmark BI rate at 7.5 percent, and maintained the Lending Facility rate and Deposit Facility rate at 7.50 percent and 5.75 percent, respectively. Given the widening trade deficit and prospect of heightened inflationary pressures, the benchmark rate will be kept unchanged in the near term, in our estimate.
- The rupiah weakened. It was 0.91 percent MoM weaker on average relative to the US dollar in May 2014, after depreciating by 0.12 percent in the previous month.
- The commodity price index - which consists of data on Indonesia's major commodity exports - was 2.0 percent MoM lower in May, after posting a decline of 1.9 percent MoM in April. However, the average global oil price in May was 1.5 percent higher than the previous month.
- Against this backdrop, we expect Indonesia's imports to grow by a moderate pace over the near term.

All in all, we expect Indonesia's exports to reach US\$ 14.4 bn in May 2014, with imports reaching US\$ 14.3 bn. As a result, we expect a trade surplus of US\$ 80.1 mn in May 2014.

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