MONTHLY REPORT

∂Ri/1148/to/2014

March 2014

∂Ri DANAREKSA RESEARCH INSTITUTE

TRADE OUTLOOK

January Review: Slow Start to the Year

- **Indonesia's exports were weak in January 2014, falling 14.6 percent MoM, or down 5.8 percent YoY, to US$ 14.5 bn. Oil and gas exports slumped 26.7 percent MoM, with non oil and gas exports down 11.6 percent MoM. Exports volume was down 28.0 percent MoM, although average aggregate prices rose by 18.6 percent MoM.**
- **Exports of two main exported products, mineral fuel (HS 27) and animal and vegetable fats (HS 15) contracted in January 2014. Exports of these two commodity types were down 17.1 percent and 13.8 percent MoM. In regard to mineral exports, the ban on exports of unprocessed minerals came into effect in January 2014. The stated aim of this policy is to promote domestic mineral processing in order to earn more value-added revenues from Indonesia's copious natural resources.**
- **By exports destination, Indonesia's non oil and gas exports to China fell by 22.8 percent MoM, followed by a 14.2 percent MoM decline to Japan. Meanwhile, Indonesia's non oil and gas exports to the US edged up 0.1 percent MoM.**
- **Indonesia's imports dropped 3.5 percent MoM, also down 3.5 percent YoY, to US$ 14.9 bn. Oil and gas imports declined 15.8 percent MoM, while, in contrast, non oil and gas imports actually rose 1.1 percent MoM. Imports volume was 5.8 percent lower, but average aggregate prices rose 2.4 percent.**
- **January's main imports were mechanical machinery and equipment (HS 84) and electrical machinery and equipment (HS 85). MoM imports of mechanical machinery and equipment fell by 5.5 percent, while, by contrast, imports of electrical machinery and equipment climbed 24.6 percent.**
- **Indonesia's non oil and gas imports from Japan weakened 4.4 percent MoM. In contrast, however, Indonesia's non oil and gas imports from China and Thailand jumped by 16.7 percent and 2.8 percent, respectively.**
- **Imports of capital goods, which were 17.6 percent of January's total imports, posted an increase of 8.3 percent MoM, while, by contrast, imports of raw materials (75.7 percent of January's total imports) and consumer goods (6.6 percent of January's total imports) were down by 4.6 percent and 16.3 percent, respectively.**
- **The greater decline in exports compared to imports resulted in a January trade deficit of US$ 430.6 mn. The deficit stemmed from a US$ 1.06 bn deficit in oil and gas trading, whereas non oil and gas trading remained in surplus (US$ 627.3 mn).**

Forecast for February 2014

Exports	US$ 14.8 bn
Imports	US$ 14.0 bn
Trade Surplus	US$ 814.8 mn

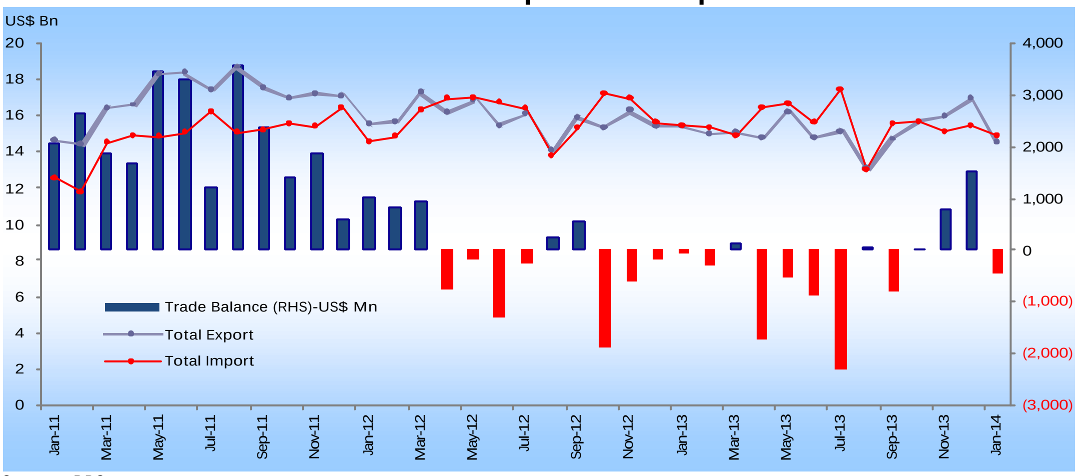
Forecast for 2014

Exports	US$ 196.4 bn
Imports	US$ 192.3 bn
Trade balance	US$ 4.1 bn

DAMHURI NASUTION
Head of Economic Research
(62-21) 350 9777 ext 3602
damhuri@danareksa.com

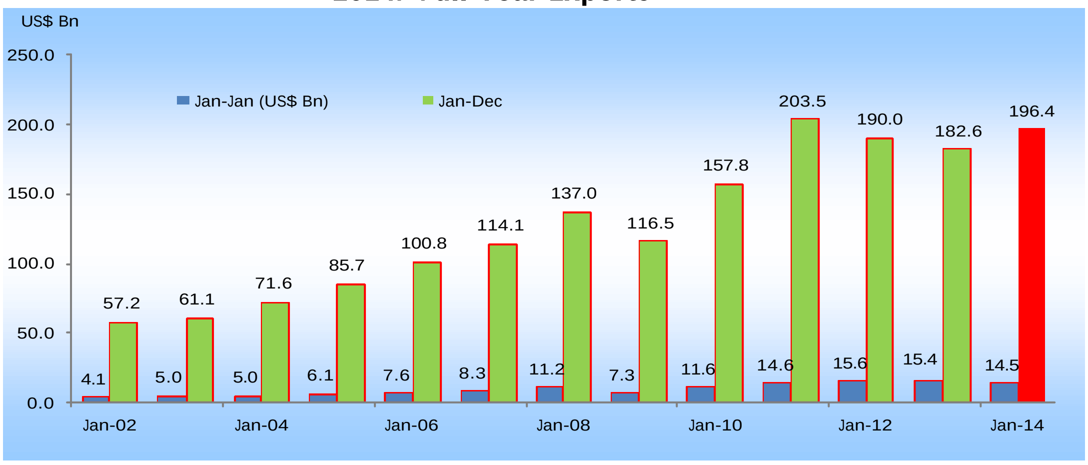
HANDRI THIONO
Economist
(62-21) 350 9777 ext 3606
handrit@danareksa.com

Indonesia's Exports and Imports



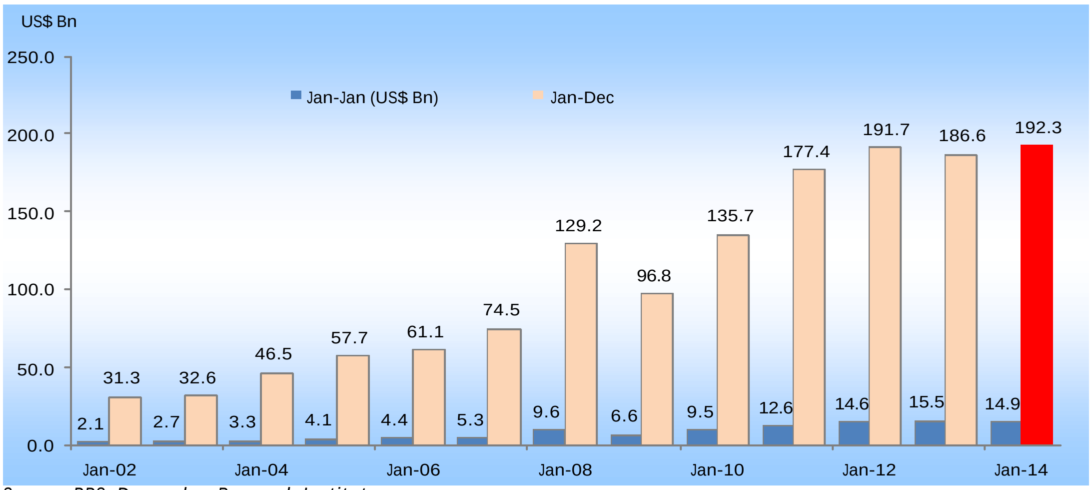
Source: BPS

2014F Full Year Exports



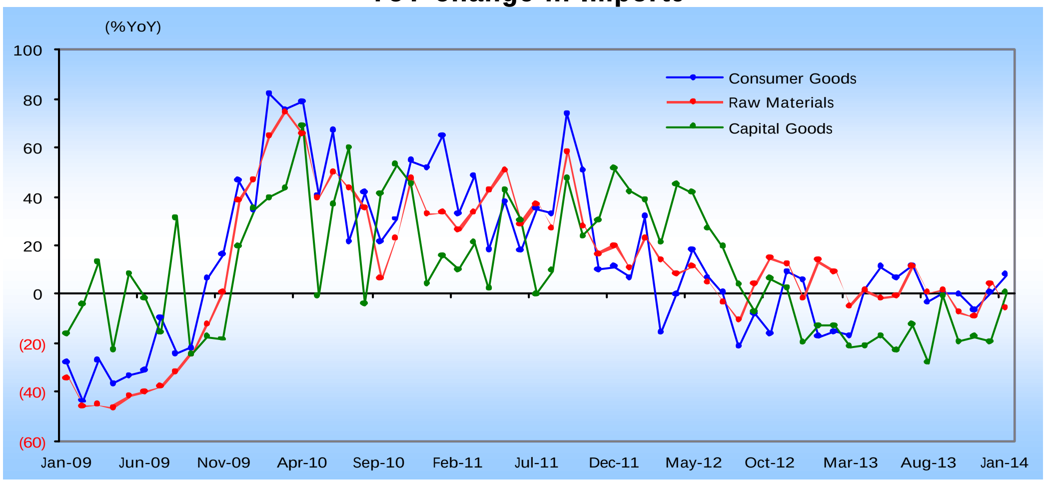
Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: BPS

February Outlook: Steady Performance

After the US$ 2.3 bn surplus recorded in the last quarter of 2013, the trade deficit of US$ 430.6 mn in January is a bit disappointing. The oil and gas trade deficit in January wiped out the non oil and gas trade surplus of US$ 627.3 mn. However, looking ahead, we still believe that further improvements in the economies of some of Indonesia's main trading partners will help give a push to Indonesia's non oil and gas exports. Our view is based on the following developments:

China

- The Chinese government expects the Chinese economy to grow by 7.5 percent in 2014 – the same rate targeted in 2013. The latest economic indicators suggest that the Chinese economy is improving at a steady pace. The Coincident Economic Index - which gauges current economic conditions - decreased 0.2 percent in February to 252.8, following a 1.2 percent decline in January and a 1.5 percent increase in December. China's Leading Economic Index (LEI), meanwhile, strengthened 0.9 percent in February. This index now stands at 282.4, following a 0.3 percent increase in January and a 0.4 percent increase in December.
- The growth in retail sales was flat at 11.8 percent YoY in February, or the same rate as in January. Easing demand and product sales helped put a brake on inflation. In February, the CPI fell to 2 percent YoY from 2.5 percent in the previous month thanks to easing prices of foodstuffs.
- The industrial production index, which gauges changes in manufacturing output, grew at a slower pace. Production at factories, mines and utilities climbed 8.6 percent in January-February, down from its 9.7 percent pace in the previous month.
- The National Bureau of Statistics (NBS) reported that the official Purchasing Managers' Index (PMI) edged down to 50.2 in February from 50.5 in January. China's industries expanded at a slower rate as new orders dropped. A PMI reading above 50 indicates expanding activity while a reading below 50 signals contraction.
- Judging from the latest developments, we still expect Indonesia's exports to China to grow at a moderate pace over the near term.

Japan

- January's CEI for Japan increased 0.3 percent to 97.1, after edging up 0.1 percent in December and 0.1 percent in November 2013. Meanwhile, the LEI fell 0.7 percent to 100.4, after slipping 0.2 percent in December and climbing 0.5 percent in November 2013.

- Ahead of implementation of a higher sales tax in April, household confidence has eroded. In February, the Consumer Confidence Index (CCI) fell again to 38.2 from 40.4 in January, or weakening in three consecutive months since November 2013. Consumers are more concerned over prospects for income growth and employment in the coming periods. This has translated into weaker buying intentions for durable goods. Against this backdrop, inflation eased to 1.4 percent in January from 1.6 percent.
- Falling new orders and slowing domestic demand led to slower manufacturing activity in February. After jumping to 56.6 in January 2014, Japan's Manufacturing Purchasing Managers' Index (PMI) pulled back to 55.5. A weakening index above the 50 threshold indicates a slight slowdown in factory activity and expansion.
- Corporate capex on capital goods rebounded in January. Japan's core machinery orders - which provide an indication of the future corporate capital spending over the next 6-9 months - rose 13.4 percent in January from a month earlier, or up 23.6 percent YoY.
- Against this backdrop, Indonesia's exports to Japan are expected to be generally stable over the near term.

The U.S.

- In the US, the Coincident Economic Index increased 0.2 percent in February to 108.2, following a 0.1 percent increase in January, and no change in December. The US Leading Economic Index increased 0.5 percent in February to 99.8, after a 0.1 percent increase in January, and a 0.1 percent decline in December. This suggests that the underlying US economy should continue to improve over the near term.
- In February, the US Consumer Confidence Index (CCI) declined from 79.4 to 78.1, depicting household concerns over the jobs outlook and earnings in the coming months. On the consumer side, slowing demand resulted in lower pressure on prices. US consumer inflation slowed to an annual 1.1 percent in February 2014 from 1.6 percent in the previous month.
- Economic activity in the manufacturing sector expanded in February, as shown by an increase in the US PMI to 53.2 from 51.3 in January. On the back of higher new orders received by US industries, corporate hiring may increase.
- On the monetary side, as the economy continues to improve, the Fed is slowly scaling back its large-scale bond purchases. In March, the Fed announced its third US$ 10 billion reduction in bond purchases to US$55 billion/ month after similar cuts in December 2013 and January 2014 to US$75 billion and US$ 65 billion, respectively.
- Given these findings, Indonesia's exports to the US are expected to be steady in the future.

Indonesia

- Indonesia's CEI and LEI still signal steady economic activity. Based on Danareksa's calculations, Indonesia's CEI edged up 0.05 percent MoM to 123.40, and the LEI strengthened by 0.02 percent MoM to 133.6. Both indicators confirm that Indonesia's economy remains on an expansionary path.
- After prices rose 1.07 percent MoM in January, inflation eased to 0.26 percent in February. The YoY headline inflation fell to 7.75 percent from 8.33 percent. Going forward, the outlook for inflation is relatively benign.
- BI's policy to keep its benchmark rate at 7.5 percent will likely lead to slow imports and reduce the current account deficit to a more comfortable level. Economic growth may slow slightly over the near term.
- Positive sentiment on the domestic economy has helped the rupiah to strengthen. The rupiah was on average 1.4 percent stronger relative to the US dollar in February 2014 compared to its level the previous month.
- The commodity price index - which incorporates data on Indonesia's major commodity exports - was 1.8 percent MoM weaker in February, after posting a decline of 6.4 percent MoM in January. At the same time, however, the average global oil price showed an increase of 4.4 percent.
- Against this backdrop, we expect imports to grow at a moderate pace over the near term.

All in all, we expect Indonesia's exports to reach US$ 14.8 bn in February 2014, with imports reaching US$ 14.0 bn. As a result, we expect a trade surplus of US$ 814.8 mn in February 2014.

RESEARCH TEAM

Damhuri Nasution
Head of Economic Research
damhuri@danareksa.com

Pramayanti Meitisari
Analyst
pramayanti@danareksa.com

Asti Suwarni
Analyst
asti@danareksa.com

Handri Thiono
Junior Economist
handrit@danareksa.com

Darwin Sitorus
Economist / Database Officer
darwin@danareksa.com

Yun Hariadi
Analyst
yunh@danareksa.com

Natalia Daisyana
Research Assistant
natalia@danareksa.com

Martin Jenkins
Editor
martin@danareksa.com

Danareksa Research Institute
Danareksa Building
Jl. Medan Merdeka Selatan 14
Jakarta, 10110
INDONESIA
Tel : (62-21) 350 9777 / 888 (hunting)
Fax : (62 21) 3501709