

March 2018

TRADE OUTLOOK

February Outlook: Still Sluggish

- ❑ Imports grew faster than exports in January 2018 on both a monthly and annual comparison. Exports reached US\$ 14.4 bn (-2.8% mom, +7.9% yoy) while imports totalled US\$ 15.1 bn (+0.3% mom, +26.4% yoy). As a result, Indonesia's trade balance posted a deficit of US\$ 676.9 mn. This follows a US\$ 220.1 mn deficit recorded in December 2017.
- ❑ Oil and gas exports slumped by 14.8% mom to US\$ 1.3 bn in January 2018, while non oil and gas exports fell by 1.4% mom to US\$ 13.1 bn. Average prices (-0.05% mom, -1.5% yoy) and exports volume (-2.8% mom, +9.5% yoy) were lower on a monthly comparison. By product type, the exports performance of Indonesia's top non oil and gas product types was mixed. Exports of animal or vegetable fat products (HS 15) and iron and steel (HS 27) declined whereas the exports of vehicles and parts (HS 87) rose. By destination country, the value of non oil and gas exports to China and Japan weakened (down by 12.5% mom and 5.9% mom, respectively), whereas exports to the U.S. rose by 8.4% mom.
- ❑ Oil and gas imports fell 16.3% mom to US\$ 2.1 bn in January 2018, whereas non oil and gas imports climbed 3.6% mom to US\$ 12.9 bn. The average prices of imports rose (+10.5% mom, +12.9% yoy) even though volume shipments were lower on a monthly comparison (-9.2% mom, +11.9% yoy). By product type, Indonesia's main non oil and gas imports - such as machinery and electrical appliances (HS 85), plastics (HS 39), and vehicles and parts (HS 87) increased. By country of origin, the imports of non oil and gas products from China and Japan rose by 0.8% mom and 3.3% mom, respectively, while imports from Singapore were 4.6% mom lower.
- ❑ By type of use, the imports of capital goods and consumption goods in January 2018 fell by 7.4% mom and 1.5% mom, respectively. Meanwhile, imports of raw materials rose by 2.3% mom. In January, raw materials accounted for 74.6 percent of non oil and gas imports, followed by capital goods (16.5%) and consumption goods (8.9%).
- ❑ 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 February 2018, the average prices of Indonesia's major commodity exports increased further by 1.36% mom, whereas global oil prices slumped 4.9% mom.
- ❑ The U.S. economy reportedly expanded by 2.5 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 (+4.6% yoy), gross private domestic investment (+3.3% yoy), and government expenditure (+0.7% yoy). In FY2017, the U.S. economy expanded by 2.3%, exceeding its growth pace in 2016 (+1.5%). On the manufacturing side, expansion slowed in February 2018. The February ISM Manufacturing Index rose from 59.1 to 60.8, given faster growth of new export orders and employment. The PMI is at its highest level of expansion since May 2004, indicating that the manufacturing is expanding further. On the consumer side, U.S. households remain upbeat. The consumer confidence index

Forecast for Feb 2018

Exports	US\$ 14.4 bn
Imports	US\$ 14.2 bn
Trade Surplus	US\$ 0.2 bn

Forecast for 2018

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

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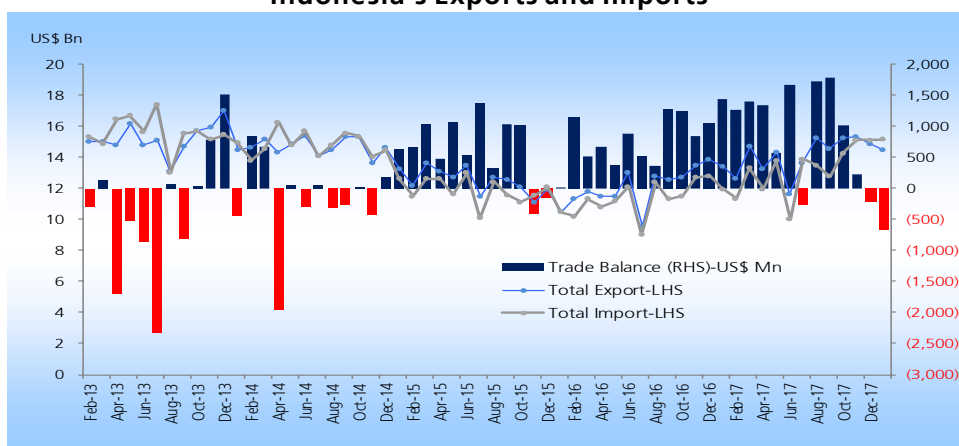
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rose from 124.3 to 130.8 in February 2018, driven by more positive consumer assessments of business conditions and the short-term economic outlook. Consumer spending, however, fell on a monthly basis in January. Following the holiday season, retail sales dipped by 0.3% mom (+3.6% yoy), following no growth in December (+5.2% yoy), given lower sales of building materials, motor vehicles and parts, and furniture.

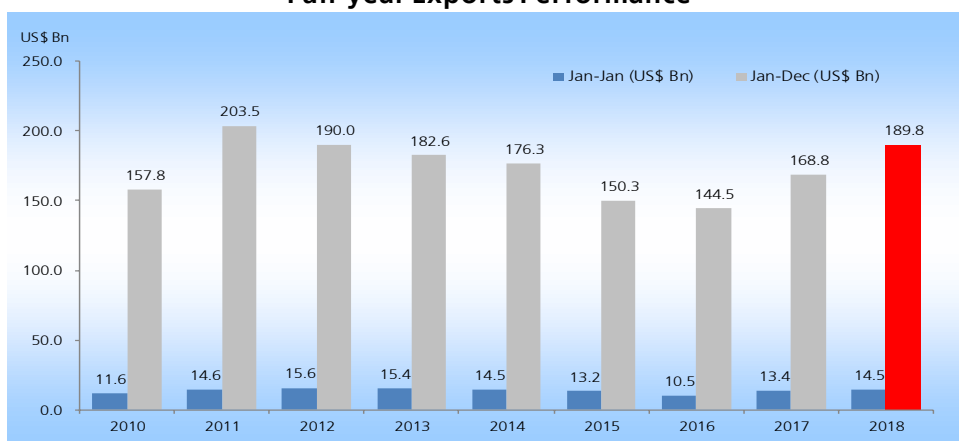
- ❑ China's economy is expected to record steady growth since the government's growth target is unchanged at 6.5 percent this year. However, the official NBS Manufacturing PMI in China fell to 50.3 from 51.3 in February 2018. This indicates that manufacturing activity expanded at a slower pace. On the consumer side, the monthly retail sales rose by 0.7% mom (+9.4% yoy) in December. Sales of motor vehicles, telecom products, and jewelry rose at a softer pace. In regard to price developments, consumer prices accelerated on a monthly basis, but eased on an annual basis in January (+0.6% mom, +1.5% yoy) from December (+0.3% mom, +1.8% yoy). The cost of non food items cooled, while food prices fell further.
- ❑ The Japanese economy continues to gather momentum going forward, since the CEI and LEI rose by 0.6% and 0.5% yoy, respectively in January 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) declined from 54.8 to 54.1 in February, owing to a slower increase in both new orders and output. On the consumer side, consumer spending weakened. In January, retail sales contracted on a monthly basis and slowed on an annual basis (-1.8% mom, +1.6% yoy) compared to the previous month (+0.9% mom, +3.6% yoy). The sales of apparel, general merchandise, and motor vehicles edged down. In addition, January's annual consumer prices rose further (+0.4% mom, +1.4% yoy). Headline inflation reached its highest level since March 2015, driven by strong prices in the food component.
- ❑ In the latest meeting, the FFR target was held at 1.25%-1.50%. Strong U.S. economic activity was supported by a robust job market and a solid pace of consumer spending and wage growth. Despite stable inflation, the Fed signals 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 have kept their accommodative policy unchanged. The People's Bank of China (PBOC) maintained its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent, whereas China's 7-day reverse repo stayed at 2.50 percent. In Japan, meanwhile, the Bank of Japan (BOJ) left its monetary policy steady. In January 2018, the BOJ held key short term interest rates 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 (+0.8%) and LEI (+0.7%) strengthened further, indicating a brisker pace of economic activity. In regard to consumer prices, monthly inflation eased to 0.17% mom (+3.18% yoy) in February from 0.62% mom (+3.25% yoy) in the previous month. Prices in all components grew at a slower pace. More specifically, prices in the food and non food component rose by 0.27% mom and 0.15% 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 and the possibility of further FFR hikes. Meanwhile, after strengthened by 1.4% in January, the rupiah depreciated in February 2018 (-1.7% mom).
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.4 bn in February 2018, with imports reaching US\$ 14.2 bn. This will translate into a trade surplus of US\$ 259.6 mn in February 2018.

Indonesia's Exports and Imports



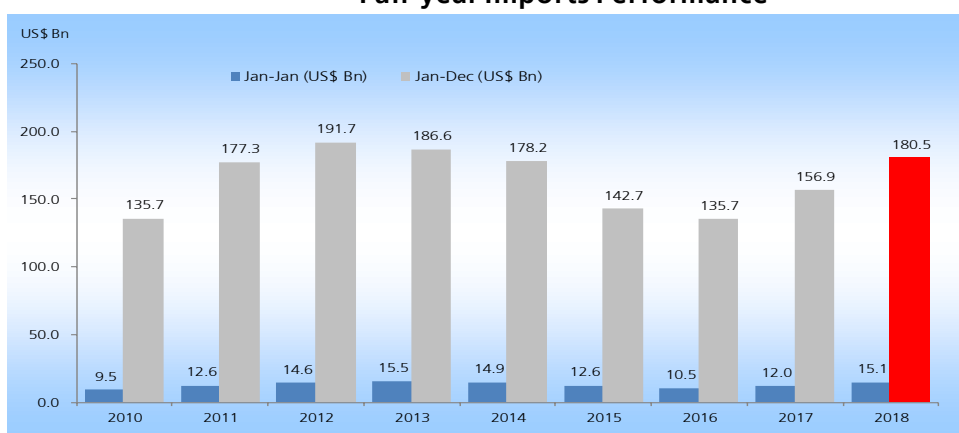
Source: BPS

Full-year Exports Performance



Source: BPS, Danareksa Research Institute

Full-year Imports Performance



Source: BPS, Danareksa Research Institute

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