

May 2014

TRADE OUTLOOK

March Review: Still in Surplus

- ❑ Exports grew 3.9 percent MoM to US\$ 15.2 bn in March 2014. As exports still exceeded imports, Indonesia recorded a trade surplus of US\$ 673.2 mn. Non oil and gas exports grew a solid 5.6 percent MoM, leading to a US\$ 2.04 bn non oil and gas surplus. Export volumes climbed 14.1 percent MoM, while average aggregate prices fell 8.9 percent MoM.
- ❑ Exports of Indonesia's two main exported products, mineral fuels (HS 27) and animal and vegetable fats (HS 15), remained strong in March. Exports of these two types of commodity grew 14.8 percent and 12.1 percent MoM.
- ❑ On a MoM comparison, Indonesia's non oil and gas exports to Indonesia's major trading partners showed mixed performance. While non oil and gas exports to Japan climbed 8.5 percent MoM, shipments to China and the U.S. dropped by 4.2 percent and 0.9 percent, respectively.
- ❑ As for imports, they rose 5.4 percent MoM to US\$ 14.5 bn in March 2014, underpinned by 15.8 percent higher MoM oil and gas imports. Imports volume was 7.3 percent higher, although, average aggregate prices were down 1.8 percent.
- ❑ Two main import products in March were mechanical machinery and equipment (HS 84) and electrical machinery and equipment (HS 85). Together they accounted for 33.1 percent of Indonesia's non oil and gas imports. Imports of HS 84 products declined by 1.2 percent, while imports of HS 85 products edged up by 0.6 percent MoM.
- ❑ In the January-March period, China, Japan and Singapore supplied most of Indonesia's non oil and gas imports. In March, Indonesia's non oil and gas imports from Japan were down by 2.3 percent MoM. By contrast, non oil and gas imports from China and Singapore climbed by 1.2 percent and 12.8 percent, respectively.
- ❑ Imports of capital goods - which were 15.4 percent of March's total imports - contracted by 4.1 percent MoM. By contrast, imports of raw materials (77.1 percent of March's total imports) climbed by 6.2 percent, while imports of consumer goods - which were 7.4 percent of March's total imports - surged 20.5 percent.
- ❑ A strong surplus in non oil and gas trading in March resulted in a trade surplus of US\$ 673.2 mn. Cumulatively in the first 3 months of the year, Indonesia's foreign trade recorded a surplus of US\$ 1.07 bn, far better than the US\$ 234.9 mn deficit in the same period last year.

Forecast for April 2014

Exports	US\$ 14.4 bn
Imports	US\$ 14.8 bn
Trade Deficit	US\$ 355.5 mn

Forecast for 2014

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

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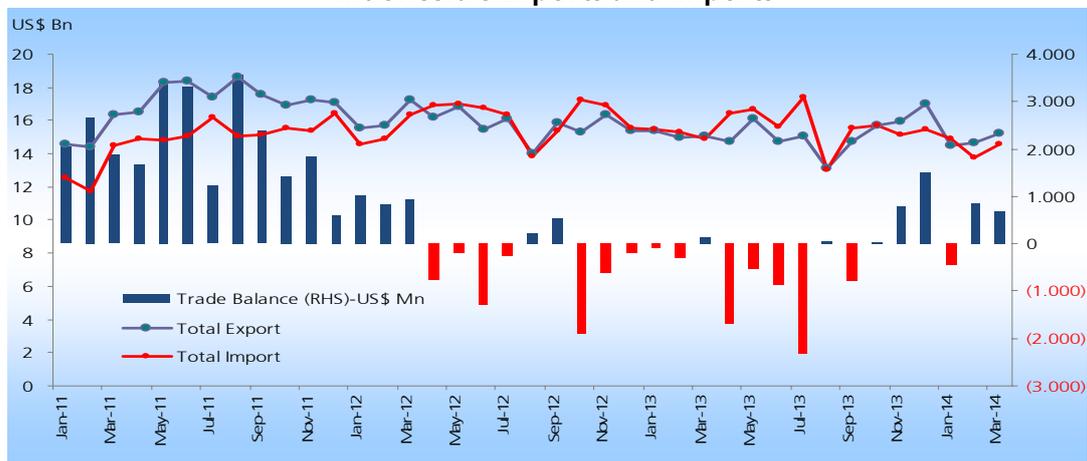
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Indonesia's Exports and Imports



Source: BPS

2014F Full Year Exports



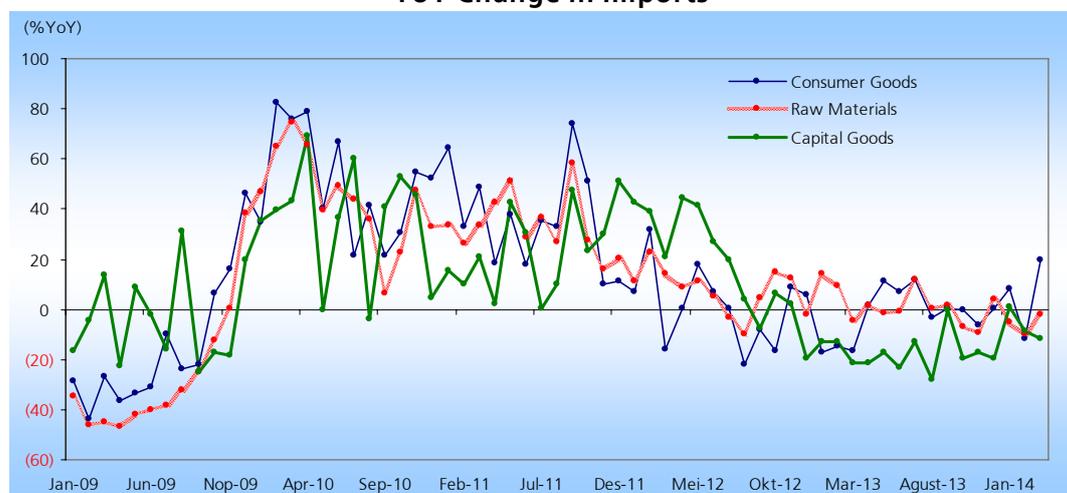
Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: BPS

April Outlook: To Stabilize

Brisker economic growth globally has helped lift Indonesia's exports. Since August 2013, Indonesia's non oil and gas trading has been in surplus, benefitting from recovery in foreign demand. Looking at some of Indonesia's main trading partners, continued improvements in their economies augers well for Indonesia's non oil and gas exports over the near term:

China

- The Coincident Economic Index - which depicts current economic performance - increased 0.4 percent in April to 257.1, following a 1.3 percent increase in March and unchange in February. China's Leading Economic Index (LEI) strengthened 0.9 percent in April. This index stands at 288.1, following a 1.1 percent increase in March and a 0.9 percent increase in February.
- In April, retail sales growth slowed to 11.9 percent YoY from 12.2 percent YoY in the previous month. Weakening demand led to softer increases in general prices. Due to easing prices of foodstuffs, the YoY headline CPI dropped to 1.8 percent in April from 2.4 percent in March.
- The industrial production index, which gauges changes in manufacturing output, grew at a moderate pace in April. Production at factories, mines and utilities grew 8.7 percent compared to 8.8 percent in March.
- The National Bureau of Statistics (NBS) reported that the official purchasing managers index (PMI) rose slightly to 50.4 in April from 50.3 in March. This increase suggests that China's manufacturing growth is stabilizing. A PMI reading above 50 indicates expansion 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

- In the first quarter of 2014, the Japanese economy expanded 1.5 percent, translating into annualized growth of 5.9 percent. This is the fastest growth pace since the third quarter of 2011, as private consumption picked up before the April tax hike.

- The CEI, which tracks the current economic conditions, rose 0.5 percent in March to 97.3, up from 96.8 in the previous month. Meanwhile, the LEI posted a 0.3 percent decline to 100.3, after falling 0.2 percent in February.
- After weakening to 37.5 in March, the consumer confidence index fell again in April. The index measuring households' optimism deteriorated to 37, its fifth straight monthly drop. Consumers are still pessimistic in regard to the overall economic conditions, income growth and job prospects. Yet despite the weaker confidence, retail sales jumped 11 percent YoY - their fastest growth pace in 17 years - ahead of the sales tax hike. Consumers rushed to make purchases before prices were increased. The strong demand for goods also led to a slightly higher rate of inflation. In March, prices rose by 1.6 percent YoY, up from 1.5 percent in the previous month.
- Japanese manufacturing activity contracted in April. The Markit/JMMA Japan Manufacturing Purchasing Managers Index (PMI) indicator dipped to 49.4 in April from 53.9 in the previous month, as output and new export orders tumbled. A weakening index below the 50 threshold indicates a contraction in factory activity and its expansion.
- On the capital spending side, Japan's core machinery orders surged 19.1 percent MoM in March, or 16.1 percent YoY. Corporate investment spending remained in an increasing trend and, going forward, is expected to be 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 US Coincident Economic Index increased 0.1 percent in April to 108.5, following a 0.3 percent increase in March, and a 0.3 percent increase in February. The US Leading Economic Index also lifted. It rose 0.4 percent in April to 101.4, following a 1.0 percent increase in March, and a 0.5 percent increase in February. This augurs well for stronger economic performance going forward.
- In April, the US Consumer Confidence Index (CCI) headed lower to 82.3 from 83.9 in March. This mainly owed to less favorable assessments on current economic conditions (mostly business and labor market conditions). Meanwhile, consumers' appraisal of economic prospects remained steady.
- April headline inflation reached 2 percent YoY, accelerating from 1.5 percent in March, boosted by rising food and energy costs.
- Robust output growth and a solid upturn in industrial employment helped US manufacturing activity to expand. In April, the US manufacturing sector continued to grow, as reflected in the steady US PMI (55.4 in April vis-a-vis 55.5 in March).
- On the monetary side, the Fed decided to make a further measured reduction in the pace of its asset purchases. In the beginning of May, the Fed reduced its purchases of agency mortgage-backed securities by US\$20 billion per month from US\$25 billion per month, and longer-term Treasury securities by US\$25 billion per month from US\$30 billion per month. This policy reflects the mixed labor conditions coupled with only a 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 0.29 percent MoM to 123.52 in March 2014, and the LEI strengthened by 0.40 percent MoM to 134.2. Both indicators confirm that Indonesia's economy remains on an expansionary mode.
- The Indonesian economy grew 5.21 percent YoY in Q1 2014, or down from 5.72 percent YoY growth in the previous quarter. On the expenditure side, private consumption and gross fixed capital formation growth accelerated to 5.61 percent and 5.13 percent yoy, respectively. Government spending growth, however, slowed to an annual 3.58 percent, and exports shrank 0.78 percent.
- In April, the country recorded deflation of 0.02 percent, after 0.08 percent inflation in March. On an annual basis, the headline inflation eased from 7.32 percent to 7.25 percent. Further declines in foodstuff and clothing prices helped to ease the inflationary pressures.
- Given the easing pressures on prices in April and an improving trade balance, BI was able to maintain its benchmark SBI rate. At the latest meeting, BI held the 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.
- The rupiah stabilized. It was only 0.03 percent weaker on average relative to the US dollar in April 2014 than in the previous month.
- The commodity price index - which consists of data on Indonesia's major commodity exports - was 1.9 percent MoM lower in April, after posting a decline of 2.4 percent MoM in March. However, the average global oil price climbed 1.6 percent.
- 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 April 2014, with imports reaching US\$ 14.8 bn. As a result, we expect a trade deficit of US\$ 355.5 mn in April 2014.

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