

May 2017

TRADE OUTLOOK

April Outlook: Remaining Firm

- After Indonesia's trading activities weakened in February, they increased in March 2017. Exports and imports jumped on both a monthly and annual comparison: exports grew 15.7 percent mom (+23.5 yoy) to US\$ 14.6 bn, while imports grew at an even brisker pace of 17.6 percent mom (+18.2 % yoy) to US\$ 13.4 bn. As a result, the trade surplus reached US\$ 1.2 bn in March – its third consecutive monthly surplus. As such, in Q1 2017, the trade surplus reached US\$ 3.9 bn, or double the trade surplus in Q1 2016 of US\$ 1.6 bn.
- The higher imports in March were due to higher volume shipments (+26.3% mom, +10.2% yoy). By comparison, the average prices of Indonesia's exports actually declined on a monthly basis, although on a yearly basis they still rose (-8.4% mom, +12.1% yoy). Among the country's non oil and gas exports, the exports of mineral fuel (HS 27), rubber and rubber products (HS 40) and electric machine/tools (HS 85) increased further. These three product types accounted for 24.9 percent of Indonesia's non oil and gas exports by value. By destination country, the value of non oil and gas exports to Indonesia's top trading partners rose in March. Shipments to China, the U.S., Japan and India climbed 31.3% mom, 11.0% mom, 33.9% mom, and 4.8% mom, respectively.
- As for imports, they were lifted by both higher average prices (+10.3% mom) and higher volume shipments (+6.6% mom). Compared to March 2016, however, imports volume was still 5.6 percent lower. All of the main non oil and gas imports - mechanical machinery/tools (HS 84), electrical machinery/tools (HS 85), and plastics and plastics products (HS 39) were higher in value terms. By country of origin, the imports from Indonesia's main trading partners (which comprise a 44.2% share) rose as well. The imports of non oil and gas products from China, Japan and Thailand strengthened by 46.4% mom, 11.4% mom, and 7.1% mom, respectively.
- By type of use, the imports of all product types rebounded on a monthly basis. The imports of raw materials, capital goods, and consumption goods rose by 13.3 percent, 18.8 percent, and 58.2 percent, respectively.
- The current developments indicate that the economic conditions of Indonesia's main trading partners are generally improving. The U.S. economy is still posting moderate growth, while China's growth momentum is strengthening. The Japanese economy, meanwhile, is set to grow moderately.
- The U.S. economy has expanded steadily this year. The latest data shows that Q1 2017 GDP expanded by 1.9% yoy, slightly lower than in Q4 2016 (+2.0% yoy), but faster than in Q1 2016 (+1.6% yoy). In the expenditures component, personal consumption-PCE (+2.8% yoy), gross private domestic investment (+2.0% yoy), exports (+3.1% yoy), and imports (+3.8% yoy) accelerated, while government expenditure contracted by 0.6% yoy. The outlook for the manufacturing sector deteriorated slightly: the April ISM manufacturing index fell to 54.8 from 57.2 in March, driven by slowing growth of new orders and employment, while new export orders and production accelerated further. On the consumer side, households expressed less optimism toward the short-term business and employment outlook. The consumer confidence index dropped to 120.3 in April from 124.9 in March. Despite April's decline, households remain confident that the economy will continue to expand in the months ahead. Consumer purchases showed strength, since the retail sales of goods and services maintained its yearly gain (+5.2% yoy).

Forecast for Apr 2017

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|---------------|--------------|
| Exports | US\$ 13.9 bn |
| Imports | US\$ 13.8 bn |
| Trade Surplus | US\$ 0.15 bn |

Forecast for 2017

| | |
|---------------|---------------|
| Exports | US\$ 161.9 bn |
| Imports | US\$ 156.2 bn |
| Trade balance | US\$ 5.7 bn |

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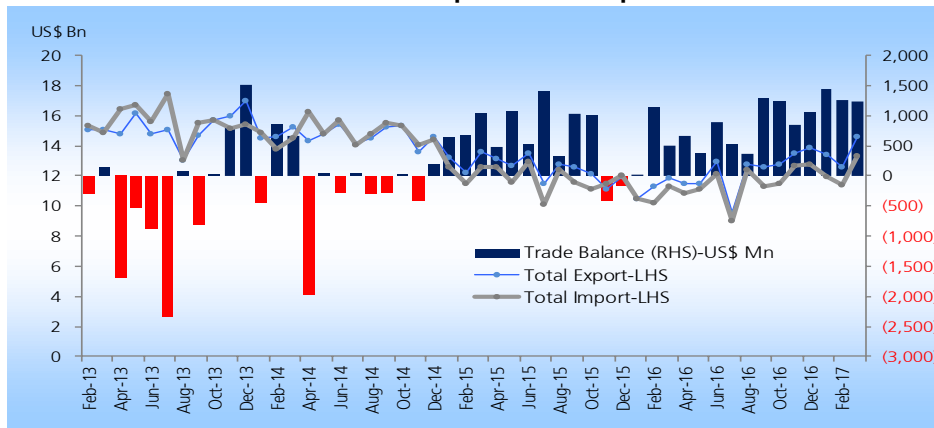
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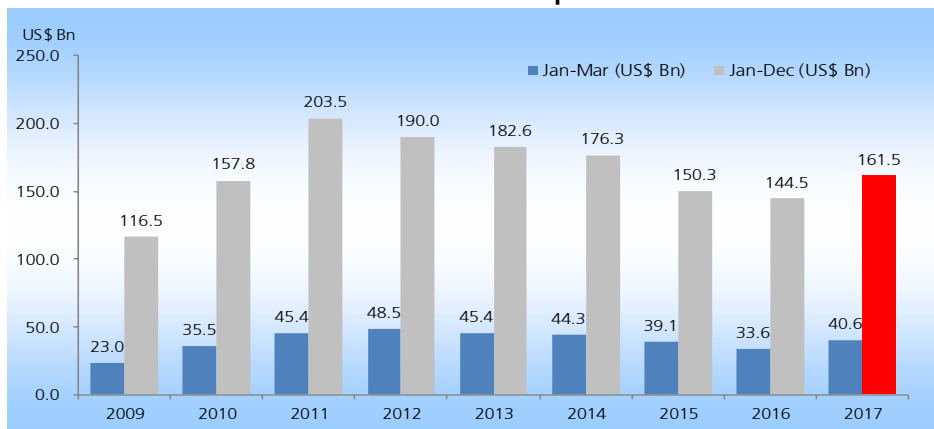
- ❑ In Q1 2017, China's economy improved. China's GDP grew by 6.9 percent yoy, or above the 6.8% percent expansion observed in Q4 2016 and the government's growth target of 6.5 percent in 2017. The acceleration was driven by expanding investment growth. The official Purchasing Managers' Index (PMI) eased to 51.2 in April from 51.8 in March, since employment, output, new orders and export orders expansion decelerated. However, this index still remains above the 50-point mark that separates growth from contraction on a monthly basis. Meanwhile, China's consumer spending and prices softened. Retail sales in March increased by 10.9 percent yoy (+0.84% mom), as sales of automotive products rebounded and sales of garments and home appliances grew at a faster rate. Consumer prices fell further on a monthly basis, and rose less briskly than they did a year ago (-0.3% mom, +0.9% yoy).
- ❑ Japan's economic recovery continues at a moderate pace. Both the CEI (+4.2%) and LEI (+5.8%) grew at a faster rate, indicating further improvements in the economic outlook. On the manufacturing side, the April Nikkei Manufacturing Purchasing Managers' Index (PMI) rose to 52.8 from 52.4 in March, supported by rising output, new orders and employment. On the consumer side, household spending stabilized while consumer prices lacked upward momentum. Retail sales grew by 0.2 percent mom (+2.1% yoy) in March, the same as in the previous month. In the same period, consumer prices fell on a monthly basis and eased on a yearly comparison (-0.1% mom, +0.2% yoy). Prices in the food and transportation component slowed, while the cost of housing declined further.
- ❑ In the latest update, the U.S. administration unveiled proposals for changes in tax plans. Under the proposed system, there will be a reduction in the number of tax brackets, from seven brackets to only three brackets. Businesses would enjoy a reduction in the tax rate from 35 percent to 15 percent. The details, however, remain unclear, and the proposal still needs to be debated and voted on by Congress before it becomes law. Expansionary fiscal policies could provide a significant boost to the U.S. economy going forward, and if GDP continues to increase, the Fed will likely raise the FFR again in the future. In May 2017, the Fed held the FFR target range at 0.75%-1.00%. The decision came as labor market conditions remain buoyant despite slower economic growth. Household spending rose modestly and inflation rose close to the Fed's 2 percent longer-run objective. In China, meanwhile, the People's Bank of China (PBOC) increased the short-term interest rate further in early March 2017. The central bank raised the rate of 7-day, 14-day and 28-day reverse repurchase agreements (repo rates) by 10 basis points each to 2.45 percent, 2.6 percent and 2.75 percent, respectively, a sign of gradual tightening. Elsewhere, in Japan, monetary policy continues to be eased. The Bank of Japan (BOJ) maintained a negative interest rate of minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. The BOJ also decided to maintain its 10-year government bonds yield target at around zero percent.
- ❑ Indonesian economy grew by 5.01 percent yoy in the first quarter of 2017, faster than that in Q4 2016 (+4.94% yoy) and Q1 2016 (+4.92% yoy). In the expenditures component, households consumption (+4.9% yoy), and government expenditure (+2.71% yoy) slowed, while investment (+4.81% yoy), and exports (+8.04% yoy) accelerated. For price developments, consumer prices rose 0.09 percent in April (+4.17% yoy), stemming from higher pressure in the housing (+0.93% mom), clothing (+0.49% mom) and transportation (+0.27% mom) components, while the cost of basic foodstuffs fell (-1.13% mom). On the monetary side, BI maintained its benchmark rates at current levels. The BI 7-day Reverse Repo rate was unchanged at 4.75 percent, with the Lending Facility rate and Deposit rate unchanged at 5.50 percent and 4.00 percent, respectively. At the same time, the rupiah strengthened (+0.25% mom), following 0.01 percent mom depreciation in March.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 13.9 bn in April 2017, with imports reaching US\$ 13.8 bn. This will translate into a trade surplus of US\$ 150.7mn in April 2017.

Indonesia's Exports and Imports



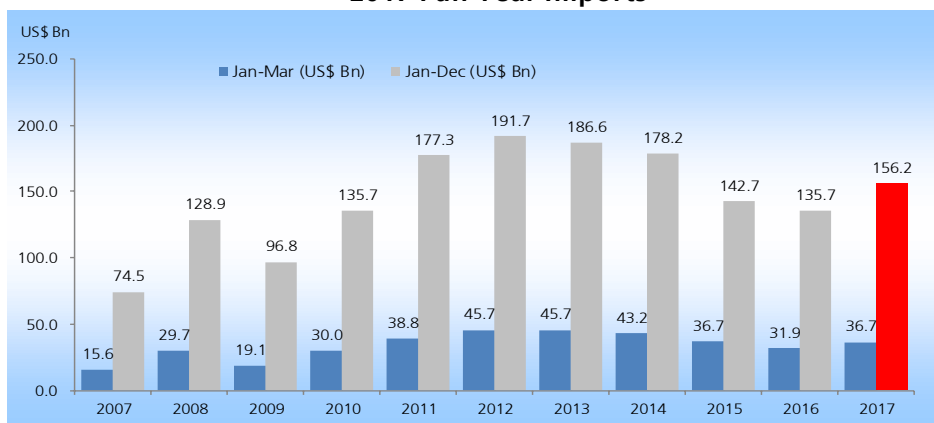
Source: BPS

2017 Full Year Exports



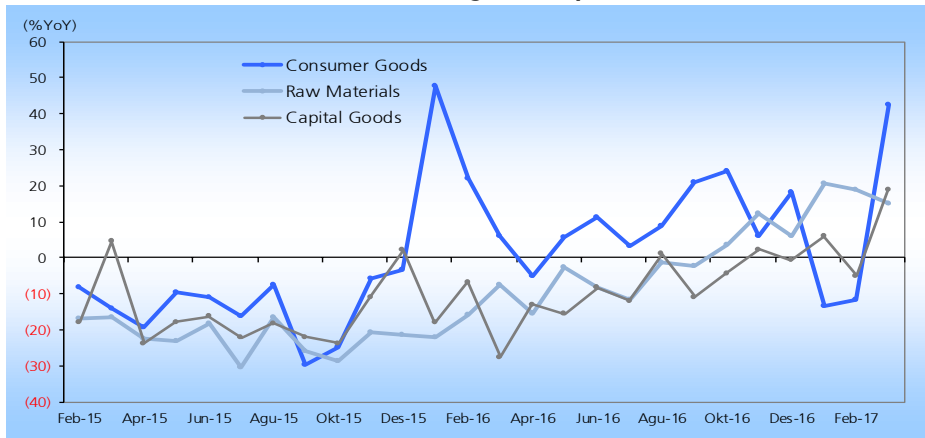
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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