

July Outlook: Return to Normal

Forecast for July 2019

Exports	USD 14.8 bn
Imports	USD 15.3 bn
Trade Balance	USD (0.48) bn

Forecast for 2019

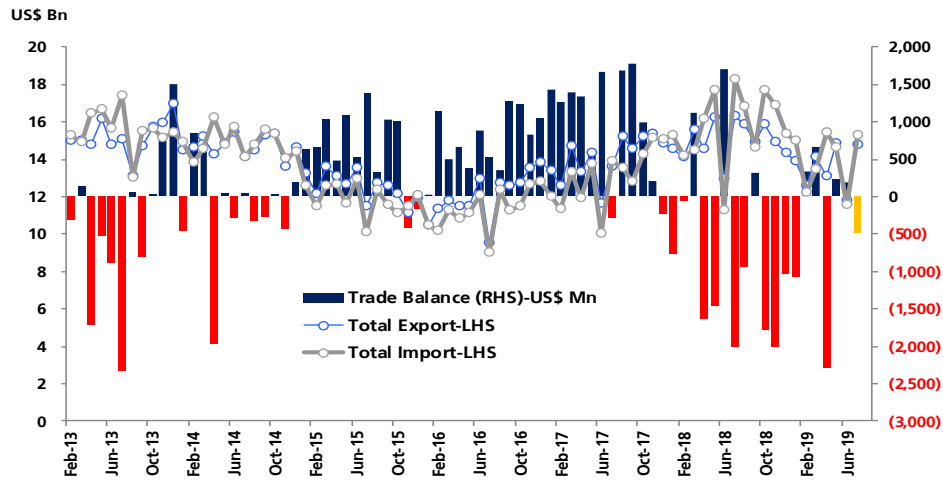
Exports	USD 166.7 bn
Imports	USD 171.8 bn
Trade Balance	USD (5.04) bn

Moekti P. Soejachmoen, PhD
Head of Economic Research
(62-21) 29555777/888 ext 3600
moekti.prasetiani@danareksa.co.id

Handri Thiono
Research Specialist
(62-21) 29555777/888 ext 3606
handrit@danareksa.co.id

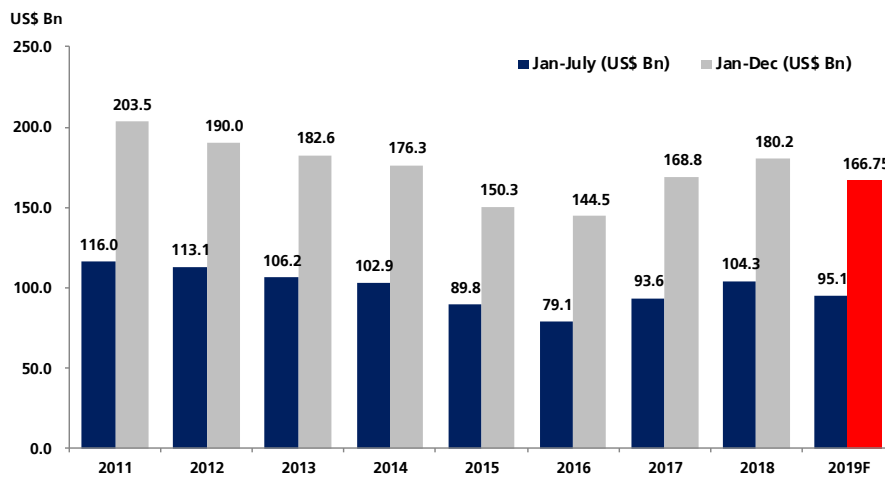
- **Moderate economic prospects coupled with accelerating consumer prices in Indonesia's trading partners and the end of seasonal events, should help exports to rebound in July.** The Composite LEI for Indonesia's trading partners fell further but at a slower pace. In May 2019, the LEI dipped 2.4% mom after falling 3.8% mom in the previous month. For Indonesia's major trading partners, the LEI for China and Japan contracted by 3.3% mom and 1.0% mom, respectively, while the LEI for the U.S edged up by 0.3% mom. These developments depict slowing economic expansion, resulting in soft demand for imports going forward. At the same time, the manufacturing PMI of Indonesia's trading partners stood at a low level, signalling a sluggish improvement in business conditions with a contraction in both new orders received and production output. Furthermore, the average prices of Indonesia's major commodity exports declined at a faster pace in June (-8.0% mom) after falling 6.8% mom in the previous month. As such, there will not be a significant improvement in exports value on the prices side. In regard to general prices, the consumer price index of Indonesia's trading partners tended to accelerate. The indicator showed rising prices (from 0.2% mom to 1.3% mom). Moreover, since seasonal events have ended and the number of working days has increased, exports value should pick up on a monthly basis.
- **Moderate domestic demand, higher global oil prices, and the end of seasonal events may lead to rising imports.** On the consumer side, July's headline inflation reached 0.31% mom, easing from 0.55% mom in May. The milder pressure on prices was driven by easing foodstuff prices, and deflation in transportation prices amidst surging education costs. The monthly increase in inflation, however, was more than it was in the previous few years. Domestic demand grew at a softer pace. In July, the average rupiah/USD exchange rate appreciated by 1.3% mom (+3.3% ytd) after strengthening 1.1% in the previous month. Meanwhile, after falling 13.3% mom, average prices in the global oil basket rebounded 5.2% in June. Inline with the exports pattern, Indonesia's imports also returned to normal after the Lebaran month. Given this, the value of imports should increase on a monthly basis in July.
- Against this backdrop, we expect Indonesia's exports to reach USD 14.8 bn in July 2019, with imports reaching USD 15.3 bn. This will translate into a July 2019 trade deficit of USD 0.48 bn.

Graph 1. Indonesia's Exports and Imports



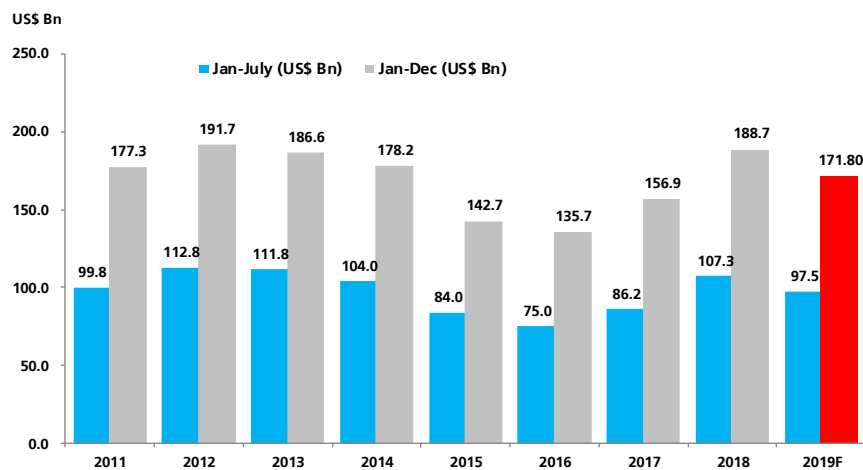
Source: BPS, Danareksa Research Institute

Graph 2. Exports Performance



Source: BPS, Danareksa Research Institute

Graph 3. Imports Performance



Source: BPS, Danareksa Research Institute

RESEARCH TEAM

Moekti P. Soejachmoen, PhD
Head of Economic Research
moekti.prasetiani@danareksa.co.id

Handri Thiono
Research Specialist
handrit@danareksa.co.id

Darwin Sitorus
Research Specialist
darwin@danareksa.co.id

Martin Jenkins
Editor
martin@danareksa.co.id

Sella F. Anindita
Research Specialist
sella.anindita@danareksa.co.id

Danareksa Research Institute

Danareksa Building
Jl. Medan Merdeka Selatan 14
Jakarta, 10110
INDONESIA
Tel : (62-21) 29555 777 / 888 (hunting)
Fax : (62 21) 3501709

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