Trade:
It's beginning to look a lot like global recession

Barra Kukuh Mamia
Senior Economist

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Executive Summary

- The trade surplus remains quite hefty (at USD 5.16 Bn) despite weakening activities, thanks to rebounding prices for industrial metals amid China's reopening.
- The decline in Indonesia's exports and imports mirrors other countries' data, which points to disinflation and the beginnings of a recessionary environment, especially for manufacturing.
- Despite a gloomier outlook, the commodity price terms of trade remains in Indonesia's favor, which should allow BI to eventually cease its rate hike cycle rather early in 2023.

- Indonesia retained a hefty trade surplus to the tune USD 5.16 Bn in November, even as export and import growth both slowed down precipitously. Exports eked out 5.6% YoY growth (-2.5% MoM) on the back of a recovery in industrial metal prices – itself the product of euphoria as China ends its stringent lockdowns. On the other hand, the CPO export "boomlet" since Jun-22 seems to be receding, with October's numbers only temporarily propped up by Diwali celebrations in India.

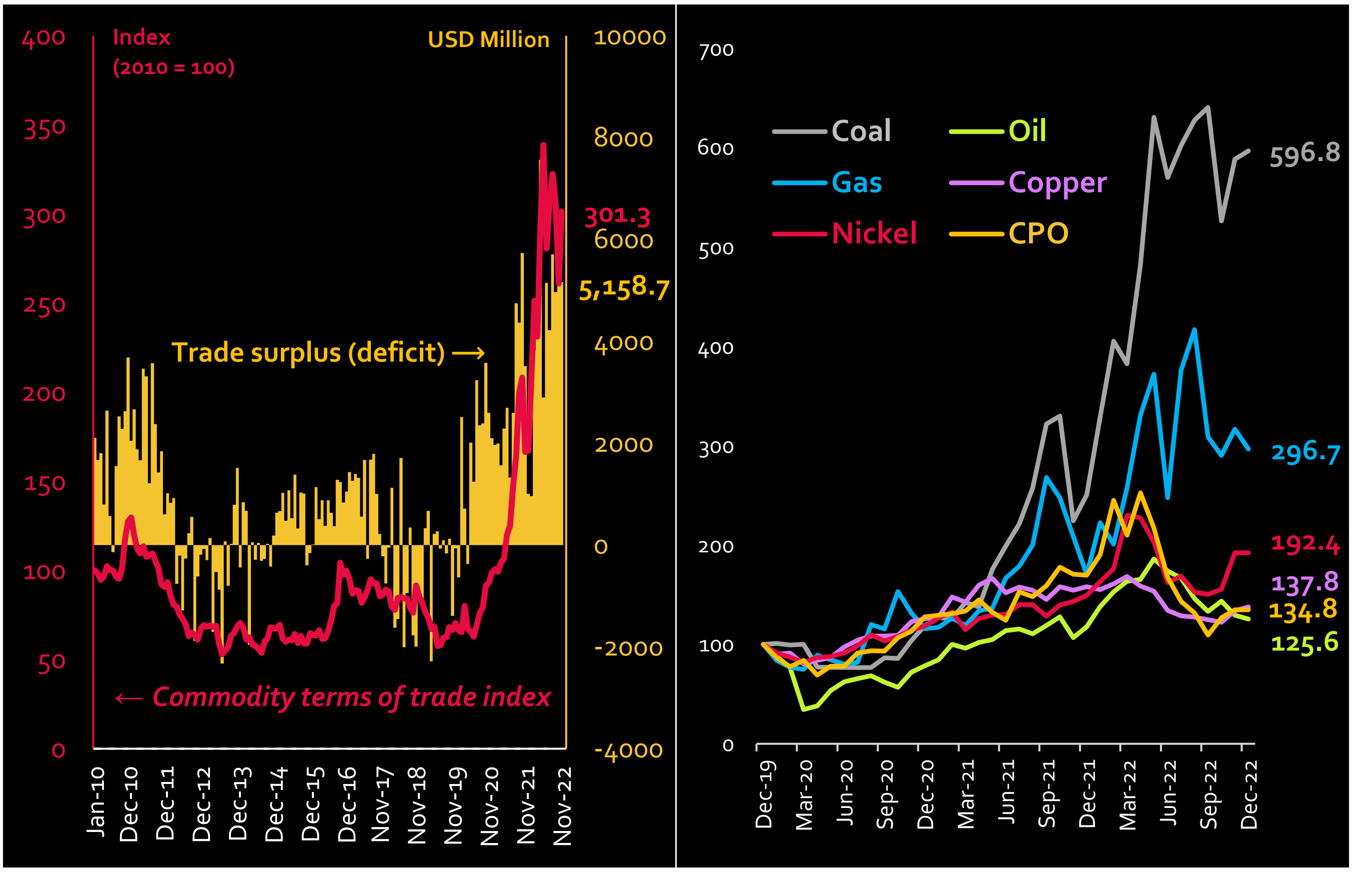
- Imports, meanwhile, registered its first negative annual growth since Jan-21 (at -1.9% YoY/-0.9% MoM), partly due to declining oil prices. We were one of only two analysts surveyed who correctly foresaw this negative growth, except that the actual decline was even steeper than what we expected (-0.4% YoY).

- Such steep decline in imports usually means weaker domestic demand, and this seems particularly true for consumer goods. As we have often mentioned, low household saving rates means that consumption is bound to soften at some point, and there are already clear signs of slowdown in our Consumer Spending Index (Intrabel BCA) as well as BI's retail survey. Capital goods and raw materials are not that far behind, which suggests that the downturn may be relatively broad-based.

- The other half of the story, however, is global disinflation. Indonesia's import price index had seen double-digit inflation since Apr-21, but it was finally easing to just 4.2% in October. This is probably one reason why capital goods imports are declining more slowly: since the production of these goods typically involve more complex supply chains, they likely suffered from bigger (and more persistent) inflationary pressures. In contrast, the prices of faster-moving consumer goods may respond more swiftly to the weakening demand, especially if there is excess inventory as is the case at the moment in China and for several US companies.

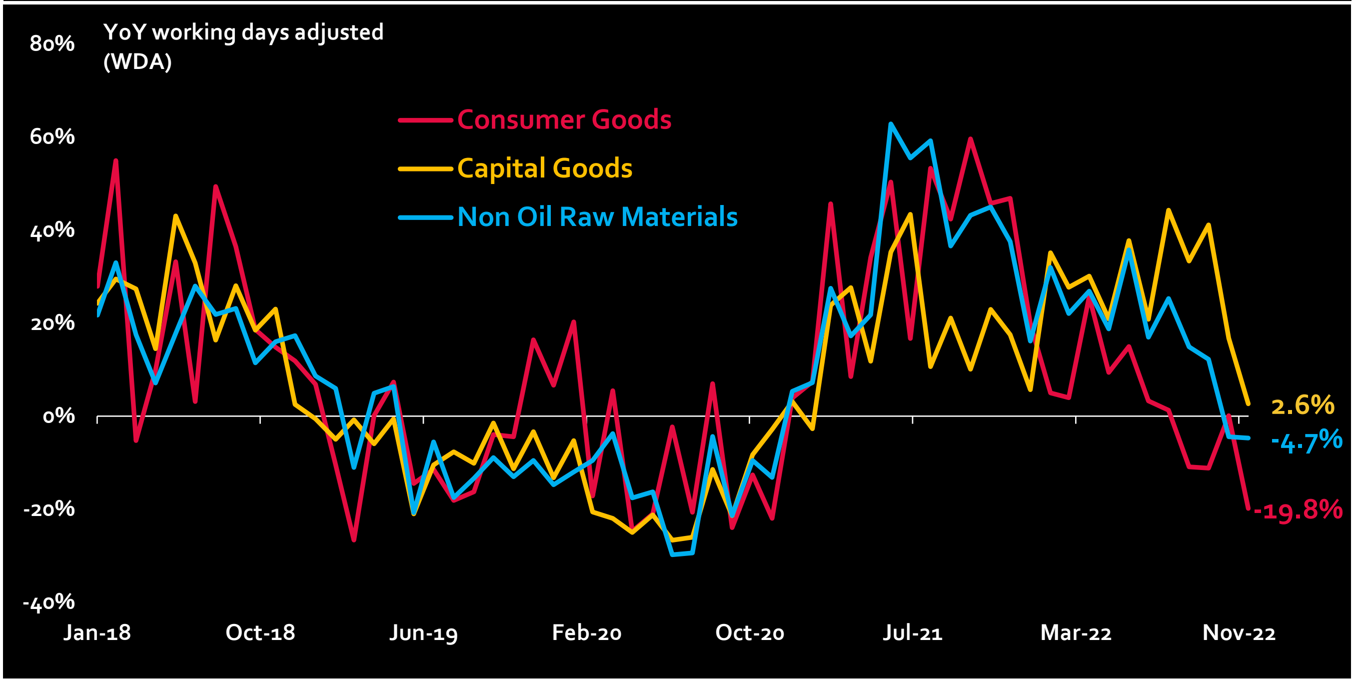
- Which brings us to the most salient point: declining trade activities, whether it comes from price (disinflation) or from volumes, is a dead ringer for a global downturn. Indonesia is far from alone in this regard, and the trend looks especially bleak for China – whereas the import numbers for Europe are being inflated by higher energy prices. China's reopening, then, could not come fast enough, but initially it may cause even more disinflation (or indeed outright deflation for some goods) owing to the aforementioned inventories.
- The impact of the downturn is also falling disproportionately on tradable goods, rather than non-tradable services. The former has been more greatly affected by higher energy prices and disruptive lockdowns in China, while the latter is still somewhat buoyed by the pent-up demand unleashed as the pandemic subsided. If the same pattern holds true for China – heavy demand on goods during lockdowns, shifting to services afterwards – its reopening may not actually boost global trade, but rather exacerbate the oversupply problems. As such, a global manufacturing recession is now at hand, even if an actual "hard landing" is still months away.
- The situation may not look pretty for Indonesia's exporters and manufacturers, but from a macro perspective the trade surplus remains a cushy support for the Rupiah and should, therefore, allow BI to keep a moderate trajectory and probably cease hiking by early 2023. Some risks remain for 2023, particularly regarding coal prices (which has hitherto held up better than oil) and Indonesia's relatively strong growth outlook, which would probably translate to more neutral current account outlook compared to 2022. But these are minor issues compared to most other currencies, and ones that would matter less if the Fed would eventually respond to the incipient recession by toning down its policy – which it might be starting to do, despite the still-somewhat hawkish outlook in the last FOMC meeting.

Panel 1. **Commodity prices remain in Indonesia's favor as coal, nickel rebounds**



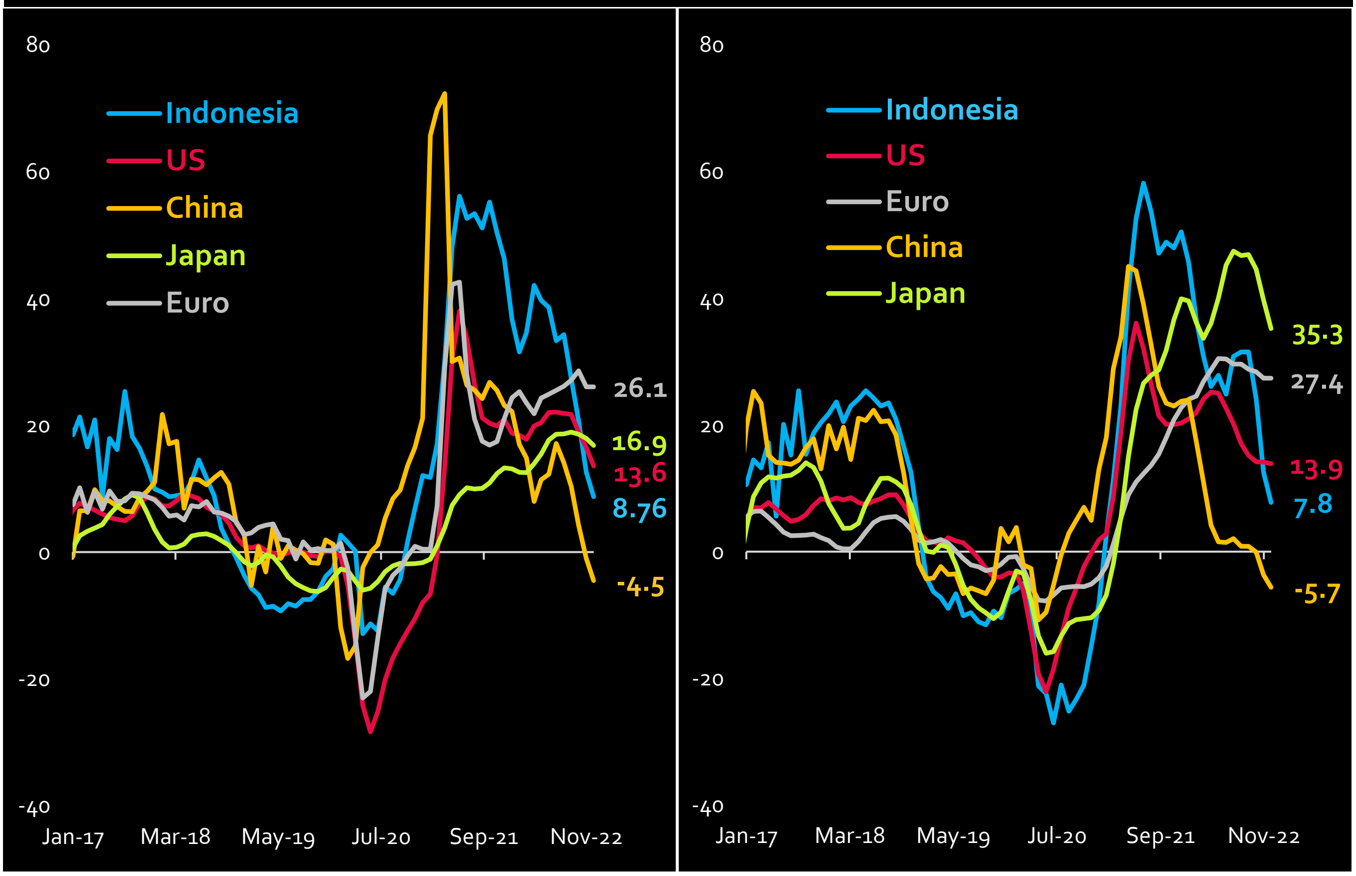
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports have been declining quite steeply, with consumer goods leading the way



Source: BPS, BCA Economist

Panel 3. The decline in Indonesia's exports and imports follows that of other countries



Source: Bloomberg

Panel 4. Manufacturing activities have been contracting across most of the world											
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Indonesia	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3
US	57.6	58.6	57.1	55.4	56.1	53	52.8	52.8	50.9	50.2	49
Eurozone	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1
China	50.1	50.2	49.5	47.4	49.6	50.2	49	49.4	50.1	49.2	48
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49
South Korea	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49
Malaysia	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9
Vietnam	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9
Thailand	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1
Philippines	50	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7
India	54	54.9	54	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7
Australia	55.1	57	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3
Mexico	46.1	48	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6

Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.00	Nov-22	-3.10
UK	3.00	Nov-22	-7.70
EU	2.00	Nov-22	-8.00
Japan	-0.10	Jan-16	-3.80
China (lending)	4.35	Nov-22	2.75
Korea	3.25	Nov-22	-1.75
India	6.25	Dec-22	0.37
Indonesia	5.25	Nov-22	-0.17

Money Mkt Rates	14-Dec	-1 mth	Chg (bps)
SPN (1M)	3.39	5.19	-180.0
SUN (10Y)	6.86	7.04	-18.4
INDONIA (O/N, Rp)	4.84	4.31	52.9
JIBOR 1M (Rp)	5.95	5.45	50.0

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.42	8.42	-0.03
Deposit 1M	2.87	2.83	3.57
Savings	0.65	0.64	0.98

Currency/USD	14-Dec	-1 mth	Chg (%)
UK Pound	0.805	0.845	5.04
Euro	0.936	0.966	3.24
Japanese Yen	135.5	138.8	2.46
Chinese RMB	6.950	7.097	2.12
Indonesia Rupiah	15,598	15,494	-0.67

Capital Mkt	14-Dec	-1 mth	Chg (%)
JCI	6,801.7	7,089.2	-4.05
DJIA	33,966.4	33,747.9	0.65
FTSE	7,495.9	7,318.0	2.43
Nikkei 225	28,156.2	28,263.6	-0.38
Hang Seng	19,673.5	17,325.7	13.55

Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)
Stock	2,656.0	2,630.5	25.56
Govt. Bond	736.9	713.2	23.70
Corp. Bond	14.5	15.4	-0.86

Trade & Commodities	14-Dec	-1 mth	Chg (%)
Baltic Dry Index	1,401.0	1,355.0	3.4
S&P GSCI Index	602.9	646.7	-6.8
Oil (Brent, $/brl)	82.7	96.0	-13.8
Coal ($/MT)	363.2	291.5	24.6
Gas ($/MMBtu)	6.60	4.74	39.2
Gold ($/oz.)	1,807.3	1,771.2	2.0
Copper ($/MT)	8,478.3	8,501.9	-0.3
Nickel ($/MT)	28,143.0	26,856.0	4.8
CPO ($/MT)	885.3	902.3	-1.9
Rubber ($/kg)	1.37	1.27	7.9

External Sector	Nov	Oct	Chg (%)
Export ($ bn)	24.12	24.73	-2.5
Import ($ bn)	18.96	19.14	-0.9
Trade bal. ($ bn)	5.16	5.59	-7.8
Central bank reserves ($ bn)*	134.0	130.2	2.92

Prompt Indicators	Nov	Oct	Aug
Consumer confidence index (CCI)	119.1	120.3	124.7
Car sales (%YoY)	4.2	23.3	16.4
Motorcycle sales (%YoY)	26.9	20.9	11.6

Manufacturing PMI	Nov	Oct	Chg (bps)
USA	49.0	50.2	-120
Eurozone	47.1	46.4	70
Japan	49.0	50.7	-170
China	49.4	49.2	20
Korea	49.0	48.2	80
Indonesia	50.3	51.8	-150

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise

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Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.3
GDP per Capita (US$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	5.6
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
Trade Balance (US$ billion)	11.8	-8.5	-3.2	21.7	35.3	52.8
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.9

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Senior Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Suryaputra Wijaksana
Economist / Analyst
suryaputra_wijaksana@bca.co.id
+6221 2358 8000 Ext: 1065752

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

Firman Yosep Tember
Research Assistant
firman_tember@bca.co.id
+6221 2358 8000 Ext: 20378

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343