

Trade:

Pivoting to consumption?

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Executive Summary

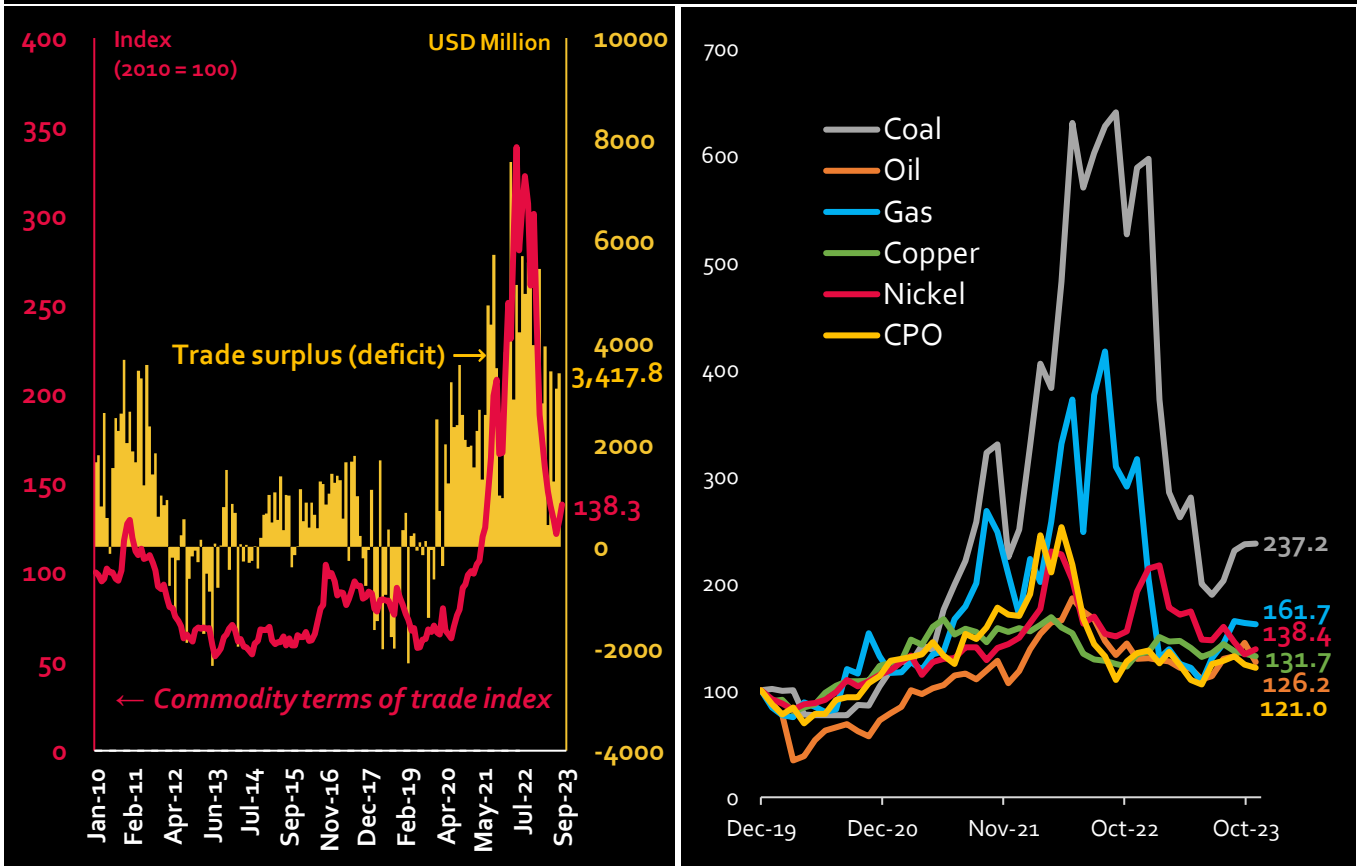
- Indonesia's trade surplus increased slightly to USD 3.42 Bn in September, much larger than consensus (USD 2.35 Bn), as imports fell faster than exports.
- Exports continue to be challenged by weak global demand, but the increase in export volumes across a wide variety of goods signal some improvement in global demand.
- On the import side, non-oil raw materials and capital goods both displayed negative growth. While the dip in the former is understandable due to weak commodity prices, the dip in the latter appear to be reversing the trend seen in the first half of the year and may indicate a broad-based slowdown in investment activities.
- On the other hand, imports of consumer goods have remained strong, which is indicative of resilient household consumption.
- Overall, the trade balance in Q3 was little changed from Q2, which probably implies a narrow CA deficit on the order of 0.2-0.4% of GDP. While the government has thus far been reluctant to spend, we expect more spending nearer Election time, between Q4-23 and Q2-24 to drive GDP growth.

- Indonesia's trade surplus increased slightly to USD 3.42 Bn in September 2023, but much larger than the median estimates (USD 2.35 Bn). Exports (-5.63% MoM / -16.17% YoY) and imports (-8.15% MoM / -12.45% YoY) both declined, but the latter went somewhat faster. One-off effects from August (no oil restocking, import of military gears) reversed but largely canceled each other out.
- Exports continued to be plagued by anemic global demand, including from China which has been pretty much our only source of growth YTD. Coal staged a modest recovery in prices, but export value actually declined during the month.
- Much better was metal exports including nickel, copper, and aluminum, which aligns with our observation that China is now heavily investing in strategic industries (electronics, EVs, renewables). This is an attempt to prop up growth amid weak consumption and a real estate crisis, but more broadly is part of its geostrategic effort to "outflank" traditional tech hubs such as Germany, Japan, and the US.
- One hypothesis of ours that has not been borne out, on the other hand, concerns CPO. Indonesia is a net agro-exporter largely thanks to CPO, and El Niño was thought to have quite a neutral effect on our trade balance as higher imports of rice, wheat, and corn are offset by

high CPO prices. Unfortunately, this has not been the case as soy prices remain stable amid robust production from the US.

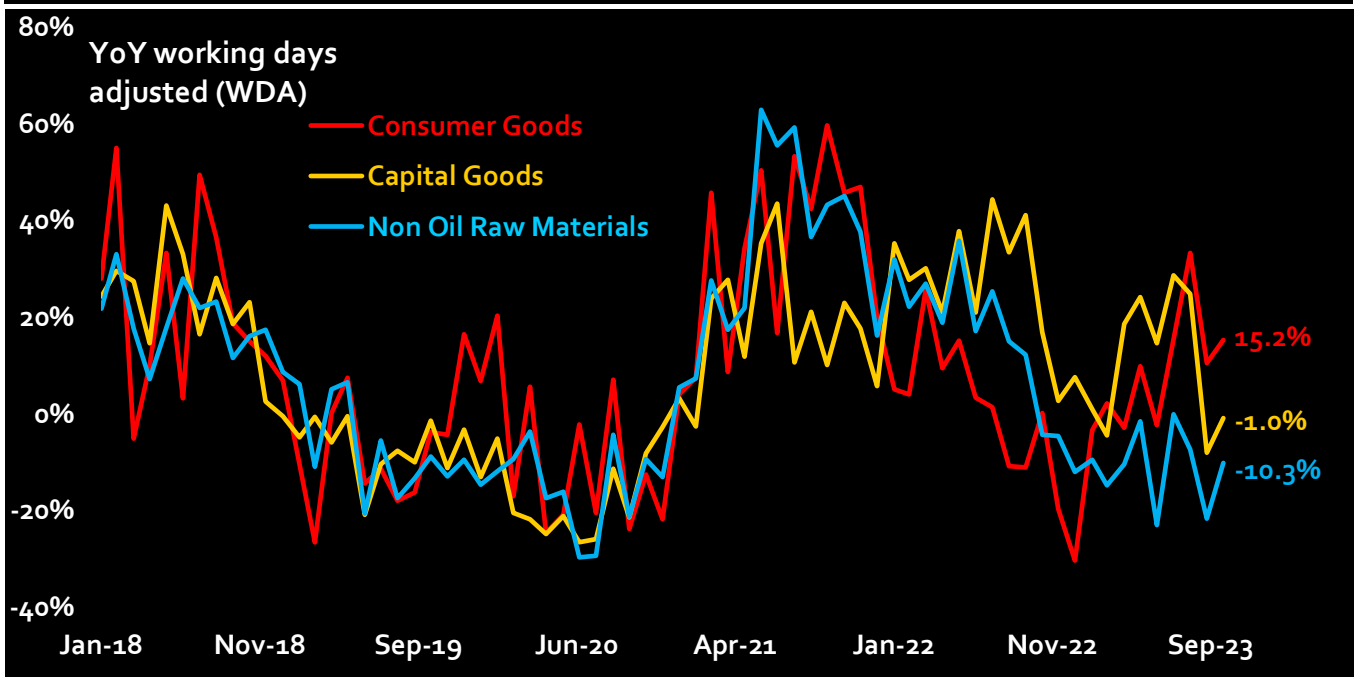
- On the import side, non-oil raw materials and capital goods both displayed negative growth. While the dip in the former is understandable due to weak commodity prices, the dip in the latter appear to be reversing the trend seen in the first half of the year and may indicate a broad-based slowdown in investment activities. The triple uncertainties of weak commodity prices, uncertain global prospects, and the usual pre-Election jitters all seem to play a role in weakening businesses' appetite to spend.
- On the other hand, imports of consumer goods have remained strong, even without last month's one-off imports in military equipment. This is indicative of resilient household consumption, and in line with our BCA Spending Index which have started to increase on a volumetric basis after bottoming out at the end of July.
- Overall, the trade balance in Q3 was little changed from Q2, which probably implies a narrow CA deficit on the order of 0.2-0.4% of GDP. Given what we saw previously in June (government spending indirectly contributing to CA deficit), this could indicate the government's continued reluctance to spend the remaining roughly IDR 1,400 Tn still left in its budget.
- This thriftiness would not last forever – we expect more spending nearer Election time, between Q4-23 and Q2-24 – but it does point to a fundamental shift. With businesses reluctant to spend, the onus would fall onto consumption, both public and private, to drive GDP growth. And depending on how bad the global price pressures in the food and energy markets would get, the government may have to step up to a greater or lesser extent.

Panel 1. Indonesia's trade surplus increased slightly, as imports fell more than exports



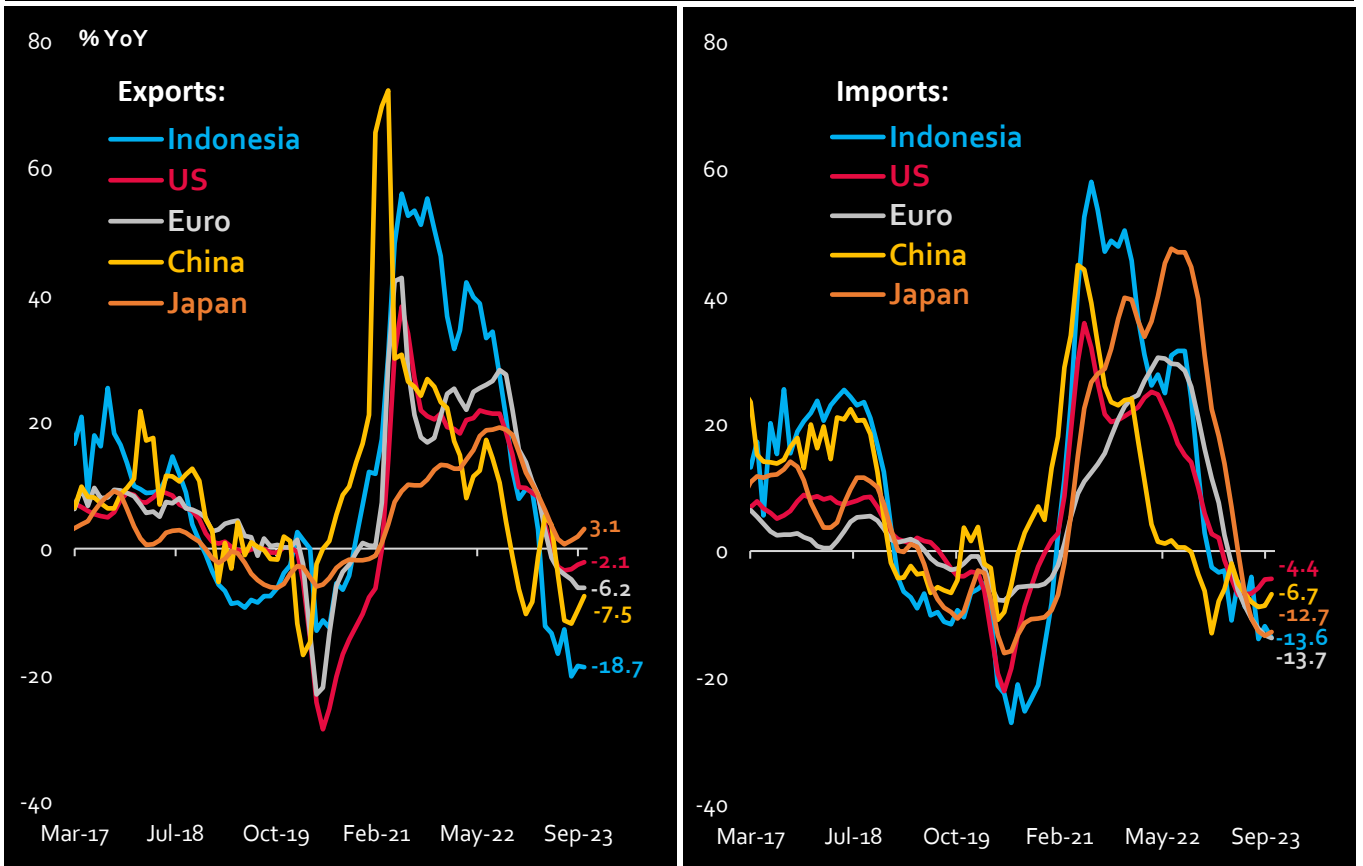
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports of raw material goods and capital goods recorded negative growth, while consumer goods remained relatively resilient



Source: BPS, BCA Economist

Panel 3. Indonesia's trade slowdown is in line with the rest of the world



Source: Bloomberg

Panel 4. Indonesia's manufacturing activities have remained relatively stable since the beginning of the year

PMI	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Indonesia	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3
Malaysia	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8
Thailand	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8
Philippines	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6
Vietnam	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7
India	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	58.7	57.7	58.6	57.5
Australia	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2	49.6	49.6	48.7
China	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2
South Korea	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9
Japan	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5
Euro	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.6	42.7	43.5	43.4
US	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0
Mexico	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2	51.2	49.8

Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	13-Oct	-1 mth	Chg (%)
US	5.50	Oct-23	1.80	Baltic Dry Index	1,945.0	1,235.0	57.5
UK	5.25	Oct-23	-1.45	S&P GSCI Index	595.8	612.4	-2.7
EU	4.50	Oct-23	0.20	Oil (Brent, \$/brl)	90.9	92.1	-1.3
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	150.8	166.5	-9.5
China (lending)	2.50	Oct-23	4.35	Gas (\$/MMBtu)	3.11	2.72	14.3
Korea	3.50	Aug-23	-0.20	Gold (\$/oz.)	1,932.8	1,913.7	1.0
India	6.50	Oct-23	1.48	Copper (\$/MT)	7,875.8	8,367.5	-5.9
Indonesia	5.75	Sep-23	3.47	Nickel (\$/MT)	18,284.3	19,683.5	-7.1
				CPO (\$/MT)	757.1	780.5	-3.0
				Rubber (\$/kg)	1.47	1.43	2.8
Money Mkt Rates	13-Oct	-1 mth	Chg (bps)	External Sector	Sep	Aug	Chg (%)
SPN (1M)	6.01	5.69	31.1	Export (\$ bn)	20.76	22.00	-5.66
SUN (10Y)	6.76	6.63	13.5	Import (\$ bn)	17.34	18.88	-8.15
INDONIA (O/N, Rp)	5.51	5.59	-8.2	Trade bal. (\$ bn)	3.42	3.12	9.39
JIBOR 1M (Rp)	6.40	6.40	0.0	Central bank reserves (\$ bn)*	134.9	137.1	-1.60
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Prompt Indicators	Sep	Aug	Jul
Lending (WC)	8.95	8.93	2.84	Consumer confidence index (CCI)	121.7	125.2	123.5
Deposit 1M	4.24	4.19	4.92	Car sales (%YoY)	-20.1	-8.3	-6.7
Savings	0.67	0.67	-0.41	Motorcycle sales (%YoY)	-0.9	1.8	45.6
Currency/USD	13-Oct	-1 mth	Chg (%)	Manufacturing PMI	Sep	Aug	Chg (bps)
UK Pound	0.824	0.801	-2.78	USA	49.0	47.6	140
Euro	0.951	0.930	-2.27	Eurozone	43.4	43.5	-10
Japanese Yen	149.6	147.1	-1.66	Japan	48.5	49.6	-110
Chinese RMB	7.305	7.292	-0.17	China	50.6	51.0	-40
Indonesia Rupiah	15,683	15,340	-2.19	Korea	49.9	48.9	100
				Indonesia	52.3	53.9	-160
Capital Mkt	13-Oct	-1 mth	Chg (%)				
JCI	6,926.8	6,934.0	-0.10				
DJIA	33,670.3	34,646.0	-2.82				
FTSE	7,599.6	7,527.5	0.96				
Nikkei 225	32,316.0	32,776.4	-1.40				
Hang Seng	17,813.5	18,025.9	-1.18				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	2,833.3	2,869.7	-36.44				
Govt. Bond	823.0	846.3	-23.30				
Corp. Bond	10.8	11.1	-0.26				

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

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.1
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,535
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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