Trade:
# Subdued surplus amid weakening global demand

**Keely Julia Hasim**
Economist / Analyst

**Barra Kukuh Mamia**
Senior Economist

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**Executive Summary**

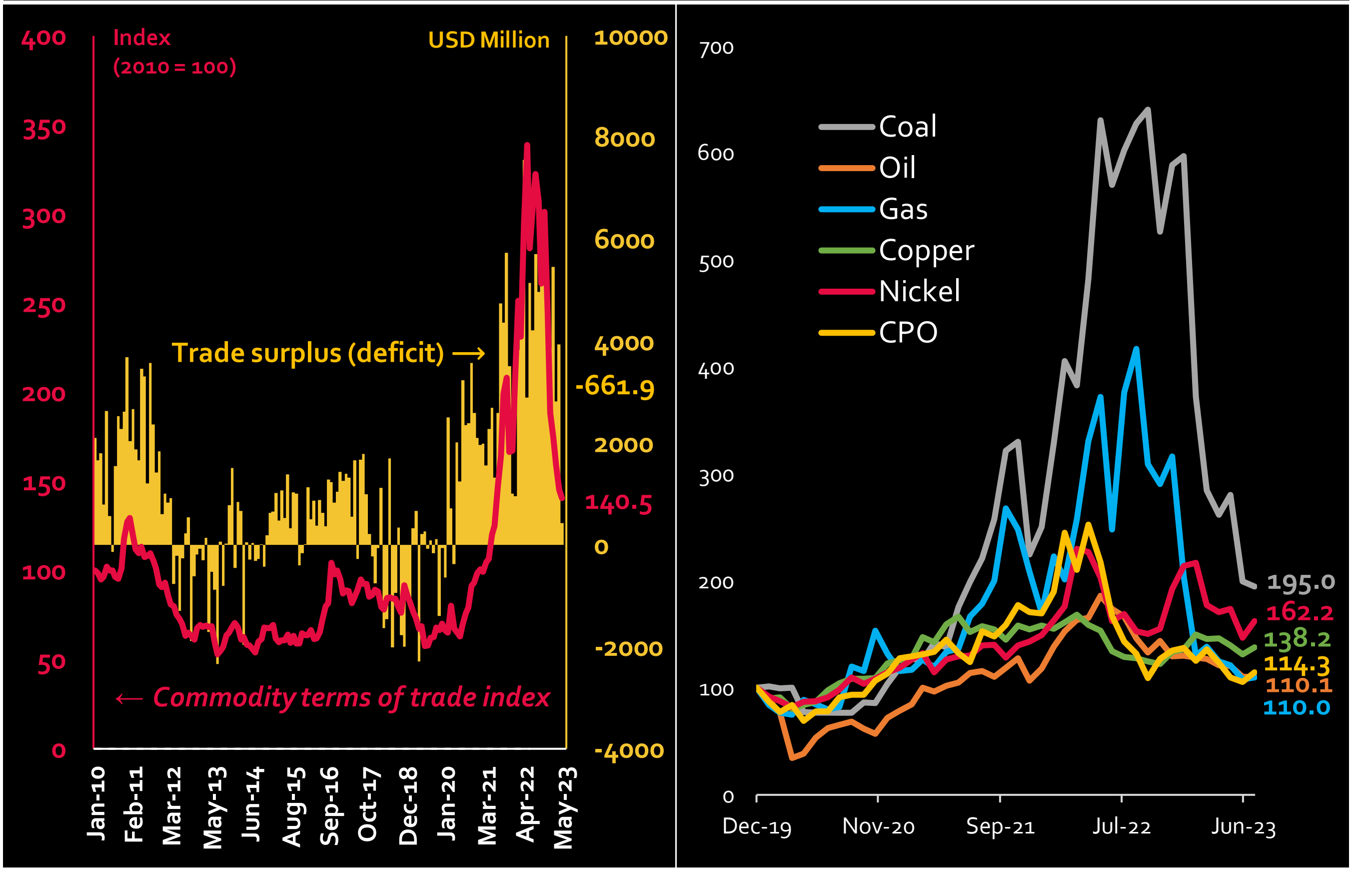
- Indonesia's trade surplus fell to USD 0.44 Bn in May 2023 as imports increased (14.4% YoY, 38.7% MoM) faster than exports (1.0% YoY, 12.6% MoM).
- Largest decreases in exports were observed in goods that China heavily imports, such as coal, steel, and mineral ores, due to weak domestic demand and slowdown in the property sector.
- Imports of capital goods and consumer goods displayed positive growth, a good signal for investment and consumption, but raw material imports still showed negative growth, indicating a potential slowdown in manufacturing activities.
- Weakening global demand and government policies (particularly mineral export ban) could push down the new normal for Indonesia's trade surplus to around USD 2 – 3 Bn.
- We maintain that BI could cut rates before the Fed does, but the chances of it doing so before the end of 2023 may be limited. Other avenues, especially fiscal stimulus, would be much more effectual in the event of slowing demand in the latter half of the year.

- Indonesia's trade surplus fell to USD 0.44 Bn in May 2023 as imports increased (14.4% YoY, 38.7% MoM) faster than exports (1.0% YoY, 12.6% MoM). This was much lower than consensus estimates, but it is actually not out of line from our mid-term expectations, since we have been expecting a decline in surplus since February.
- The reason why the decline had not materialized before May was probably China's reopening, which raised the volume of commodities imported from Indonesia even as their prices decline. About five months into the reopening, however, things begin to hit a ceiling. Notably, the largest decreases in exports were observed in goods that China heavily imports, such as coal, steel, and mineral ores, which experienced declines of -4.39% MoM, -6.33% MoM, and -19.41% MoM, respectively.
- These declines align with the narrative of weak domestic demand following China's reopening, as the domestic market struggled to absorb the excess inventory accumulated during the lockdown. Additionally, the slowdown in the property sector, which has been ongoing since the Evergrande crisis in 2021, has limited the demand for steel and thereby the commodities used in its production, including coal and nickel.
- In contrast, imports of both capital goods and consumer goods displayed positive growth, which is a good signal for investment and consumption. The former can be attributed to the strong FDI, especially – but not limited to – Indonesia's metals sector. Notably, imports from the European Union have increased significantly (50.9% YoY, 37.7% MoM), which likely

corresponds to machinery used in mining and manufacturing. Meanwhile, the increase in consumer goods imports seems to be related to the influx of affordable Chinese goods.

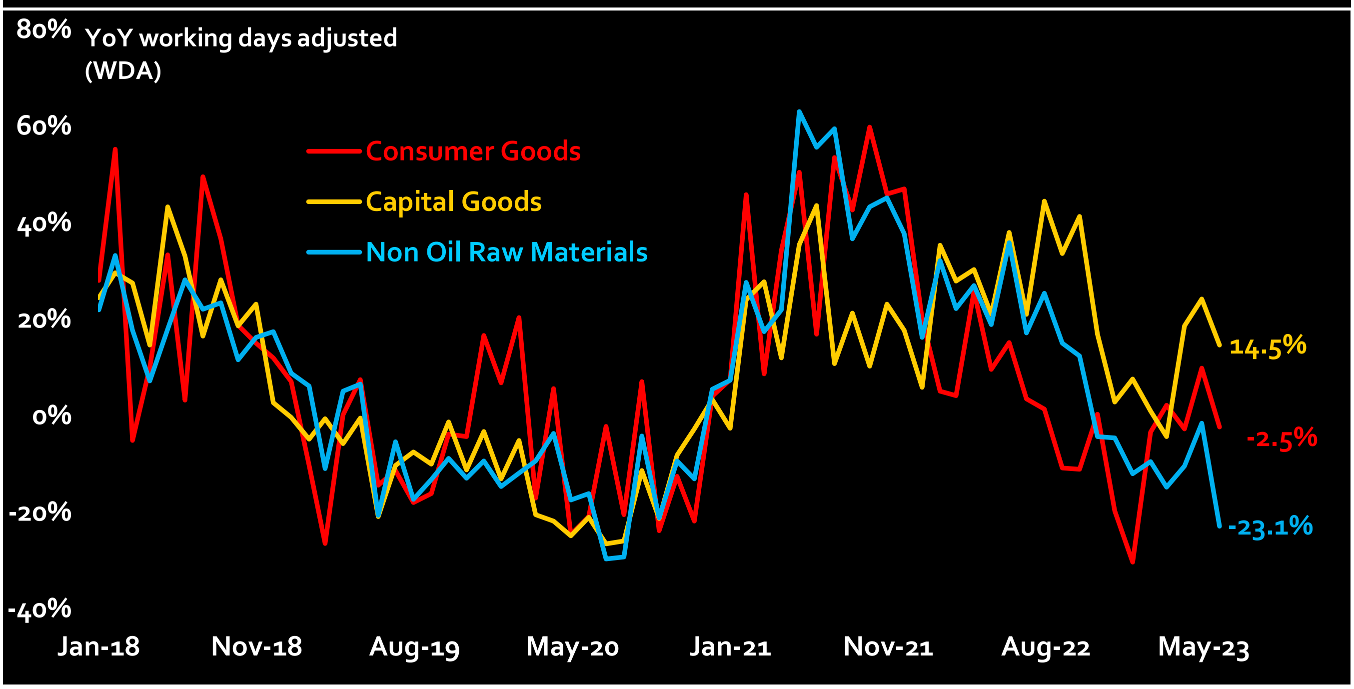
- On the other hand, imports of raw materials still showed negative growth, indicating a potential slowdown in manufacturing activities which might be related to the incipient demand weakness globally. It is worth noting, however, that latest decline in raw material imports are primarily observed in food-related categories, which could be influenced by the high-base effect caused by large food imports during the month of Ramadan – in which case, the slowing imports may be less concerning.
- A stronger recovery of Chinese demand would be the ideal way out from this oversupply problem and to restore our trade balance. We do see some hope in China's recent monetary stimulus (10 bps cut to its policy rate and 25 bps cut to its RRR), given the past trend where an expansion in financing presages an increase in industrial output, but the extent of China's structural issues – real estate, demographics, local government debt – may be difficult to overcome.
- Another factor is the weakening demand from developed countries, with Europe already in the grips of recession and the US possibly facing one a few quarters down the road, plus the general shift in consumption from goods towards services. The Fed's hawk-eyed focus on inflation also limits the chance that it would stimulate demand unless it craters sharply. All these would impact the demand for Chinese manufactured goods, which would ultimately affect Chinese demand for Indonesian commodities.
- As a result, we expect that the new normal for Indonesia's trade surplus would be in the range of USD 2 – 3 Bn under these conditions. Furthermore, we anticipate that Indonesia's CA will likely flip to a deficit (-0.5 to -0.8% of GDP) by the end of 2023. Government interventions, such as the export ban on bauxite effective from June 10th, will likely further contribute to the decline in export volumes for Indonesia's mineral ore exports. This CA deficit probably has only a small-to-modest impact on the Rupiah, which has proven to be more sensitive towards capital flows rather than current account flows.
- With the Fed hard put on not pivoting this year (with the June FOMC revealing a median consensus of another 50bps hike by year-end), BI will need to remain very cautious in determining its next moves. We maintain that BI could cut rates before the Fed does, but the chances of it doing so before the end of 2023 may be limited. Other avenues, especially fiscal stimulus, would be much more effectual in the event of slowing demand in the latter half of the year.

***Panel 1.*** **Trade surplus fell amid China's weak demand and slowdown in the property sector**



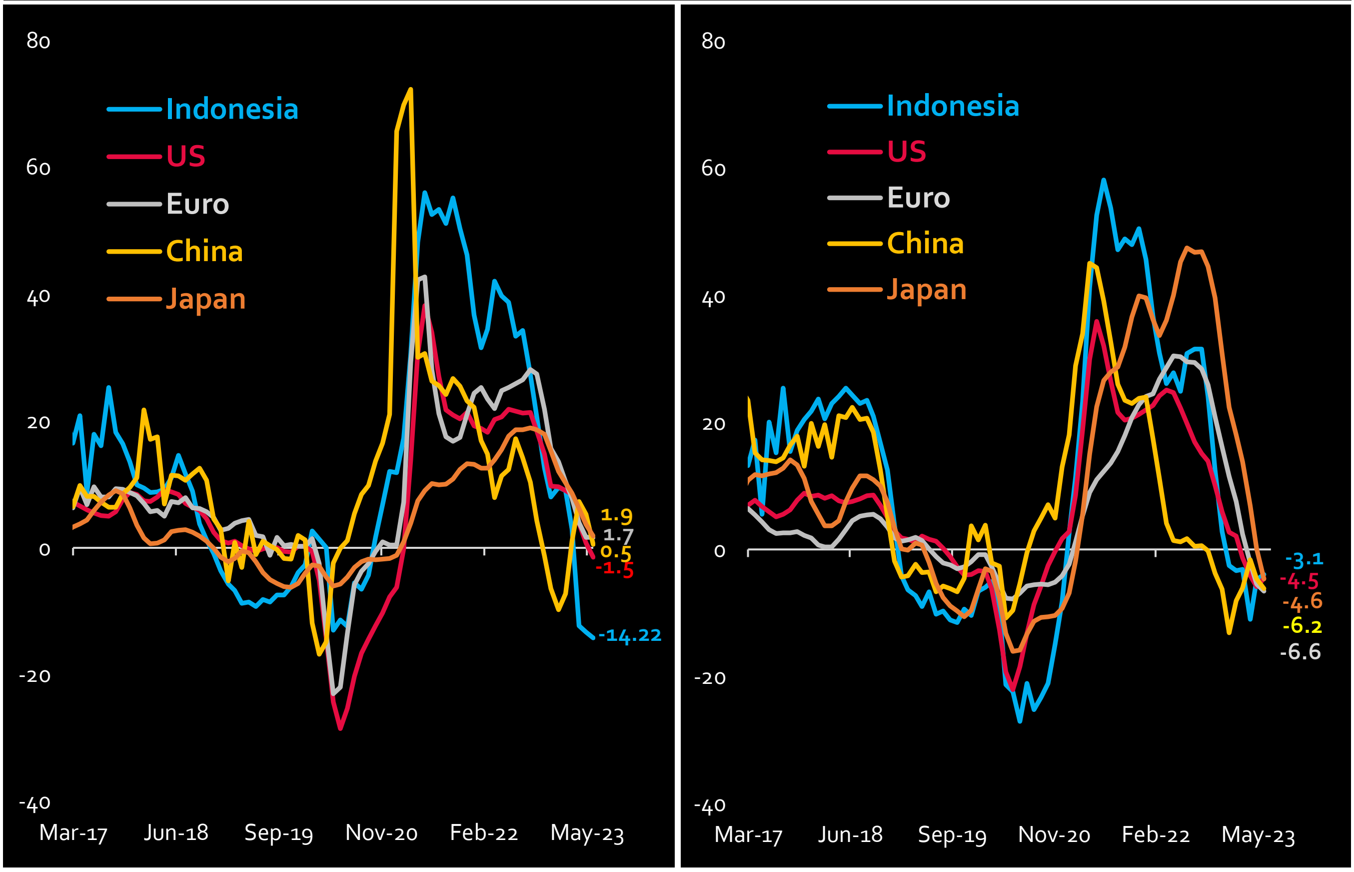

Source: BPS, Bloomberg, BCA Economist calculations

***Panel 2.*** **Import growth is spearheaded by capital and consumer goods imports**




Source: BPS, BCA Economist

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




**Source: Bloomberg**

## *Panel 4.* Pace of expansion in Indonesia's manufacturing sector is starting to slow down

| PMI | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Indonesia | 50.8 | 50.2 | 51.3 | 51.7 | 53.7 | 51.8 | 50.3 | 50.9 | 51.3 | 51.2 | 51.9 | 52.7 | 50.3 |
| Malaysia | 50.1 | 50.4 | 50.6 | 50.3 | 49.1 | 48.7 | 47.9 | 47.8 | 46.5 | 48.4 | 48.8 | 48.8 | 47.8 |
| Thailand | 51.9 | 50.7 | 52.4 | 53.7 | 55.7 | 51.6 | 51.1 | 52.5 | 54.5 | 54.8 | 53.1 | 60.4 | 58.2 |
| Philippines | 54.1 | 53.8 | 50.8 | 51.2 | 52.9 | 52.6 | 52.7 | 53.1 | 53.5 | 52.7 | 52.5 | 51.4 | 52.2 |
| Vietnam | 54.7 | 54.0 | 51.2 | 52.7 | 52.5 | 50.6 | 47.4 | 46.4 | 47.4 | 51.2 | 47.7 | 46.7 | 45.3 |
| India | 54.6 | 53.9 | 56.4 | 56.2 | 55.1 | 55.3 | 55.7 | 57.8 | 55.4 | 55.3 | 56.4 | 57.2 | 58.7 |
| Australia | 55.7 | 56.2 | 55.7 | 53.8 | 53.5 | 52.7 | 51.3 | 50.2 | 50.0 | 50.5 | 49.1 | 48.0 | 48.4 |
| China | 49.6 | 50.2 | 49.0 | 49.4 | 50.1 | 49.2 | 48.0 | 47.0 | 50.1 | 52.6 | 51.9 | 49.2 | 48.8 |
| South Korea | 51.8 | 51.3 | 49.8 | 47.6 | 47.3 | 48.2 | 49.0 | 48.2 | 48.5 | 48.5 | 47.6 | 48.1 | 48.4 |
| Japan | 53.3 | 52.7 | 52.1 | 51.5 | 50.8 | 50.7 | 49.0 | 48.9 | 48.9 | 47.7 | 49.2 | 49.5 | 50.6 |
| Euro | 54.6 | 52.1 | 49.8 | 49.6 | 48.4 | 46.4 | 47.1 | 47.8 | 48.8 | 48.5 | 47.3 | 45.8 | 44.8 |
| US | 56.1 | 53.1 | 52.7 | 52.9 | 51.0 | 50.0 | 49.0 | 48.4 | 47.4 | 47.7 | 46.3 | 47.1 | 46.9 |
| Mexico | 50.6 | 52.2 | 48.5 | 48.5 | 50.3 | 50.3 | 50.6 | 51.3 | 48.9 | 51.0 | 51.0 | 51.1 | 50.5 |

**Source: BI, Bloomberg**

## Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) |
|---|---|---|---|
| US | 5.25 | Jun-23 | 1.25 |
| UK | 4.50 | Jun-23 | -4.20 |
| EU | 3.75 | Jun-23 | -2.35 |
| Japan | -0.10 | Jan-16 | -3.60 |
| China (lending) | 4.35 | Jun-23 | 4.15 |
| Korea | 3.50 | May-23 | 0.20 |
| India | 6.50 | Jun-23 | 2.25 |
| Indonesia | 5.75 | May-23 | 1.75 |

| Money Mkt Rates | 14-Jun | -1 mth | Chg (bps) |
|---|---|---|---|
| SPN (1M) | 2.82 | 4.93 | -211.1 |
| SUN (10Y) | 6.24 | 6.38 | -14.4 |
| INDONIA (O/N, Rp) | 5.58 | 5.60 | -1.2 |
| JIBOR 1M (Rp) | 6.39 | 6.40 | -0.7 |

| Bank Rates (Rp) | Mar | Feb | Chg (bps) |
|---|---|---|---|
| Lending (WC) | 8.95 | 8.89 | 6.13 |
| Deposit 1M | 4.20 | 4.18 | 2.24 |
| Savings | 0.69 | 0.67 | 1.92 |

| Currency/USD | 14-Jun | -1 mth | Chg (%) |
|---|---|---|---|
| UK Pound | 0.790 | 0.803 | 1.65 |
| Euro | 0.923 | 0.922 | -0.18 |
| Japanese Yen | 140.1 | 135.7 | -3.13 |
| Chinese RMB | 7.162 | 6.959 | -2.83 |
| Indonesia Rupiah | 14,900 | 14,750 | -1.01 |

| Capital Mkt | 14-Jun | -1 mth | Chg (%) |
|---|---|---|---|
| JCI | 6,699.7 | 6,707.8 | -0.12 |
| DJIA | 33,979.3 | 33,300.6 | 2.04 |
| FTSE | 7,602.7 | 7,754.6 | -1.96 |
| Nikkei 225 | 33,502.4 | 29,388.3 | 14.00 |
| Hang Seng | 19,408.4 | 19,627.2 | -1.11 |

| Foreign portfolio ownership (Rp Tn) | May | Apr | Chg (Rp Tn) |
|---|---|---|---|
| Stock | 2,738.1 | 2,789.1 | -51.06 |
| Govt. Bond | 822.7 | 822.7 | 0.00 |
| Corp. Bond | 11.8 | 11.8 | -0.01 |

| Trade & Commodities | 14-Jun | -1 mth | Chg (%) |
|---|---|---|---|
| Baltic Dry Index | 1,079.0 | 1,558.0 | -30.7 |
| S&P GSCI Index | 533.4 | 538.9 | -1.0 |
| Oil (Brent, $/brl) | 73.2 | 74.2 | -1.3 |
| Coal ($/MT) | 136.2 | 164.8 | -17.4 |
| Gas ($/MMBtu) | 2.05 | 1.98 | 3.5 |
| Gold ($/oz.) | 1,942.5 | 2,010.8 | -3.4 |
| Copper ($/MT) | 8,509.3 | 8,222.8 | 3.5 |
| Nickel ($/MT) | 22,637.3 | 22,110.0 | 2.4 |
| CPO ($/MT) | 758.0 | 850.9 | -10.9 |
| Rubber ($/kg) | 1.33 | 1.35 | -1.5 |

| External Sector | May | Apr | Chg (%) |
|---|---|---|---|
| Export ($ bn) | 21.72 | 19.29 | 12.58 |
| Import ($ bn) | 21.28 | 15.35 | 38.65 |
| Trade bal. ($ bn) | 0.44 | 3.94 | -88.93 |
| Central bank reserves ($ bn)* | 139.3 | 144.2 | -3.38 |

| Prompt Indicators | May | Apr | Mar |
|---|---|---|---|
| Consumer confidence index (CCI) | 128.3 | 126.1 | 123.3 |
| Car sales (%YoY) | 65.2 | -28.8 | 2.7 |
| Motorcycle sales (%YoY) | 113.4 | -19.4 | 40.5 |

| Manufacturing PMI | May | Apr | Chg (bps) |
|---|---|---|---|
| USA | 46.9 | 47.1 | -20 |
| Eurozone | 44.8 | 45.8 | -100 |
| Japan | 50.6 | 49.5 | 110 |
| China | 50.9 | 49.5 | 140 |
| Korea | 48.4 | 48.1 | 30 |
| Indonesia | 50.3 | 52.7 | -240 |

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 | 5.0 |
| GDP per Capita (US$) | 3927 | 4175 | 3912 | 4350 | 4784 | 5285 |
| Consumer Price Index Inflation (% YoY) | 3.1 | 2.7 | 1.7 | 1.9 | 5.5 | 3.4 |
| BI 7 day Repo Rate (%) | 6.00 | 5.00 | 3.75 | 3.50 | 5.50 | 5.75 |
| USD/IDR Exchange Rate (end of year)** | 14,390 | 13,866 | 14,050 | 14,262 | 15,568 | 15,173 |
| Trade Balance (US$ billion) | -8.5 | -3.2 | 21.7 | 35.3 | 54.5 | 35.3 |
| 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


**Economic, Banking & Industry Research Team**

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

**Agus Salim Hardjodinoto**
*Head of Industry and Regional Research*
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

**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

**Thierris Nora Kusuma**
*Economist / Analyst*
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

**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



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