Indonesia Outlook

Mixed picture for trade at year end

Wednesday, January 16, 2019

Highlights

- **Indonesia's trade deficit narrowed to US$1.1bn in December as exports declined by a larger 4.6% yoy and import growth slowed down to 1.2% yoy.**
- **For the entire year of 2018, the country reported a trade deficit at US$8.6bn for the first time since 2014 as import growth accelerated to 20.2% yoy whilst exports growth slowed to 6.7% yoy.**
- **Going forward, exports risks being weighed down by global uncertainty whilst more time is needed to ascertain the full effect of government import control measures.**
- **However, we believe that the central bank will probably keep the rates on hold following their January policy meeting although they may still hike twice overall in 2019.**

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Indonesia continued to run a trade deficit in December 2018, albeit slightly narrower at US$1.1bn (Nov 2018: US$2.1). This was driven by a significant slowdown in import growth to 1.2% yoy (Nov 2018: 11.8% yoy). Exports fell for a second consecutive month by a sharper 4.6% yoy (Nov 2018: -2.8% yoy). For the entire year of 2018, Indonesia reported a trade deficit at US$8.6bn, the first since 2014. Imports grew by 20.2% yoy in 2018, the fastest since 2011 when it expanded at 30.8% yoy, whereas exports growth more than halved to 6.7% yoy, down from 16.3% yoy in 2017. According to the Head of the Department of Statistics, this marks the largest annual trade deficit on record. This comes as there was broad expansion in all import categories of capital goods, consumer goods and raw materials of about 20%.

The exports decline for December was heavily driven by a worsening fall in non-oil and gas exports of about 7.0% yoy (Nov 2018: -3.6% yoy). The major driver of the decline was due to an elevated fall in the mining & others category exports of about 20.0% yoy. One explanation for this could possibly be the slowdown in China which in turn led to a reduced requirement for raw materials. Manufacturing exports also saw a second consecutive month of declines at 3.2% yoy. This decline coincided with a worsening of Chinese trade data in November and December, which strongly hints of the significance of the China slowdown factor. Manufacturing exports is by far the largest component of non-oil and gas exports, constituting 81% of the category for December 2018. Oil and gas exports grew strongly at 16.7% yoy, as a strong expansion of gas exports offset the declining crude oil exports. Going forward, there is a continued risk that exports maybe weighed down by global uncertainty such as the US – China trade tensions or struggling commodity prices.

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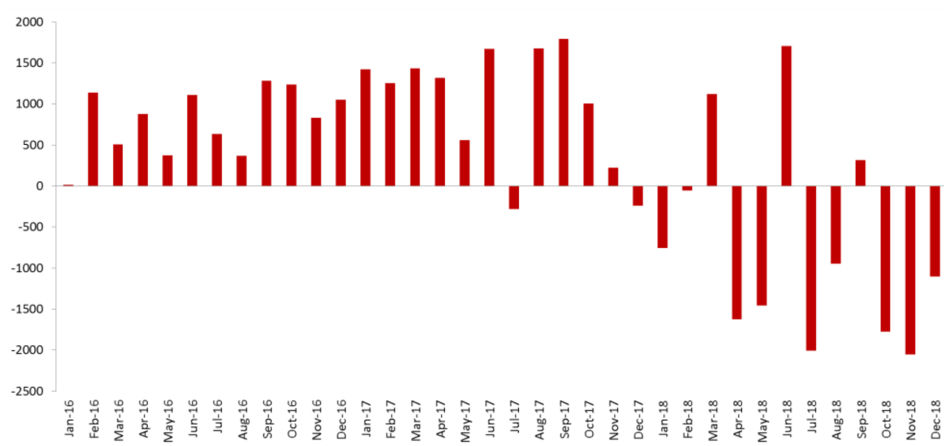
Regarding imports, there were some signs of improvement as growth slowed to 1.2% yoy. In particular, capital goods imports continued to decline by about 0.3% yoy

(Nov 2018: -1.92% yoy) amid government measures to limit imports in this area. As previously noted, the government had postponed electricity and oil and gas related projects. Furthermore, the government has said that capital expenditure utilization had only hit 90% for 2018. For 2019, growth in infrastructure spending is also expected to remain flattish. However, the biggest driver of the slowdown in imports growth in December was the raw materials category where imports had only expanded by 0.9% yoy (Nov 2018: 15.7% yoy). Given the volatile nature of monthly trade data, not a lot can be immediately read from this drastic slowdown as it could simply be due to one-off factors. However, the government has been pushing ahead with its implementation of the B20 measure. Consumer goods imports growth remained roughly the same at 6.2% yoy (Nov 2018: 6.9% yoy) although December has never historically been a strong month for imports for this category. As a whole, there appears to be some signs that the level of imports are gradually being reined in although more time is needed to fully ascertain the effectiveness of all government measures.

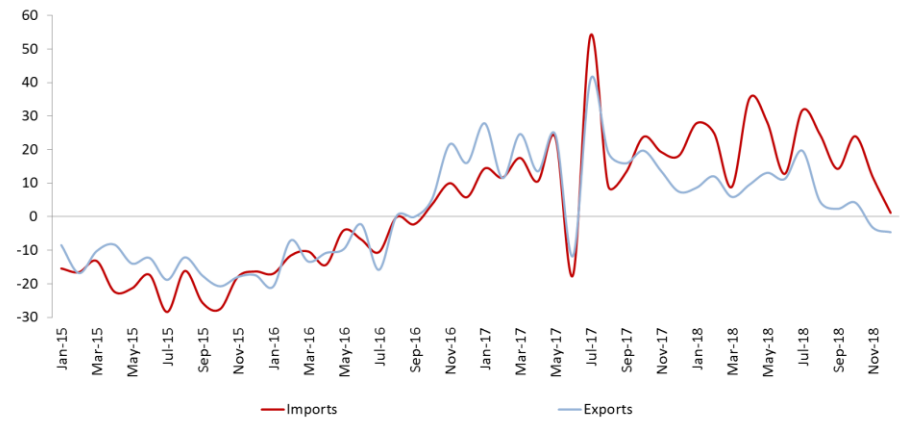
Even though the 2018 trade data showed the highest annual trade deficit on record, we believe that Bank Indonesia (BI) would probably keep rates on hold following their January policy meeting as the IDR has continued to hover at levels close to 14,000 since 7 January, supported by a dovish Fed tone and returning investor interest in IDR government bonds.

Chart 1: Trade balance, US$bn



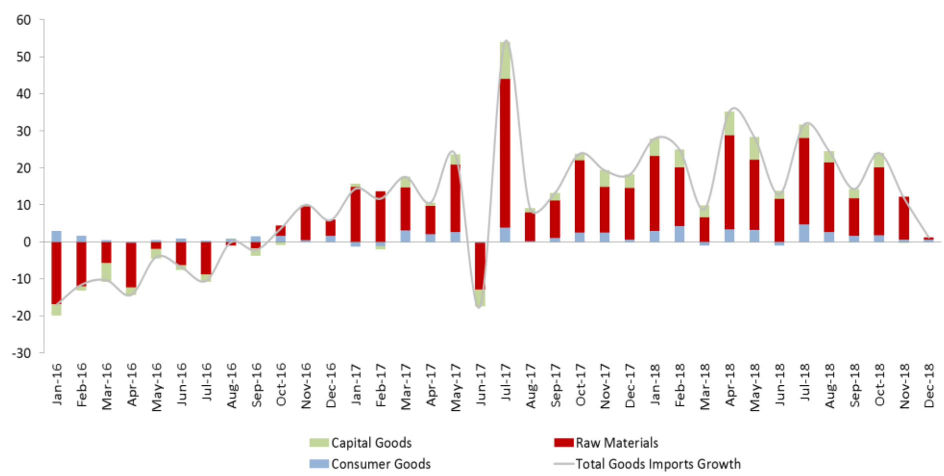
Source: Bloomberg, CEIC and OCBC

Chart 2: Growth of imports and exports, % yoy



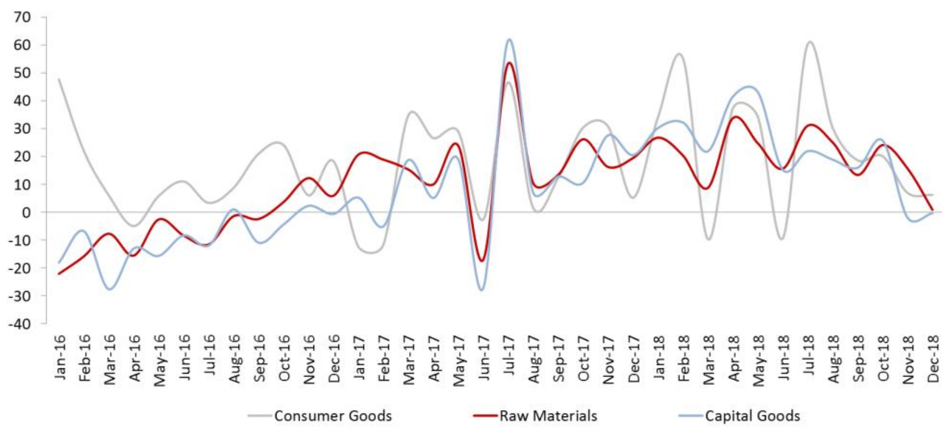
Source: Bloomberg, CEIC and OCBC

Chart 3: Contributors to import growth, % yoy



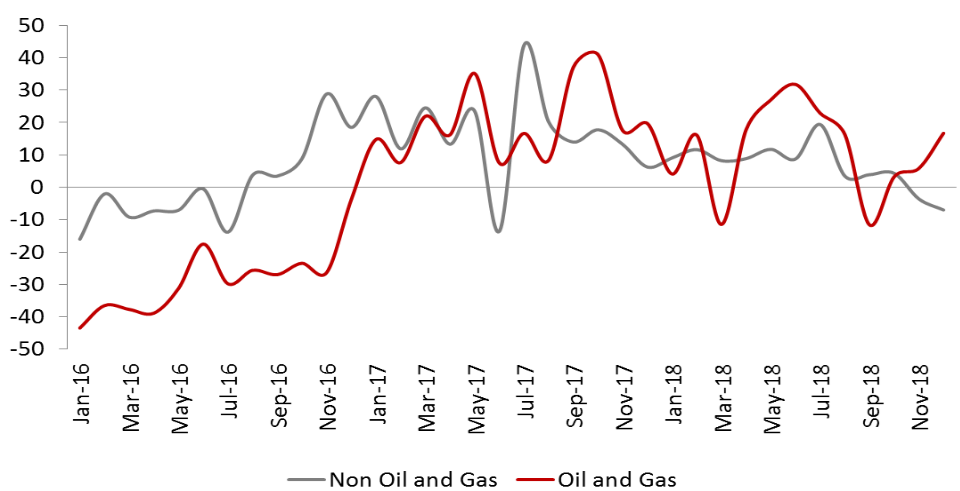
Source: Bloomberg, CEIC and OCBC

Chart 4: Growth in components of imports, % yoy



Source: Bloomberg, CEIC and OCBC

Chart 5: Growth of export components, % yoy



Source: Bloomberg, CEIC and OCBC

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