

Indonesia Economic Briefing

Low inflation, trade balance slides back to deficit



	Feb-14 (Actual)	Feb-14 (Fcast)*	Feb-14 (Cons.)	Jan-14	Dec -13
Headline CPI (% chg y-o-y)	7.75	8.06	7.94	8.22	8.08
Headline CPI (% chg m-o-m)	0.26	0.55	0.50	1.07	0.45
Headline CPI (% chg y-t-d)	1.33	1.62	na	1.07	8.08
Core CPI (% chg y-o-y)	4.60	4.65	4.57	4.53	na

Source: Bloomberg, BPS, CEIC, *Danamon Estimates

Unexpectedly low inflation

- **Headline inflation rose by 0.26%mom in February, below our expectation at 0.55%mtm and the market consensus at 0.5%.** It then brought the year on year inflation rate to decrease significantly to 7.75%, compared to 8.22% in the previous month, due to a high base effect, i.e. 0.70%mom inflation in Feb-13.
- **The low inflation was driven by the relatively lower food (raw and processed) inflation.** Surprisingly, the impact of the bad weather and the flood disaster was significantly lower than our expectation. Raw food and processed food inflation contributed only around 0.04%mom and 0.08%mom each, which is considerably low compared to its usual pattern. Some of the raw food prices even recorded a significant decline, i.e. red chili and onion gave the highest deflation contribution each around -0.10%mom.
- Meanwhile, the monthly core inflation was at 0.05%mom that turned out to be significantly lower than the previous month (0.50%mom). On a yoy basis, **it led to a slightly higher core inflation rate at 4.60% vs. 4.57% in the previous month, due to a low base effect.** This higher core inflation was caused by a slight rise in the gold jewelry, despite the strengthening of the Rupiah.

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	Jan-14 (Actual)	Jan-14* (Forecast)	Jan-14* (Cons.)	Dec-13	Nov-13
Export Growth (% y-o-y)	-5.8	2.6	2.8	10.3	-2.4
Import Growth (% y-o-y)	-3.5	-3.1	-0.9	-0.8	-10.6
Trade Balance (US\$bn)	-0.43	0.81	0.42	1.52	0.78

Source: Bloomberg, BPS, CEIC, *Danamon Estimates, **Revised

Trade Balance slides back to deficit

- **January's trade balance recorded a deficit after registering three consecutive months of surplus (the statistics office data).** Exports declined quite notably at -5.8%yoy, faster than the pace of decline in imports at -3.8%yoy, thus resulting in a moderate trade deficit of USD0.43bn.
- **Decline in exports was quite sharp, as the front-running of the raw mineral exports was already declining.** The miners has mostly emptied the inventory in December. The raw mineral partial exports ban has shown its impact (Ores, slag and ashes recorded the biggest decline at -70%mom). However the exports performance was also exacerbated by the declining global commodity prices as

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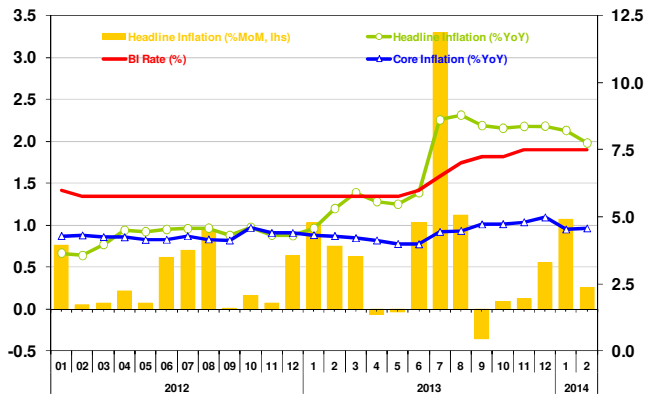
China's economy remained sluggish. Declines were seen mostly in the main exports commodities i.e. mineral fuels (-17.1%mom), CPO (-13.8%mom), and rubber (-3.6%mom). The slump in the CPO exports was also affected by rising domestic demand for biodiesel production as the government trying to push the use of biodiesel fuel.

- **Exports of crude oil was significantly lower at USD497mn, well below its monthly average (at around USD850mn).** We also spot a large decline in the crude oil exports volume as oil price remained stable. This has been a concern as oil lifting remained stalled due to its aging wells and the lack of new investment. Oil lifting may not reached its target this year (870tbpd as stated in the state budget 2014). The government may revised the target to around 800-830 thousand barrel per day.
- **Imports continued to scale down to -3.5%yoy, driven mostly by lower imports of oil and gas.** Biggest drop was seen in the consumption goods imports (-16.3%mom) while the raw material imports is still relatively milder at -4.6%mom. Imports of capital goods on the other hand, showed a rise (by 8.3%mom), particularly in the machineries and electrical appliances.

Market & Policy Implications

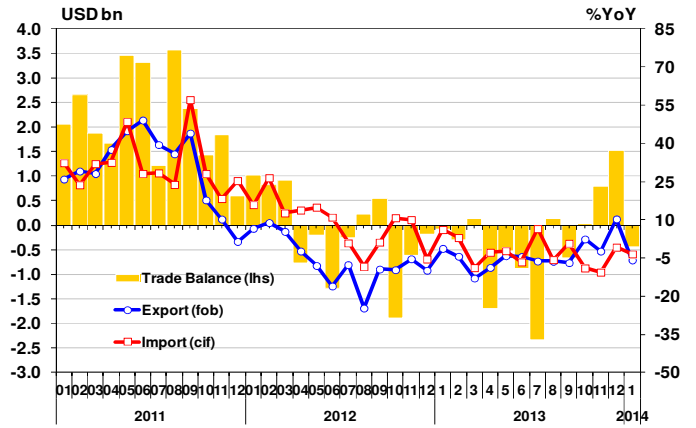
- We do not think BI will change the policy rate for now, as in general, most economic variables are still on track. Tight money policy will be maintained, as with the recent global environment the central bank could not afford to lower interest rate. **We see the inflation remained on track, thus we maintained the year-end forecast at 4.94%**, though still with an upside risk of a possible increase in the electricity tariff hike for the industry. Nonetheless, we think the pressure would still be contained and probably would not exceed the central bank's target of 3.5-5.5%.
- We remained cautious on the trade balance side. The overall trend is improving, as we don't think the raw mineral exports partial ban would bring a large impact. BI is optimistic that the CA deficit in the first quarter this year could reach below 2% of GDP. Even so, we are still watching on the oil and gas balance, particularly as oil lifting depressed further and subsidized fuel consumption remained high.
- As the commodity prices remained volatile, we should see whether the manufacture goods exports could be more resilient to minimize the pressure on exports. Thus **we maintain our forecast of the CA deficit to reach 2.9% of GDP by year-end.** Therefore we are still cautious on the rupiah, as it could still be volatile in the next 2-3 months, though we assume positive result in the election could bring the rupiah **to strengthen to around Rp11,058/USD by year-end.**

Chart 1. Indonesia CPI Inflation



Source: BPS, CEIC

Chart 2. Indonesia Foreign Trade



Source: BPS, CEIC

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013	2014E	2015E
National Accounts						
Real GDP (% y-o-y)	6.2	6.5	6.3	5.8	5.7	6.2
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.1	5.1	5.5	5.7
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.3	5.2	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.7	4.7	4.0	6.8
GDP (US\$bn) — nominal	710	845	879	871	925	1,086
GDP per capita (US\$) — nominal	2,986	3,509	3,596	3,490	3,640	4,215
Open Unemployment Rate (%)	7.1	6.6	6.1	6.3	6.1	6.1
External Sector						
Exports, fob (% y-o-y, US\$ bn)	32.1	27.0	-6.1	-2.6	4.2	6.0
Imports, fob (% y-o-y, US\$ bn)	43.7	30.3	8.4	-1.4	3.5	4.2
Trade balance (US\$ bn)	30.6	34.8	8.6	6.1	3.3	6.8
Current account (% of GDP)	0.7	0.2	-2.7	-3.3	-2.9	-2.4
Central government debt (% of GDP)	26.1	24.6	23.1	22.0	21.2	22.2
International Reserves –IRFCL (US\$ bn)	96.2	110.1	112.8	99.4	100.0	103.5
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6	5.8
Currency/US\$ (Year-end)	8,991	9,068	9,670	12,189	11,058	10,754
Currency/US\$ (Average)	9,085	8,779	9,380	10,428	11,605	10,770
Other						
BI policy rate (% year end)	6.50	6.00	5.75	7.50	7.75	8.00
Consumer prices (% year end)	6.96	3.79	4.30	8.38	4.94	4.61
Fiscal balance (% of GDP; FY)	-0.73	-1.14	-1.77	-2.24	-1.80	-2.00
S&P's Rating – FCY	BB	BB+	BB+	BB+	BB+	BB+

Source: CEIC, *Danamon Estimates

Economic and Market Research

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