Trade:
What goes up must come down?

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Executive Summary

- Trade surplus increased to USD 4.42 Bn in Nov-24, due to a steeper decline in imports compared to exports.
- CPO exports normalized on seasonal effect and tariffs from India, while Chinese demand for nickel soared albeit potentially only in the short-term.
- Declining imports of capital goods aligns with waning CAPEX cycle, while stable consumer goods imports despite seasonal restocking may not be a good sign for consumption.
- The government's pairing of VAT increase with consumer-oriented stimulus seems to be a compromise between government financing and the need to support growth.

- The trade surplus unexpectedly widened to USD 4.42 Bn in Nov-24, up from USD 2.48 Bn the month before. While some improvement may simply reflect the ongoing improvement in Indonesia's commodity terms of trade, the large surplus was also the result of a steep fall in imports (-10.71% MoM). Exports, in contrast, only declined slightly (-1.7% MoM).

- Interestingly, despite the better terms of trade, several commodities played a role in the export decline. Most notably, CPO export fell by 10.48% MoM, following the end of India's festive season as well as new tariffs on edible oil (from 0% to 20%) by the Indian government. A similar but less impactful decline was also seen for cocoa (-15% MoM) and copper (-25% MoM).

- The export numbers could have been worse were it not for nickel, which saw an impressive 84.43% YoY (87.26% MoM) growth. This is likely driven by increased demand from China, which has returned to manufacturing expansion in the last two months (as seen from PMI surveys).

- Still, the question remains as to whether this expansion is a result of successful stimulus by Beijing, or merely the result of American companies frontloading their Chinese orders before Trump takes office. If it is the latter, the situation may quickly reverse in early 2025 when the tariffs begin to be implemented.

- On the imports side, we expected a decline in cereal imports to be the main driving factor as fears over rice prices begin to subside (especially after the Regional Elections). But instead, the bulk of the import decline instead stemmed from oil (-29.88% MoM), electrical & electronic instruments (-15.49% MoM), iron and steel (-8.68% MoM), and plastics (-11.43% MoM).

- Part of these declines may simply represent normalization, especially given that imports of electrical & electronic instruments (HS 85) saw a spectacular growth in October. Nonetheless, a broader look at the capital goods category (-2.9% YoY) does indicate a potential slowdown in domestic investment, in line with our observation of a waning CAPEX cycle among listed companies.

- Imports of consumer goods, meanwhile, has held up better (0.6% YoY), but this is not (yet) a conclusive sign that domestic consumption is recovering. We need to note that imports of milled rice, which has continued apace, are counted among this category.

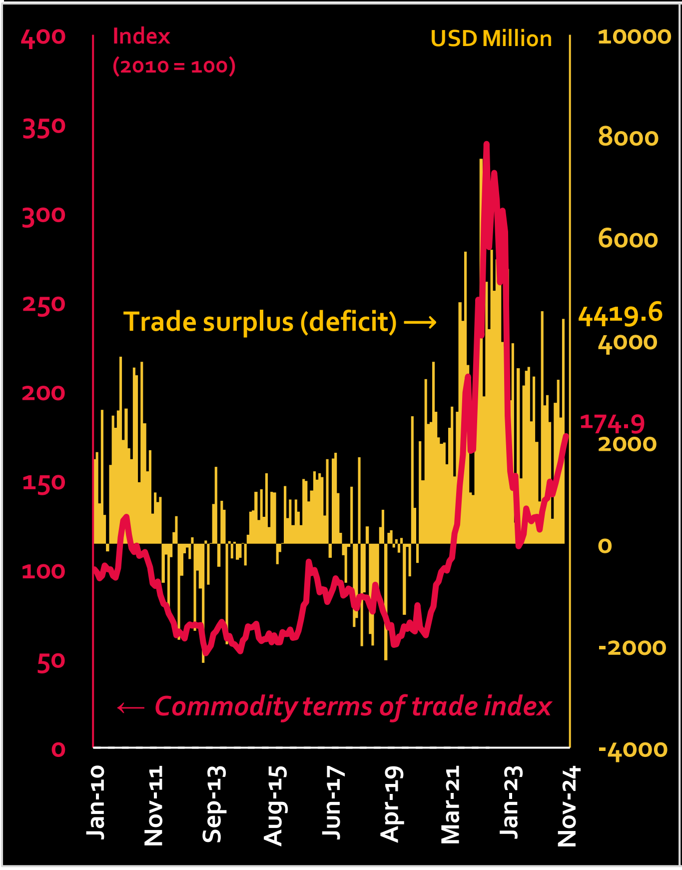
- Moreover, these numbers already reflect restocking ahead of consecutive holidays/festivities and shopping seasons in Q4-24 to Q1-25—starting from year-end online sales, to Christmas, New Year, Chinese New Year, and finally Ramadan and Lebaran (Eid al-Fitr). Judging by this situation, the outlook for consumer spending does not seem too spectacular.

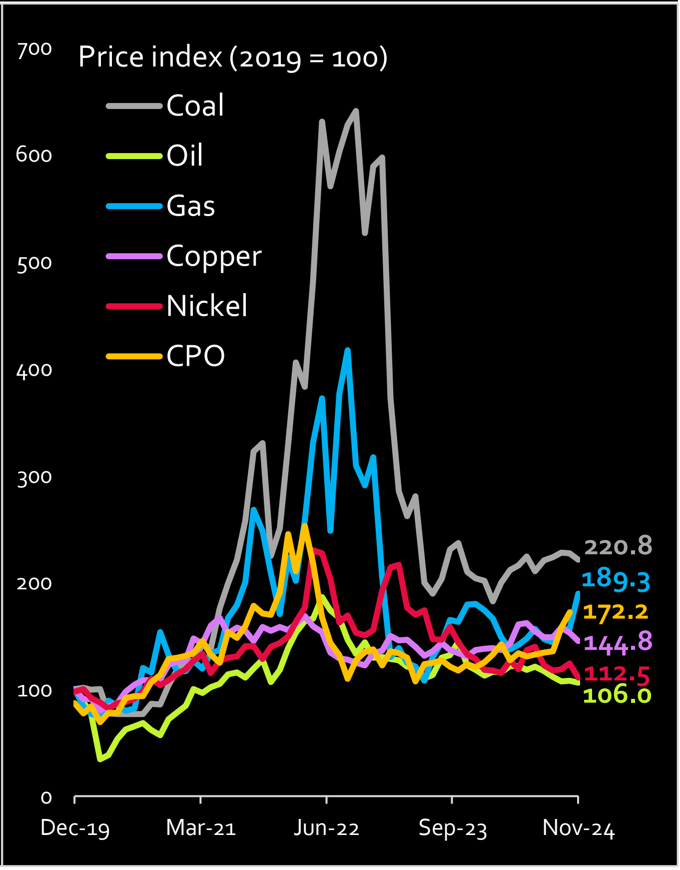
- Against this backdrop, then, the government's decision to pair the bitter medicine (VAT increase from 11% to 12%) with a spoonful of sugar (fiscal stimulus package, mainly for consumers and SMEs/labor-intensive industries) looks eminently reasonable. The compromise will likely reduce the expected improvement in the tax ratio (which we estimated at ~0.3% of GDP), but it should also guard against the potential decline in consumption growth (which could slow to 4.5% YoY without the offsetting stimuli).

- With regards to trade, December may well be the last "normal" month before Trump takes office and throw global supply chains into disarray—but Indonesia may still enjoy a good run while it lasts. Favorable terms of trade and rising Chinese demand still provides decent buffer, meaning that the current account deficit for 2024 is unlikely to exceed 0.7% of GDP.

- The problem, of course, lies in the financial account rather than the current account. While Trump trade has died down in late November, fear regarding rate outlook continues to flare up especially ahead of central bank meetings this week. Overall, given the global uncertainty and the massive liquidity needs to finance the Prabowo government's new programs, the fundamental trade-off between growth and the Rupiah's stability will remain inescapable in 2025.

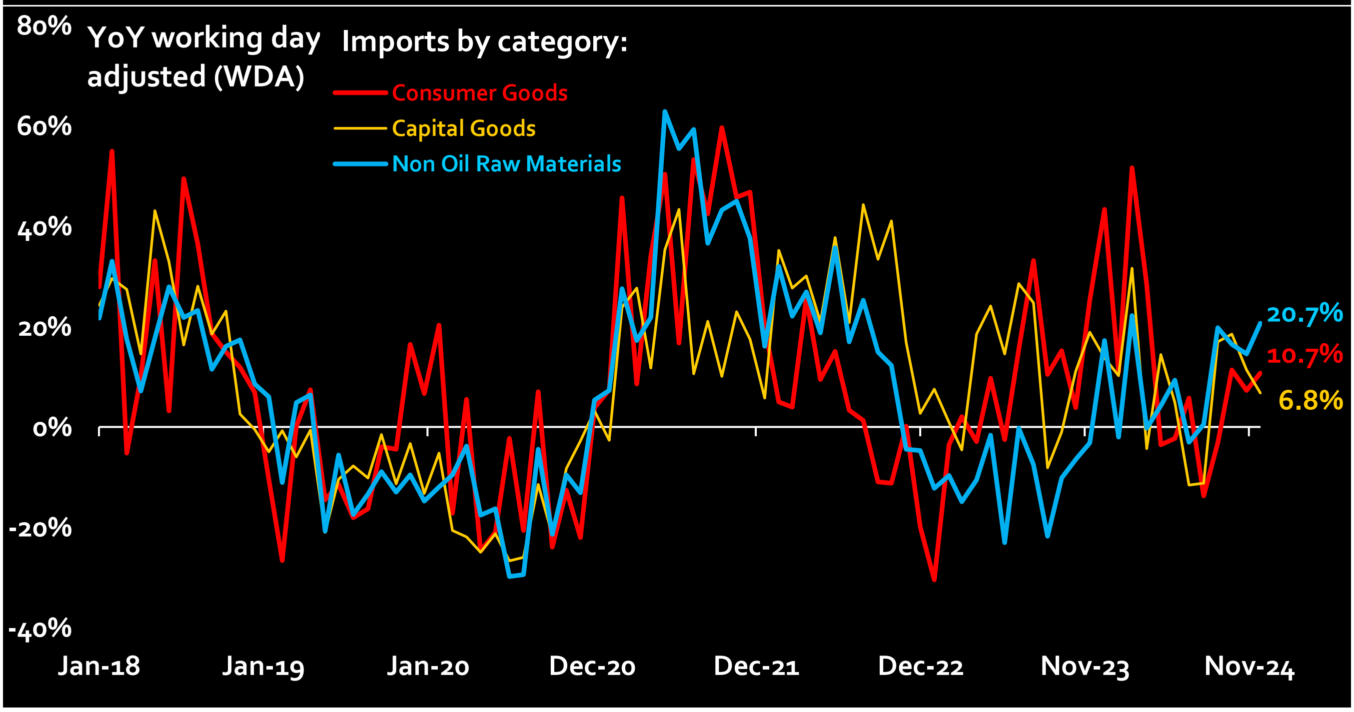
Panel 1. **Indonesia's trade surplus expanded in Nov-24, due to a steeper decline in imports compared to exports**





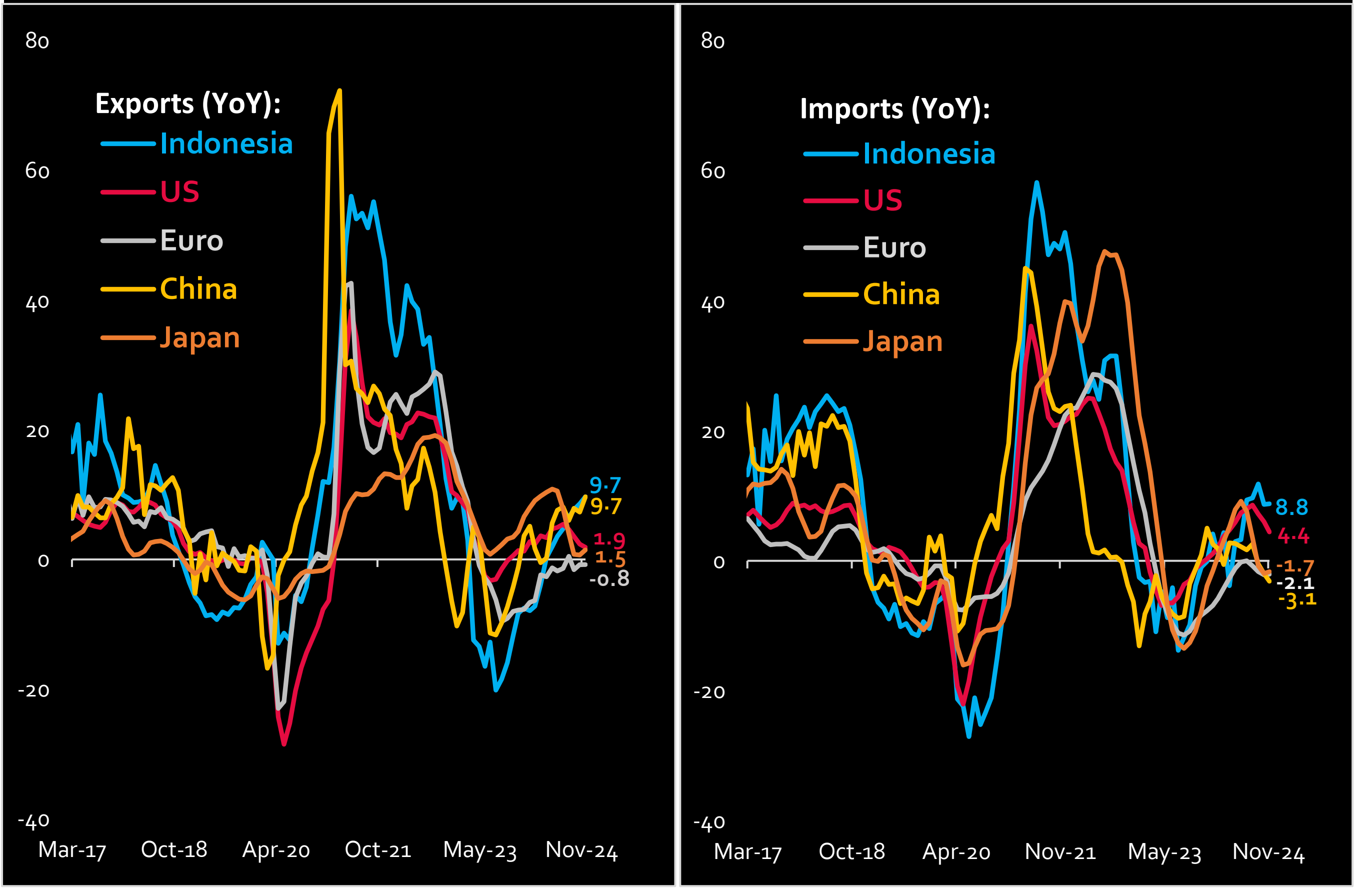
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. **Capital goods declined the most in November, giving indication of a declining CAPEX cycle**



Source: BPS, BCA Economist

Panel 3. **Indonesian exports and imports grow relatively strongly compared to other nations**



Source: Bloomberg

Panel 4. **Chinese manufacturing starts expanding again due to frontloaded demand ahead of potential Trump tariffs**

PMI Manufaktur	2023		2024										
PMI	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Indonesia	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	49.2	49.6
Malaysia	47.9	47.9	49.0	49.5	48.4	49.0	50.2	49.9	49.7	49.7	49.5	49.5	49.2
Thailand	47.6	45.1	46.7	45.3	49.1	48.6	50.3	51.7	52.8	52.0	50.4	50.0	50.2
Philippines	52.7	51.5	50.9	51.0	50.9	52.2	51.9	51.3	51.2	51.2	53.7	52.9	53.8
Vietnam	47.3	48.9	50.3	50.4	49.9	50.3	50.3	54.7	54.7	52.4	47.3	51.2	50.8
India	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5
Australia	47.7	47.6	50.1	47.8	47.3	49.6	49.7	47.2	47.5	48.5	46.7	47.3	49.4
China	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3
South Korea	50.0	49.9	51.2	50.7	49.8	49.4	51.6	52.0	51.4	51.9	48.3	48.3	50.6
Japan	48.3	47.9	48.0	47.2	48.2	49.6	50.4	50.0	49.1	49.8	49.7	49.2	49.0
Euro Area	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45.0	46.0	45.2
US	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5	48.4
Mexico	52.5	52.0	50.2	52.3	52.2	51.0	51.2	51.1	49.6	48.5	47.3	48.4	49.9

Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.75	Nov-24	2.05
UK	4.75	Nov-24	2.45
EU	3.15	Dec-24	0.85
Japan	0.25	Jul-24	-2.40
China (lending)	2.00	Sep-24	4.15
Korea	3.00	Nov-24	1.50
India	6.50	Feb-23	1.02
Indonesia	6.00	Sep-24	4.45

Money Mkt Rates	16-Dec	-1 mth	Chg (bps)
SPN (1Y)	6.77	6.69	7.9
SUN (10Y)	7.04	6.90	14.1
INDONIA (O/N, Rp)	6.15	6.07	7.8
JIBOR 1M (Rp)	6.63	6.63	0.0

Bank Rates (Rp)	Sep	Aug	Chg (bps)
Lending (WC)	8.87	8.78	8.91
Deposit 1M	4.81	4.79	2.01
Savings	0.67	0.65	1.33

Currency/USD	16-Dec	-1 mth	Chg (%)
UK Pound	0.788	0.793	0.52
Euro	0.951	0.949	-0.27
Japanese Yen	154.2	154.3	0.10
Chinese RMB	7.284	7.229	-0.75
Indonesia Rupiah	16,000	15,855	-0.91

Capital Mkt	16-Dec	-1 mth	Chg (%)
JCI	7,258.6	7,161.3	1.36
DJIA	43,717.5	43,445.0	0.63
FTSE	8,262.1	8,063.6	2.46
Nikkei 225	39,457.5	38,642.9	2.11
Hang Seng	19,795.5	19,426.3	1.90

Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)
Stock	3,402.4	3,573.9	-171.49
Govt. Bond	872.5	885.6	-13.07
Corp. Bond	7.1	6.9	0.23

Trade & Commodities	16-Dec	-1 mth	Chg (%)
Baltic Dry Index	1,071.0	1,785.0	-40.0
S&P GSCI Index	543.1	527.2	3.0
Oil (Brent, $/brl)	73.9	71.0	4.0
Coal ($/MT)	128.8	144.6	-11.0
Gas ($/MMBtu)	2.88	1.65	74.5
Gold ($/oz.)	2,652.7	2,563.3	3.5
Copper ($/MT)	8,942.5	8,881.9	0.7
Nickel ($/MT)	15,474.5	15,292.0	1.2
CPO ($/MT)	1,136.0	1,139.1	-0.3
Rubber ($/kg)	2.01	1.92	4.7

External Sector	Nov	Oct	Chg (%)
Export ($ bn)	24.01	24.41	-1.66
Import ($ bn)	19.59	21.94	-10.72
Trade bal. ($ bn)	4.42	2.48	78.56
Central bank reserves ($ bn)*	150.2	151.2	-0.66

Prompt Indicators	Nov	Oct	Sep
Consumer confidence index (CCI)	125.9	121.1	123.5
Car sales (%YoY)	-11.9	-3.9	-9.1
Motorcycle sales (%YoY)	-10.3	5.4	3.7

Manufacturing PMI	Nov	Oct	Chg (bps)
USA	49.7	48.5	120
Eurozone	45.2	46.0	-80
Japan	49.0	49.2	-20
China	51.5	50.3	120
Korea	50.6	48.3	230
Indonesia	49.6	49.2	40

Source: Bloomberg, BI, BPS
Notes:
*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

	2020	2021	2022	2023	2024E	2025E
Gross Domestic Product (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.9
GDP per Capita (US$)	3912	4350	4784	4920	4945	4980
Consumer Price Index Inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.5
BI 7-day Repo Rate (%)	3.75	3.50	5.50	6.00	5.75	5.00
USD/IDR Exchange Rate (end of year)**	14,050	14,262	15,568	15,397	15,947	16,393
Trade Balance (US$ billion)	21.7	35.3	54.5	37.0	31.4	26.2
Current Account Balance (% GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.9

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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