

Indonesia Economics

Export Slump Narrows in Sep While Retail Sales Ease; BI to Hold

Trade Slump Narrows in September, But 3Q Current Account Likely to Remain in Deficit

The decline in exports narrowed slightly in September, due to more supportive base effects. Exports fell -16.2% from a year ago (vs. -21.2% in Aug), driven by a smaller fall in non-oil & gas (-17.7% vs. -21.3% in Aug) and higher oil & gas shipments (+11.6% vs. -20.7% in Aug). In month-on-month terms, exports declined by -5.6%, reversing the previous month's +5.4% increase.

The fall in export volumes has been significantly smaller than values, with real exports declining by -3.6% from a year ago in Aug compared to -21.2% in nominal terms. Over Jan to Aug, real exports rose +9.4% YoY, a stark contrast from the -11.8% plunge in export values.

Import values (-12.5% vs. -14.8% in Aug) also fell at a slower pace, as oil & gas imports (-2.8% vs. -28.1% in Aug) declined by the least since Jan. Non-oil & gas imports fell by a deeper -14.5% (vs. -12.1% in Aug).

The trade surplus widened to \$3.4bn, a 3-month high. Nonetheless, the current account will likely remain in a deficit in 3Q, given that the trade surplus (\$7.8bn) has come in at a similar level to the second quarter, and significantly weaker than in 2022. In addition, the import bill has been pushed up by higher oil prices in recent months.

Supply Constraints May Hit Coal Exports in Coming Months

Coal and palm oil exports remained the largest drags, as prices remain weaker than a year ago. Coal exports fell -45.9% YoY, their deepest monthly decline year-to-date. In month-on-month terms, exports declined -5.3%, in line with the -4.9% fall in China's overall coal import volume. Demand from China remains robust ahead of the winter peak season, as mine safety inspections tightened China's domestic supply.

Nonetheless, production constraints likely led to this month's export decline and may weigh on exports in the remaining months. Some miners have hit their initial production quota based on estimates submitted to authorities at the start of the year, and require approval to raise production. Approval of revised production plans is usually granted by this time of year, but has reportedly been suspended for rest of the year (see [S&P article](#)).

Palm oil exports fell -23.5% from a year ago in Sep (vs. -34.5% in Aug), but plunged -20.5% MoM to a 4-month low. This was likely due to lower demand from India, whose overall palm oil import volume fell -26% from the previous month. Elevated inventories due to over-ordering in Jul and Aug prompted refiners to curtail purchases.

Exports of metals were broadly higher, including iron & steel (+8.7% vs. -1.1% in Aug), nickel (+3.1% vs. -18.4% in Aug) and copper (+31.2% vs. -25.6% in Aug).

Non-oil & gas shipments to all major markets remained in the red, although narrower declines were seen in India (-14.1% vs. -25.4% in Aug), the US (-13.1% vs. -17.7% in Aug) and Malaysia (-29.9% vs. -32.6% in Aug).

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Capital Goods Imports Fell for Second Month, Suggesting That Investment May Be Weakening

September capital goods imports (-10%) contracted for the second consecutive month and plunged -12.3% from the previous month, suggesting that investment may be weakening. Broad contractions were observed across machinery, electric & electronic equipment (-11.9%), machinery & mechanical appliances (-6.1%) and electrical machinery & equipment (-19%).

Raw material imports fell by -14.8% from a year ago (vs. -20.4% in Aug). Consumer goods imports saw lower growth of +4.7% (vs. +15.5% in Aug), a three month low.

Retail Sales and Consumer Confidence Remain Muted

Real retail sales growth (+1%) remained muted in September, cooling from its +1.1% growth in August. On a month-on-month basis, retail sales fell -1.9% (vs. +0.4% in Aug). Motor vehicle sales (-20.1%) fell for a third consecutive month in Sep, while declining -10.7% in MoM SA terms.

The consumer confidence index (121.7 vs. 125.2 in Aug) hit a 9-month low, although seasonally effects could be responsible for this weakness. Consumer confidence usually improves in the fourth quarter.

Maintain Growth Forecasts; BI to Hold This Week

We maintain our GDP growth forecast at +5% in 2023 and +5.2% in 2024. Coal mining constraints will likely weigh on exports throughout the fourth quarter. Coal shipments made up a hefty 18% of nominal exports last year. Slowing retail sales and capital goods imports suggest that domestic demand cooled in the third quarter. Nonetheless, retail sales growth may strengthen in 4Q with the approaching year-end holidays and start of election campaigning in end-Nov.

We expect BI to keep its policy rate unchanged at its peak of 5.75% in this Thursday's meeting. Governor Perry Warjiyo signalled in early October that the policy rate would need to be on hold "for a while" to protect the rupiah from global market volatility. We expect BI's first rate cut in the first half of 2024, but the timing remains subject to uncertainty about external conditions. Governor Perry said in the Bloomberg interview that BI will monitor the Fed's policy stance, strength of the dollar and movement of US treasury yields when assessing its next policy move¹.

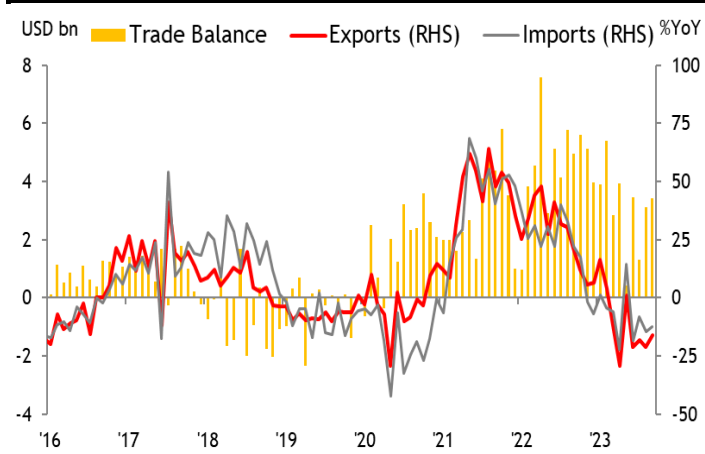
¹ Bloomberg, "Indonesia Set for Rate Pause as Warjiyo Preaches Patience", 6 Oct 2023. October 16, 2023

Table 1: External Trade by Category

	Unit	2021	2022	1Q23	2Q23	3Q23	Jul-23	Aug-23	Sep-23
Exports	%YoY	41.9	26.0	1.4	-17.8	-18.6	-18.1	-21.2	-16.2
Oil & Gas	%YoY	48.8	29.5	21.6	-14.6	-6.1	-4.7	-20.7	11.6
Non-Oil & Gas	%YoY	41.5	25.9	0.4	-18.1	-19.3	-18.8	-21.3	-17.7
Imports	%YoY	38.6	21.0	-3.3	-9.4	-11.9	-8.3	-14.8	-12.5
Oil & Gas	%YoY	79.1	58.3	-3.4	-23.3	-21.2	-29.7	-28.1	-2.8
Non-Oil & Gas	%YoY	34.0	15.5	-3.2	-6.3	-9.8	-2.7	-12.1	-14.5
Trade Balance	USD mn	35,332	54,487	12,111	7,815	7,828	1,292	3,118	3,418
Import by Category									
Consumer Goods	%YoY	38.6	-1.7	2.7	2.9	15.8	26.9	15.5	4.7
Raw Materials	%YoY	42.7	23.0	-6.6	-15.4	-17.4	-16.7	-20.4	-14.8
Capital Goods	%YoY	20.8	27.0	10.5	17.7	0.9	18.9	-4.0	-10.0

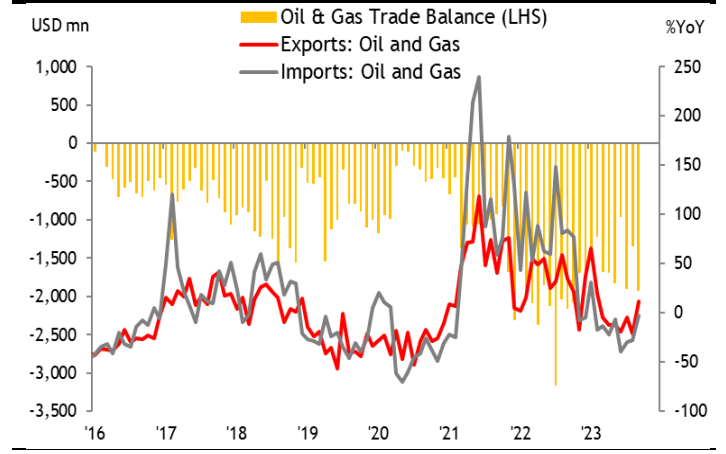
Source: CEIC

Fig 1: Exports (-16.2%) Contraction Narrowed in Sep, Trade Surplus Widened to 3-Month High at US\$3.4bn



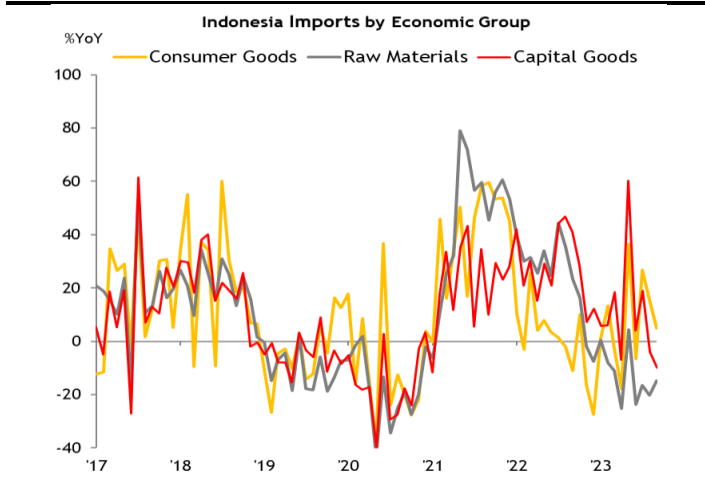
Source: CEIC

Fig 2: Oil & Gas Trade Deficit Widened to 11-Month High in Sep With Rising Global Oil Prices



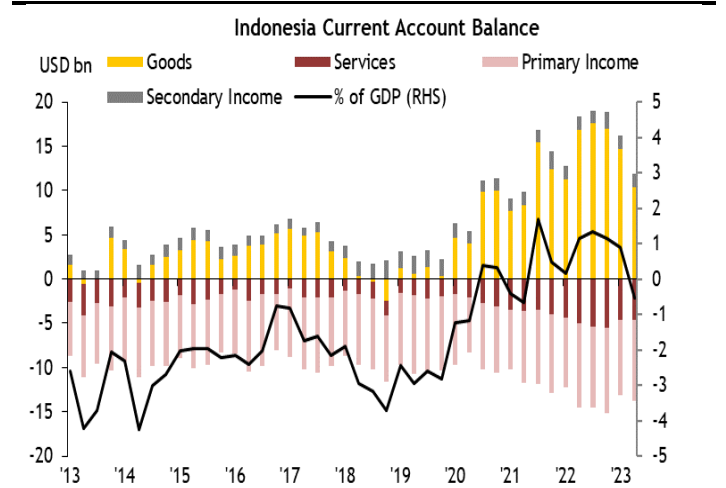
Source: CEIC

Fig 3: Capital Goods Imports Fell for Second Month in Sep While Consumer Goods Imports Grew at Slower Pace



Source: CEIC

Fig 4: Current Account Fell into Deficit (-0.5% of GDP) in 2Q23 Due to Smaller Goods Surplus



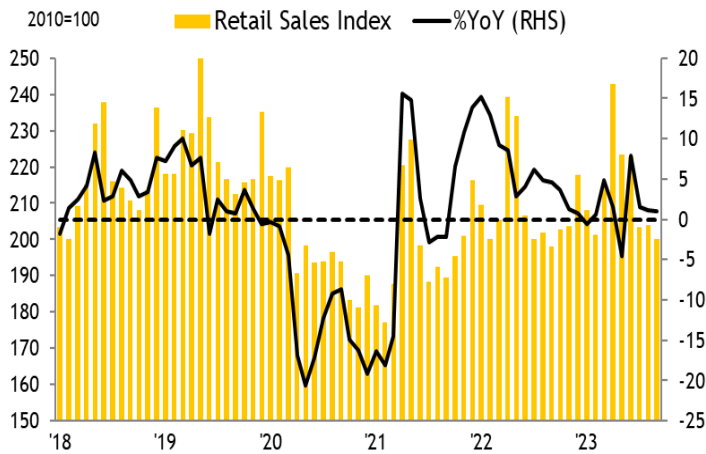
Source: CEIC

Table 2: Exports by Categories (%YoY)

	% of total exports (2022)	2022	1Q23	2Q23	3Q23	Jun-23	Jul-23	Aug-23	Sep-23
Exports: Mineral Fuels Excluding Oil & Gas Products	18.8%	69.8	44.2	-26.7	-44.2	-34.5	-42.8	-43.9	-45.9
Exports: Animal or Vegetable Oils/Fats and Cleavage Products	12.1%	7.2	-11.1	-11.2	-28.0	-18.8	-23.6	-34.5	-23.5
Exports: Iron and Steel	9.5%	32.8	-1.5	-18.6	6.1	-2.7	11.7	-1.1	8.7
Exports: Ores, Slag, and Ash	3.5%	62.2	-32.3	-31.4	-13.5	-48.3	-59.1	39.8	-17.5
Exports: Nickel and Articles Thereof	2.0%	365.4	101.6	4.8	-1.9	-33.6	12.6	-18.4	3.1
Exports: Natural and Cultured Pearls, Precious/Semi Stones&Precious	2.2%	16.4	1.1	14.8	16.5	-7.0	9.7	4.6	36.4
Exports: Footwear, Gaiters and the Like; Parts of Such Articles	2.7%	25.6	-17.6	-19.7	-24.0	-25.7	-19.8	-18.3	-34.1
Exports: Article of Apparel & Cloth Accessory, Knitted or Crocheted	1.6%	7.6	-30.8	-28.8	-2.9	-20.7	-18.9	19.0	-11.3
Exports: Copper and Articles Thereof	1.0%	-8.4	-24.9	-40.9	-13.5	-41.5	-35.0	-25.6	31.2
Exports: Aluminium and Articles Thereof	0.3%	13.4	-31.0	-52.4	7.7	-37.8	-12.5	-17.5	51.0

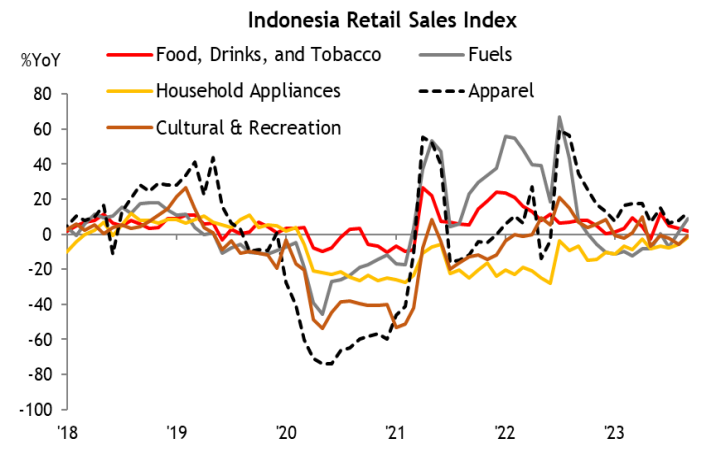
Source: CEIC

Fig 5: Retail Sales Growth (1.0%) Eased to 4-month Low in September



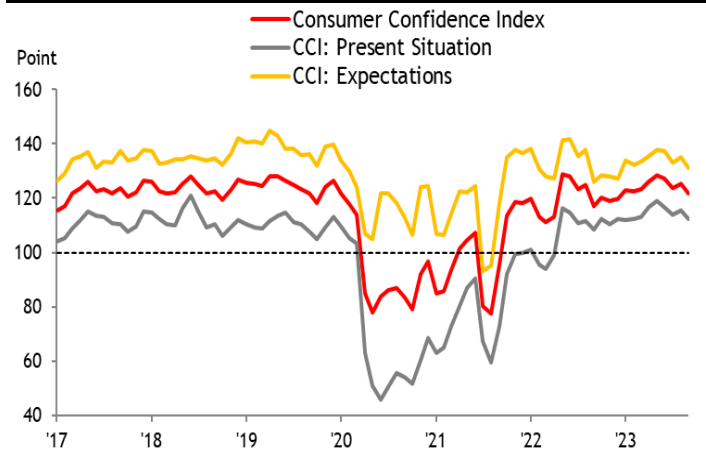
Source: CEIC

Fig 6: Softer Retail Sales Growth Mainly Driven by the Ease in Food, Drinks and Tobacco Sales, Which Offset Surge in Fuel



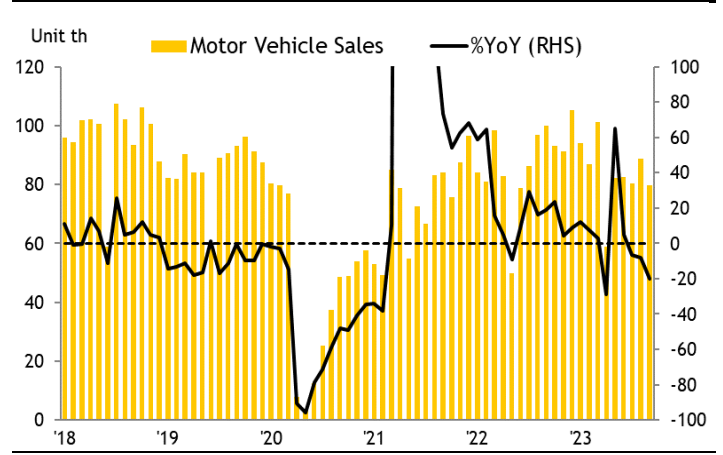
Source: CEIC

Fig 7: Consumer Confidence Index (121.7) Fell to Lowest Level in 2023, But Could Be Influenced by Seasonal Effects



Source: CEIC

Fig 8: Motor Vehicle Sales Plunged -20.1% in September



Source: CEIC

Table 3: Retail Sales Index by Category (%YoY)

	<u>2022</u>	<u>1Q23</u>	<u>2Q23</u>	<u>3Q23</u>	<u>Jun-23</u>	<u>Jul-23</u>	<u>Aug-23</u>	<u>Sep-23</u>
Retail Sales Index	6.0	1.6	1.4	1.2	7.9	1.6	1.1	1.0
Car Spare Parts & Accessories	1.6	-7.5	-3.8	2.3	-5.2	-2.8	-0.9	11.9
Food, Drinks, and Tobacco	10.2	4.8	4.3	3.4	12.0	4.8	3.4	2.0
Fuels	26.0	-11.2	-5.7	0.5	0.2	-7.2	1.4	8.8
Stationery & Communication	-14.9	-13.6	-22.0	-17.6	-16.3	-17.6	-17.2	-18.1
Household Appliances	-16.8	-9.1	-6.1	-5.2	-6.9	-7.7	-6.0	-1.8
Cultural & Recreation	5.8	-0.6	0.5	-3.0	-0.9	-2.4	-5.8	-0.9
Other Goods	3.8	0.5	0.8	-1.9	1.8	-6.3	-1.6	2.8
Other Goods: Apparel	16.7	13.6	13.5	9.0	15.0	6.6	8.1	12.4

Source: CEIC

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