

Thursday, 07 February 2019

Strategy

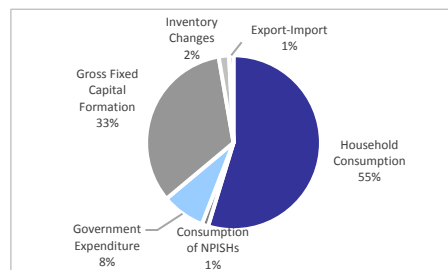
2018 GDP: Highest growth pace since 2013

GDP – quarter y-y



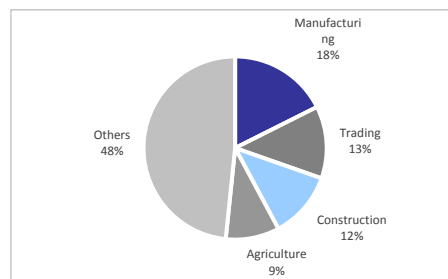
Overall GDP growth in 2018 reached 5.17%, the highest growth pace since 2013, and beating consensus estimates of 5.10%, with GFCF posting the briskest growth at 6.67%, followed by Household consumption (5.05%) and government consumption (4.8%). Household consumption growth has steadily increased to reach the 5% mark in the past 3 quarters and we believe this trend will continue even though GFCF growth is likely to moderate.

GDP breakdown by expenditure – 4Q18



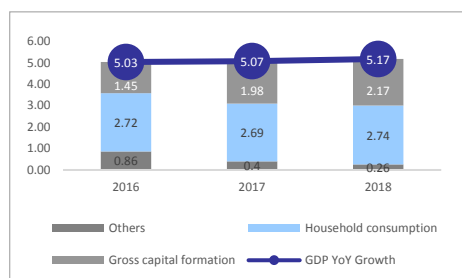
4Q18 GDP growth improved slightly to 5.18% y-y, outpacing 3Q18's 5.17%, mainly underpinned by stronger household consumption growth of 5.05% (3Q: 5.0%), despite moderating growth in both Gross Fixed Capital Formation (GFCF) and Government Consumption. 4Q18 GDP contracted 1.69% q-q, largely due to seasonal factors related to negative growth in the agriculture, forestry and fisheries sectors of -21.4% q-q (based on sector), while based on spending, negative growth was seen in exports (-2.2% q-q).

Growth contributor by sector – 4Q18



2018 GDP growth the highest since 2013. Overall GDP growth in 2018 reached 5.17%, the highest growth pace since 2013, and outpacing consensus estimates of 5.10%. GFCF posted the briskest growth at 6.67% y-y, followed by Household consumption (5.05%) and government consumption (4.8%), while by sector, the Construction, Transportation & Warehouses and Telecommunications sectors were the best performers, registering the highest growth of 6 – 7%. Household consumption still accounts for the largest chunk of Indonesia's GDP at 55.7%, followed by GFCF (32.3%) and Government consumption (9.0%).

Growth contributor by Expenditure – 4Q18



Household consumption is under the spotlight again. Household consumption growth has steadily increased to reach the 5% mark in the past 3 quarters, an encouraging development especially since it has mostly grown below the 5% level in the past 3 years. We believe this trend will continue going forward, especially with continued government populist policies to propel consumption higher. Household consumption remains vital given its sheer contribution toward Indonesia's GDP. As such, positive momentum in this space will have a far-reaching impact on the overall economy, and provide a greater platform for economic stability in the country.

We also believe that GFCF, which has driven growth in recent years, will start to moderate given: 1. Moderation in the Government's infra budget growth to only 1.1% in 2019; 2. The fact that FDI tends to be deterred during the election period and 3. Flat expected capex growth in 2019 vs 37% average annual growth in the past 3 years. Given these factors along with last year's interest rate hikes, growth is expected to moderate slightly to 5.1% in 2019 from 5.17% in 2018.

Constructive view on the equity market maintained. We remain constructive on Indonesia's equity market in 2019 for four main reasons: 1. From a macro perspective, Indonesia is still heading in the right direction, as concerns on the growing CAD are likely to dissipate and subsequently lead to greater IDR stability, the all-important factor to lure foreign inflows; 2. Populist government policies to promote consumption will ultimately help to support economic growth; 3. The elections are likely to create exuberance in the equity market provided they are conducted in a timely and conducive manner, and 4. We expect more stable corporate performance, with upside in the event of IDR strengthening. As such, we maintain our constructive view on Indonesia's equity market with a year-end index target of 6,974.



Helmy Kristanto

(62-21) 2955 5888

helmy.kristanto@danareksa.co.id

Exhibit 1. GDP growth by Expenditure YoY(%)

	2012	2013	2014	2015	2016	#	2017					2018			
							Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	5.49	5.43	5.15	4.96	5.01		4.99	4.94	4.95	4.93	4.97	4.95	5.14	5.00	5.08
Consumption of NPISHs	6.68	8.18	12.19	-0.62	6.64		6.75	8.07	8.52	6.02	5.24	8.09	5.71	8.59	10.79
Government Expenditure	4.53	6.75	1.16	5.31	-0.14		-4.03	2.69	-1.92	3.48	3.81	2.73	5.26	6.27	4.56
Gross Fixed Capital Formation	9.13	5.01	4.45	5.01	4.47		4.79	4.77	5.34	7.08	7.27	7.95	5.87	6.96	6.01
Export	1.61	4.17	1.07	-2.12	-1.57		4.15	8.41	2.80	17.01	8.50	6.17	7.70	8.08	4.33
Less: Import	8.00	1.86	2.12	-6.25	-2.45		2.72	4.81	0.20	15.46	11.81	12.75	15.17	14.02	7.10
GDP	6.03	5.56	5.01	4.88	5.03		4.94	5.01	5.01	5.06	5.19	5.06	5.27	5.17	5.18

Source: Central Agency on Statistics of Indonesia

Exhibit 2. GDP growth by Sector YoY(%)

	2012	2013	2014	2015	2016	2017	2017				2018			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Forestry and fishery	4.59	4.20	4.24	3.75	3.36	3.81	7.15	3.23	2.77	2.24	3.14	4.76	3.66	3.87
Mining	3.02	2.53	0.43	-3.42	0.95	0.69	-1.22	2.12	1.84	0.08	0.74	2.21	2.67	2.25
Manufacturing	5.62	4.37	4.64	4.33	4.26	4.27	4.28	3.50	4.85	4.46	4.50	3.97	4.35	4.25
Electricity and Water	10.06	5.23	5.90	0.90	5.39	1.54	1.60	-2.53	4.88	2.27	3.31	7.56	5.58	5.46
Water treatment and recycle	3.34	3.32	5.24	7.07	3.60	4.61	4.39	3.67	4.82	5.53	3.58	3.94	6.20	7.92
Construction	6.56	6.11	6.97	6.36	5.22	6.79	5.96	6.94	6.98	7.23	7.35	5.73	5.79	5.58
Trade	5.40	4.81	5.18	2.54	4.03	4.44	4.61	3.47	5.20	4.47	4.96	5.24	5.28	4.39
Transportation and storage	7.11	6.97	7.36	6.71	7.45	8.49	8.06	8.80	8.88	8.21	8.59	8.59	5.65	5.34
Accommodation, Food and Beverage	6.64	6.80	5.77	4.31	5.17	5.55	5.27	5.73	5.69	5.49	5.54	5.75	5.91	5.95
Information and communication	12.28	10.39	10.12	9.70	8.88	9.81	10.48	11.06	8.82	8.99	8.69	6.06	8.14	7.17
Financial services	9.54	8.76	4.68	8.58	8.90	5.48	5.99	5.94	6.16	3.85	4.38	3.02	3.14	6.27
Real Estate	7.41	6.54	5.00	4.11	4.69	3.68	3.66	3.73	3.60	3.73	3.23	3.11	3.82	4.24
Services	7.44	7.91	9.81	7.69	7.36	8.44	6.83	8.24	9.37	9.25	8.04	8.89	8.67	8.94
Governance, defense and social security	2.13	2.56	2.38	4.63	3.19	2.06	0.23	-0.03	0.69	6.95	5.78	7.20	7.93	7.13
Education	8.22	7.44	5.47	7.33	3.80	3.66	4.05	0.88	3.62	5.89	4.81	4.94	6.60	4.97
Social and healthcare	7.97	7.96	7.96	6.69	5.15	6.79	7.06	6.32	7.51	6.31	6.05	7.07	7.54	7.80
Other Services	5.76	6.40	8.93	8.08	8.02	8.66	7.90	8.51	9.31	8.87	8.42	9.22	9.90	9.08
GDP	6.03	5.56	5.01	4.88	5.03	5.07	5.01	5.01	5.06	5.19	5.06	5.27	5.17	5.18

Source: Central Agency on Statistics of Indonesia

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