

## Q2 2019 GDP Outlook: Slowdown in Growth

---

### Forecast for Q2 2019

QoQ (%)	4.21 – 4.31
YoY (%)	5.06 – 5.16

---

### Forecast for 2019

GDP (%)	5.05 – 5.15
Inflation (%)	3.00 – 3.35
7D Reverse Repo (%)	5.50 – 5.75

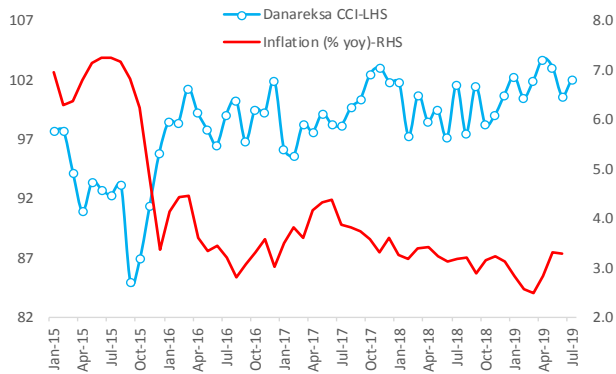
---

- The latest data release indicates that the Indonesian economy will not show a substantial improvement in the second quarter this year. Most of the expenditure components are projected to remain subdued in terms of annual growth. Private consumption, investment, and government expenditure will be the major sources of growth in Q2 2019. Escalating trade disputes and uncertainty have put downward pressure on international trade and demand, meaning that the contribution of growth from exports will be limited.
- Buoyant consumer confidence and buying plans have fuelled household consumption. Benign inflation and stronger consumer optimism have lent support toward consumer purchasing power amid signs of weakening trends in several retail indicators such as retail and automotive sales. YTD retail sales rose at a softer pace of 2.8% compared to 8.3% in 2018. In Q2 2019, motorcycle sales rose only by 3.7% yoy (vs. +18.9% yoy in Q2 2018), while car sales contracted by -12.9% yoy (vs +5.0% yoy growth in Q2 2018). On a positive note, holiday allowance payments, social assistance and spending related to the general elections should prevent consumer spending from contracting. Hence, we predict that private consumption will expand by 4.9-5.1% yoy in Q2 2019.
- The implementation of business plans and investment realization normally see a significant improvement in the second quarter each year. Firmer capital spending can be tracked to changes in the demand for investment credit and imports of capital goods. The average 3M investment credit growth accelerated by 15.0% yoy from 13.5% yoy in the previous quarter. In the same period, the cumulative imports of capital goods, however, contracted by -8.7% yoy from -4.6% yoy. Since these indicators provide mixed signals, we foresee that investment will expand by 5.9-6.0% yoy in Q2 2019.
- As of June 2019, government spending reached IDR 1,034.5 trn (42.0 percent of the state budget). In terms of central government realization, expenditure growth on personnel, materials, and social assistance increased to 22.8% yoy, 14.5% yoy and 23.2% yoy, respectively in the second quarter of 2019. As such, government spending should give more traction to domestic consumption. Against this backdrop, we project government expenditure to grow by 7.7-7.8% yoy in Q2 2019.
- Escalating trade tensions and soft global trade have affected Indonesia's foreign trade performance. Weak demand coupled with lower prices of major export commodities, suppressed Indonesia's exports value. In turn, weaker domestic demand reduced imports. Exports and imports were still down in the second quarter by -9.2% yoy and -7.8% yoy, respectively. As such, we expect exports to contract by -4.2% to -4.3% yoy in Q2 2019, with imports fell by -5.8% to -5.9% yoy.
- Given this backdrop, we project Q2 2019 GDP growth at around 5.06-5.16% yoy. Going forward, if BI's easing monetary policy stance is maintained and the government successfully ramps up expenditures, then economic growth may potentially surprise on the upside.

**Moekti P. Soejachmoen, PhD**  
 Head of Economic Research  
 (62-21) 29555777/888 ext 3600  
 moekti.prasetiani@danareksa.co.id

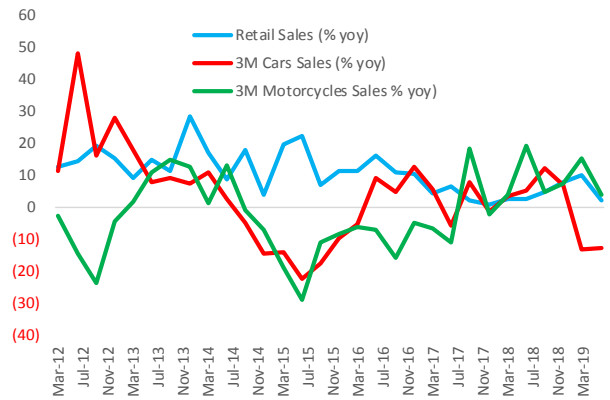
**Handri Thiono**  
 Research Specialist  
 (62-21) 29555777/888 ext 3606  
 handrit@danareksa.co.id

Graph 1. Benign Inflation Fuelled Consumer Optimism



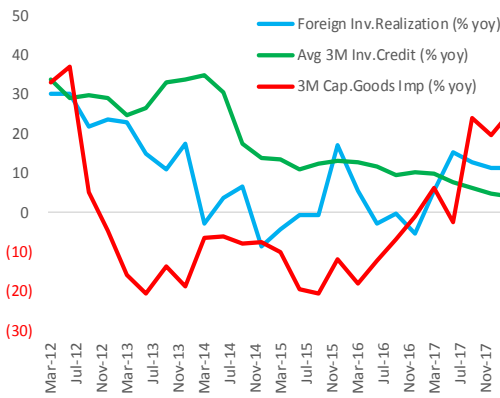
Source: CEIC, Danareksa Research Institute

Graph 2. Slowing Retail Spending



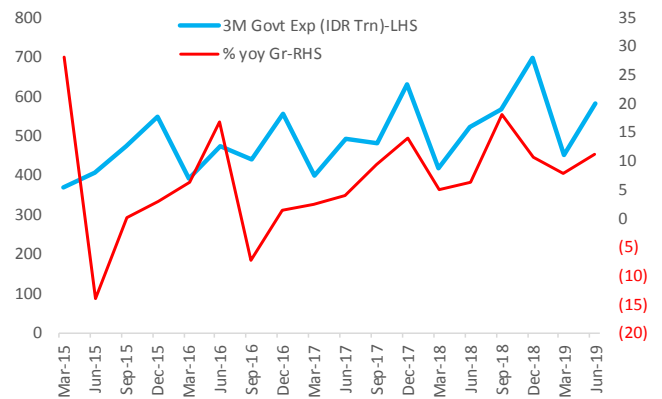
Source: CEIC

Graph 3. Rebound Investment



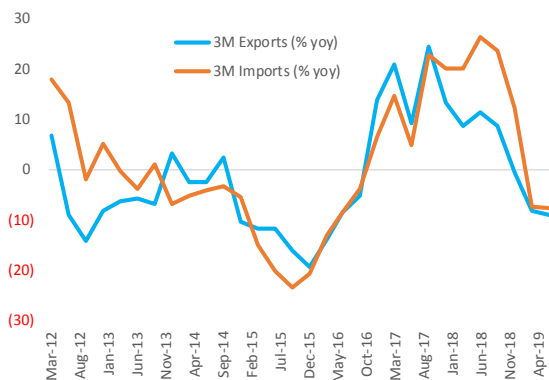
Source: CEIC

Graph 4. More Traction from Government Spending



Source: CEIC

Graph 5. Exports and Imports Remain Contracted



Source: CEIC

**RESEARCH TEAM**

Moekti P. Soejachmoen, PhD  
Head of Economic Research  
moekti.prasetiani@danareksa.co.id

Handri Thiono  
Research Specialist  
handrit@danareksa.co.id

Darwin Sitorus  
Research Specialist  
darwin@danareksa.co.id

Martin Jenkins  
Editor  
martin@danareksa.co.id

Sella F. Anindita  
Research Specialist  
sella.anindita@danareksa.co.id

**Danareksa Research Institute**

Danareksa Building  
Jl. Medan Merdeka Selatan 14  
Jakarta, 10110  
INDONESIA  
Tel : (62-21) 29555 777 / 888 (hunting)  
Fax : (62 21) 3501709

---

All rights reserved. No part of this publication may be reproduced, stored in retrieval systems, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Danareksa Research Institute.

---

**DISCLAIMER**

The information contained in this report has been taken from sources which we deem reliable. However, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue hereof. We have no responsibility to update this report in respect of events and circumstances occurring after the date of this report. We expressly disclaim any responsibility or liability (express or implied) of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, actions, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in this report and any liability in respect of this report or any inaccuracy herein or omission herefrom which might otherwise arise is hereby expressly disclaimed. Accordingly, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement or omission in any information contained in this report. This report is prepared for general circulation. It does not have regard to the specific person who may receive this