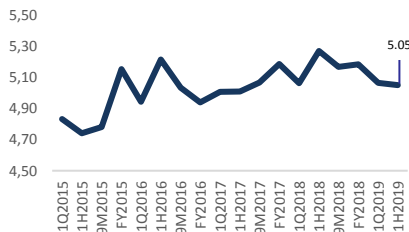


Tuesday, 06 August 2019

## Strategy

### Continuation of the Trend

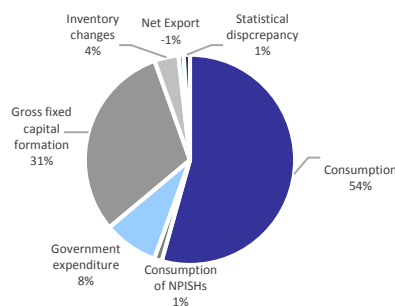
#### GDP – quarter y-y



Source: Central Agency on Statistics of Indonesia

The GDP growth pace reached 5.05% in 2Q19 (slightly lower than in 1Q19) and we note a continuation in the trend in which domestic household spending growth improves whereas investment growth moderates. The brisker household spending growth was underpinned by the extra month's salary payment (THR), spending related to the general elections, as well as social welfare related spending by the government. As for investment growth, it has moderated in line with modest capital spending in 1H19. Going forward, however, we foresee a sequential improvement in investment growth, while consumption growth will likely moderate.

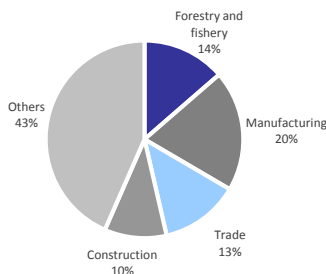
#### GDP breakdown by expenditure – 1H19



Source: Central Agency on Statistics of Indonesia

**Household consumption improved on seasonal factors.** GDP growth in 2Q19 reached 5.05% vs 1Q19's 5.07%, inline with expectations, with the latest data release indicating no substantial improvements. Developments in 2Q19 still depict a continuation in the current trend, i.e. further improvements in household consumption but moderating GFCF. Household consumption grew by 5.17% underpinned by 3 factors: 1. The disbursement of THR, 2. Election related spending and 3. Strong social assistance spending by the government in 1H19 which reached IDR70.5tn or 73% of the full year target. On a sequential basis, household consumption grew 1.73% q-q, the highest growth this year. [\(More details on our economist's report Q2 2019 Economic Developments: Softer Growth\)](#)

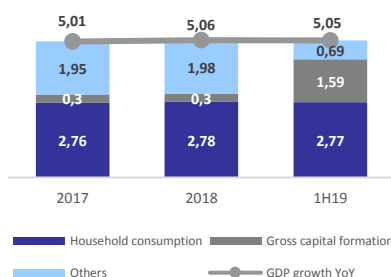
#### Growth contributor by sector – 1H19



Source: Central Agency on Statistics of Indonesia

**Further moderation in GFCF.** Capital spending was subdued in 1H19, with infra spending down 14.9% y-y and the overall spending only reaching 18% of the full year target, adversely affected by the election period, we believe. This, coupled with overall less capex spending so far this year, slowed down the GFCF growth to 5.01% in 2Q19 (vs 1Q19: 5.03% and 2Q18: 5.9%). With the conclusion of the presidential elections, however, we expect capital spending to catch up in 2H19, thus auguring well for GFCF growth prospects. The biggest spectre in this space would be global economic growth uncertainty on the escalation of trade wars, which would potentially hamper the investment process cycle and further depress GFCF growth to below 5%.

#### Growth contributor by Expenditure – 1H19



Source: Central Agency on Statistics of Indonesia

**2H19: investment to support growth.** We foresee a twist in the growth contribution picture in 2H19 whereby the growth trajectory of household consumption will moderate, especially from lower expected spending on subsidies and social assistance. By contrast, higher capital spending by the government coupled with further improvements in direct investment realisation in 2H19 may lift GFCF growth.

**Increasingly important domestic factors.** Despite lingering concerns on the escalation of trade wars and the recent Yuan depreciation, we believe that domestic factors will play a greater role in affecting investor confidence. In this regard, we expect 3 main macro developments to be crucial over the medium term: 1. Continuation of stable BoP in surplus territory despite a widening CAD, as higher forex reserves will ultimately reduce IDR volatility. 2. Realisation of BI further accommodative policies from monetary operations, minimum reserves reductions, as well as rate cuts, in an effort to propel economic growth. Although the recent spike in currency volatility might limit the use of rate cut in the ST; and 3. Such accommodative policy would be expected to lay stronger foundations for growth, which, in turn, would further improve Indonesia's attractiveness for investment. This would lead to potential IDR appreciation on more inflows.



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**Exhibit 1. GDP growth by Expenditure YoY(%)**

	2012	2013	2014	2015	2016	2017	2018				2019	
							Q1	Q2	Q3	Q4	Q1	Q2
Household Consumption	5.49	5.43	5.15	4.96	5.01	4.95	4.95	5.14	5.01	5.08	5.02	5.17
Consumption of NPISHs	6.68	8.18	12.19	-0.62	6.64	6.91	8.09	8.77	8.54	10.79	16.95	15.27
Government Expenditure	4.53	6.75	1.16	5.31	-0.14	2.14	2.73	5.26	6.28	4.56	5.21	8.23
Gross Fixed Capital Formation	9.13	5.01	4.45	5.01	4.47	6.15	7.95	5.87	6.96	6.01	5.03	5.01
Export	1.61	4.17	1.07	-2.12	-1.57	9.09	6.17	7.70	7.52	4.33	-1.86	-1.81
Less: Import	8.00	1.86	2.12	-6.25	-2.45	8.06	12.75	15.17	14.06	7.10	-7.36	-6.73
<b>GDP</b>	<b>6.03</b>	<b>5.56</b>	<b>5.01</b>	<b>4.88</b>	<b>5.03</b>	<b>5.07</b>	<b>5.06</b>	<b>5.27</b>	<b>5.17</b>	<b>5.18</b>	<b>5.07</b>	<b>5.05</b>

Source: Central Agency on Statistics of Indonesia

**Exhibit 2. GDP growth by Sector YoY(%)**

	2012	2013	2014	2015	2016	2017	2018				2019	
							Q1	Q2	Q3	Q4	Q1	Q2
Forestry and fishery	4.59	4.20	4.24	3.75	3.37	3.87	3.34	4.72	3.66	3.87	1.82	5.33
Mining	3.02	2.53	0.43	-3.42	0.95	0.66	1.06	2.65	2.67	2.25	2.32	-0.71
Manufacturing	5.62	4.37	4.64	4.33	4.26	4.29	4.60	3.88	4.35	4.25	3.86	3.54
Electricity and Water	10.06	5.23	5.90	0.90	5.39	1.54	3.31	7.56	5.58	5.46	4.12	2.20
Water treatment and recycle	3.34	3.32	5.24	7.07	3.60	4.60	3.65	3.94	6.20	7.92	8.95	8.35
Construction	6.56	6.11	6.97	6.36	5.22	6.80	7.35	5.73	5.79	5.58	5.91	5.69
Trade	5.40	4.81	5.18	2.54	4.03	4.46	4.99	5.22	5.28	4.39	5.27	4.63
Transportation and storage	7.11	6.97	7.36	6.71	7.45	8.49	8.56	8.70	5.65	5.34	5.25	5.78
Accommodation, Food and Beverage	6.64	6.80	5.77	4.31	5.17	5.39	5.17	5.60	5.91	5.95	5.87	5.52
Information and communication	12.28	10.39	10.12	9.70	8.88	9.63	7.76	5.11	8.14	7.17	9.06	9.60
Financial services	9.54	8.76	4.68	8.58	8.93	5.47	4.23	3.06	3.14	6.27	7.32	4.55
Real Estate	7.41	6.54	5.00	4.11	4.69	3.66	3.19	3.07	3.82	4.24	5.46	5.74
Services	7.44	7.91	9.81	7.69	7.36	8.44	8.04	8.89	8.67	8.94	10.36	9.94
Governance, defense and social security	2.13	2.56	2.38	4.63	3.20	2.06	5.79	7.20	7.93	7.13	6.50	8.82
Education	8.22	7.44	5.47	7.33	3.84	3.70	4.84	5.04	6.60	4.97	5.60	6.29
Social and healthcare	7.97	7.96	7.96	6.69	5.16	6.84	6.06	7.07	7.54	7.80	8.59	9.09
Other Services	5.76	6.40	8.93	8.08	8.01	8.73	8.43	9.22	9.19	9.08	9.99	10.73
<b>GDP</b>	<b>6.03</b>	<b>5.56</b>	<b>5.01</b>	<b>4.88</b>	<b>5.03</b>	<b>5.07</b>	<b>5.06</b>	<b>5.27</b>	<b>5.17</b>	<b>5.18</b>	<b>5.07</b>	<b>5.05</b>

Source: Central Agency on Statistics of Indonesia

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