

Indonesia

Economics Update

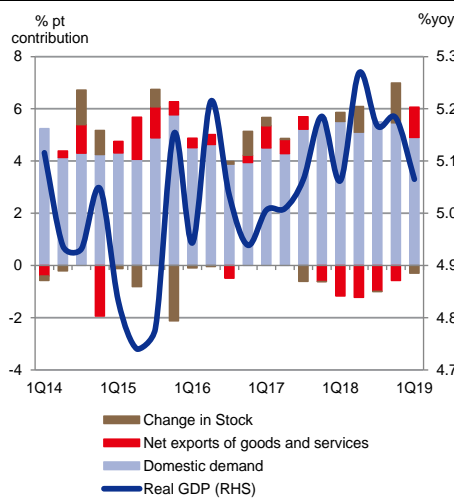
1Q19 GDP growth

GDP forecast

	Actual	Forecast	
	1Q19	CGS-CIMB	Cons.*
Real GDP (%yoy)	5.1	5.2	5.2

*Bloomberg median consensus

Domestic demand expansion eased on slowing investment activity



- 1Q19 real GDP growth came in slightly below expectation at 5.1% yoy on slowing investment activity and the drag from inventory contribution.
- We raise our 2019 GDP growth forecast by 0.1% pt to 5.2% to account for stronger domestic demand.

Weaker-than-expected expansion at 5.1% yoy

1Q19 real GDP growth of 5.1% yoy slightly disappointed compared to our and market expectations of 5.2% yoy (+5.2% yoy in 4Q18). The key reason for the deviation from our forecast was a smaller-than-expected recovery in net export contribution (+1.2% pts in 1Q19 vs. -0.6% pt in 4Q18), which was offset by falling inventory (-0.3% pt in 1Q19 vs. +1.5% pts in 4Q18). Domestic demand growth eased to 5.2% yoy (+5.4% yoy in 4Q18) as investment activity lagged behind consumption.

Snag in capital outlays...

Investment growth eased to a two-year low of 5.0% yoy in 1Q19 (+6.0% yoy in 4Q18), weighed down by high base effects in machineries, vehicles and other equipment. Firms may have taken a wait-and-see approach ahead of the election. Ongoing infrastructure projects lifted spending in building and structures (+5.5% yoy in 1Q19 vs. +5.0% yoy in 4Q18), as reflected in the construction sector (+5.9% yoy in 1Q19 vs. +5.6% yoy in 4Q18).

... offset consumption boost

Higher personal and social spending and regional transfers lifted public consumption (+5.2% yoy vs. +4.6% yoy in 4Q18). Low-income households' purchasing power was boosted by pre-election cash handouts, leading to strong consumption of staples, such as F&B and clothing, as well as healthcare and education. Nonetheless, household consumption growth eased slightly (+5.0% yoy vs. +5.1% yoy in 4Q18) as spending on transport took a backseat (see Fig 2). Faster demand growth of non-profit institutions serving households (+16.9% yoy vs +10.8% yoy in 4Q18) was led by election campaign spending.

Stronger services and construction activity

The consumption boost lifted performance in the services sector, in particular wholesale & retail trade (+5.3% yoy vs. +4.4% yoy in 4Q18), business services (+10.4% yoy vs. +8.9% yoy in 4Q18), and information & communication (+9.0% yoy vs. +7.2% yoy in 4Q18), while compensating for weaker growth in other sectors: agriculture (+1.8% yoy in 1Q19 vs. +3.8% yoy in 4Q18) and manufacturing (+3.9% yoy vs. +4.2% yoy in 4Q18).

Policy continuity post elections to support economic expansion

Despite missing expectations, 1Q19 GDP growth was the strongest compared to the same quarter in the past four years. We expect investment growth to pick up in the upcoming quarters, supported by stronger investor confidence with Jokowi likely to be re-elected. Policies promoting consumer price stability, civil servants' salary hikes and social assistance for low-income households should support consumption growth, leading us to tweak our 2019 GDP growth forecast up from 5.1% to 5.2%.

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Figure 1: Real GDP by expenditure

	3Q18				4Q18				1Q19				3M19				1Q19			
	%yoy				%pt contribution to GDP				%share											
Real GDP	5.2	5.2	5.1	5.1	5.2	5.2	5.1	5.1	100.0											
Domestic demand	5.8	5.4	5.2	5.2	5.5	5.5	4.9	4.9	94.9											
Private consumption*	5.1	5.2	5.3	5.3	2.8	2.9	3.0	3.0	56.3											
Government consumption	6.3	4.6	5.2	5.2	0.5	0.5	0.3	0.3	5.9											
Gross fixed capital formation	7.0	6.0	5.0	5.0	2.2	2.1	1.7	1.7	32.8											
Change in stocks	-	-	-	-	0.0	1.5	-0.3	-0.3	2.3											
Net exports	-	-	-	-	-1.0	-0.6	1.2	1.2	2.3											
Exports	8.1	4.3	-2.1	-2.1	1.8	1.0	-0.5	-0.5	20.7											
Imports	14.0	7.1	-7.8	-7.8	2.7	1.5	-1.6	-1.6	18.4											

*Includes household and non-profit institutions serving households (NPISHs) consumption

SOURCES: CEIC, CGS-CIMB RESEARCH

Stronger public consumption (+5.2% yoy in 1Q19 vs. +4.6% yoy in 4Q18) reflected elevated social spending, which, among other things, included a higher quantum of cash handouts for the low-income household group, contributing to stronger household consumption in F&B, clothing, health & education. Election campaign spending boosted consumption growth of non-profit institutions serving households (+16.9% yoy in 1Q19 vs. +10.8% yoy in 4Q18).

Figure 2: Consumption expenditure and key components

	3Q18	4Q18	1Q19	3M19	3Q18	4Q18	1Q19	3M19	1Q19
	%yoy				%pt contribution to GDP				%share
Total consumption	5.2	5.1	5.3	5.3	3.3	3.4	3.3	3.3	62.1
Household consumption	5.0	5.1	5.0	5.0	2.7	2.8	2.8	2.8	54.9
F&B, Other than Restaurant	5.2	4.8	5.3	5.3	1.0	1.0	1.1	1.1	20.2
App, Footwear & Maintenance	4.7	4.3	4.9	4.9	0.1	0.1	0.1	0.1	2.2
Equipments	4.1	4.7	4.6	4.6	0.3	0.3	0.3	0.3	7.4
Health & Education	5.4	4.8	5.7	5.7	0.2	0.2	0.2	0.2	3.9
Transportation & Communication	5.4	6.1	4.9	4.9	0.7	0.8	0.7	0.7	13.6
Restaurant & Hotel	5.8	5.8	5.4	5.4	0.3	0.3	0.3	0.3	5.1
Others	2.0	2.4	2.7	2.7	0.1	0.1	0.1	0.1	2.6
Non-profit institution consumption	8.6	10.8	16.9	16.9	0.1	0.1	0.2	0.2	1.3
Government consumption	6.3	4.6	5.2	5.2	0.5	0.5	0.3	0.3	5.9
Collective	5.1	5.1	6.9	6.9	0.2	0.3	0.2	0.2	3.6
Individual	8.1	3.7	2.6	2.6	0.2	0.2	0.1	0.1	2.3

SOURCES: CEIC, CGS-CIMB RESEARCH

1Q19 investment growth of 5% yoy was the lowest in two years, partly due to high base effects in machineries, vehicles and other equipment, in tandem with falling imports of capital goods. National strategic projects continued to support building & structures spending (+5.5% yoy in 1Q19 vs. +5.0% yoy in 4Q18).

Figure 3: Gross fixed capital formation (GFCF) and key components

	3Q18	4Q18	1Q19	3M19	3Q18	4Q18	1Q19	3M19	1Q19
	%yoy				%pt contribution to GDP				%GDP
Gross Fixed Capital Formation	7.0	6.0	5.0	5.0	2.2	2.1	1.7	1.7	32.8
Buildings & Structures	5.7	5.0	5.5	5.5	1.4	1.3	1.3	1.3	24.6
Machine & Equipment	22.1	12.3	8.4	8.4	0.7	0.5	0.3	0.3	3.5
Vehicles	4.5	8.4	-7.4	-7.4	0.1	0.2	-0.2	-0.2	1.8
Other Equipments	8.9	0.3	-6.8	-6.8	0.0	0.0	0.0	0.0	0.5
Cultivated Biological Resources	2.5	5.9	9.3	9.3	0.0	0.1	0.1	0.1	1.7
Intellectual Property Products	1.5	8.1	9.1	9.1	0.0	0.1	0.1	0.1	0.8

SOURCES: CEIC, CGS-CIMB RESEARCH

Agriculture GDP growth was at a three-year low of 1.8% yoy in 1Q19 amid lower production of farm food crops.

Steady growth in the **mining** sector was supported by continued expansion in coal mining and a smaller decline in O&G mining.

Manufacturing GDP growth eased to 3.9% yoy (+4.2% yoy in 4Q18) as activity declined in the manufacture of transport equipment as well as the downstream commodity segment, i.e. O&G, coal, rubber, wood, non-metallic quarrying.

Construction activity (+5.9% yoy vs. +5.6% yoy in 4Q18) was stronger amid a pick-up in buildings & structure investment.

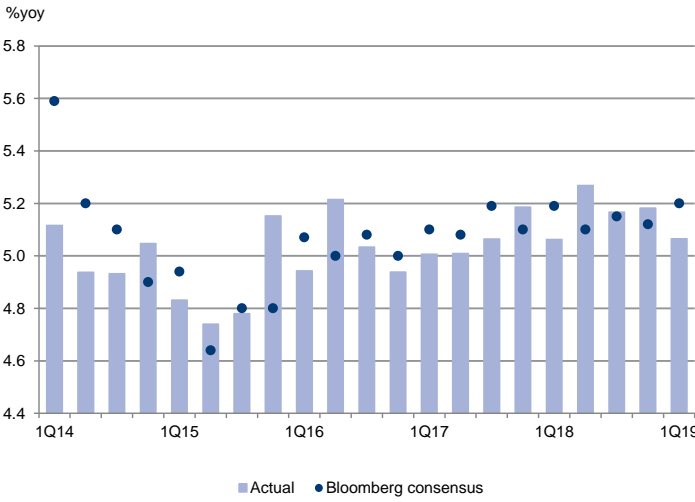
The services sector was supported by wholesale & retail trade, information & communication, finance & insurance, real estate, business services and education.

Figure 4: Real GDP by economic activity

	3Q18	4Q18	1Q19	3M19	3Q18	4Q18	1Q19	3M19	1Q19
	%yoy				%pt contribution to GDP				%share
Real GDP	5.2	5.2	5.1	5.1	5.2	5.2	5.1	5.1	100.0
Agriculture	3.7	3.9	1.8	1.8	0.5	0.4	0.2	0.2	12.3
Mining	2.7	2.2	2.3	2.3	0.2	0.2	0.2	0.2	7.6
Manufacturing	4.4	4.2	3.9	3.9	0.9	0.9	0.8	0.8	21.2
Electricity & gas supply	5.6	5.5	4.1	4.1	0.1	0.1	0.0	0.0	1.0
Water supply	6.2	7.9	9.0	9.0	0.0	0.0	0.0	0.0	0.1
Construction	5.8	5.6	5.9	5.9	0.6	0.6	0.6	0.6	10.1
Wholesale & retail trade	5.3	4.4	5.3	5.3	0.7	0.6	0.7	0.7	13.4
Transportation & storage	5.6	5.3	5.3	5.3	0.2	0.2	0.2	0.2	4.2
Accommodation & food beverages	5.9	5.9	5.9	5.9	0.2	0.2	0.2	0.2	3.1
Information & communication	8.1	7.2	9.0	9.0	0.4	0.4	0.5	0.5	5.4
Financial & insurance	3.1	6.3	7.3	7.3	0.1	0.2	0.3	0.3	4.2
Real estate	3.8	4.2	5.5	5.5	0.1	0.1	0.2	0.2	3.0
Business services	8.7	8.9	10.4	10.4	0.1	0.2	0.2	0.2	1.9
Public admin, defense & social security	7.9	7.1	6.4	6.4	0.2	0.3	0.2	0.2	3.3
Education	6.6	5.0	5.6	5.6	0.2	0.2	0.2	0.2	3.0
Human health & social work	7.5	7.8	8.6	8.6	0.1	0.1	0.1	0.1	1.2
Other services	9.2	9.1	10.0	10.0	0.2	0.2	0.2	0.2	1.9
Taxes minus subsidies	8.4	10.8	10.0	10.0	0.4	0.5	0.3	0.3	3.2

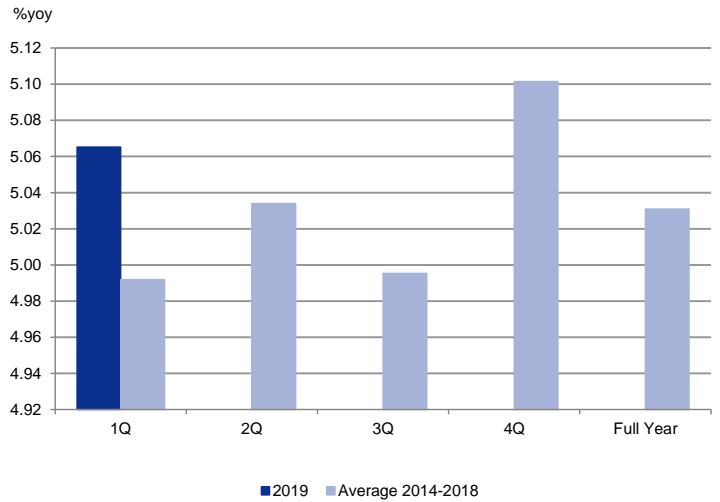
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 5: 1Q19 GDP growth was slightly below expectation at 5.1% yoy



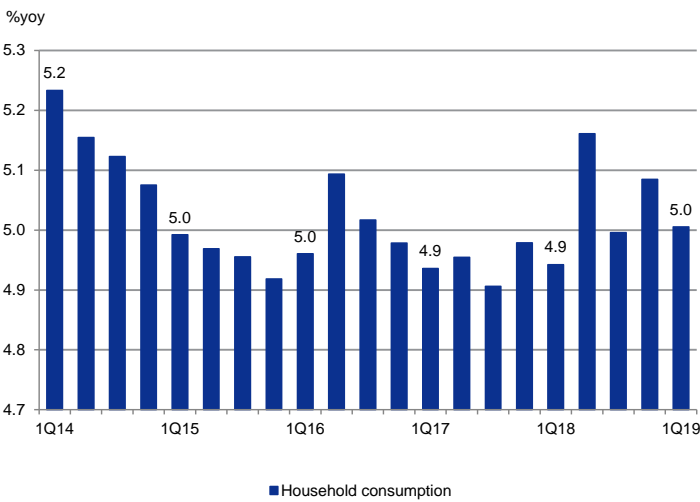
SOURCES: BLOOMBERG, CEIC, CGS-CIMB RESEARCH

Figure 6: 1Q19 GDP growth was stronger than the 5-year average



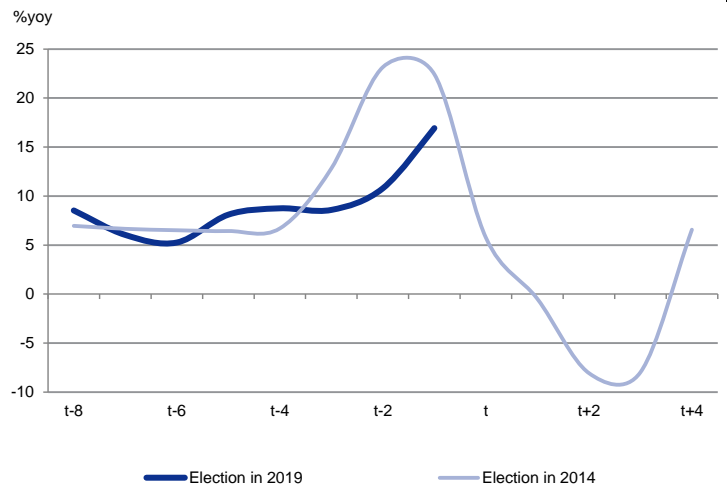
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 7: Household consumption



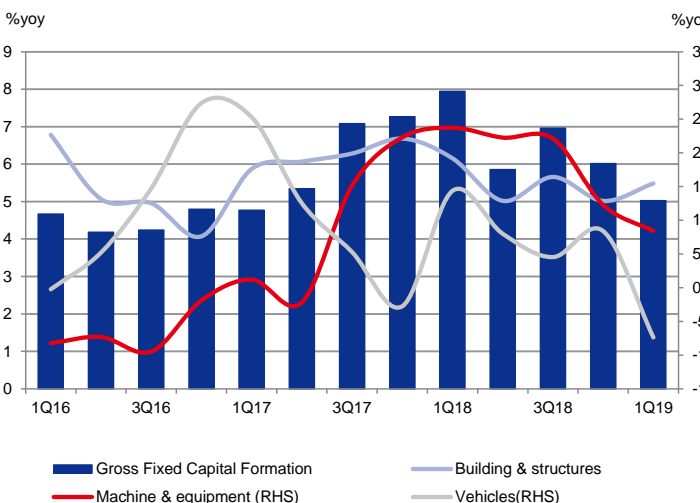
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 8: Consumption growth of non-profit institution serving households picked up ahead of the general election in Apr 2019



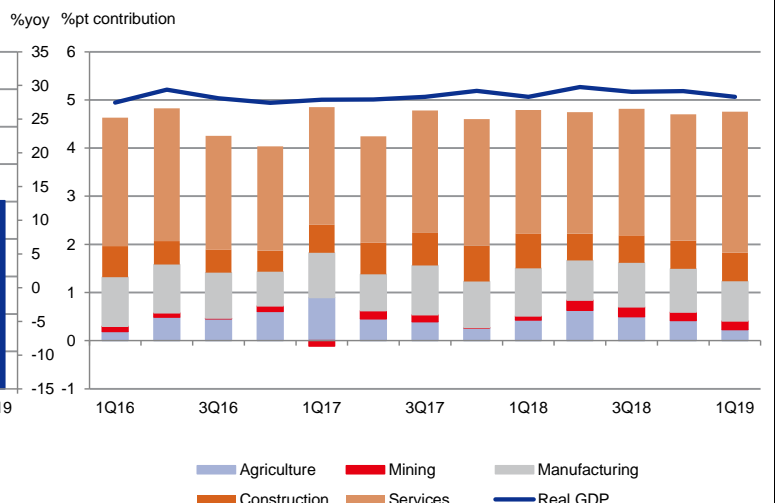
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 9: Investment growth at 2-year low



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 10: GDP by economic activity



SOURCES: CEIC, CGS-CIMB RESEARCH

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