

Indonesia Economic Briefing

GDP 1Q14: Slowdown on net exports



	1Q14	2013	4Q13	3Q13	2Q13	2012
Real GDP (% yoy)	5.21	5.78	5.72	5.62	5.83	6.26
Real GDP (% qoq)	0.95	-	-1.42	2.96	2.61	-
Private Consumption (% yoy)	5.61	5.28	5.25	5.48	5.15	5.28
Government Consumption (% yoy)	3.58	4.87	6.45	8.83	2.13	1.28
Fixed Investments (% yoy)	5.13	4.71	4.37	4.51	4.45	9.69
Domestic Demand (% yoy)	5.33	5.08	5.13	5.49	4.69	6.12
Net Exports (% yoy)	-1.14	22.40	46.34	10.27	27.75	-13.72

Source: BPS, CEIC, Bloomberg

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Economic Highlights

- **Indonesia economic growth in 1Q 2014 was at 5.2% yoy**, considerably lower than ours and market's expectation (5.7 and 5.6%yoy respectively). The growth level was the lowest seen since 2009.
- **Domestic demand was actually still growing relatively well, thus the key driver of the slowdown came from the trade performance (net exports)**. Private consumption still grew relatively strong at 5.6%yoy that probably still supported by spending for the legislative and presidential election. Main indicators of consumption are mostly stable. Retail sales was still picking up, though auto vehicle sales were somewhat stabilizing. Consumer confidence index was also relatively better. Unfortunately, government expenditure grew by 3.58%yoy, that was not as high as expected. We initially expected higher government spending due to the election.
- **Gross fixed capital investment grew by 5.13% which actually does not disappoints** (investment in 4Q13 was at 4.37%yoy). Building investment only slightly moderating while slowdown in the first quarter's FDI seem to be reflected in the negative growth of investment in the imported machineries (capital goods).
- **The key driver of the slowdown was the net exports**. Exports declined by -0.78%yoy, that was not fully compensated by the decline in imports (at -0.66%yoy). The net exports (exports minus imports), printed a negative growth at -1.14%yoy which is unusual (not in line with the seasonal pattern). Exports and imports data in the GDP includes goods and services, thus as the goods balance has been positive in 1Q (as stated in the trade data from the statistics office (BPS)), the negative growth must have come from the services balance.
- **On the sectoral basis, growth seen moderating across the board. Main driver is still the tertiary sector with** transport and communication sector leading growth at 10.2%yoy (only slightly milder than previous quarter at 10.3%yoy). A slight improvement were also seen in the hotel and restaurant sector. Mining sector printed a negative growth which may be partly affected by the raw mineral exports ban.

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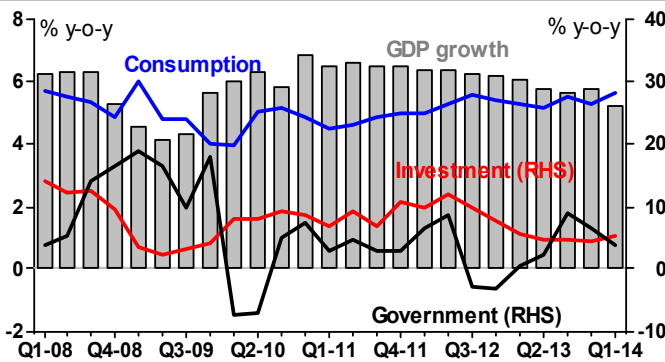
Policy and Market Implications

- **The disappointing net exports means that the current account deficit in 1Q could be higher than initially expected (below 2% of GDP)**, particularly with the lower nominal GDP in 1Q. The CAD data will come out Friday May 9, 2014. If

the CAD data disappoints, we may expect some pressure on the rupiah. This means that **it would need more than just monetary policy (interest rate hike) to address this external imbalances. Structural policies must come forth to address the infrastructure problems, productivity and support the manufacturing sector to reduce reliance in the commodities exports.** Fuel subsidies needs to be eliminated to provide fiscal space to support these structural policies. One of the presidential candidate, Jokowi, has pledged that he would gradually eliminate fuel subsidies in four years if he wins the presidential election. This should be positive, impact will have been limited and gradual. The policy would shift government spending to a more targeted subsidy and at the same time provide more fiscal space to push other structural policies forward.

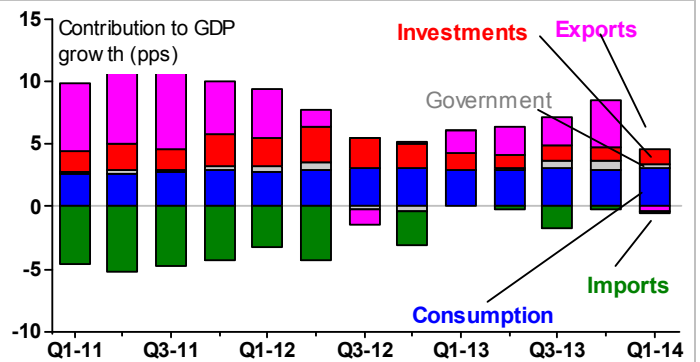
- As the growth rate was considerably lower than the market's as well as the authorities' expectation, we think the likelihood of BI raising rates further will be small. However lowering rate is also not an option since there could be potentially higher inflation pressure after the segmented electricity tariff hike implemented in May. We should also be watching out for the possibility of a fuel price hike (or a fixed subsidy scheme this year) to avoid the swelling fiscal deficit.
- **Furthermore, we think this year's economic growth may not able to reach the initial forecast (5.7%yoy), we revised down the GDP growth forecast this year to reach 5.31%yoy.**

Chart 1. Indonesia GDP growth by Expenditure



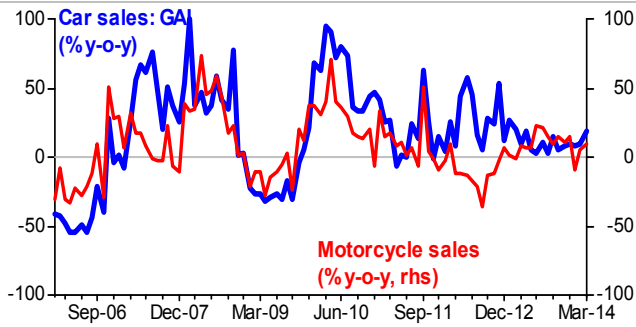
Source: BPS, CEIC, Danamon Calculations

Chart 2. Indonesia Contribution to GDP Growth



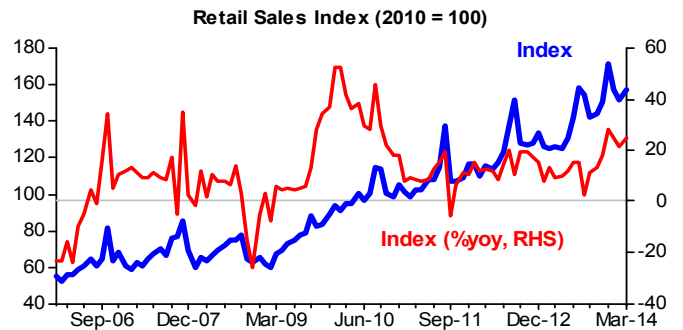
Source: BPS, CEIC, Danamon Calculations

Chart 3. Auto Vehicle Sales



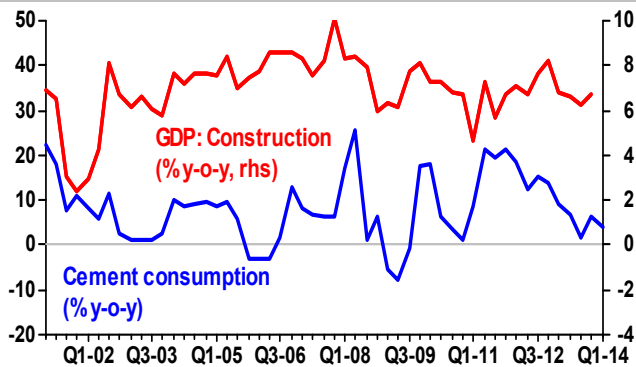
Source: CEIC

Chart 4. Retail Sales



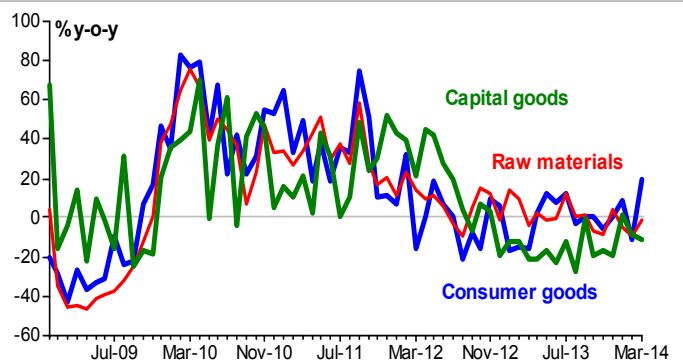
Source: BPS, CEIC

Chart 5. Construction Sector & Cement Consumption



Source: CEIC

Chart 6. Imports



Source: BPS, CEIC

Indonesia National Accounts, Industry Breakdown

	Share (%)			%yoy			%qtq		
	4Q13	2013	1Q14	4Q13	2013	1Q14	3Q13	4Q13	1Q14
Gross Domestic Product	100.00	100.00	100.00	5.72	5.78	5.21	3.07	(1.42)	0.95
1. Agriculture, Livestock, Forestry, Farming	10.33	12.27	12.55	3.83	3.54	3.30	6.42	(22.84)	22.70
a. Farm Food Crops	3.99	5.85	6.72	0.61	1.93	0.94	4.58	(37.10)	69.95
b. Plantations	1.72	1.98	1.51	6.33	4.93	8.45	19.89	(33.20)	(11.14)
2. Mining and Quarrying	7.15	7.06	6.83	3.91	1.34	(0.38)	2.19	1.72	(3.57)
a. Oil and Gas	3.17	3.20	3.07	(0.43)	(3.22)	(2.14)	0.61	(0.38)	(2.33)
b. Non-oil and Gas Mining	2.94	2.87	2.78	8.17	5.33	(0.67)	3.57	3.34	(4.47)
c. Quarrying	1.04	0.99	0.98	6.18	5.86	6.51	3.46	3.80	(4.76)
3. Manufacturing Industries	26.14	25.54	25.30	5.29	5.56	5.16	2.92	1.72	(2.28)
a. Non-oil and Gas	24.52	23.93	23.73	5.44	6.10	5.56	3.13	1.72	(2.31)
1) Food, Beverages and Tobacco	7.47	7.01	6.86	4.66	3.34	9.47	8.02	3.35	(7.37)
2) Textiles, Leather and Footwear	2.27	2.24	2.19	5.27	6.06	3.72	0.87	0.91	(2.50)
3) Wood and Forestry Products	0.73	0.72	0.74	4.77	6.18	5.17	1.29	1.60	2.62
4) Paper and Printing	0.96	1.00	1.02	(0.26)	4.45	0.31	(2.74)	(1.91)	6.66
5) Fertilizers, Chemicals and Rubber Prod.	3.05	3.08	3.10	(4.17)	2.21	(0.07)	1.04	0.92	2.64
6) Cement and Non-Metal Quarrying	0.71	0.70	0.68	4.19	3.00	3.93	5.26	0.27	(3.49)
7) Basic Metals and Steel	0.36	0.36	0.36	3.64	6.93	0.30	(2.29)	2.34	(0.18)
8) Vehicles, Machinery and Equipments	8.81	8.66	8.63	10.89	10.54	6.03	1.49	1.31	(1.12)
9) Others	0.15	0.14	0.15	11.24	(0.70)	18.35	5.90	5.18	0.61
4. Electricity, Gas and Water	0.80	0.77	0.78	6.62	5.58	6.52	0.70	6.10	(1.33)
5. Construction	6.90	6.57	6.48	6.68	6.57	6.54	3.35	4.45	(5.21)
6. Trade, Hotel and Restaurants	18.44	18.09	17.73	4.78	5.93	4.59	1.76	1.44	(2.99)
a. Wholesale and Retail Trade	15.45	15.14	14.72	4.64	5.89	4.23	1.84	1.33	(3.83)
b. Hotel	0.79	0.77	0.78	8.33	8.66	9.13	0.92	3.80	(1.11)
c. Restaurants	2.20	2.18	2.23	4.50	5.24	5.51	1.49	1.34	2.27
7. Transport and Communications	10.88	10.56	10.90	10.32	10.19	10.23	3.27	2.36	1.11
a. Transportation	3.88	3.78	3.82	7.84	7.06	8.24	3.08	1.73	(0.71)
b. Communication	6.99	6.77	7.08	11.75	12.02	11.34	3.39	2.72	2.13
8. Financial, Real Estate, Business	9.89	9.82	10.01	6.79	7.56	6.16	2.04	0.50	2.19
9. Other Services	9.49	9.32	9.44	5.27	5.46	5.81	2.90	1.62	0.42

Source: BPS, Danamon Calculations

Indonesia National Accounts, Expenditure Breakdown

	Share(%)			% y-o-y			%y-o-y contribution		
	4Q13	2013	1Q14	4Q13	2013	1Q14	4Q13	2013	1Q14
Gross Domestic Product	100.00	100.00	100.00	5.72	5.78	5.21	5.72	5.78	5.21
1. Household Consumption	55.37	54.81	55.24	5.25	5.28	5.61	2.92	2.91	3.08
a. Foods	24.36	24.19	24.21	4.48	4.39	4.53	1.10	1.08	1.10
b. Non-foods	31.01	30.62	31.02	5.87	6.00	6.46	1.82	1.83	1.98
2. Government Consumption	10.30	7.77	5.69	6.45	4.87	3.58	0.66	0.38	0.21
a. Routine Expenditures	7.72	4.96	2.73	7.96	7.68	7.25	0.60	0.37	0.19
3. Gross Fixed Capital Formation	25.79	24.85	24.12	4.37	4.71	5.13	1.14	1.18	1.24
a. Building	18.89	18.01	17.74	6.68	6.57	6.54	1.25	1.18	1.15
b. Imported Machinery	5.00	4.98	4.54	(5.37)	(3.03)	(0.27)	(0.30)	(0.16)	(0.01)
4. Domestic Demand	91.46	87.44	85.05	5.13	5.08	5.33	4.72	4.47	4.53
5. Exports of Goods and Services	50.29	47.35	44.12	7.40	5.30	(0.78)	3.67	2.52	(0.37)
6. less Imports of Goods and Services	38.60	36.72	33.30	(0.60)	1.21	(0.66)	(0.25)	0.46	(0.23)
7. Net Exports	11.69	10.63	10.82	46.34	22.40	(1.14)	3.91	2.06	(0.13)
8. Inventory	(0.28)	1.94	3.65	8.63	6.74	15.98	(0.02)	0.13	0.53
9. Statistical Discrepancy	(2.87)	(0.01)	0.49	2,042.12	(101.49)	121.92	(2.90)	(0.88)	0.28

Source: BPS, Danamon Calculations

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013	2014E
National Accounts					
Real GDP (% y-o-y)	6.2	6.5	6.3	5.8	5.3
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.1	5.1	5.4
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.3	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.7	4.7	4.0
GDP (US\$bn) — nominal	710	845	879	871	897
GDP per capita (US\$) — nominal	2,986	3,509	3,596	3,478	3,538
Open Unemployment Rate (%)	7.1	6.6	6.1	6.3	6.1
External Sector					
Exports, fob (% y-o-y, US\$ bn)	32.1	27.0	-6.1	-2.6	2.2
Imports, fob (% y-o-y, US\$ bn)	43.7	30.3	8.4	-1.4	3.7
Trade balance (US\$ bn)	30.6	34.8	8.6	6.1	3.6
Current account (% of GDP)	0.7	0.2	-2.7	-3.3	-2.9
Central government debt (% of GDP)	26.1	24.6	23.1	22.0	21.2
International Reserves –IRFCL (US\$ bn)	96.2	110.1	112.8	99.4	100.8
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6
Currency/US\$ (Year-end)	8,991	9,068	9,670	12,189	11,058
Currency/US\$ (Average)	9,085	8,779	9,380	10,428	11,605
Other					
BI policy rate (% year end)	6.50	6.00	5.75	7.50	7.75
Consumer prices (% year end)	6.96	3.78	3.65	8.08	5.37
Fiscal balance (% of GDP; FY)	-0.73	-1.14	-1.77	-2.24	-2.20
S&P's Rating – FCY	BB	BB+	BB+	BB+	BB+

Source: CEIC, *Danamon Estimates

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