



### Economic Highlights

- The statistics office announced **Indonesia's economic growth of 5.01% yoy** for the second quarter in 2017, slightly below our 5.04% estimate. Engine of growth last quarter was driven by fixed investment; while household consumption continues to fade and export contribution had fell by more than half. Given that global trade had reached its peak and that the rise in commodity prices had subsided, we think more attention will be given to domestic demand henceforth.
- Growth of household consumption had marginally improved but its contribution to the economy had declined. There has been an ongoing debate on whether sluggish demand is merely due to delays in spending, a shift to investment, effects of technology, or simply because purchasing power has diminished. Unfortunately, all available data could not produce a clear-cut conclusion at this point, since many indicators seemed to contradict with each other. But a fact we want to point out is that **household consumption has been on a gradual downtrend for the past 5 years** (*please see Chart 1*), not something we only saw as of late.
- We did manage to find a silver lining for a specific segment of consumer. From chart 2 we can learn that real wages for construction workers and farmers had been steadily declining, but the number of workers and contribution to GDP from these sectors had actually increased. Meaning that, **given the working opportunity in these sectors, more people came in but received diminishing real wages**. Hence, lower purchasing power from a segment that accounts for 11% of total employment.
- **As the nature of the problem is still unclear**, we believe it would be wise not to haste and jump the gun on monetary policy. Especially at the wake of global quantitative tightening and the inclining trend in Gross Domestic Savings this year. We maintained our call for FY17 GDP at 5.04%.

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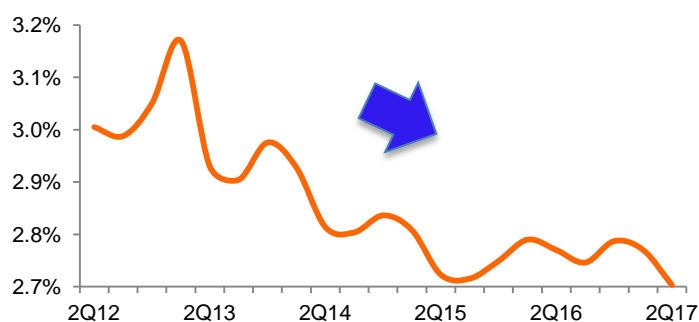
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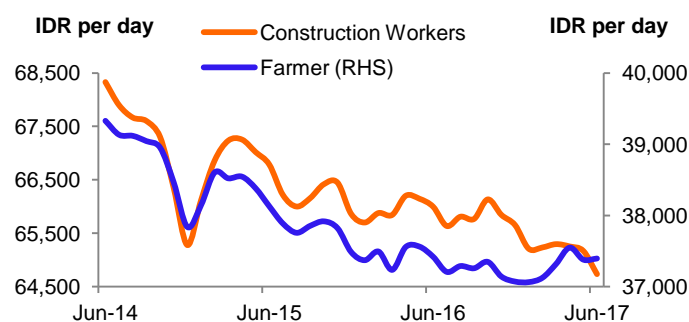
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Chart 1. Contribution of Household Consumption



Source: Central Bureau of Statistics (BPS), CEIC

Chart 2. Real Wages per Day of Segmented Workers



Source: Central Bureau of Statistics (BPS), CEIC

## Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
<b>National Accounts</b>					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	913	890	861	932	1,005
GDP per capita (USD) — nominal	3,648	3,529	3,371	3,604	3,838
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
<b>External Sector</b>					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,430
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,349
<b>Other</b>					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	4.75
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

Source: CEIC, E = Danamon Estimates, \*) Up to August 2016

## Economic and Market Research

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