



A member of MUFG, a global financial group

Irman Faiz

Macroeconomic Analyst

Wisnu Wardana

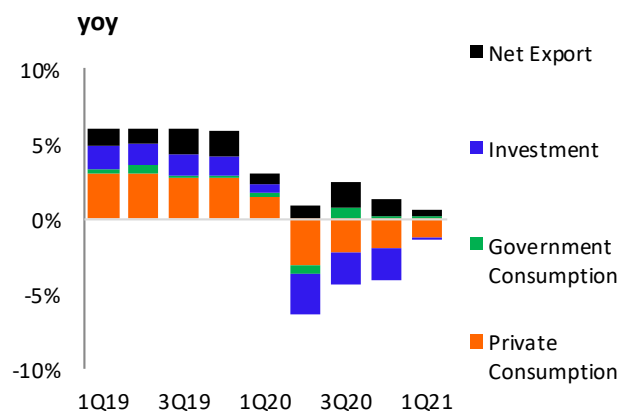
Economist

treasury.economist@danamon.co.id

Please see the important disclaimer and information on the back of this report.

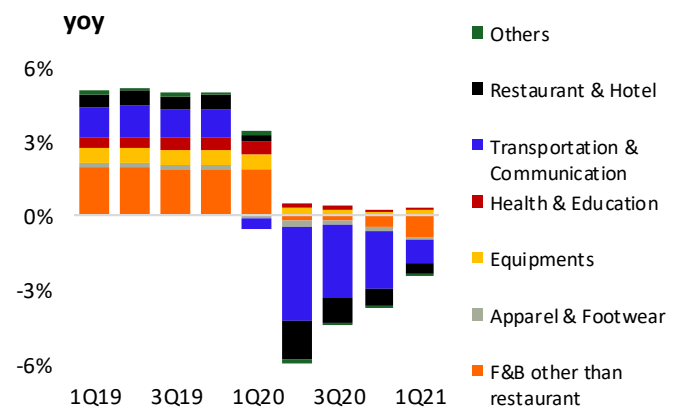
- Economic recovery sustained in 1Q21.** Indonesia's economic growth plunged by 5.3% yoy in 2Q20, as domestic demand (private consumption & investment) dropped as a result of the pandemic. However, the mobility relaxation imposed by the Government along with global economic recovery, has resulted in a gradual recovery of the domestic economy. Gross Domestic Product (GDP) growth crawled up to -0.7% yoy in 1Q21, on the back of net export surplus as well as public and private investment acceleration. On the other hand, private consumption was still a drag. Private consumption recovery was lagging from others with -1.3 pcp contribution to 1Q21 GDP growth, slightly milder than previous quarter at -2.0 pcp (*please see Chart 1*).
- Mobility-related expenditure was the culprit of lagging consumption.** Expenditure on transportation and restaurants contributed -1.4 pcp out of -2.2% yoy growth of 1Q21 household consumption. These two components remained the biggest negative contributors since the pandemic hit Indonesia's economy in 2Q20 (*please see Chart 2*). It is not surprising that spending on transportation and restaurant was low, as Government imposed restrictions on capacity and utilization of public transportation and spaces such as restaurant, hotel, and parks.
- Not only in restaurants, but households also consumed less F&B, even from home.** Consumption on F&B (excluding restaurants) dropped deeper in 1Q21 due to the high base effect. Contribution of F&B spending to total household consumption recorded negative with widening trajectory. In 2Q20, F&B consumption contributed as much as -0.3 pcp to overall household consumption growth. The number widened to -0.9 pcp in the first quarter of this year.

Chart 1. Gross Domestic Product Growth Contribution



Source: Board of Statistics

Chart 2. Household Expenditure Growth Contribution

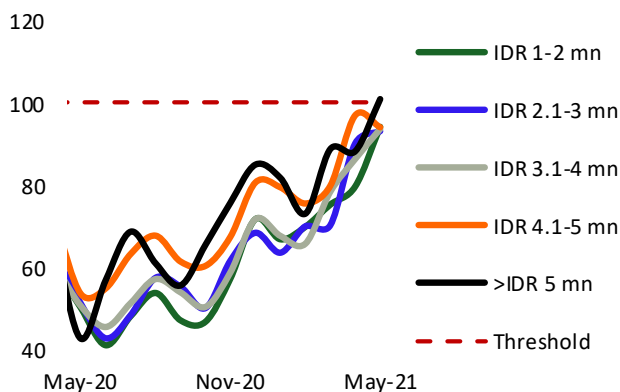


Source: Board of Statistics

During the pandemic, middle-lower income class was hit the most. Income index of < IDR 4 mn per month spending category experienced the deepest plunge throughout 2020, compared to > IDR 4 mn spending category (*please see Chart 3*). This made sense as majority of middle-lower income class worked in less-flexible work fields. The pandemic has reshaped the way of work to a work-from-home mode, which left the less-flexible type of job behind. Thus, the Indonesian board of statistics recorded that the jobs of 29 million people were affected by the pandemic, with 3 million people totally losing their jobs per Aug-20.

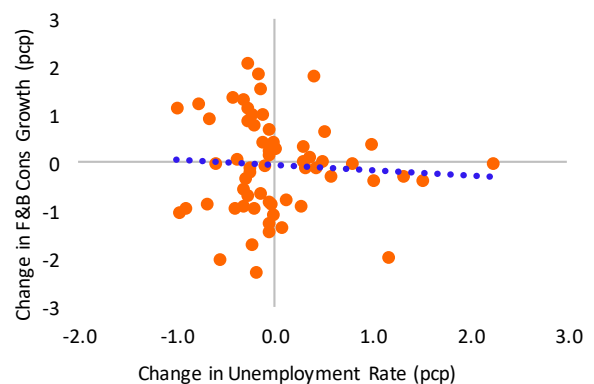
The F&B consumption drop was associated with middle-lower income class and unemployment. According to the World Bank report in 2019, the middle-lower class spent around 50%-60% of their total spending on F&B. Therefore, a decline in income would have an impact of their allocation on F&B spending. On top of that, the correlation between change in unemployment and change in F&B consumption growth is negative. Should the unemployment rate increase, the change in F&B consumption growth will decrease. However, we note that the correlation is inelastic, which means that a percentage increase in unemployment rate will be translated into lower percentage decrease in F&B consumption growth (*please see Chart 4*).

Chart 3. Current Income Index by Expenditure



Source: Bank Indonesia

Chart 4. Employment & F&B Spending by Region

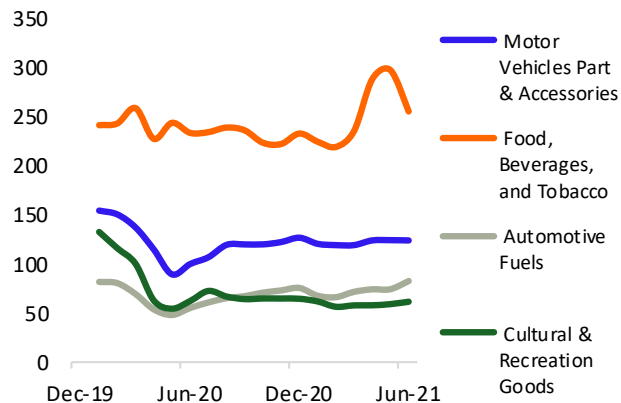


Source: Board of Statistics, 2018-2019

Retail sales index has improved in the past two months, on the back of F&B sales. The retail sales index in April and May was recorded at 220 and 224, growing by 15.6% yoy and 12.9% yoy, respectively. The higher retail sales index was driven by F&B and tobacco sales, whose index surged to the level of 297 in May-21. Meanwhile, other components were relatively stable (*please see Chart 5*). It was well-in line with the period of festivities where demand for F&B was quite high. We saw a slight decline in F&B category in Jun-21 from a month prior, yet the level remained higher than Apr-21, at 255.

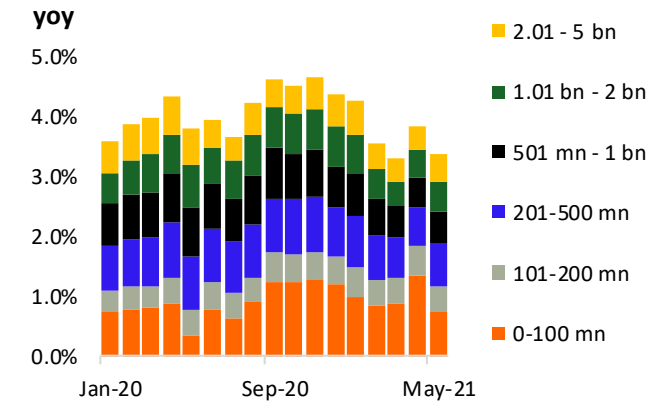
We expect F&B consumption to rebound. After suffering throughout 2020, current income index for < IDR 4 mn per month spending category has been catching up to the category of > IDR 4 mn since the beginning of the year. The index level across categories were close to each other at around 93-94 index level, implying that income has improved, especially for middle-lower class, though remained below the level of 100. On top of that, unemployment rate dropped to 6.3% as of Feb-21, compared to 7.1% per Aug-20. Both income and employment indicators improved, which we should help F&B consumption to rebound from 2Q21 onward. Additionally, we also see a sign of pent-up demand from middle-lower class, reflected by higher contribution of deposit growth from IDR 0-100 mn segment (*please see Chart 6*). On top of that, social assistance program will be extended to 3Q21.

Chart 5. Retail Sales Index



Source: Bank Indonesia

Chart 6. Third Party Fund Growth Contribution

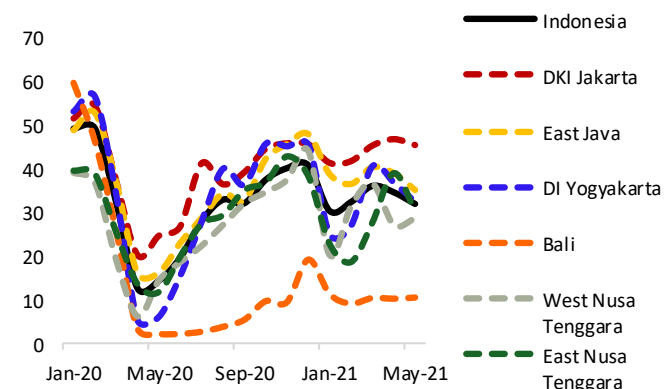


Source: Indonesia Deposit Insurance Corporation

Lagging consumption recovery on tourism activities. Apart from flat retail sales index on transportation and recreation, other tourism indicators have been kept at bay. Hotel occupancy rate remained far below the pre-pandemic level. Early last year prior to the pandemic, national hotel occupancy was seen at around 50%. The number dropped to 13% in Apr-20, then gradually crawl up to 40% at the end of 2020. However, due to the mobility restrictions, as well as rising cases in the beginning of the year, hotel occupancy dropped again to 30% in Jan-21. Then, occupancy rate increased to 35% in Apr-21 (*please see Chart 7*) amid some public holidays and business activities from the private and public sectors.

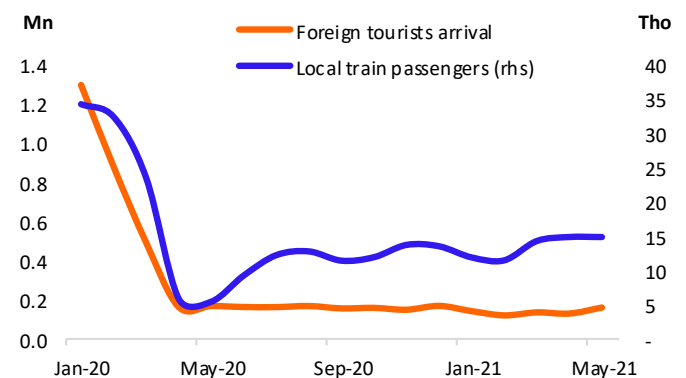
Hotel occupancy remained weak. As of May-21, we have seen gradual recovery on the hotel occupancy rate, though it has continued to remain weak. However, the recovery is uneven between domestic and foreign tourist driven destinations. Bali appeared to be the region which has suffered the most in terms of hotel occupancy as its main tourists came from abroad. Bali's occupancy rate dropped from 60% in Jan-20 (pre-pandemic) to 11% in Jan-21, and had been relatively flat since then. It was well in-line with foreign arrival to Indonesia, which declined from 1.3 mn visitors in Jan-20 to only 155 thousand arrivals in May-21. On the other hand, domestic driven tourist destinations (i.e. Yogyakarta, East Java, Jakarta) have gradually recovered, even posted higher occupancy rate than national level in May-21. On the data front, local train usage saw a slight increase in May-21 (*please see Chart 8*).

Chart 7. Hotel Occupancy Rate



Source: Board of Statistics

Chart 8. Airline Visitors Arrival & Train Passengers



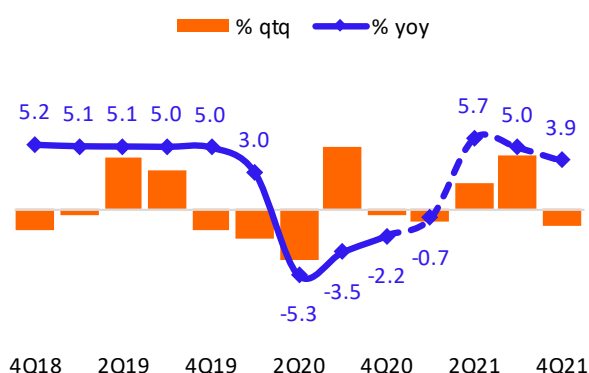
Source: Board of Statistics

We expect tourism consumption to remain on the sideline, at least until next year. Heading to 2H21, global covid-19 soared as most of developing countries experienced the impacts of the outbreak. Many Asian countries (i.e. Malaysia, Singapore, India, Japan) imposed further restrictions to deal with the rising cases. Meanwhile, Indonesia's foreign tourists were mostly from Asia Pacific and ASEAN countries with 43% and 38% share to total foreign visitors, respectively. China, Malaysia, and Singapore, as the top three visitors, have not opened their borders this year. In terms of vaccinations, these three countries have shown positive progress, yet are far from herd immunity. Moreover, Indonesia's domestic cases themselves have been rising while vaccination progress is slower in comparison. Arrival estimation for the last batch of vaccines in Indonesia is in 2Q22, which means that vaccination target might be achieved afterwards.

A bell-shaped domestic recovery. The recovery cycle will continue throughout 2021 with the support of low-base effect. The second quarter of last year was the lowest point of GDP growth with a contraction of 5.3% yoy. Due to this low-base, economic growth of 2Q21 will be overshoot. In quarter to quarter (qtq) basis, we view that economic activities will continue to improve along with our expectation of F&B consumption to rebound. However, the level of improvement is expected to be gradual as spending on mobility-related activities (mostly tourism) are lagging. Thus, qtq economic growth will accelerate in the second and third quarter then drop in the fourth quarter (following its usual pattern). All in all, we expect that FY21 economic growth to follow a bell-shaped pattern with 2Q21 as the peak (see Chart 9).

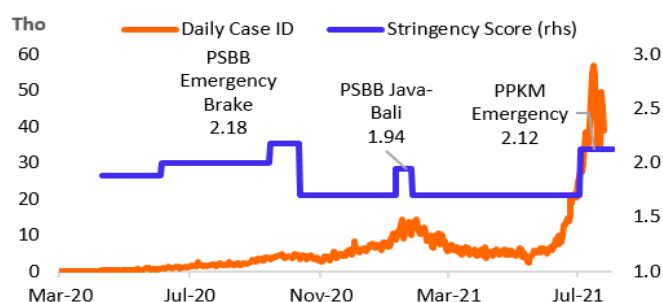
Rising daily cases pose risks to domestic consumption recovery. National daily cases climbed to 40k (all-time high) amid the new delta variant outbreak. Therefore, the Government imposed a stricter mobility restriction, namely PPKM Emergency. Our calculation shows that the stringency of current restrictions is quite similar with PSBB emergency in Sep-20 (see Chart 10). However, we note that the PPKM emergency covers wider regions (Java-Bali eq. 60% GDP) compared to Sep-20 brake (only Jakarta eq. 18% GDP). The government will adjust the restrictions according to the emergency level (1-4) based on daily cases, bed occupancy rates, and death rates. As for now, the restrictions are declared as level 4, and will be implemented until 02-Aug. If those three indicators show improvement, the government will downgrade the level of restrictions. Should the government maintain the current level of restrictions for more than 2 months, we believe that it will affect the recovery trend and our standing forecast for 2021 GDP growth of 3.4%.

Chart 9. Gross Domestic Product Forecast



Source: Board of Statistics, Danamon

Chart 10. Stringency Score



Source: Corona.jakarta.go.id, Danamon. Stringency score is an average score on sectoral utilization allowed by government. Score 3 for 0-25% utilization, 2 for 26%-50%, and 1 for >50%. Higher score equals to tighter restrictions.

Indonesia's Selected Economic Indicators

	2018	2019	2020	2021E	2022E
National Accounts					
Real GDP (% y-o-y)	5.2	5.0	-2.1	3.4	5.0
Domestic demand ex. inventory (% y-o-y)	6.3	3.6	-3.1	3.2	6.3
Real Consumption: Private (% y-o-y)	5.0	5.0	-2.7	3.0	6.5
Real Gross Fixed Capital Formation (% y-o-y)	6.7	4.4	-4.9	3.3	7.3
GDP (USD bn) — nominal	1,042	1,119	1,059	1,125	1,212
GDP per capita (USD) — nominal	3,932	4,193	3,917	4,132	4,422
Open Unemployment Rate (%)	5.3	5.3	7.1	6.0	5.7
External Sector					
Exports (% y-o-y, BoP Basis)	7.0	-6.8	-3.0	3.2	5.9
Imports (% y-o-y, BoP Basis)	20.7	-8.9	-18.1	16.2	19.2
Trade balance (USD bn, BoP Basis)	-0.4	3.5	28.2	11.5	-8.0
Current account (% of GDP)	-2.9	-2.7	-0.4	-1.0	-1.9
Central government debt (% of GDP)	30.2	30.5	38.1	41.4	42.3
International Reserves –IRFCL (USD bn)	120.7	129.2	135.9	137.3	130.3
Reserve Cover (Months of imports & ext. debt)	6.5	7.3	9.8	7.8	7.0
Currency/USD (Year-end)	14,481	13,901	14,050	14,350	14,766
Currency/USD (Average)	14,250	14,146	14,529	14,340	14,689
Other					
BI 7-Day Reverse Repo rate (% year end)	6.00	5.00	3.75	3.50	4.25
Consumer prices (% year end)	3.13	2.72	1.68	2.43	4.00
Fiscal balance (% of GDP, FY)	-1.75	-2.20	-6.09	-5.07	-3.82
S&P's Rating – FCY	BBB-	BBB	BBB	BBB	BBB

Source: CEIC, E = Danamon Estimates

Treasury Economist Team



Wisnu Wardana

Economist

+62 21 8064-5000

ext. 8873

wisnu.wardana@danamon.co.id



Irman Faiz

Macroeconomic Analyst

+62 21 8064-5000

ext. 8875

irman.faiz@danamon.co.id



A member of  MUFG, a global financial group

PT Bank Danamon Indonesia, Tbk.

Menara Bank Danamon

Jl. H.R. Rasuna Said Kav. C-10, Kuningan

Jakarta 12940

Indonesia

Email: treasury.economist@danamon.co.id

Fax: +62 21 80645263

ANALYST CERTIFICATION

We hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views in this report.

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bank Danamon Indonesia, Tbk. 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 thereof. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bank Danamon Indonesia, Tbk. its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, 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 P.T. Bank Danamon Indonesia, Tbk. its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not to be taken as any recommendation made by P.T. Bank Danamon Indonesia, Tbk. or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.