

# Macro Note

## Indonesia: 1Q19 Economic Growth Weaker Than Expected

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- Indonesian January-March GDP growth came in below our and consensus expectation at 5.07% yoy (UOB: 5.17-5.20% yoy; Consensus: 5.18%). Quarter on quarter growth is at -0.52%. Overall, spending related to presidential and parliamentary elections held in the country and huge imports contraction (following import tightening measures from the government) were not able to outweigh the weaker performance of investment and exports.
- Export is still struggling to pick up (1Q19's -2.1% yoy vs. 4Q18's 4.3%), as Indonesia major exports commodity prices, i.e. coal, palm oil, and copper, have fallen this year. On the other hand, investment slowed to 5.0% yoy in 1Q19 vs. 4Q18's 6.0%, as investors adopted a wait-and-see stance prior to general election in April 2019. Furthermore, household consumption, which accounts for more than half the economy, also lost momentum and slowed slightly (1Q19's 5.0% yoy vs. 5.1% in the previous quarter). Meanwhile, government expenditure grew to 5.2% yoy in 1Q19 vs. 4.6% in 4Q18, in line with the government infrastructure projects acceleration (indicating fiscal loosening). Import growth fell further to -7.8% yoy in 1Q19 vs. 7.1% in 4Q18 and 14.0% in 3Q18, following import tightening measures from the government (e.g. government's B20 policy) to prevent the current account deficit from widening further.
- In terms of production, growth was driven by all business fields. Nevertheless, agriculture and manufacturing sector (which cover around 35% of total GDP per sector) slowed on a year-on-year basis (1Q19 vs. 4Q18) to 1.2% vs. 3.9% and 3.9% vs. 4.2% respectively. In terms of growth contribution, the highest source of growth came from manufacturing sector (0.8%), followed by wholesale-and-retail-trade (0.7%), construction (0.6%), and information-and-communication (0.5%).
- We might see investment growth to likely taper off somewhat in light of ongoing efforts to narrow down the current account deficit. This might continue till the 1H19. However, we are quite optimistic that 1Q19 Current Account Deficit (CAD) may register a sub 3% of GDP, perhaps in the 2.5-2.6% deficit range. In 2H19, there is likely to be more room to reignite investment spending. Near-term challenge may include a smooth shift of spending on human capital investments, which may not immediately translate into neither higher consumption nor investment spending, hence a still sluggish **headline GDP growth figure of around 5.2 percent for 2019, which is our forecast for this year**. This near-term challenge also includes how to balance the human capital investments with more welfare-felt measures for the people, notwithstanding the cash transfer program such as social assistance ('Bansos') and 'Program Keluarga Harapan – PKH'.
- In the medium-term, the challenges include attracting FDI into more export-oriented sectors, hopefully in areas where more and more local content is used; more clarity on negative investment lists; and financial deepening. On the other hand, long-term challenges may include monetizing the rising consumer class spending in tandem with rapid digitalization and industrial revolution 4.0 (to bring about tangible benefits for the welfare of the country) and live out the expectations of Indonesia becoming one of the top 5 biggest economies by 2030.

Figure 1. Indonesia's GDP and Private Consumption Growth

Source: Investment Coordinating Board Indonesia, Bloomberg, CEIC, UOB Global Economics Research

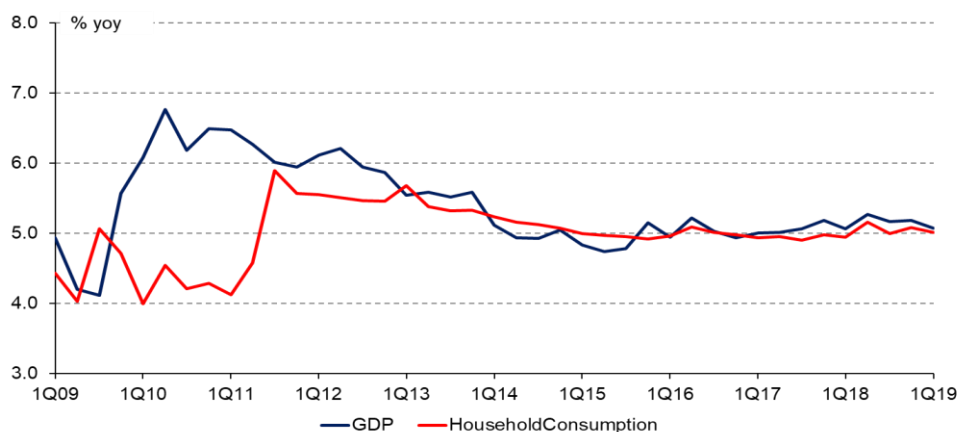


Figure 2. Indonesia's Investment and Government Spending Growth

Source: Investment Coordinating Board Indonesia, Bloomberg, CEIC, UOB Global Economics Research

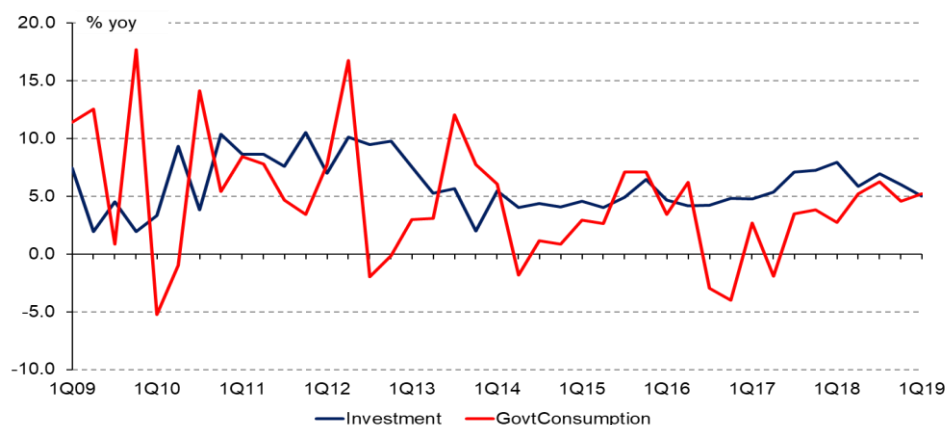


Figure 3. Indonesia's Export and Import Growth

Source: Investment Coordinating Board Indonesia, Bloomberg, CEIC, UOB Global Economics Research

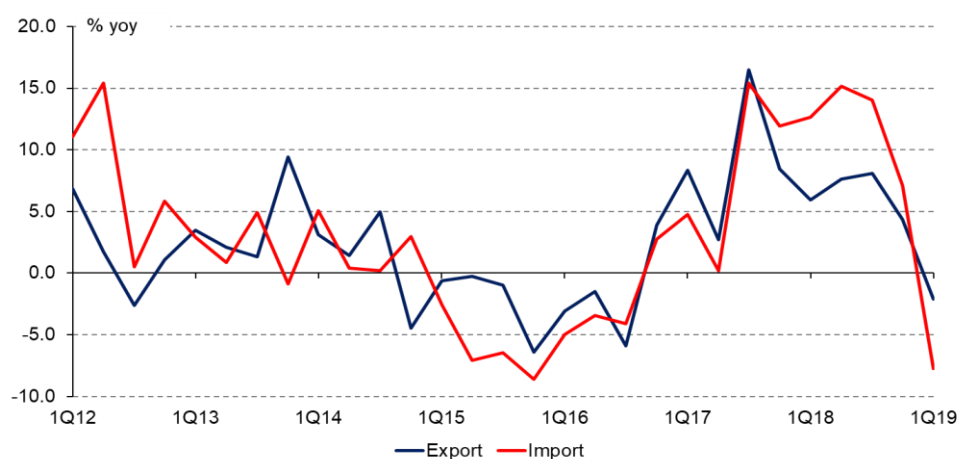


Figure 4. Indonesia's GDP Contribution by Expenditure

Source: Investment Coordinating Board Indonesia, Bloomberg, CEIC, UOB Global Economics Research

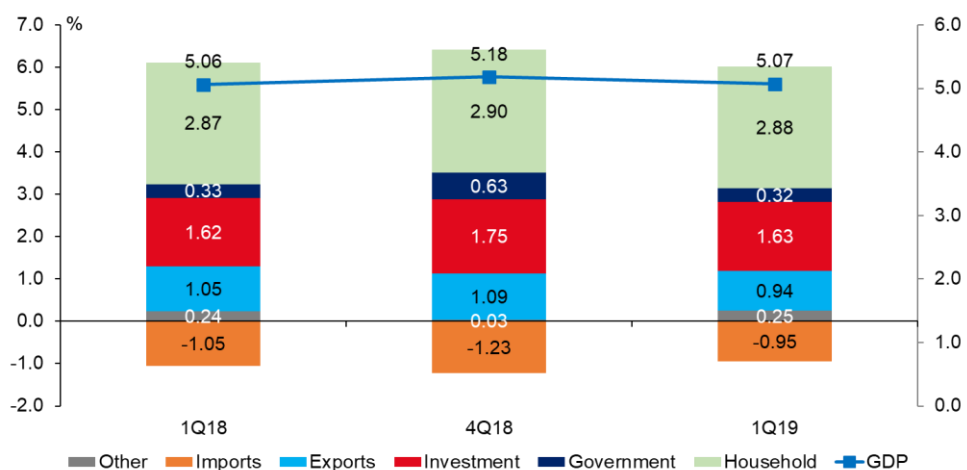
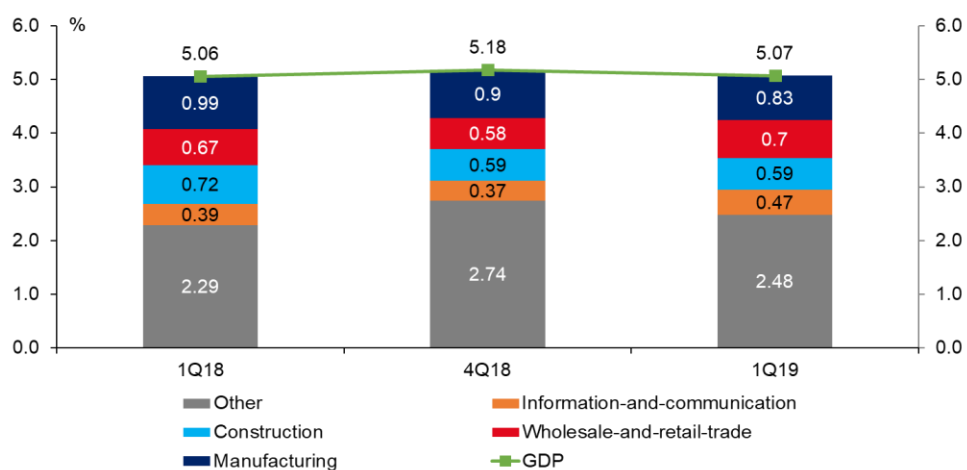


Figure 5. Indonesia's GDP Contribution by Sector

Source: Investment Coordinating Board Indonesia, Bloomberg, CEIC, UOB Global Economics Research



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