

GDP:

A flotilla of rafts

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06 August 2024

Executive Summary

- GDP growth declined more modestly than anticipated, to 5.05% YoY. Most of the positive drivers seemed to be one-off occurrences, including delayed harvest season, a short-lived metal boom, and a tourism boom thanks to large number of public holidays.
 - The overall impression of a broad-based manufacturing slowdown was confirmed, except for the (capital-intensive) metals and chemicals subsectors.
 - Nominal GDP growth (5.99% YoY) finally climbs above real growth as base effect from last year's coal price plunge faded. However, we expect nominal growth to stay within the 6 – 8% range for the year, given the weak liquidity growth and waning CAPEX cycle.
 - Our big data indices are flagging a clear risk of economic slowdown in Q3, but uncertainties over political outcomes and global financial flows are limiting the room for policymakers to react – at least until the dust settles at the end of the year.
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- The GDP grew 5.05% in Q2-24, above the market's consensus of 5.00% and our own forecast of 4.97%. This does not seem like a huge miss, but given that – outside of the pandemic – the GDP growth has moved within a narrow range (S.D. of 0.17% since 2016), the divergence bears some explaining.
 - Much of the decline from Q1 to Q2 was predictable – namely, the decline in government spending after the Elections and base effect due to the shift in Islamic calendar (which caused the pre-Lebaran buying spree to fall mostly in March instead of April).
 - Some of the positive drivers are also explicable, such as the delayed harvest season (due to El Niño) which shifted from March to April. This probably helped consumer spending in rural areas, while the ensuing decline in food inflation cushioned the decline in government transfers, which were concentrated in Q1.
 - Another driver was the leisure sector (hotels and restaurants), which enjoyed a spectacular growth at 10.2% YoY. This was, in part, caused by the large number of religious holidays and long weekends in April and May, which boosted domestic tourism – as well as spending by (religious) non-profit institutions. More encouragingly, the boom seems to have also involved foreign tourists, whose arrivals increased by 23.7% in Q2-24.
 - The metal sectors (both the mining and processing sides) also recorded double-digit growth, aided by the rise in metal prices during H1. Copper apparently led the way in Q2 rather than

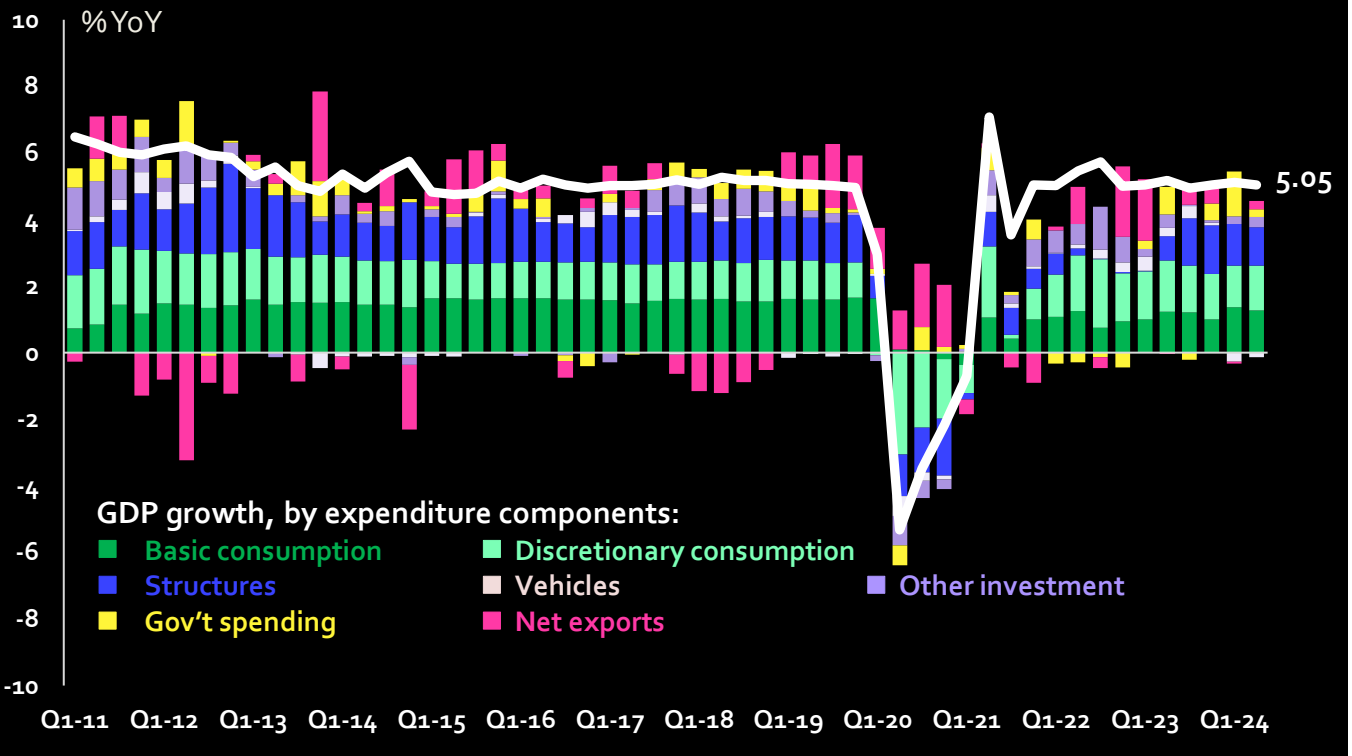
nickel, thanks to relaxation of export restrictions. Unfortunately, [as we have amply noted in recent reports on trade](#), this boom ended abruptly in June as Chinese metal stockpiles grow.

- Finally, while investment in structures continued to predominate (contributing 87% of fixed-asset investment growth in Q2), there was decent growth in machinery investment at 6.1% YoY, which seems to coincide with aggressive expansion in the metal and chemical industries. Nonetheless, the [overarching trend for corporate CAPEX](#) has been one of moderation, and the lack of liquidity windfall from commodities may continue to hamper private FAI in the near-term.
- As we can see, then, most of the growth drivers in Q2 (aside from foreign tourism) were short-lived and unlikely to extend even into Q3. What these amounted to, it seems, was a “flotilla of small rafts”, whereas [some of our nearby peers like Vietnam and India are sailing with the “armada” of the future](#), i.e. industrial relocation from China. The overall impression of a general slowdown in manufacturing (aside from metals and chemicals) is also reinforced by the Q2 data, which even showed zero or negative growth in the following subsectors: textiles, paper, furniture, machineries, and processing of nonmetal minerals.
- Our relative skepticism of short-term growth prospects is also borne out by our big data results (BCA Business Transaction Index and Consumer Spending Index), which did pick up a tourism-driven bump in May but have generally been on a downward trend in recent months (**Chart 3**). This is further compounded by a relative lack of savings as both the government (social spending, construction projects) and private sector (corporate CAPEX, SME loans) have been on a spending spree in previous quarters.
- The recent increase in bank deposits by private corporations, coupled with an expected increase in government debt issuance in H2, should be enough to close this financing gap. The former, however, seems to be – above all – the product of the aforementioned slowdown in CAPEX growth, while the latter’s growth impact may have to wait until the Regional Elections in Q4.
- Finally, we should close with a discussion on the boring technicalities of nominal vs. real GDP. Since coal prices fell in Q2 last year, nominal GDP growth – normally in the double-digits or high single-digits – have fallen, reaching as low as 3.7% YoY in Q4-23. As the base effect fades from view, nominal growth (at 5.99%) has finally surpassed real growth again. This was very clear from nominal exports and imports growth, which both exceeded 12% despite volume-wise growth of only about 8%.
- The next question, then, is how high can nominal growth recover? As we have often noted before, nominal growth (rather than real growth) should be the actual benchmark for CFOs everywhere, as it actually tracks the circulation of money and therefore revenue growth.
- Sadly, we do not see a return to double-digit nominal growth as terribly likely, given the slowdown in our big data and the M2 growth which seems stuck in the 6 – 8% range. The modest M2 growth is particularly disheartening, since much of it merely came from the frontloaded fiscal cycle, whereby substantial liquidity was shifted from government account at BI to the banking system.
- In many ways, the present situation resembles the year 2019, with regards to weak liquidity growth, waning CAPEX cycle, and the lack of any major boost from the global economy. That

year also saw normalization of a large financing gap/current account deficit and stabilization of the Rupiah, but at the expense of slowing nominal GDP growth (6.7% YoY) which got worse as the year wore on.

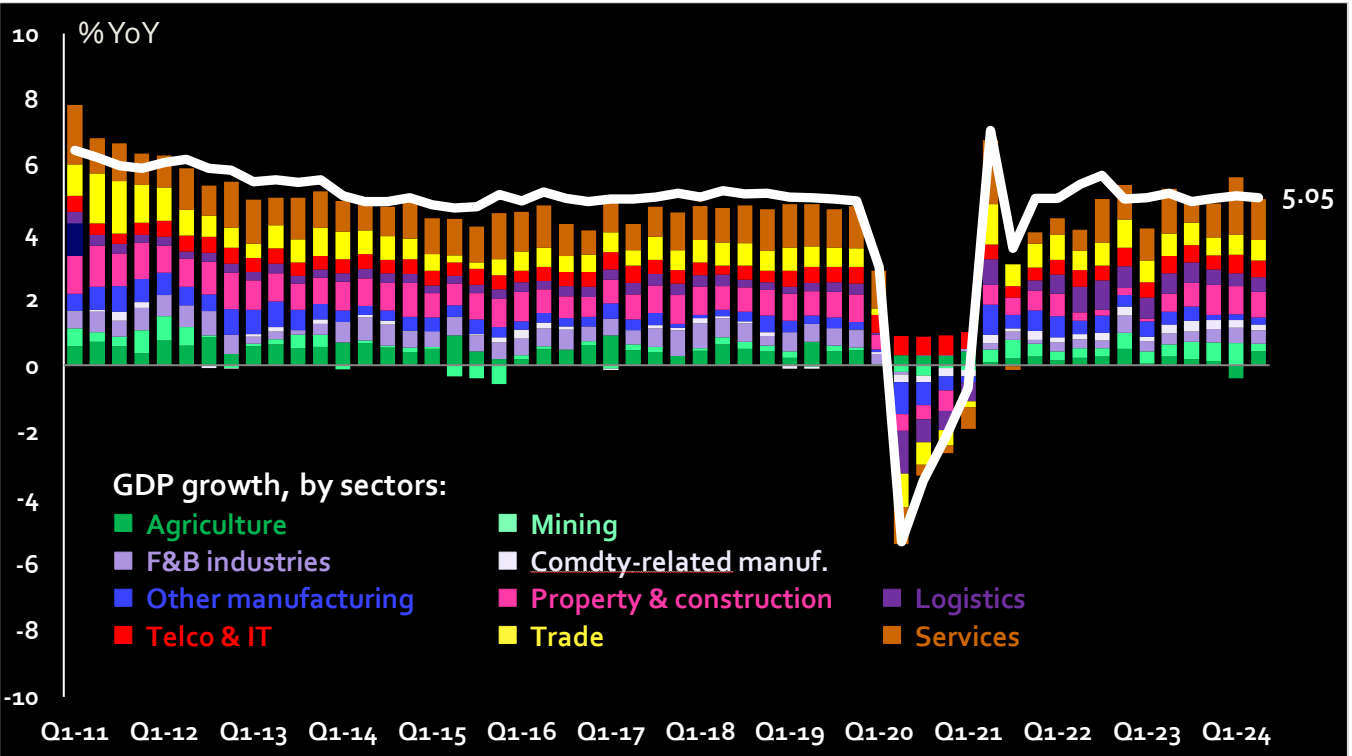
- The decent headline numbers, then, should not detract policymakers from the very real (or should we say very nominal) risk of malaise ahead. In the short-term, the room to react remains very limited, given the uncertainty over the transition to the Prabowo administration, Fed policies, US elections, and – more recently – global capital flows as the Yen carry trade gets unwound. As such, we might not expect much action to stem the slowing momentum, at least until the dust settles by (hopefully) November or December.

Chart 1. Discretionary spending ticked up on tourism, but growth moderated following the end of Elections-related fiscal push



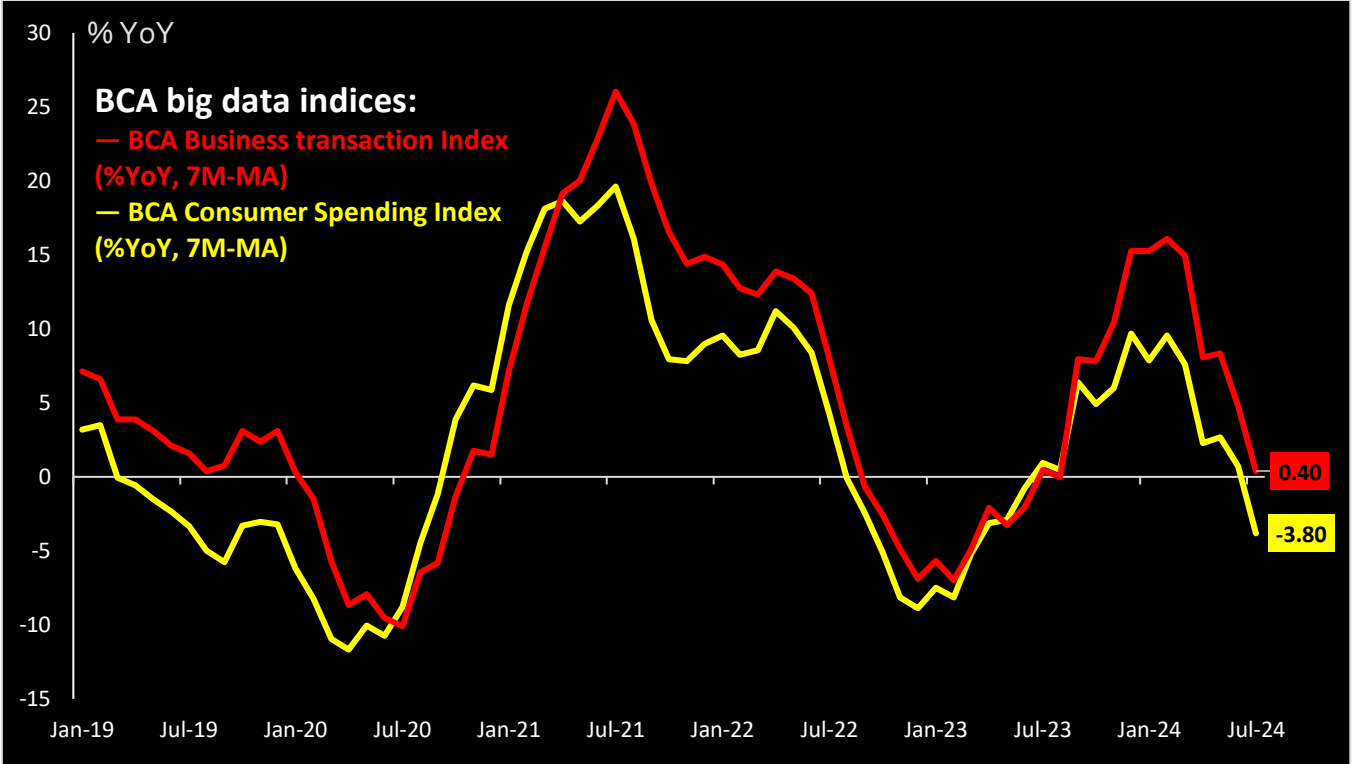
Source: BPS, BCA Economist

Chart 2. Strong growth in agriculture and tourism are outweighed by a broad-based slowdown in manufacturing and declining (volume-wise) growth in mining



Source: BPS, BCA Economist

Chart 3. Aside from a slight (tourism-driven) bump in May, BCA big data are showing a slump in economic activities since the Elections/Lebaran-driven spending spree ended



Source: BCA Big Data, calculated by BCA Economist

Table 1. Gross Domestic Products by Sector (nominal)

	2022		2023		Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,428.9	12.4	2,617.7	12.5	697.7	718.6	603.8	613.8	762.7
Mining and quarrying	2,393.4	12.2	2,198.0	10.5	547.9	539.3	510.0	493.9	485.9
Manufacturing industry	3,591.8	18.3	3,900.1	18.7	953.9	992.7	1,011.9	1,019.7	1,025.1
Electricity and gas	204.7	1.0	218.3	1.0	53.2	55.5	56.8	55.3	56.0
Water provisioning and waste recycling	12.5	0.1	13.3	0.1	3.3	3.3	3.4	3.5	3.6
Construction	1,913.0	9.8	2,072.4	9.9	492.8	522.2	556.1	541.2	533.3
Wholesale trade and repairs	2,516.6	12.8	2,702.4	12.9	671.7	686.7	687.0	695.4	719.4
Transportation and warehousing	983.5	5.0	1,231.2	5.9	306.7	316.6	326.2	313.4	345.6
Hotels, restaurant, and catering	472.1	2.4	526.3	2.5	129.6	132.8	139.0	138.5	145.9
Information and communication	812.8	4.1	883.6	4.2	220.0	223.4	228.0	232.9	239.8
Financial services and insurance	809.4	4.1	869.2	4.2	214.3	215.2	221.3	227.8	235.0
Real estate	488.3	2.5	505.5	2.4	125.6	127.3	127.8	128.5	128.9
Business services	341.4	1.7	383.1	1.8	96.3	96.7	99.4	102.0	106.7
Govt. administration, defence, and social security	605.1	3.1	616.4	3.0	170.3	137.6	164.3	177.7	179.2
Educational services	566.6	2.9	583.6	2.8	150.5	140.0	160.3	147.2	158.0
Healthcare and social services	236.2	1.2	252.0	1.2	62.4	63.6	69.6	64.7	69.2
Other services	354.2	1.8	405.2	1.9	101.3	99.6	107.3	108.2	113.1
GROSS DOMESTIC PRODUCT	19,588.4	100.0	20,892.4	100.0	5,223.4	4,327.3	4,498.6	4,508.7	4,899.3

*Numbers in recent quarters are subject to revision from BPS

Table 2. Gross Domestic Products by Expenditure (nominal)

	2022		2023		Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	10,161.7	51.9	11,109.6	53.2	2,786.3	2,787.0	2,854.1	2,905.1	3,019.1
Consumption by non-profit organizations	229.0	1.2	260.7	1.2	65.0	64.1	72.2	75.8	73.3
Government consumption	1,505.0	7.7	1,555.5	7.4	388.2	375.1	526.3	330.4	404.5
Fixed-asset investment	5,697.3	29.1	6,127.7	29.3	1,458.1	1,572.0	1,621.1	1,550.1	1,544.1
Exports of goods and services	4,799.8	24.5	4,543.4	21.7	1,054.7	1,128.3	1,198.7	1,134.4	1,184.8
Imports of goods and services	4,106.1	21.0	4,088.4	19.6	969.4	1,031.2	1,077.6	1,049.8	1,100.5
GROSS DOMESTIC PRODUCT	19,588.1	100.0	20,892.4	100.0	5,223.4	5,295.0	5,302.5	5,288.5	5,536.5

Source: BPS

Table 3. Gross Domestic Products by Sector (%YoY)

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q4-23	Q1-24	Q2-24
Agriculture, livestock, forestry, and fishery	1.87	2.29	1.29	1.12	-3.52	3.26
Mining and quarrying	4.00	4.38	6.12	7.46	9.31	3.17
Manufacturing industry	3.39	4.89	4.64	4.07	4.13	3.95
Electricity and gas	5.55	6.61	4.91	8.68	5.35	5.39
Water provisioning and waste recycling	4.97	3.24	4.90	4.66	4.44	0.84
Construction	2.81	2.01	4.91	7.68	7.59	7.29
Wholesale trade and repairs	4.63	5.50	4.83	4.09	4.61	4.89
Transportation and warehousing	3.24	19.86	13.96	10.33	8.66	9.56
Hotels, restaurant, and catering	3.89	11.94	10.01	7.89	9.38	10.18
Information and communication	6.82	7.73	7.61	6.74	8.39	7.64
Financial services and insurance	1.56	1.93	4.77	6.56	3.92	7.90
Real estate	2.78	1.72	1.43	2.18	2.54	2.16
Business services	0.73	8.77	8.24	7.62	9.63	7.96
Govt. administration , defence, and social security	-0.33	2.52	1.50	1.61	18.89	2.79
Educational services	0.11	0.58	1.79	2.63	7.34	2.37
Healthcare and social services	10.45	2.73	4.66	3.09	11.65	8.56
Other services	2.12	9.47	10.52	10.15	8.92	8.85
GROSS DOMESTIC PRODUCT	3.70	5.31	5.05	5.04	5.12	5.05

Table 4. Gross Domestic Products by Expenditure (%YoY)

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q4-23	Q4-24	Q2-24
Household consumption	2.02	4.94	4.82	4.47	4.91	4.93
Consumption by non-profit organizations	1.62	5.66	9.83	18.11	24.29	9.98
Government consumption	4.24	-4.46	2.95	2.81	19.90	1.42
Fixed-asset investment	3.80	3.87	4.40	5.02	3.79	4.43
Exports of goods and services	17.95	16.27	1.32	1.64	1.37	8.28
Imports of goods and services	24.87	14.99	-1.65	-0.15	1.94	8.57
GROSS DOMESTIC PRODUCT	3.70	5.31	5.05	5.04	5.11	5.05

Source: BPS



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

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