GDP:
Solidifying momentum amid mounting uncertainties

Lazuardin Thariq H.
Economist/Analyst

Barra Kukuh Mamia
Economist/Analyst

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Executive Summary

- Indonesia's GDP grew by 5.44 % YoY in Q2-2022. The recovery appears to be broad-based, as strengthened confidence boosts growth in consumption and investment while exports remain the fulcrum of Indonesia's post-pandemic recovery.
- Darkening global outlooks may limit the extent to which exports could support domestic economic growth, and thus might deter fixed-asset investments as well. Meanwhile, steadily-increasing inflation may eventually suppress consumption, especially for discretionary items.
- Low-base effect due to Delta-variant outbreak last year would tilt the calculation of economic growth upwards in Q3-2022, while higher agriculture yield may relieve some inflationary pressures that could support consumption going forward.

- Rising global uncertainties are fuelling recession talks in many countries, and many developed and developing markets have seen its economy contract in mid-2022. Nevertheless, growth momentum keeps marching on for the Indonesian economy. Indonesia's gross domestic product (GDP) expanded by 5.44% YoY (3.72% QoQ) in Q2-2022, outpacing the relatively modest 5.01% growth recorded in the previous quarter. GDP's sectoral breakdown showed that expansions throughout Q2-2022 appear broad-based, especially in the transportation and service-related sectors, as receding pandemic threats unlock pent-up demand in those sectors.

- Looking closer at the expenses side of the data, external demand (+19.74% YoY) remains a reliable driver behind Indonesia's post-pandemic economic growth, thanks to still-high commodity prices that prop up export performance. Indeed, still-expansive global manufacturing activity, combined with commodity supply worries, has benefited Indonesia's exports throughout Q2-2022. However, many signals now indicate that the global market might be less favourable to the Indonesian economy going forward. Slowing global economic activity has started to cool down demand for commodities. At the same time, a prolonged inflationary spell offers the Fed limited options but to continue their policy tightening campaign despite the apparent contractions in the US economy.

- History shows that a stronger US Dollar combined with dwindling commodity prices is often dreadful for the Indonesian economy ***(Chart 1)***. For one, declining external demand would dent Indonesia's gains from exports (at least volume-wise), which have thus far been crucial in protecting the IDR's value against the now stronger US Dollar. Nonetheless, it is still more likely that export would continue to contribute to domestic growth prospects, given that global energy shortage due to geopolitical tit-for-tats continue to keep coal prices in its presently elevated state.

- Increasingly robust consumption is another factor that explains the growth momentum in the domestic economy. Households' growing appetite for spending, turbocharged by various seasonal events throughout April – May 2022, had spurred consumption to grow faster than in the last period (5.51% YoY Vs. 4.34% YoY in Q1-2022). The government's policy to increase its subsidy budget is crucial in taming much of commodity-driven inflationary pressures, which translates to the effervescent consumption growth in the last quarter.

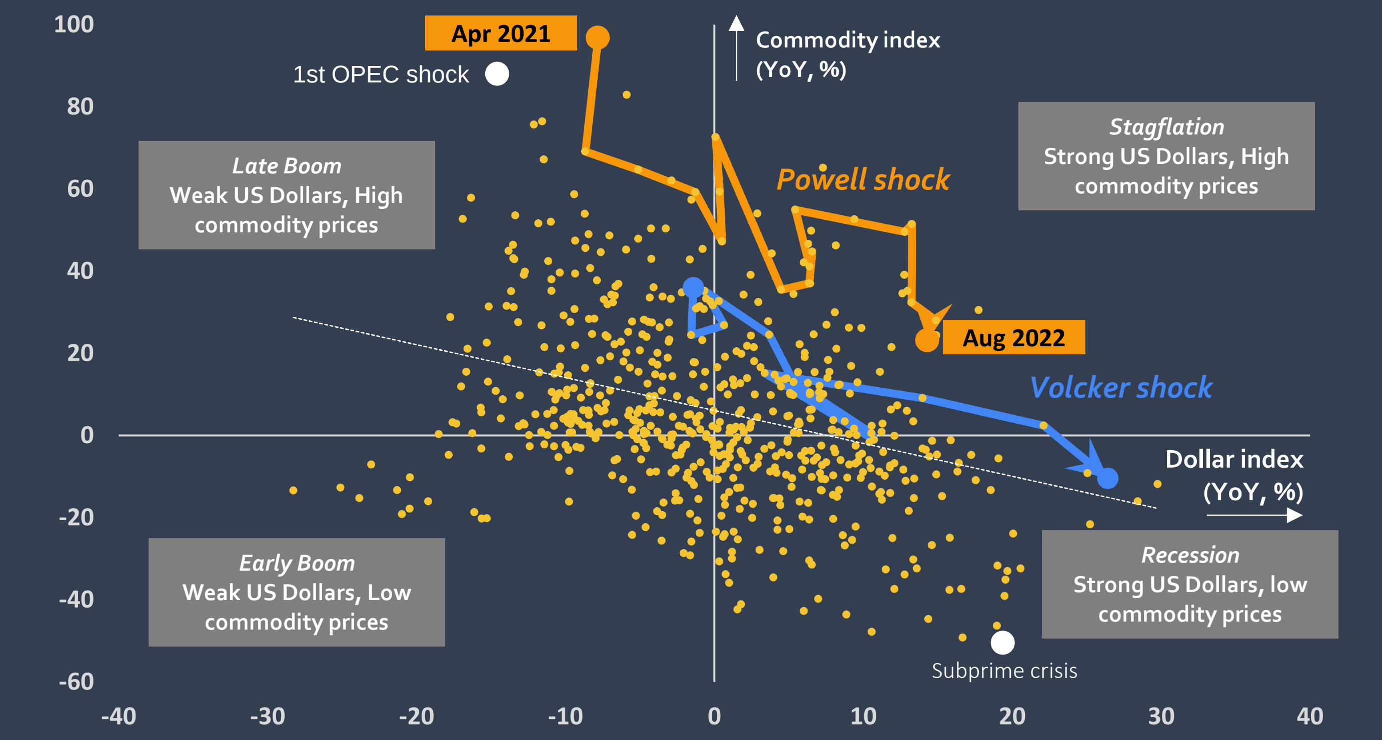
> ***"A stronger US Dollar combined with dwindling commodity prices is often dreadful for the Indonesian economy"***

- Adding to the good news is that recovering demand gives strength to business confidence, as indicated by the continuous streak of manufacturing expansion since September last year. Indeed, vigorous business confidence translates to a healthy 3.07% YoY growth in fixed-asset investments. Per our previous report on Q2-2022 investment realisation, investments in the secondary (manufacturing) sector remain in full swing throughout the quarter while foreign investors are still finding their way toward Indonesia's primary sector. However, one might want to look at the slowing investment growth rate compared to the previous period (+4.09% YoY in Q1-2021), which may point to the government's narrowing fiscal room to finance infrastructure spending, receding commodity prices, and weakening confidence in the business sector.

- The critical question for the coming months, then, is whether this upward momentum in both the domestic activity barometer, consumption and investments, would hold amid darkening global and domestic outlooks. A closer look at Indonesia's consumption basket reveals the barrier that might limit the pace of household consumption in the darker periods ahead (***Chart 2***). Despite the apparent recovery in the retail index, this growth tends to be limited to necessities such as food and fuel, while discretionary items such as IT or electrical equipment remain stubbornly low. A closer look at the GDP by expense data further substantiates this thesis, as annualised household spending grew faster for basic items but slowed for the more leisurely restaurant & hotel spending. Rising prices on the retail end, which are likely to strengthen as businesses look to pass through more costs onto consumers, would play an increasingly important role in suppressing discretionary spending, and thus domestic manufacturing activity, in the second half of the year. This scenario, of course, would be detrimental for investments as it might soon find itself whipsawed between receding confidence in the domestic business sector and rising global uncertainties that might deter foreign investments.

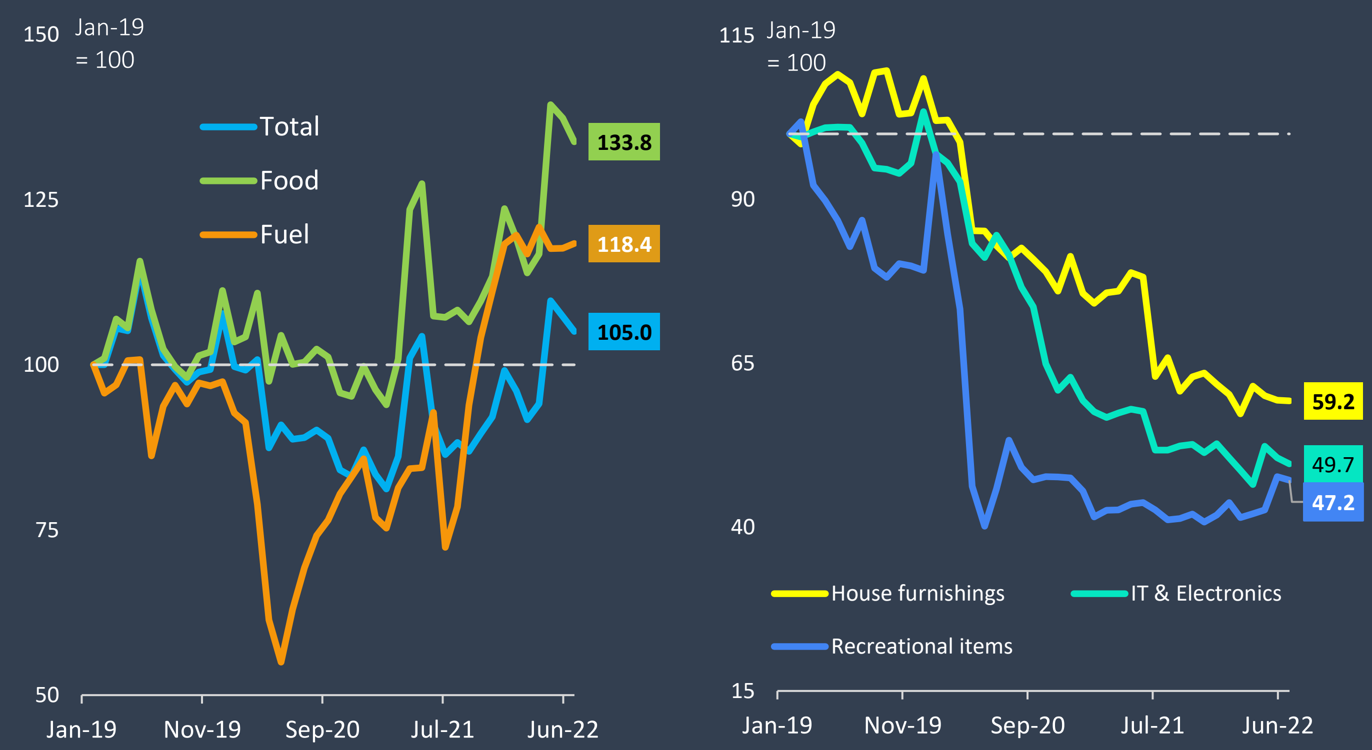
- All signals might point to a gathering, and darkening, clouds in the second half of 2022. However, Indonesia's growth prospects in the next quarter (and beyond) are not entirely doom and gloom. For one, the government's budget position (still on the green in H1 2022) might point to increased spending in the remainder of the year. The upcoming harvest season would go some way in taming inflationary pressures, which hitherto been driven mainly by foodstuffs. Equally encouraging is that Bank Indonesia's policy mix has thus far shown promising results in draining excess liquidity while remaining largely accommodative. More straightforward is the basic calculus behind economic growth, which might be tilted upwards considering the Delta-induced downturn in Q3 last year. With these in mind, we maintain our relatively modest growth outlook for 2022 at around 5.0%, while strengthening demand might push the headline inflation slightly above 5% as BI continues to grapple with the increasingly challenging exchange rate and monetary inflation risks.

Chart 1. Dwindling commodity prices amid stronger greenbacks would put the Indonesian economy between a rock and a hard place



Source: Bloomberg

Chart 2. Recovering retail sales hasn't translated to substantial recovery for discretionary items



Source: Bank Indonesia

Selected Macroeconomic Indicators

Table 1. Gross Domestic Products by sector (nominal)

	2020		2021		Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,115.4	13.7	2,253.8	13.3	596.9	619.4	512.2	566.7	638.8
Mining and quarrying	993.5	6.4	1,523.7	9.0	338.0	413.1	469.1	472.9	642.5
Manufacturing industry	3,068.0	19.9	3,266.9	19.3	805.6	828.4	845.4	866.3	877.8
Electricity and gas	179.7	1.2	190.0	1.1	46.1	47.6	49.7	50.0	50.5
Water provisioning and waste recycling	11.3	0.1	12.0	0.1	3.0	3.0	3.1	3.0	3.2
Construction	1,652.7	10.7	1,771.7	10.4	422.5	449.3	471.3	470.4	449.5
Wholesale trade and repairs	1,994.1	12.9	2,200.5	13.0	546.3	562.9	571.9	590.9	625.1
Transportation and warehousing	689.6	4.5	719.6	4.2	176.0	168.9	205.2	208.5	235.9
Hotels, restaurant, and catering	394.1	2.6	412.3	2.4	103.5	97.6	109.7	110.1	116.2
Information and communication	696.0	4.5	748.8	4.4	185.3	189.0	192.7	196.0	201.6
Financial services and insurance	696.1	4.5	736.2	4.3	184.4	184.4	185.5	195.9	203.6
Real estate	453.8	2.9	468.2	2.8	116.3	118.3	119.3	120.4	121.4
Business services	294.3	1.9	301.1	1.8	75.5	73.7	77.2	81.0	84.5
Govt. administration , defence, and social security	582.6	3.8	584.4	3.4	158.1	127.6	159.8	138.8	154.3
Educational services	549.6	3.6	556.3	3.3	141.1	132.8	153.6	128.6	139.6
Healthcare and social services	201.2	1.3	227.0	1.3	52.2	60.9	64.2	52.3	56.2
Other services	302.6	2.0	312.2	1.8	77.4	76.5	81.4	84.7	87.2
GROSS DOMESTIC PRODUCT	**15,438.0**	100.0	**16,970.8**	100.0	**4,176.4**	**4,325.2**	**4,498.0**	**4,513.3**	**4,919.9**

Table 2. Gross Domestic Products by expenditure (nominal)

	2020		2021		Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,899.9	57.6	9,236.0	54.4	2,300.3	2,296.2	2,379.7	2,421.4	2,532.4
Consumption by non-profit organizations	201.4	1.3	207.8	1.2	52.8	52.6	53.3	53.2	57.5
Government consumption	1,474.1	9.5	1,551.7	9.1	360.5	391.8	531.5	248.6	341.4
Fixed-asset investment	4,897.0	31.7	5,227.9	30.8	1,246.8	1,316.4	1,394.9	1,373.7	1,343.6
Exports of goods and services	2,666.4	17.3	3,659.0	21.6	854.6	971.7	1,065.9	1,046.6	1,214.4
Imports of goods and services	2,424.4	15.7	3,201.0	18.9	782.2	790.3	923.8	930.6	1,008.4
GROSS DOMESTIC PRODUCT	**15,438.0**	100.0	**16,970.8**	100.0	**4,176.4**	**4,325.2**	**4,498.0**	**4,513.3**	**4,919.9**

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q4-21	Q1-22	Q2-22
Agriculture, livestock, forestry, and fishery	3.60	1.77	1.84	2.28	1.19	1.37
Mining and quarrying	1.22	-1.95	4.00	5.15	3.82	4.01
Manufacturing industry	3.80	-2.93	3.39	4.92	5.07	4.01
Electricity and gas	4.04	-2.34	5.55	7.81	7.04	9.33
Water provisioning and waste recycling	6.83	4.94	4.97	4.14	1.29	4.44
Construction	5.76	-3.26	2.81	3.91	4.83	1.02
Wholesale trade and repairs	4.60	-3.78	4.65	5.56	5.73	4.42
Transportation and warehousing	6.37	-15.05	3.24	7.93	15.79	21.27
Hotels, restaurant, and catering	5.79	-10.26	3.89	4.95	6.56	9.76
Information and communication	9.42	10.61	6.81	6.21	7.16	8.05
Financial services and insurance	6.61	3.25	1.56	-2.59	1.64	1.50
Real estate	5.76	2.32	2.78	3.94	3.78	2.16
Business services	10.25	-5.44	0.73	0.89	5.96	7.92
Govt. administration , defence, and social security	4.63	-0.03	-0.33	0.98	-1.45	-1.73
Educational services	6.30	2.61	0.11	0.70	-1.70	-1.15
Healthcare and social services	8.66	11.56	10.46	12.16	4.38	6.45
Other services	10.56	-4.10	2.12	3.35	8.24	9.25
GROSS DOMESTIC PRODUCT	**5.02**	**-2.07**	**3.69**	**5.02**	**5.01**	**5.44**

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

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q4-21	Q1-22	Q2-22
Household consumption	5.04	-2.63	2.02	3.55	4.34	5.51
Consumption by non-profit organizations	10.67	-4.25	1.59	3.29	5.85	5.04
Government consumption	3.29	1.96	4.17	5.25	-7.59	-5.24
Fixed-asset investment	4.48	-4.96	3.80	4.49	4.09	3.07
Exports of goods and services	-0.51	-8.14	24.04	29.83	16.69	19.74
Imports of goods and services	-6.92	-16.72	23.31	29.60	15.87	12.34
GROSS DOMESTIC PRODUCT	**5.02**	**-2.07**	**3.69**	**5.02**	**5.01**	**5.44**

Source: BPS

Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	5.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.50
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,070
Trade Balance (US$ billion)	11.8	-8.5	-3.2	21.7	35.3	36.9
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.5

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Senior Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Derrick Gozal
Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066122

Livia Angelica Thamsir
Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Ahmad Aprilian Rizki
Research Assistant
ahmad_rizki@bca.co.id
+6221 2358 8000 Ext: 20378

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343