

29 July 2020

Macroeconomics Indicator

| | 2019 | 2020F |
|---------------------------|--------|--------|
| GDP growth (%YoY) | 5.04 | 0.45 |
| Inflation (%YoY) | 2.72 | 1.80 |
| BI rate (% Year-end) | 5.00 | 3.50 |
| Rp/US\$ (Year-end) | 14,155 | 14,500 |
| CA balance (% of GDP) | 2.82 | 1.52 |
| Fiscal balance (% of GDP) | 2.21 | 6.34 |

GDP 2Q20 preview: the weakest quarter since 1998

- Our latest estimation suggests economic growth will contract by 4.6% yoy in 2Q20 (previously we expect a drop of 2.4%, our previous report [here](#))
- Steep growth contraction was due to weaker domestic demand (-4.9% yoy) from PSBB. Positive net-export may partially alleviate the drop.
- 2Q20 will be the worst and shall improve in 2H20 to 0.8% yoy in avg from pick-up in government spending. We still expect +0.45% growth for 2020.

Weak domestic demand in 2Q20 from PSBB measure

We estimated that domestic demand will be shrinking by 4.9% yoy, from an average of +4.7% in the last 5-years. We see the shrinking domestic demand to be led by contraction in investment at 5.4% yoy as indicated by the contracting cement sales at around 10% yoy and contracting automotive sales at around 90% yoy in 2Q20. On the other hand, private consumption also contracted by 4.3% yoy growth in 2Q20 as indicated by declining VAT at -20% yoy and retail sales index at -19% yoy. We are of the view that the decline in both consumption and investment have already expected due to PSBB measures in late Mar-mid Jun.

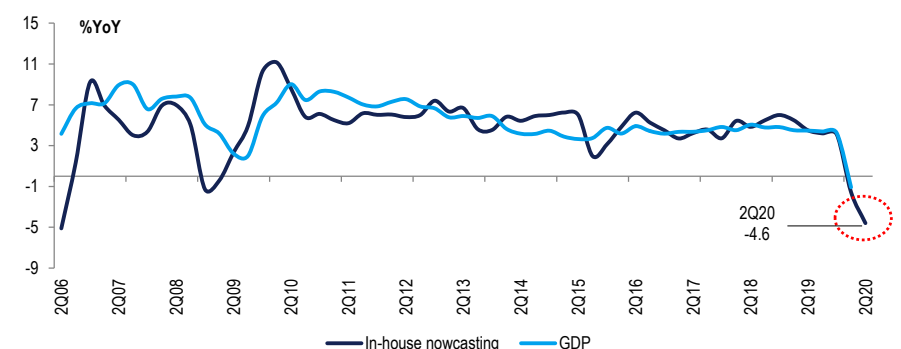
External trade may provide some cushion

Better than expected net-export figures at US\$2.9bn surplus in 2Q20 vs. +US\$2.6bn in 1Q20 shall translate to higher net-export contribution at around 0.5%. This was largely due to a rebound in the non-oil&gas export by +3.6% yoy in June (-27.7% yoy in May) mainly from commodities i.e. CPO (+18.6% yoy), iron & steel (27.6% yoy) and mineral ores (+123.4% yoy). The increase in demand for these commodities was ultimately due to higher demand from China, which recorded a higher imports figure of 2.7% yoy in Jun (vs. -16.7% yoy in May). The positive trend in net-export will go hand by hand with the recovery in global economy especially China.

A hopeful 2H20, pick-up in government spending is imperative

We believe the economy will improve mildly to around 0.8% yoy in average in 2H20, from around -1.7% in 1H20. However, the improvement in economic activity in 2H20 will rely on the government spending realization. We see the best use of the government fund is spending that channelled to the real sector (i.e. social aid, material/goods and health related – refer to our previous note [here](#)). This is under the consideration that the money spent have the highest multiplier effect to the overall economy.

Fig. 1: Growth will contract by -4.6% in 2Q20



Source: Indo Premier

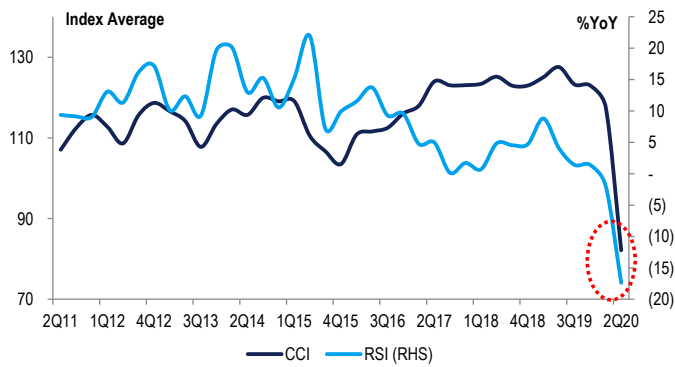
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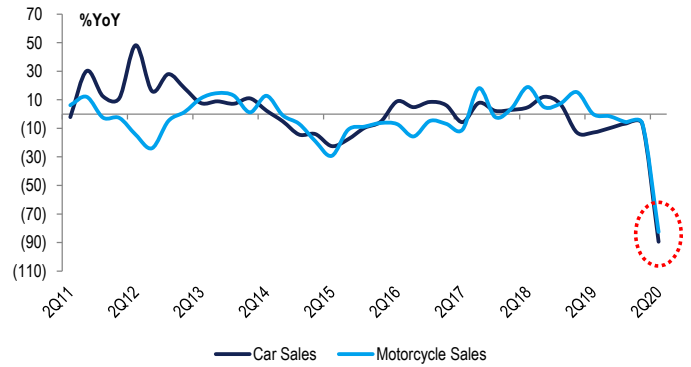
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Fig. 2: Both CCI and RSI suggest contraction in consumption



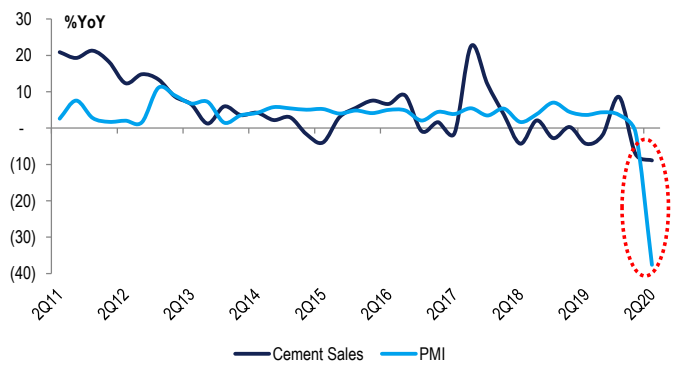
Source: BI, CEIC, Indo Premier
CCI: consumer confidence index, RSI: retail sales index

Fig. 3: likewise, autosales...



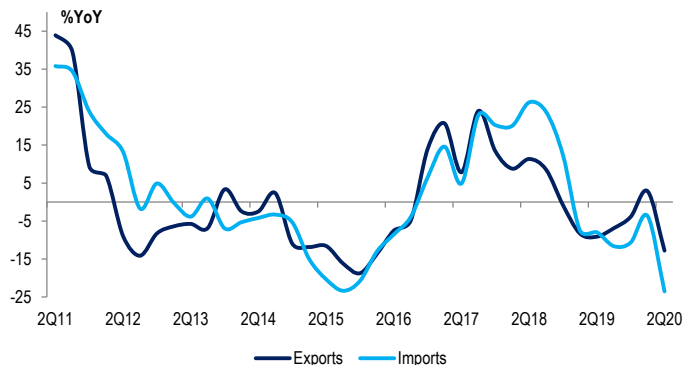
Source: CEIC, Indo Premier

Fig. 4: Cement sales and PMI also points to contracting investments



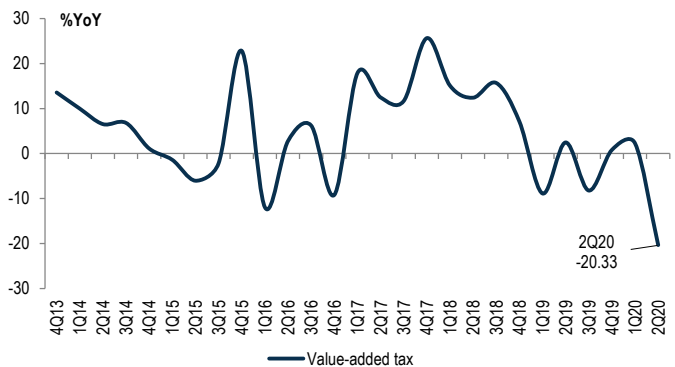
Source: CEIC, Indo Premier
PMI: Purchasing Manager Index

Fig. 5: Exports and imports contracting, but net-exports still positive



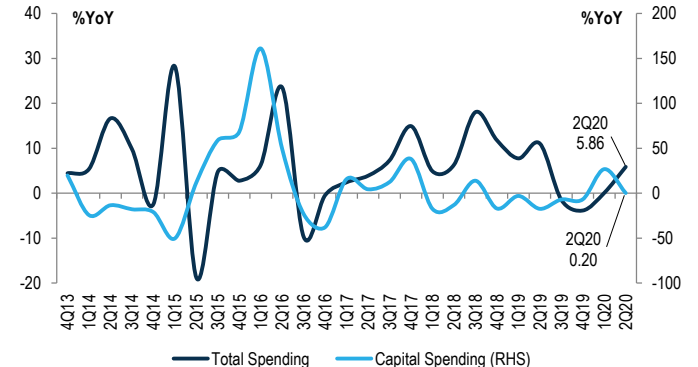
Source: BPS, Indo Premier

Fig. 6: VAT suggests shrinking formal sector



Source: MoF, Indo Premier

Fig. 7: Government spending in the rise, but not on capital goods



Source: MoF, Indo Premier

ANALYSTS CERTIFICATION

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