

GDP: External trade leads the charge
Executive Summary:

- **Indonesia's GDP contracted by 0.74% YoY in Q1-2021.**
- **Leading the charge this time is the external sector. With the remarkable recovery of China and the US driving up global trade,** both exports as well as investment (likely driven by export-oriented manufacturers) recorded some of the largest gains last quarter.
- On the domestic side however, **continued mobility restrictions and low vaccination rates continue to drag on household consumption,** which continues to recover at a more modest pace.
- **Although we may see some upside for growth in Q2-2021 due to the effects of Ramadan, prospects for growth beyond that will depend on the progress of vaccinations as well as the virus' spread.**

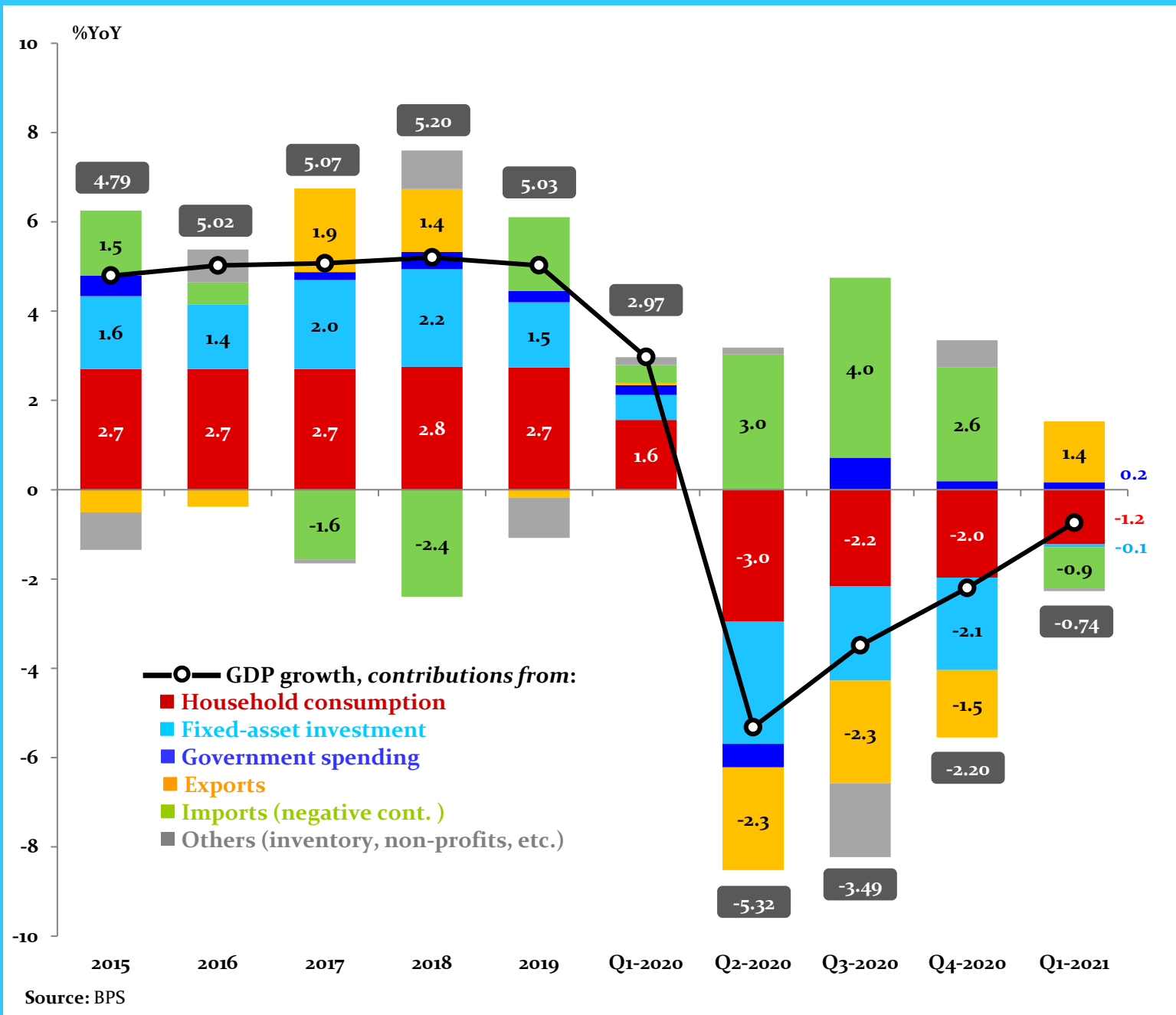
- **Indonesia's Gross Domestic Product (GDP) contracted by 0.74% YoY in Q1-2021,** slightly below the more optimistic projections of most analysts. While growth hasn't returned to its pre-pandemic positive, the latest figure – the latest in a string of gradually improving growth numbers – is also a sign that Indonesia's economic recovery, while not overly dramatic, remains well underway.
- **Leading the charge this time is the external sector, with exports growing by 6.74% YoY in Q1 (Chart 1).** The key driver here of course, which has been well-reflected by trade data over the past few months, is the remarkable upsurge in global trade, driven primarily by the rapid economic recovery in China and the US. This also helps make some sense of import numbers, which have surged even as domestic consumption remains sluggish. With much of the import growth in the past few months being spearheaded by raw material and capital good imports, it seems likely that most of this increase was but fuel for the economic engines of the US and China, rapidly humming back to life.
- **This surge in export demand may also be an important driver behind the sharp jump in investment growth (-0.07% YoY in Q1-2021, compared to -2.07% YoY in Q4-2020).** Again, much of the indicators released over the past few months seem to have been building up towards this explosion in export-related activities (**Chart 3**). The remarkably strong showing by manufacturing PMI in the past few months hints at an expansion of business activities by export manufacturers. Meanwhile, FDI numbers – particularly in manufacturing – also recorded a sharp increase in Q1-2021.
- Perhaps the most visible manifestation of this is the explosion in nickel-related FDI over the past year, driven by a combination of government industrial policy and expectations of a green technology fuelled boom in nickel demand. It is little surprise then, that Sulawesi – the center of gravity for Indonesia's nickel processing activities – was one of the few regions to record positive economic growth last quarter.
- Outside these few domains touched by the external sector however, the pace of recovery remains much more modest. **Household consumption, that most robust pillar of pre-Covid Indonesia's economy, is now one of the slowest to recover (Charts 1 & 2).** With mobility restrictions still in place, as well as still low Covid vaccination rates, Indonesian consumption has yet to stage the remarkable recovery seen in its American and Chinese counterparts. The arrival of deadlier variants of Covid, as well as the renewed surge of Covid cases in the developing world, mean that risks on this front are likely to persist going forward.
- With the continued divergence in the speed of vaccinations (and therefore, the speed of economic recovery) between the US and the rest of the world, **it is likely that Indonesia's economic recovery will continue to be predominantly export-driven in the coming months.**
- **Another thing to note is that government spending was relatively muted last quarter (+0.17% YoY).** While this can be partly attributed to the fact that a substantial portion of stimulus this year will be allocated to vaccines and not direct economic aid, stimulus disbursement remained relatively low at 19% (although this is still higher than it was at the same point last year). It may very well be that the government intends to

distribute much of its stimulus during the Lebaran break, since disbursement last year tended to be timed in “bursts” coinciding with peak seasons or long holidays.

- Meanwhile, growth numbers are likely to be disproportionately large in the next few quarters as distortions from last year’s low base begin to kick in. Domestic demand should get a welcome boost from the upcoming Ramadan spending spree (and the potential burst in government stimulus), despite the recent ban on *mudik* by the government. With the combined effect of

last year’s low base, as well as Ramadan, we should see some upside for Q2’s consumption figures. Beyond that however, the recovery in domestic demand will hinge largely on the progress of vaccinations as well as the virus’ spread, although the increasing prevalence of online channels for shopping and working should help cushion some of the economic damage done by mobility restrictions. **Ultimately, Ramadan might prove to be just a temporary shot in the arm, while relief of a more permanent sort will depend on getting actual shots into Indonesians’ arms.**

Chart 1. Exports and fixed-asset investment recorded the largest improvements in Q1-2021, while consumption continued to recover at a slower pace



Source: BPS

Chart 2. With the exception of car sales, which received a temporary boost from government tax incentives, consumption-related indicators remained generally flat...

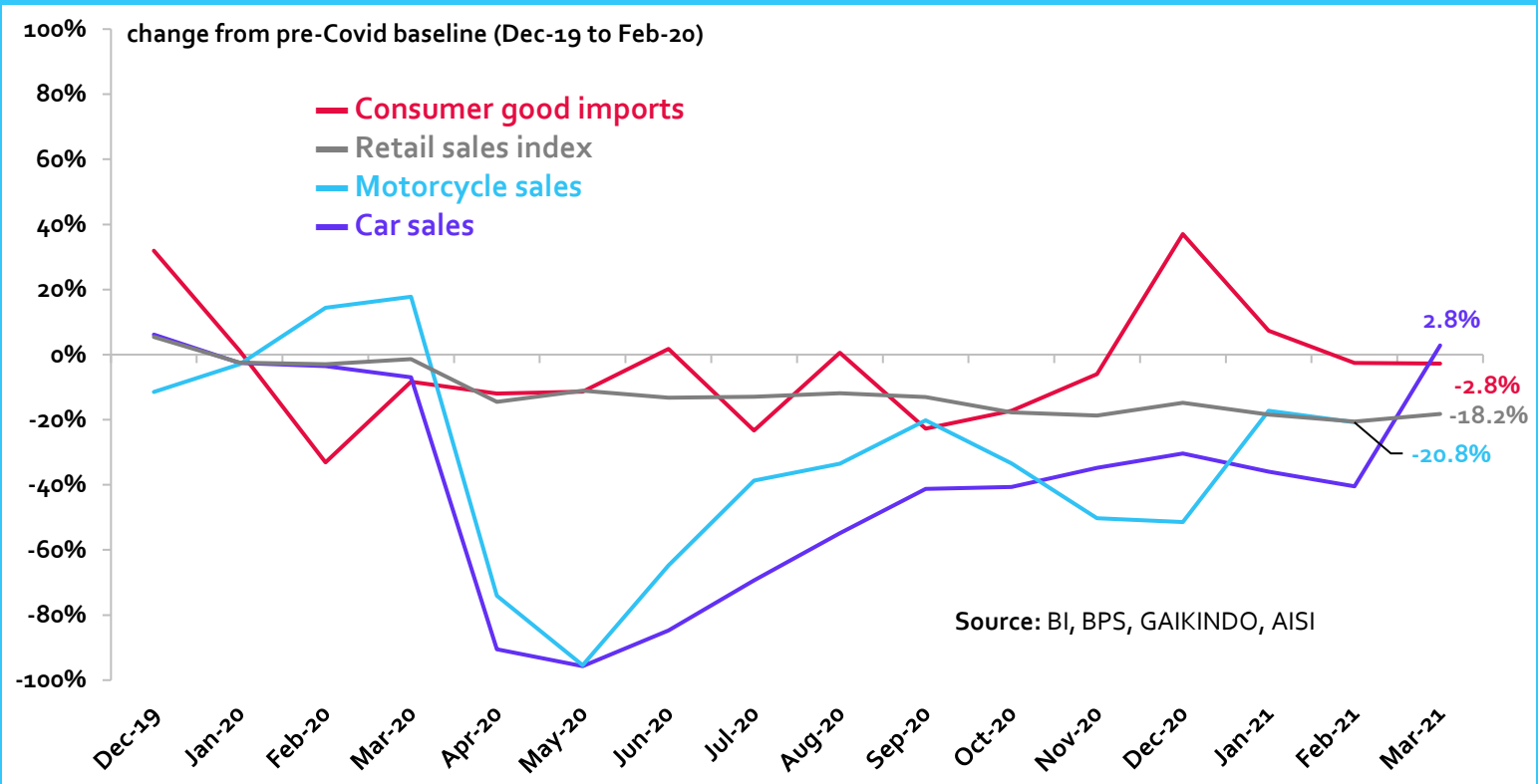


Chart 3. ...in contrast to the recent spike in several metrics related to industrial activity

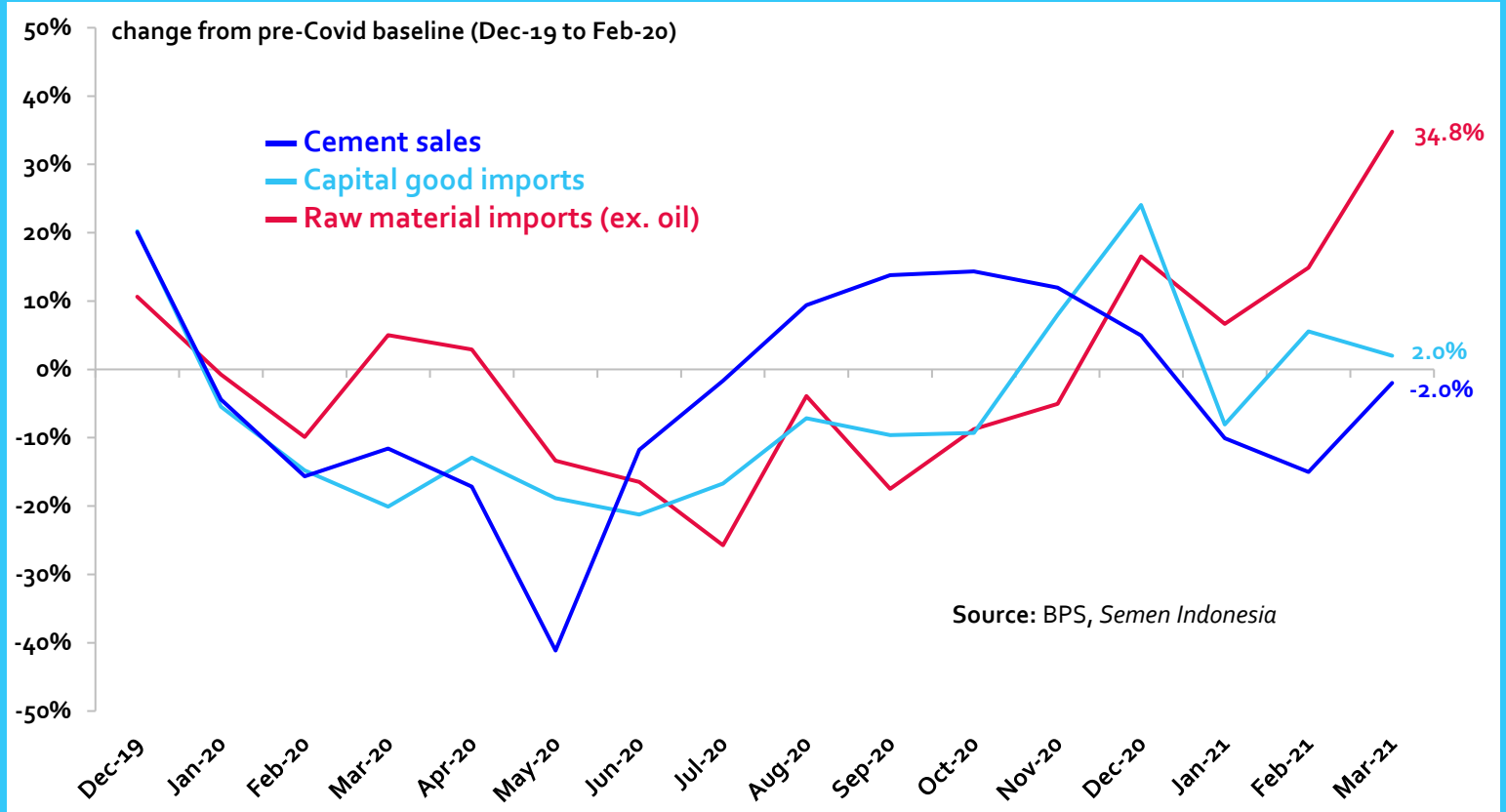


Table 1. Gross Domestic Products by sector (nominal)

	2019		2020		Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,013.6	12.7	2,115.1	13.7	503.5	569.8	571.6	470.2	522.8
Mining and quarrying	1,149.9	7.3	993.5	6.4	267.4	231.5	239.9	254.7	303.4
Manufacturing industry	3,119.6	19.7	3,068.0	19.9	783.6	732.6	773.4	778.4	787.4
Electricity and gas	185.1	1.2	179.7	1.2	45.9	42.0	45.7	46.1	46.7
Water provisioning and waste recycling	10.7	0.1	11.3	0.1	2.8	2.8	2.8	2.9	2.9
Construction	1,701.7	10.7	1,652.7	10.7	419.7	389.4	413.0	430.5	428.7
Wholesale trade and repairs	2,060.8	13.0	1,995.5	12.9	517.6	473.2	499.6	505.0	519.8
Transportation and warehousing	881.7	5.6	689.7	4.5	202.9	131.9	171.2	183.8	169.7
Hotels, restaurant, and catering	440.3	2.8	394.2	2.6	109.7	84.2	97.1	103.2	101.5
Information and communication	626.4	4.0	695.8	4.5	166.9	171.9	177.6	179.5	181.8
Financial services and insurance	671.4	4.2	696.1	4.5	184.4	163.9	168.4	179.4	181.8
Real estate	439.4	2.8	453.8	2.9	113.0	112.9	113.9	114.0	114.3
Business services	304.3	1.9	294.3	1.9	78.5	67.6	73.0	75.2	74.8
Govt. administration, defence, and social security	572.5	3.6	580.2	3.8	141.4	140.1	143.6	155.0	137.5
Educational services	522.7	3.3	549.4	3.6	129.9	130.4	139.2	150.0	128.7
Healthcare and social services	174.8	1.1	201.1	1.3	46.9	45.3	52.8	56.1	49.7
Other services	308.8	2.0	302.6	2.0	80.5	68.7	75.7	77.6	76.9
GROSS DOMESTIC PRODUCT	15,833.9	100.0	15,434.2	100.0	3,922.6	3,687.8	3,894.6	3,929.2	3,969.1

Table 2. Gross Domestic Products by expenditure (nominal)

	2019		2020		Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,965.8	56.6	8,900.0	57.7	2,280.1	2,133.2	2,232.1	2,254.7	2,259.4
Consumption by non-profit organizations	206.0	1.3	201.3	1.3	50.3	50.0	50.4	50.7	48.7
Government consumption	1,385.9	8.8	1,433.7	9.3	254.8	319.4	377.7	481.8	265.9
Fixed-asset investment	5,119.5	32.3	4,897.8	31.7	1,249.5	1,128.9	1,227.6	1,291.7	1,269.5
Exports of goods and services	2,914.6	18.4	2,649.8	17.2	681.8	571.5	671.3	725.2	761.1
Imports of goods and services	2,992.0	18.9	2,472.9	16.0	687.1	563.3	568.1	654.4	718.1
GROSS DOMESTIC PRODUCT	15,833.9	100.0	15,434.2	100.0	3,922.6	3,687.8	3,894.6	3,929.2	3,969.1

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2018	2019	2020	Q3-20	Q4-20	Q1-21
Agriculture, livestock, forestry, and fishery	3.89	3.64	1.71	2.10	2.59	2.93
Mining and quarrying	2.16	1.22	-1.95	-4.28	-1.20	-2.03
Manufacturing industry	4.27	3.80	-2.93	-4.34	-3.13	-1.39
Electricity and gas	5.47	4.04	-2.34	-2.44	-5.01	1.72
Water provisioning and waste recycling	5.56	6.83	4.93	5.92	4.95	4.22
Construction	6.09	5.76	-3.26	-4.52	-5.67	-0.78
Wholesale trade and repairs	4.97	4.62	-3.73	-5.07	-3.64	-1.22
Transportation and warehousing	7.06	6.40	-15.06	-16.72	-13.42	-13.13
Hotels, restaurant, and catering	5.68	5.80	-10.22	-11.83	-8.88	-7.25
Information and communication	7.02	9.41	10.60	10.72	10.99	8.71
Financial services and insurance	4.17	6.60	3.25	-0.93	2.37	-3.01
Real estate	3.48	5.74	2.34	1.99	1.25	0.96
Business services	8.64	10.25	-5.44	-7.61	-7.02	-6.03
Govt. administration , defence, and social security	7.00	4.67	-0.05	1.77	-1.55	-2.95
Educational services	5.35	6.29	2.64	2.43	1.36	-1.58
Healthcare and social services	7.15	8.68	11.61	15.30	16.55	3.62
Other services	8.97	10.55	-4.09	-5.54	-4.83	-5.11
GROSS DOMESTIC PRODUCT	5.17	5.02	-2.07	-3.49	-2.19	-0.74

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

	Last 3 Years			Last 3 Quarters		
	2018	2019	2020	Q3-20	Q4-20	Q1-21
Household consumption	5.05	5.04	-2.63	-4.05	-3.61	-2.23
Consumption by non-profit organizations	9.10	10.62	-4.25	-1.92	-2.09	-4.68
Government consumption	4.80	3.25	1.99	9.77	1.84	2.99
Fixed-asset investment	6.64	4.45	-4.91	-6.48	-6.02	-0.23
Exports of goods and services	6.55	-0.87	-7.72	-11.67	-7.17	6.73
Imports of goods and services	11.88	-7.69	-14.25	-22.78	-13.16	5.27
GROSS DOMESTIC PRODUCT	5.17	5.02	-2.07	-3.49	-2.19	-0.74

Source: BPS

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.5
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

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