

06 May 2024

Global Economics & Market Strategy

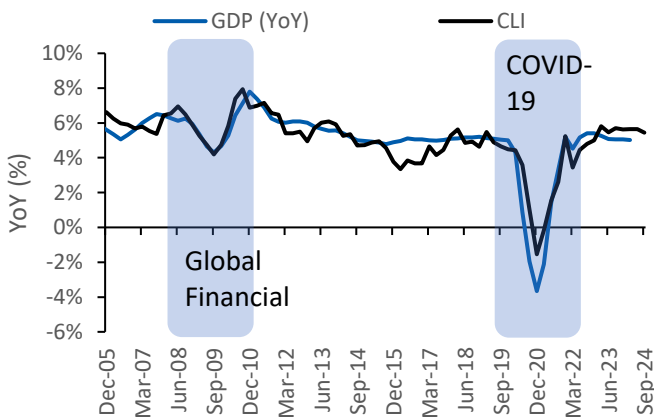
Indonesia: Economic Growth to Remain Resilient in 1H24

- ◆ We maintain our forecast for Indonesia’s annual GDP growth at 5.00%, and expect the growth momentum to remain robust in 1H24, followed by a potential weakening in household consumption in 2H24.
- ◆ Our view for Indonesia's growth trajectory is driven by three primary factors: (1) the strength in consumer demand, (2) the resurgence of global trade activities, fuelled by an enhanced global market sentiment, and (3) the growth in foreign direct investment.
- ◆ Indonesia 1Q24 GDP expanded 5.11% YoY (-0.83% QoQ) versus Bloomberg’s consensus estimate of 5.08% YoY (-0.86% QoQ) and our in-house projection of 5.07% YoY (-0.87% QoQ).

Associate Economist

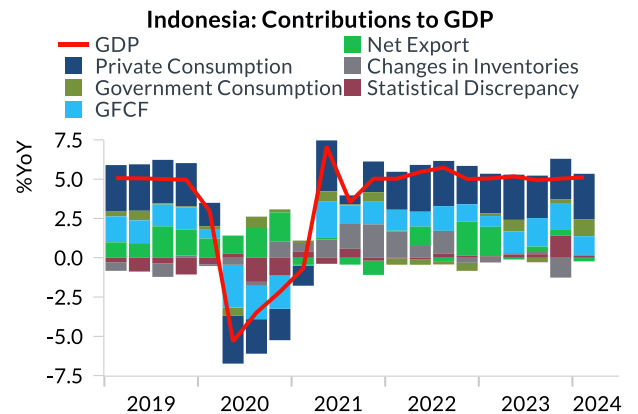
Wong Xian Yong
 +603 9280 2179
wong.xian.yong@rhbgroup.com

Figure 1: Indonesia CLI suggest the growth momentum to remain resilient in 2Q but moderate slightly into 3Q24



Source: CEIC, RHB Economics & Market Strategy

Figure 2: Household consumption and investment spending remain the primary contributors



Source: Macrobond, RHB Economics & Market Strategy

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Growth Momentum is Driven by Domestic Demand

We maintain our forecast for Indonesia's annual GDP growth at 5.00%, and expect the growth momentum to remain robust in 1H24, followed by a potential weakening in household consumption in 2H24. Our view for Indonesia's growth trajectory is driven by three primary factors: (1) the strength in consumer demand, (2) the resurgence of global trade activities, fuelled by an enhanced global market sentiment, and (3) the growth in foreign direct investment.

From the domestic front, household consumption expenditure remains the primary contributor to Indonesia's GDP growth. On the expenditure side, all GDP components, except for household consumption and non-profit institutions serving households' final consumption expenditure (NPISHs FCE), experienced negative %QoQ growth. This reinforces our view of sustained consumer demand in 1Q24 and also suggests that GDP growth momentum will remain resilient in the first half of 2024. This is primarily due to election-related spending during the presidential election in February, and the implementation of various government initiatives in late March, including an eight percent increase in civil servant salaries, religious holiday allowances (THR), and 13th-month bonuses. **We expect the growth momentum to persist into 2Q24, supported by the seasonal surge in household consumption during the Lebaran celebration.** Month-on-month percentage changes in retail trade typically peak during the month of Ramadan and the Lebaran celebration, before gradually moderating and trending downwards until the year-end.

However, in 2H24, we are adopting a more cautious stance, foreseeing a downside risk to GDP growth, stemming from a potential flat or even declining trajectory in retail spending. As outlined in our [thematic report](#), retail spending in 2H24 is expected to decelerate. This is due to diminished sentiment post-Lebaran, reduced purchasing power, and stagnant income growth expectations. The unexpected hike in the April Bank Indonesia policy meeting may further exacerbate the decline in consumer demand. Tightening monetary conditions, including higher interest rates toward year-end, are anticipated to dampen the two primary drivers of retail sales: loan growth and stock market performance. These conditions are likely to defer consumer purchases of durable goods, given the elevated cost of borrowing and the increased risk premium demanded by investors. This typically results in lower stock market valuations, thus limiting the consumer wealth effect. **This is supported by our proprietary Composite Leading Index (CLI) model, which leads empirical GDP data for two quarters. The CLI signals a likely persistence of growth momentum into 2Q24 but suggests a moderation into 3Q24.**

We maintain our optimistic global economic outlook in 2024, driven by heightened economic momentum in major economies. We keep our 2024 full-year US and China GDP forecast at 2.5% and 5.0%, respectively. We expect the surge in US growth momentum and the early-stage improvement in China's economic indicators to have a positive spillover toward Indonesia's commodity export demand and drive up commodity prices in the global market. Given Indonesia's status as a major commodity exporter, heightened demand and increased commodity prices indicate a promising outlook for the country's trade dynamics. These positive trajectories of the global economic landscape are illustrated in Figure 11, where the Sentix Global Economic Sentiment Index reflects improved global business sentiment over the next six months. Simultaneously, Global Industrial Production, measuring the global economic level, indicates a recovering momentum in global production. These collective developments paint a promising picture of Indonesia's trade dynamics, suggesting favourable prospects.

We view foreign direct investment (FDI) as the primary determinant of Indonesia's GDP growth, particularly in light of President Jokowi's 'downstreaming' policy. This policy aims to increase the value of commodities by transitioning from raw materials to semi-finished or finished goods for export. To achieve this shift, sustained growth in foreign capital is essential to finance research, development, and technological transfer. This enables the transformation of investment from low-value materials, such as nickel used in stainless steel, towards processing for higher-value materials like EV batteries. Presently, Indonesia offers new investment opportunities in electric vehicles, renewable energies, pharmaceuticals, and semiconductors for foreign investors. **We anticipate an uptick in investment and FDI activities post-election, as political uncertainty dissipates and market volatility stabilises.** The clarity in political direction and policy frameworks following the election will bolster investor confidence and encourage them to resume their investment plans. The FDI growth in 1Q24 register a 15.5% YoY and 10.9% QoQ increase.

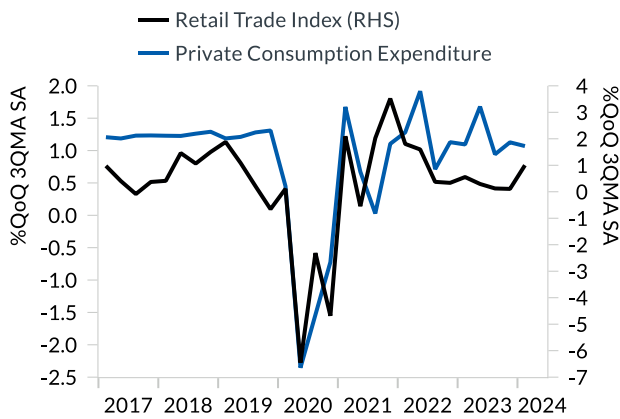
'Indonesia 1Q24 GDP expanded 5.11% YoY (-0.83% QoQ) versus Bloomberg's consensus estimate of 5.08% YoY (-0.86% QoQ) and our in-house projection of 5.07% YoY (-0.87% QoQ). From an industrial standpoint, the manufacturing sector, mining sector, and wholesale, retail, and motor sectors emerged as the primary contributors to GDP growth, posting YoY contribution of 0.86%, 0.68% and 0.60%, respectively.

Figure 3: The %MoM table suggests retail trade momentum will fade off post-Lebaran celebration due to seasonality

	Mean	Median	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Jan	-5.03	-4.38	-8.82	-2.60	-1.24	-4.93	-7.29	-7.70	-7.47	-4.26	-3.11	-4.38	-3.52
Feb	-2.39	-2.47	-4.85	-0.40	-2.47	-4.86	-1.71	0.03	-0.54	-2.66	-4.55	-3.38	-0.94
Mar	3.87	3.48	-0.62	2.51	2.97	3.48	4.54	5.48	1.64	6.07	2.64	7.04	6.86
Apr	3.76	1.22	-1.73	1.10	1.22	1.22	2.83	-0.35	-13.29	17.32	16.52	12.81	
May	2.65	3.68	3.68	1.50	3.67	3.76	7.88	8.91	4.00	3.22	-2.14	-7.99	
Jun	-0.96	1.13	2.52	4.03	6.51	8.47	2.53	-6.49	-2.38	-12.75	-11.75	-0.26	
Jul	-1.05	-4.08	22.46	8.57	-0.74	-9.67	-9.16	-5.29	0.25	-5.05	-3.12	-8.79	
Aug	-3.50	-1.46	-10.93	-13.10	-8.93	-3.76	-0.81	-2.11	1.33	2.11	0.83	0.36	
Sep	-1.03	-1.46	-0.53	0.62	-0.10	-0.43	-1.62	-1.94	-1.43	-1.54	-1.82	-1.48	
Oct	0.79	1.28	0.99	2.53	0.19	0.56	-1.27	1.58	-5.34	3.15	2.31	3.22	
Nov	0.89	0.41	-0.69	0.24	1.89	2.16	2.69	0.40	-1.16	2.82	0.41	0.16	
Dec	7.12	7.25	5.90	7.52	8.08	6.21	10.57	8.55	4.81	7.61	6.99	4.94	

Source: CEIC, RHB Economics & Market Strategy. Blue coloured figure indicates the month of Lebaran Celebrations

Figure 4: Retail Sales is expected to remain robust in 1H24...



Source: RHB Economics & Market Strategy.

Figure 5: ...supported by loan growth and stock market performances

Dependent Variable	Retail Sales Index			
Independent Variables	Coefficient	Std. Error	t-Statistic	P-value
Total Loan Outstanding (-3)	0.964	0.197	4.897	0.000
Jakarta Composite Index (-2)	0.346	0.073	4.773	0.000
Consumer Confidence Index (-1)	0.103	0.049	2.098	0.040
Import of Consumer Goods (-2)	0.090	0.032	2.828	0.006
Car Sales (-2)	-0.008	0.003	-2.441	0.018
Consumer Price Index (-2)	-1.942	0.717	-2.710	0.009
Constant	-2.011	1.807	-1.113	0.270
R-Square	0.758			
Adjusted R-Square	0.733			
Standard Error	4.609			
Observation	60			

Source: RHB Economics & Market Strategy.

(-x) represent the (t-x) lag of the variables.

Figure 6: However, the drivers of retail sales are expected slow down due to lack of pertinent driver post-Lebaran...



Source: Macrobond, RHB Economics & Market Strategy

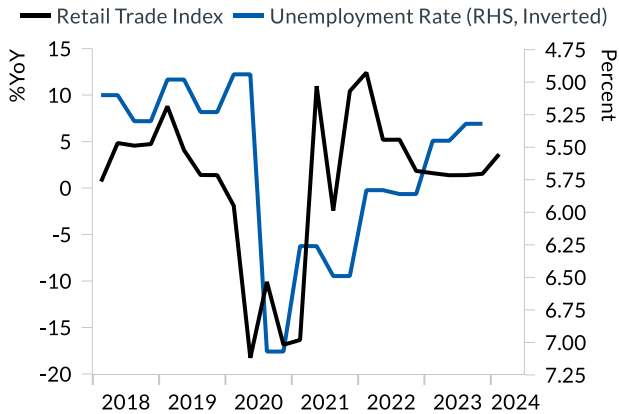
Figure 7: ... and interest rate hike by Bank Indonesia



Source: Macrobond, RHB Economics & Market Strategy

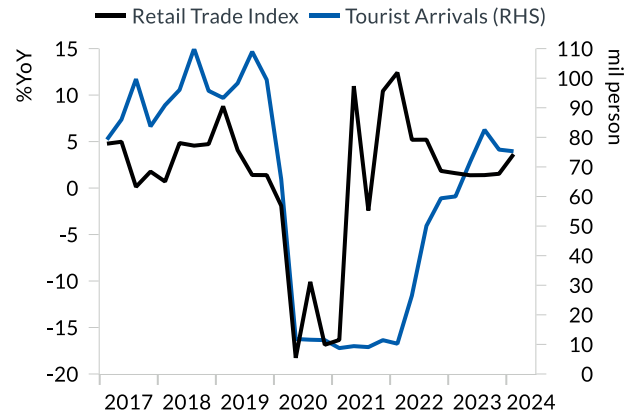
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Figure 8: while improvement in unemployment rate is supportive to consumer spending



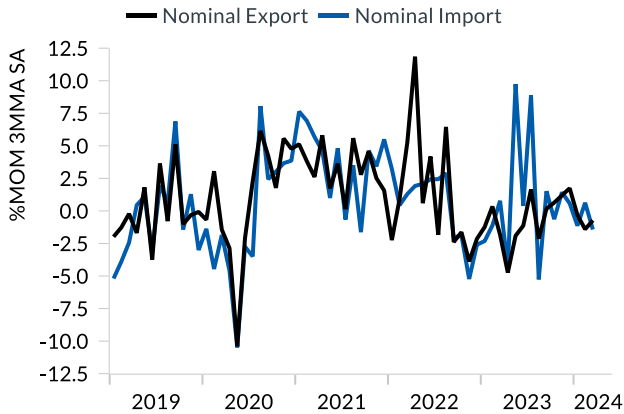
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: ...tourist arrival is still below pre-pandemic level



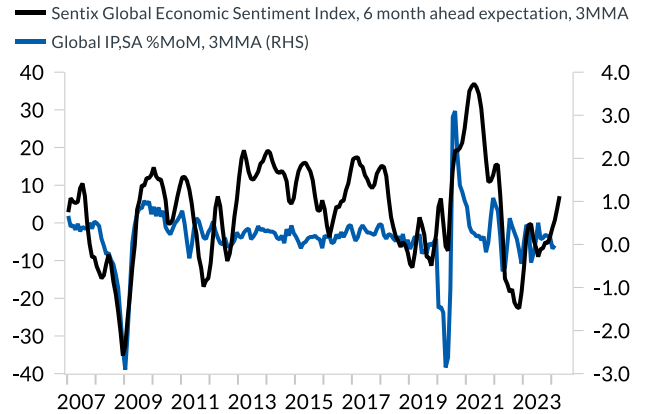
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: We remain optimistic on Indonesia's trade trajectory to recover ...



Source: Macrobond, RHB Economics & Market Strategy

Figure 11: ...on the back of global economic recovery and sentiment improvement...



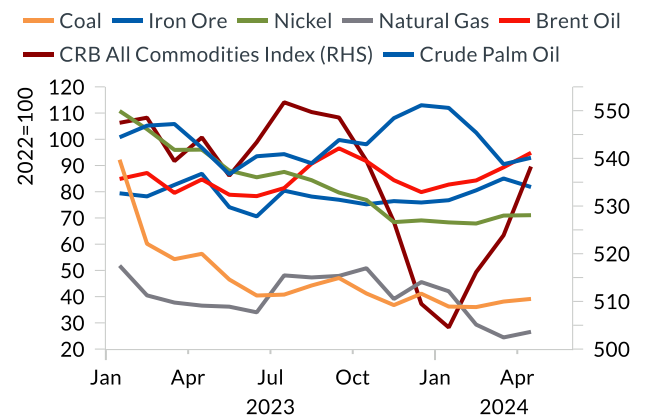
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: ...as well as the early economic recovery in China...



Source: Macrobond, RHB Economics & Market Strategy

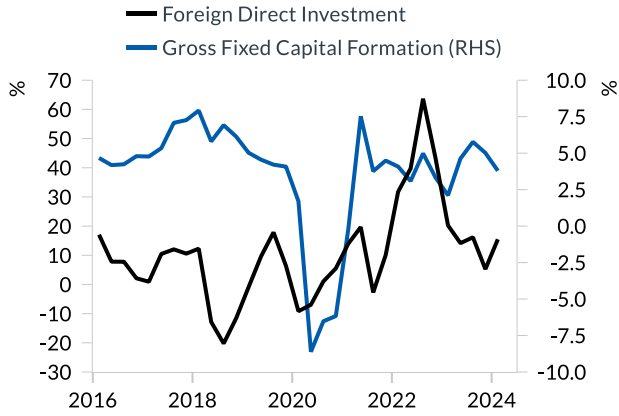
Figure 13: ...which will support the subdued global commodity prices...



Source: Macrobond, RHB Economics & Market Strategy

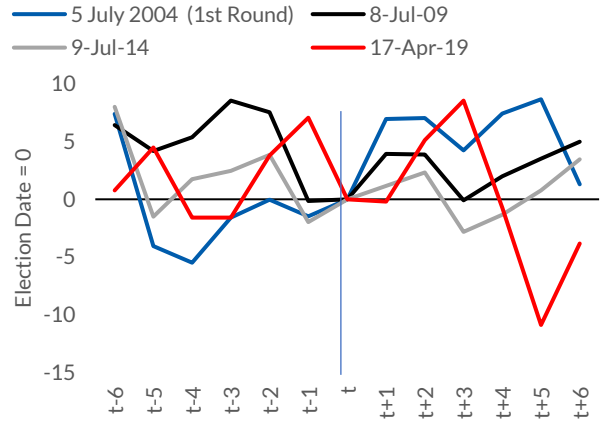
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Figure 14: FDI is key contributor for GFCF which...



Source: Macrobond, RHB Economics & Market Strategy

Figure 15: ...the GFCF output gap typically declined markedly pre-election, but rises materially post-election...



Source: CEIC, RHB Economics & Market Strategy

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799