FLASH NOTES

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BATAVIA PROSPERINDO ASET MANAJEMEN

GDP 2Q20 - Darkest before the dawn

BATAVIA Institute

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What happened?

GDP growth contracted by 5.32% YoY in 2Q20, the weakest since 1999 and deeper than market estimates of -4.7%YoY. The negative growth in 2Q20 was mainly due to contraction in consumption and investment by 5.73% & 8.61% YoY, largely due to the pandemic measures and PSBB policy. On the other hand, Net-export still recorded a positive growth due to higher contraction in imports vis-a-vis exports.

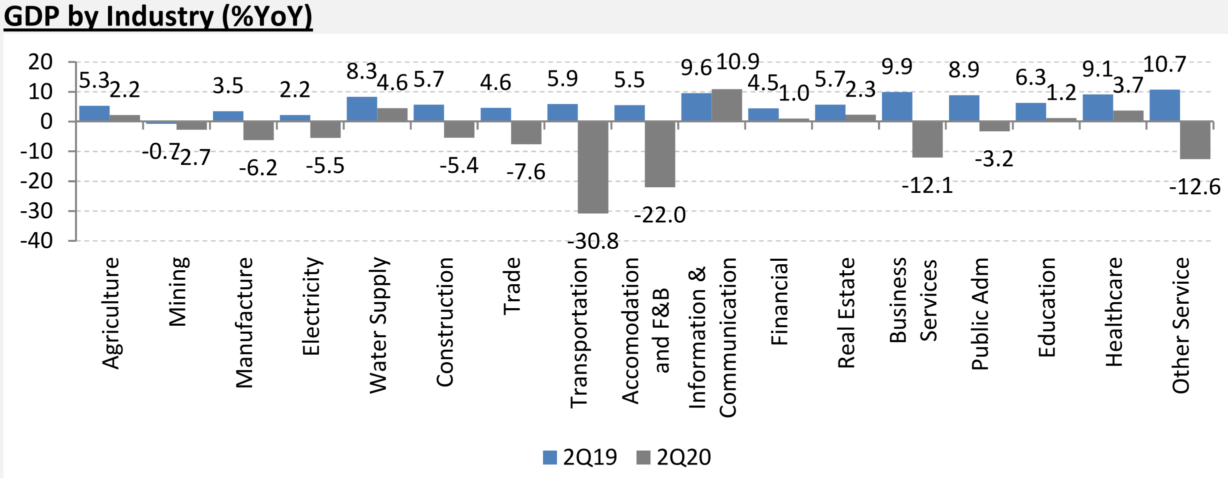
On the production side: the wholesale trade, manufacturing and transportation & accommodation were the most hit sectors (see table below). Meanwhile, the Information & Communication continued to accelerate, reaching 10.9% YoY in 2Q20 (vs. 9.6% in 1Q20).

Indonesia real GDP

	%YoY				%QoQ			
	3Q19	4Q19	1Q20	2Q20	3Q19	4Q19	1Q20	2Q20
GDP	**5.0**	**5.0**	**3.0**	**-5.3**	**5.0**	**4.9**	**-2.8**	**-25.0**
By Expenditure								
Consumption	4.5	4.2	2.9	-5.7	2.2	5.1	-3.3	-23.8
Private Cons.	5.0	5.0	2.8	-5.5	4.9	5.0	-3.3	-25.3
Govt. Cons.	1.0	0.5	3.7	-6.9	-14.6	6.2	-3.4	-12.8
Fixed asset inv.	4.2	4.1	1.7	-8.6	3.2	2.9	1.4	-35.5
Exports	0.1	-0.4	0.2	-11.7	-1.3	-8.5	-6.9	-21.2
Imports	-8.3	-8.0	-2.2	-17.0	-12.9	-10.9	-8.9	-26.6
By Industry								
Goods	3.9	3.8	1.5	-3.3	4.0	2.4	-1.8	-17.1
Agriculture	3.1	4.3	0.0	2.2	-1.5	5.2	-5.6	9.9
Mining	2.3	0.9	0.4	-2.7	3.7	-2.6	-3.9	-6.4
Manufacturing	4.1	3.7	2.1	-6.2	7.0	1.3	-0.2	-28.4
Construction	5.6	5.8	2.9	-5.4	5.0	5.0	1.1	-28.3
Services	6.1	6.4	4.6	-6.3	5.6	6.0	2.8	-32.7

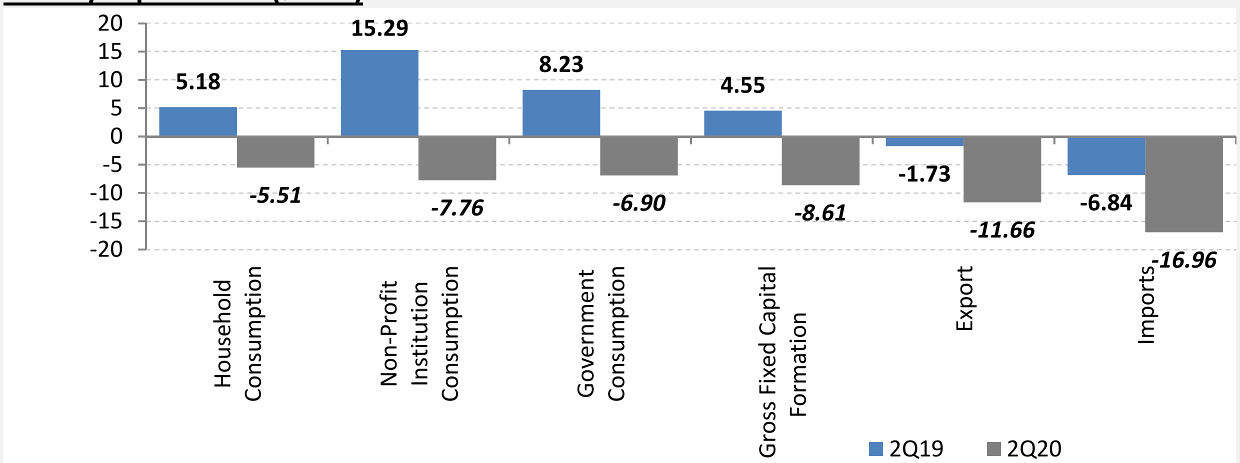
Source: BPS, JP Morgan

GDP by Industry (%YoY)



Source: BPS, Mandiri Sekuritas

GDP by Expenditure (%YoY)



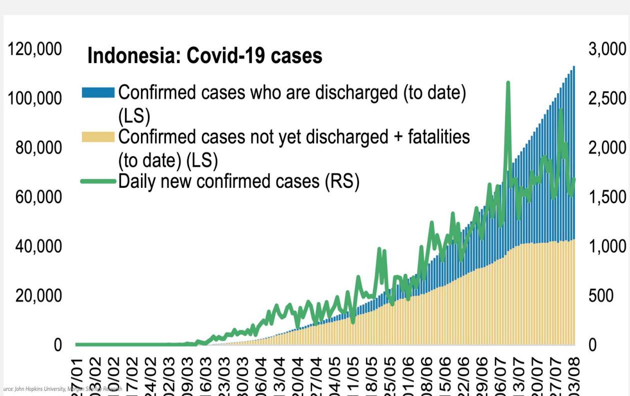
Source: BPS, Mandiri Sekuritas

What we think?

2Q20 likely marked the low point for GDP trajectory and we expect a gradual cyclical recovery from here in our base case. Indeed, as the economy re-opens, high frequency datapoints (i.e. two-wheeler/four-wheelers sales, cement sales, exports and government expenditure/revenue) have seen second-order derivative improvement up to June, despite daily new COVID-19 cases continuing to rise.

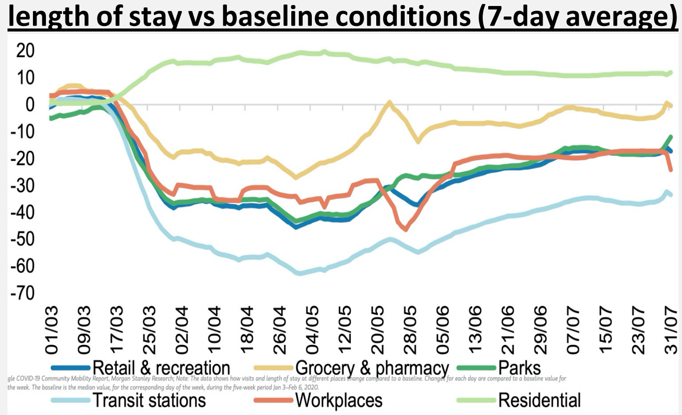
Hence, we maintain our 2020 GDP growth forecast range of (-0.5%YoY) – (+0.5%YoY). Overall, the COVID-19 situation and pace of government spending disbursement remain key factors to watch with regards to the growth outlook.

Covid-19 cases



Source: John Hopkins University, Morgan Stanley

Indonesia % change in visit frequency to locations & length of stay vs baseline conditions (7-day average)



Source: Google COVID-19 Community Mobility Report, Morgan Stanley