

# economic

WEEKLY REVIEW SERIES

## Chasing the Expected Growth would be Harder Now



## Indonesia Macro Data Forecast

| Macro Indicators         | 2020   | 2021F  |
|--------------------------|--------|--------|
| Real GDP (%YoY)          | -2.07  | 3.76   |
| Average Inflation (%YoY) | 2.04   | 1.87   |
| BI-7 DRR (%)             | 3.75   | 3.5    |
| Budget Deficit (%GDP)    | 6.09   | 5.42   |
| USD/IDR                  | 14,500 | 14,400 |
| 10 Year Indo GB (%)      | 5.89   | 6.46   |
| JCI                      | 5,979  | 6,320  |
| EPS Growth (%)           | -30    | 20     |

Source : BI, MoF, BPS, MNCS Estimate

## Global & Domestic Key Rates

| Rates (%)        | Dec-20 | Aug-21* |
|------------------|--------|---------|
| BI-7 DRR         | 3.75   | 3.50    |
| Lending Facility | 4.50   | 4.25    |
| Deposit Facility | 3.00   | 2.75    |
| 10 Year Indo GB  | 5.89   | 6.30    |
| FFR              | 0.25   | 0.25    |
| ECB Rate         | 0.00   | 0.00    |
| BoE Rate         | 0.10   | 0.10    |
| BoJ Rate         | -0.10  | -0.10   |

Source : Bloomberg, BI as of August 6, 2021

## Weekly Notes :

Indonesia's economic recession eventually ended in 2Q21. The economy grew +3.31% QoQ/+7.07% YoY in the last quarter. The positive figure was in line with consensus expectation although the actual number was slightly higher.

## The 2Q21 Growth Drivers

We see domestic economy expanded to the highest pace since 4Q04 partly due to low based effect. Meanwhile global recovery trend to continue to facilitated the global trade which boosted both exports and imports. Domestic consumption, government spending and investment also played a role driving growth. Surprisingly all sectors including transportation and services recorded a positive growth. This was attributable to improving public mobility in the second quarter.

## Eye on Macro Data Release

Since the PPKM Darurat and currently named as PPKM Level 4 takes a place, the outlook for 3Q21 is deteriorating. Markit Manufacturing PMI contracted to 40.1 marking the first contraction in the last 9 months and the steepest pace since June-20. Although CPI jumped +0.08% MoM/+1.52% YoY, inflationary pressure remained below central bank's target. We believe this trend will continue in the rest of 2021. Indonesia FX reserves grew to USD137.3bn in July-21 supported by government global bond issuance and tax receipts. Consumer Confidence Index (CCI) will be released next week and we expect the optimism in 2Q21 will likely to fall pressing further domestic economic recovery.

## Is it the Time for the Fed to Taper Off?

The Fed statement recently has made it clear that U.S. economy made a substantial progress towards recovery. This has opened the potential debate on how central bank should respond. Curbing the stimulus package under QE is likely to take effect by the end of this year according market expectation. Currently 10 year U.S. treasury yield and USD index remained in a multi-year low. However persistent higher inflation and strong job market seemed to justify if continue making tapering off option justified. Delta variant widespread still posing a downside risk to the economy, thus once again policy makers facing a big threat and challenge at the same time.

## Facing Another Hard Time

Chasing the expected growth would be harder now in our view, with Covid-19 infection to stay haunting domestic economy. The external pressure come with the expectation on the Fed to pullback the stimulus to the U.S. economy by the end of this year.

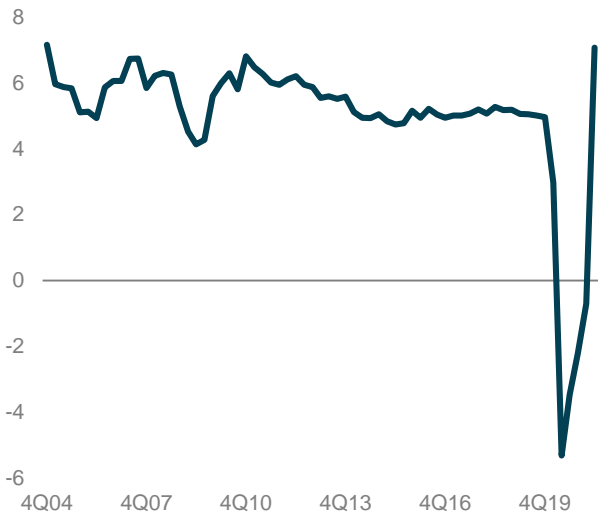


**Tirta Widi Gilang Citradi**

Economist & Fixed Income Analyst

## Weekly Data Snapshot

**Exhibit 1. Indonesia GDP Growth (%YoY)**



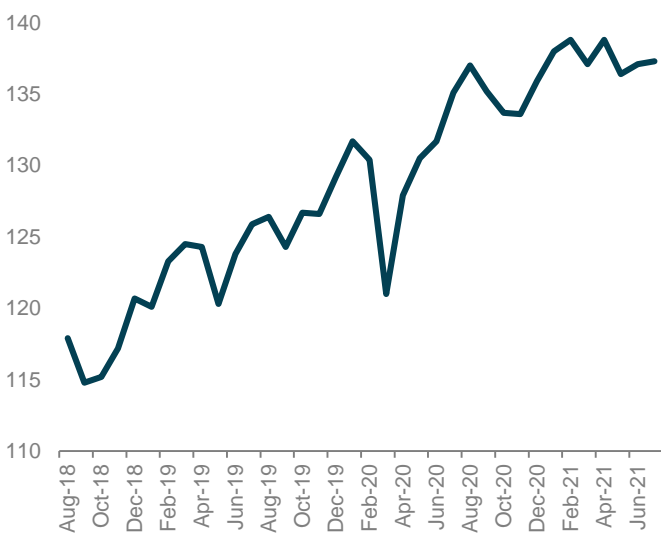
Source : BPS

**Exhibit 2. Indonesia Inflation (%YoY)**



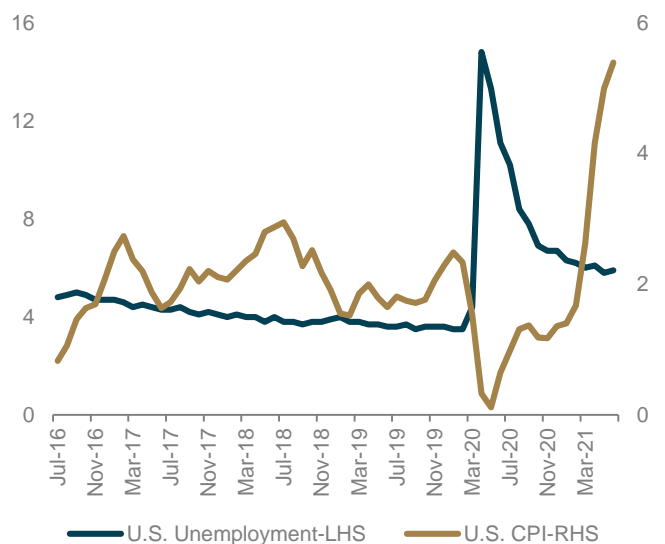
Source : BPS

**Exhibit 3. Indonesia FX Reserves (USD bn)**



Source : Bank Indonesia

**Exhibit 4. U.S. Inflation vs Unemployment Rate**



Source : Bloomberg

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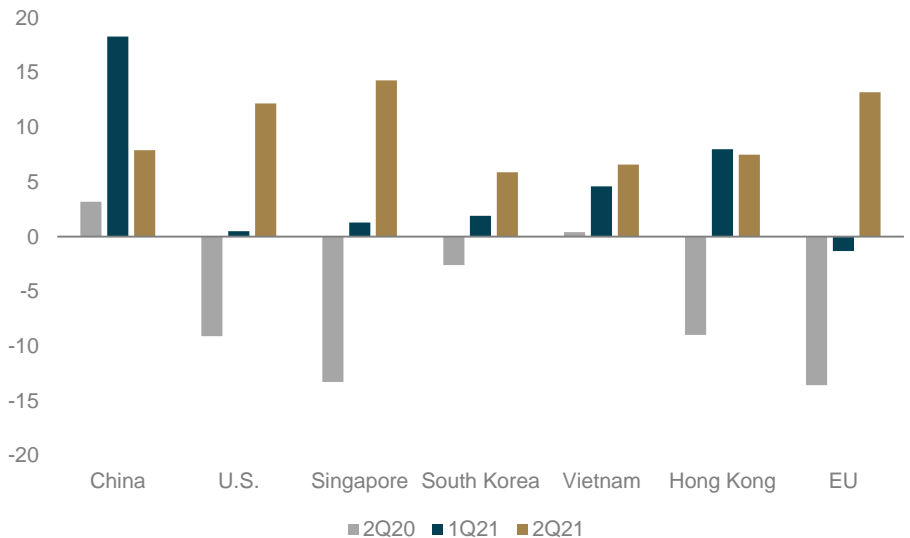
### The 2Q21 Growth Drivers

Indonesia’s economic output grew +3.31% QoQ/+7.07% YoY in 2Q21 according to Statistics Indonesia data. This was the fastest growth ever recorded since the last quarter of 2004. Finally GDP flipped out to a positive zone after contracted in the last 4 quarters. The actual growth was higher than our projection and median consensus estimate (+6.95% YoY vs 6.72% YoY). The rapid expansion was partly due to low based effect as Indonesia GDP shrank by 5.32% YoY in 2Q20. Beside that. Both external and internal factors also played a role in fostering the economic expansion.

Global manufacturing PMI recorded an increase of 1.8 bps from 54.8 in March-21 to 56.6 in June-21. During the same period commodity price also surged notably driven by food crops (wheat, CPO and soybean) as well as industrial metals (lead, aluminum and copper). Growth in Indonesia’s major trading partners also became a positive catalyst for domestic economy with U.S. and China had a strong growth. This 3 factors successfully facilitated the trade which boosted exports.

Key growth drivers 1 : low based effect and 2) international trade boosted by surging commodity price and gradual rising demand amid ongoing global economic recovery

Exhibit 5. Covid-19 Development in Indonesia

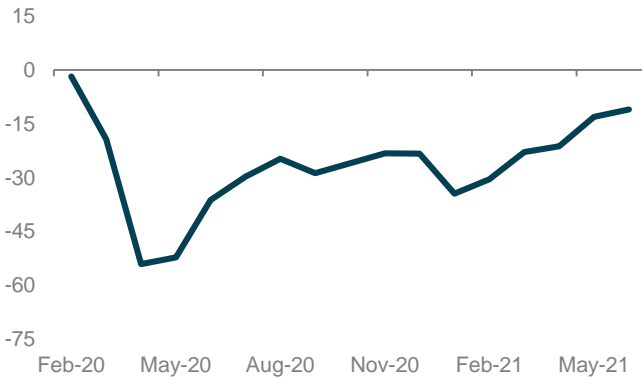


Source : BPS

Domestic condition also improved along with gradual increase in public mobility. Ramadhan festivities and Eid ul Fitr momentum in April-May 2021 also helped boosting growth in 2Q21 partly on the back of seasonal hikes in demand and disbursement of THR. Retail sales turned to positive in April-June 2021, consumer confidence strengthened and imports jumped significantly. Manufacturing activity consistently on its expansionary mode as Markit Manufacturing PMI well above 50 points. Business activity was getting better despite credit disbursement remained contracted. This is in line with the jump of raw materials as well as capital goods imports.

**Exhibit 6. Public Mobility Improved**

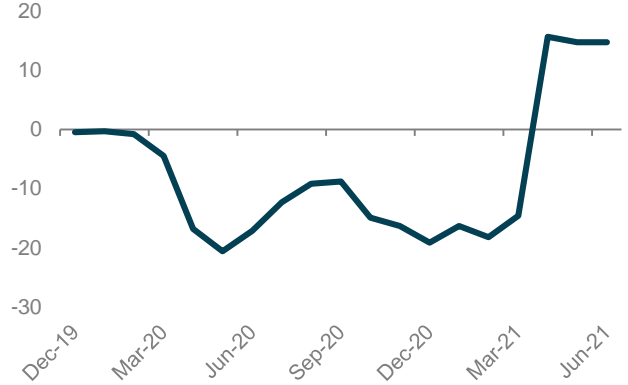
(%Net Balance)



Source : Google Community Mobility Report, MNCS Calculation

**Exhibit 7. Indonesia Retail Sales**

(%YoY)



Source : Bank Indonesia

**Exhibit 8. Consumer Confidence**

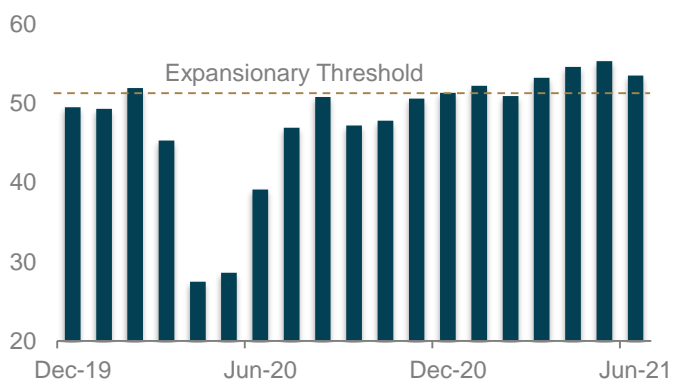
(Points)



Source : Bank Indonesia

**Exhibit 9. Indonesia Manufacturing PMI**

(Point)



Source : IHS Markit

**Exhibit 10. Indonesia Loan Growth**

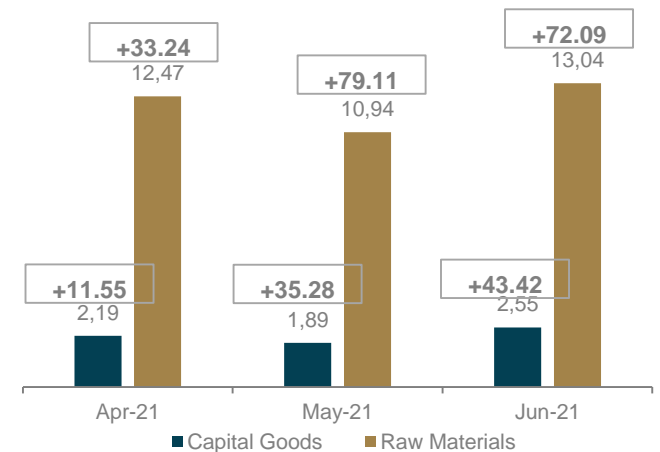
(%YoY)



Source : Bank Indonesia

**Exhibit 11. Indonesia Imports**

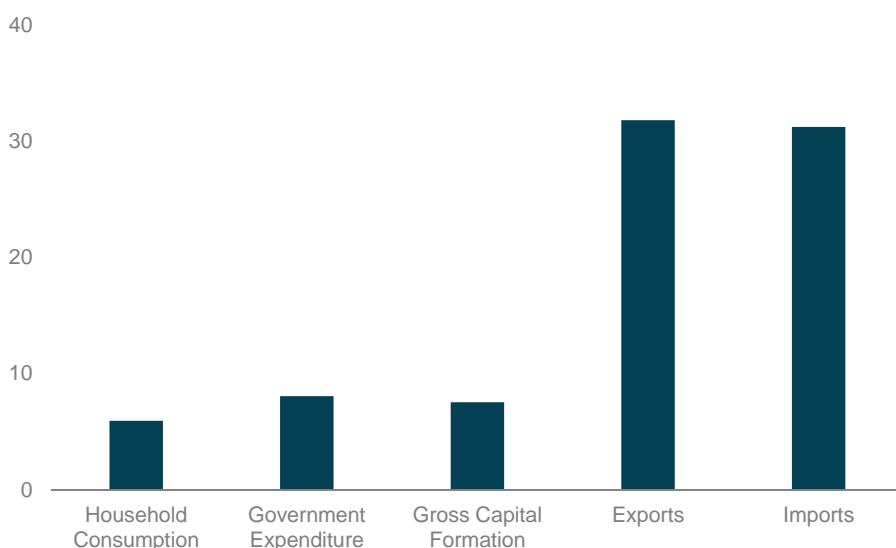
(+/- Growth in %YoY; Value in USD bn)



Source : Statistics Indonesia

All aggregate demand components saw a high growth. Household consumption grew 5.93% YoY; government expenditures rose by 8.06% YoY; gross capita formation increased by 7.54% YoY while exports and imports both jumped more than 30% YoY. Household consumption and investment contributed to a nearly 85% GDP in 2Q21. Investment realization grew 16.21% YoY in April-June 2021. Government spending rose driven by the expense on healthcare particularly for vaccine inoculation, testing and tracing as well as other expense related to public health intervention. International trade recorded a surplus of USD5.97bn in 2Q21. All these data were encouraging.

**Exhibit 11. Aggregate Demand Growth in 2Q21 (%YoY)**



Source : BPS

Key growth drivers 3 : domestic data seemed so encouraging, the recovery is real

**Exhibit 12. Budget Realization**

(Value in IDR Tn)

| Budget Realization               | 1H20   | % Target | %YoY | 1H21   | % Target | %YoY |
|----------------------------------|--------|----------|------|--------|----------|------|
| Revenue                          | 813    | 48       | - 10 | 887    | 51       | 9    |
| Tax Revenue                      | 625    | 45       | - 9  | 680    | 47       | 9    |
| Non-Tax Revenue                  | 186    | 63       | - 11 | 207    | 69       | 11   |
| Expense                          | 1,070  | 39       | 3    | 1,170  | 43       | 9    |
| Central Government               | 669    | 34       | 6    | 796    | 41       | 19   |
| Ministries & Institutions        | 350    | 42       | 2    | 450    | 44       | 28   |
| Non-Ministries & Institutions    | 318    | 28       | 10   | 347    | 38       | 9    |
| Regional Transfer & Village Fund | 401    | 53       | - 1  | 374    | 47       | - 7  |
| Regional Transfer                | 361    | 52       | - 0  | 347    | 48       | - 4  |
| Village Fund                     | 40     | 57       | - 4  | 27     | 38       | - 32 |
| Primary Balance                  | - 100  |          |      | - 116  |          |      |
| Budget Deficit                   | - 257  |          |      | - 283  |          |      |
| %GDP                             | - 1.67 |          |      | - 1.72 |          |      |
| Financing                        | 416    | 40       | 136  | 419    | 42       | 1    |

Source : Ministry of Finance

A positive growth was observed across sectors with transportation & warehousing and F&B accommodation lead while real estate and agriculture lagged behind with a minimum growth.

The increase of passengers across transportation mode during Eid ul Fitr as well as demand for exports and imports helped boosting transportation and warehousing to grow by double digits in 2Q21. Factory activity expanded driven by 45.7% YoY growth in vehicle sectors thanks to government incentives on car luxury tax (PPnBM).

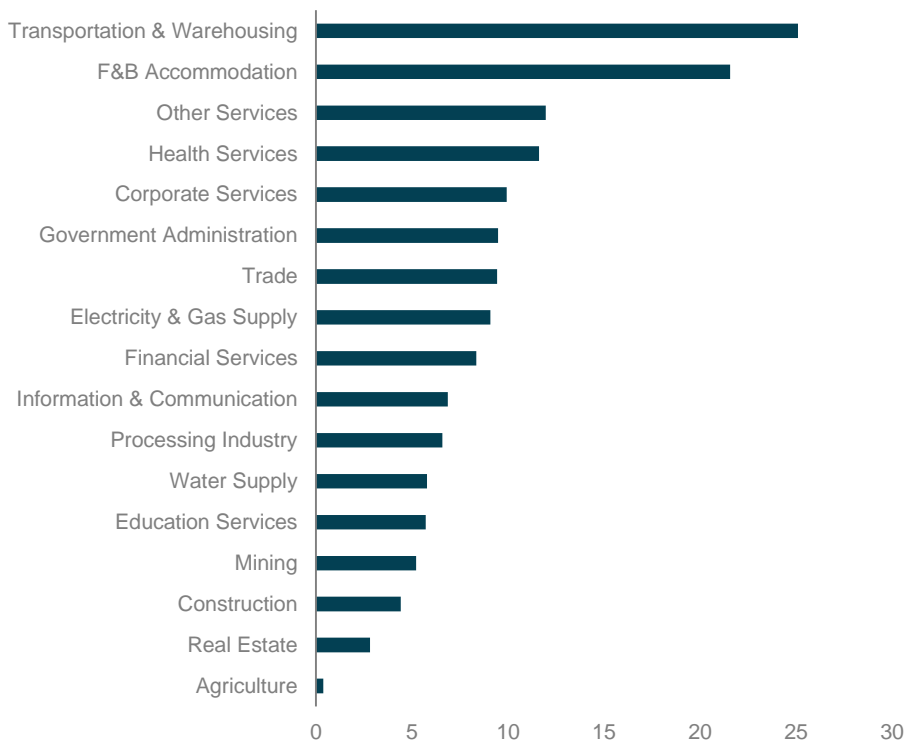
Base metal industry also booked a double digits growth of 18.03% YoY primarily supported by high external demand for ferronickel and stainless steel. Pharmaceutical and chemical industry jumped by 9.15% YoY and was attributable to rising production of Covid-19 drugs to meet domestic demand.

F&B industry grew at the slowest pace (+2.95% YoY) relative to others while textile and apparel industry remained in contraction with growth recorded at -4.54% YoY. We also witnessed that textile industry negative performance also deteriorated asset quality of banks that were exposed to it.

Trade sectors finally turned to positive with growth recorded at 9.44% YoY as auto demand hiked. Government priority program on infrastructure also bolstered construction sectors to grow by 4.42% YoY.

All sectors were to seen a positive growth with transportation & warehousing and F&B lead, while real estate and agriculture lagged behind

**Exhibit 13. GDP Growth by Sectors in 2Q21 (%YoY)**



Source : BPS



## Eye on Macro Data Release

Covid-19 has a devastating impact on economy and it is no doubt. Delta variant widespread across regions in Indonesia has been associated to the second wave outbreak that began in early June-21. Surging Covid-19 cases forced government to take an emergency brake. Tighter social restriction was enacted again under the name of PPKM Darurat in early July-21.

Public mobility dropped by more than 30% during the implementation of PPKM Darurat and manufacturing activity again to be impacted. IHS Markit recorded that Indonesia Manufacturing PMI plunged to 40.1 in July 2021 from 53.5 in June. This was the first contraction in 9 months and the steepest pace since June-20.

Output and new orders shrank at the fastest pace since May-20, while export orders fell for the first time in four months and at a rate quicker than the drop in new work. Also, manufacturers switched to lowering their employment and reduced their buying level and stocks of inputs. Meantime, supply constraints persisted, with suppliers' delivery times worsening at the steepest rate since May-20.

Since the 4<sup>th</sup> week of July-21, government decided to change PPKM Darurat to PPKM Level 4. Some regions in the hot zone to remain under strict policy measures, while regions that already saw an improvement in epidemiological indicators would be lifted gradually and carefully to make sure that it is safe enough without surge in cases any further.

We believe that tight restriction will derail consumer sentiment. CCI will likely to fall in July-21. This data will be released on Monday (08/09/21) by Bank Indonesia (BI). Weakened consumer sentiment will cause demand to lower and thus inflationary pressure will stay low too. BPS recorded that July-21 CPI hiked by +0.08% MoM/+1.52% YoY. Still inflation was below central bank's target and will persist until the end of 2021.

Despite all the bleak outlook that might materialize ahead, external sector resilience and stability were kept in check. Indonesia FX reserves increased to USD137.3bn in July-21 driven by government global bond issuance in USD and EUR denomination of USD1.65bn and EUR500mn worth of value and bolstered by tax receipts.

We are optimistic that FX reserves to remain high until the end of this year. Solid exports performance as well as stable rupiah traded within its fundamental value meaning that needs for intervention is minimal although the downside risk from U.S. inflation and possible monetary policy normalization linger.

Surging Covid-19 in early June-21 and prolonged tighter social restriction will dampen domestic future growth prospect, macro data release will be kept on check

## Is it the Time for the Fed to Taper Off?

The Fed statement recently has made it clear that U.S. economy made a substantial progress towards recovery indicated by solid job market and persistent inflation above central bank's target.

U.S. Non Farm Payrolls has added nearly 2.5mn jobs in the last 3 months. In July-21 alone, Non Farm Payrolls recorded at 943,000 marking the highest level in 2021. Unemployment rate dropped to 5.4% in the same period. Year to date, unemployment rate has decreased by 130 bps. The figure was more miraculous if we compare to the same period last year. unemployment rate already declined 480 bps YoY.

U.S. CPI started to rise above central bank's target since Feb-21. Average inflation for 1H21 was at 3.37% YoY. The PCE index which the Fed pay more attention to was also rising. In June-21 PCE inflation rose by 4% YoY.

Although the Fed still keeps on promise to buy government bond & MBS with the total of USD120bn per month and inflating its balance sheet, strong job market and high inflationary pressure have opened the potential debate on how central bank should respond to this condition.

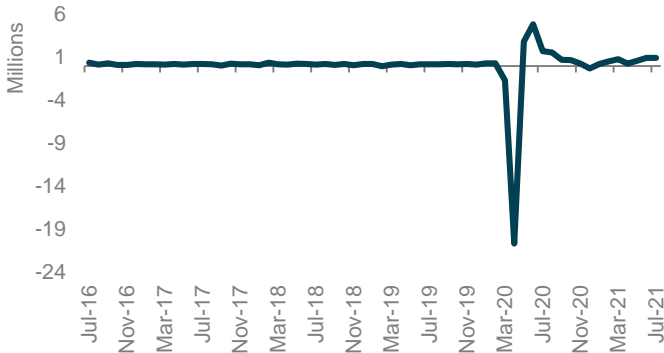
Curbing the amount of stimulus under QE is likely to take effect by the end of this year according market expectation. If macro data to be released ahead confirmed that substantial progress has been made, adjusting asset purchases will be the choice that could be taken by the Fed.

Despite all the worries and speculation on the potential of tapering off, 10 year U.S. treasury yield and USD index remained in a multi-year low. Capital inflow is still flowing to EM and propping up assets prices both equities and bonds. Delta variant that is currently circulating in a more than 100 countries including U.S. is still posing a downside risk to the economy, thus. this helped to explain why yield to remained low in the recent time.

We expect that the Fed will be careful in assessing current condition. We also believe that the Fed will give a clear guidance on its policy stance in order to minimize the impact of sudden policy surprise just like in 2013.

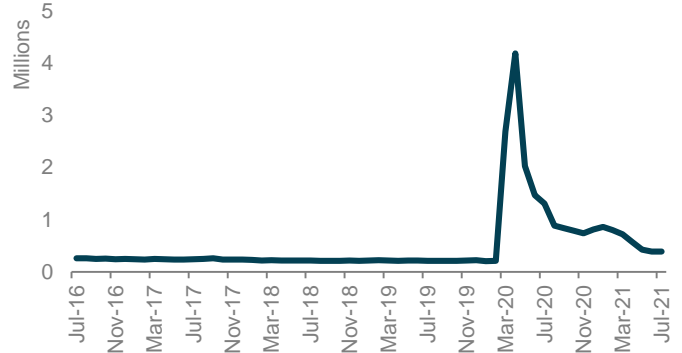
Solid job market and persistent of high inflation have opened up the possibility to taper off, but Delta variant of Covid-19 posing a downside risk for economy and keeping the government bond yield to remain at a multi-year low

**Exhibit 14. U.S. Non Farm Payrolls**



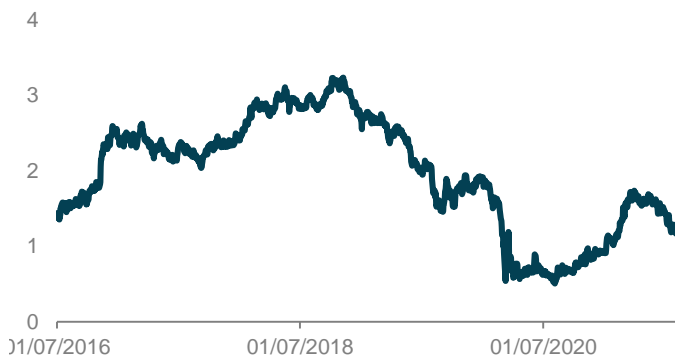
Source : Bloomberg

**Exhibit 15. U.S. Initial Jobless Claims**



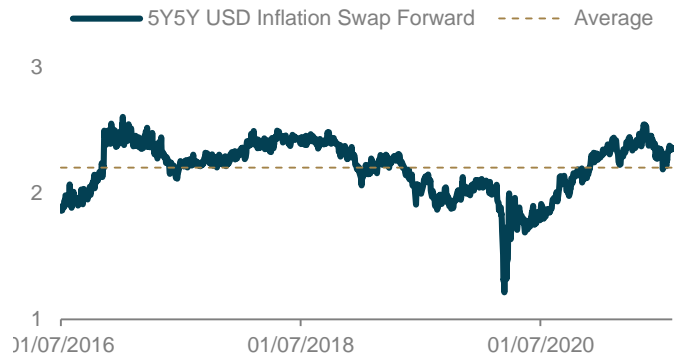
Source : Bloomberg

**Exhibit 16. 10 year U.S. Treasury Yield**



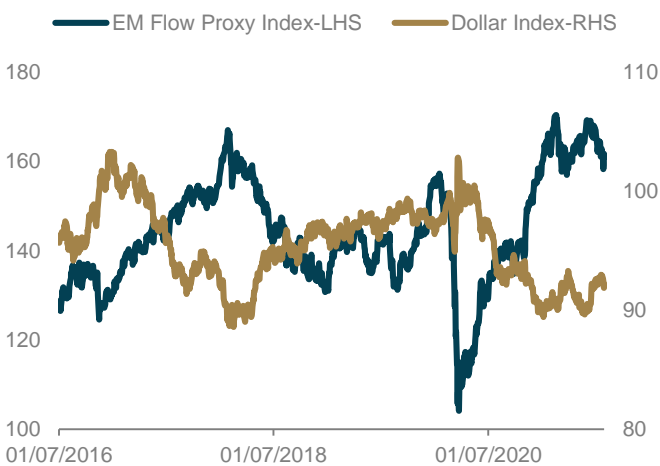
Source : Bloomberg

**Exhibit 17. U.S. Inflation Expectation**



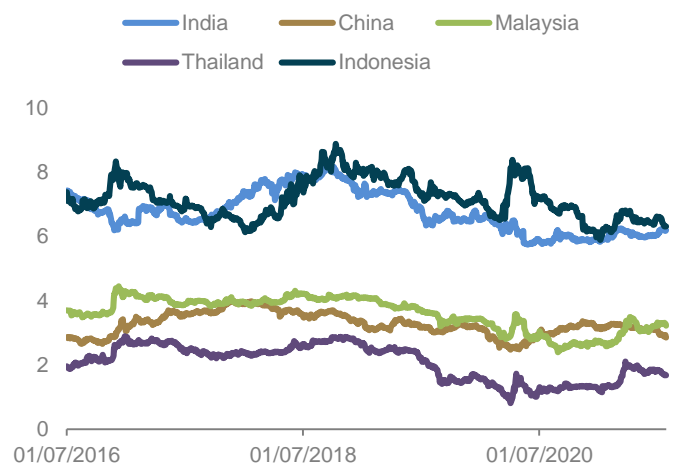
Source : Bloomberg

**Exhibit 18. USD Index vs EM Flow**



Source : Bloomberg

**Exhibit 19. EM GB Yield (%)**

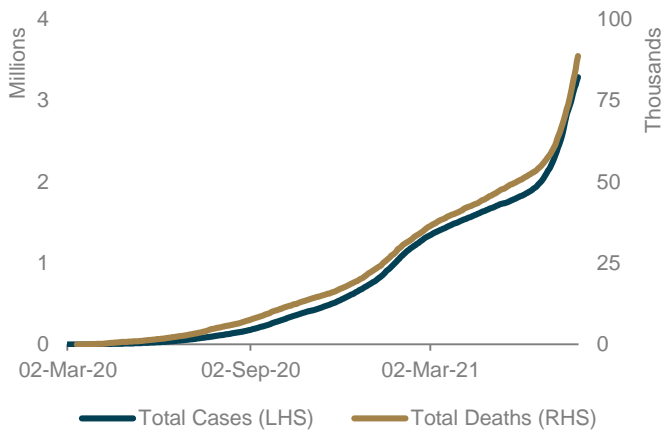


Source : Bloomberg

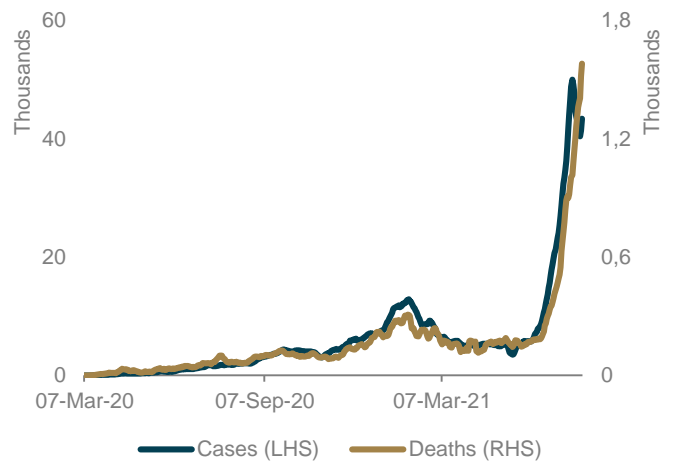
### Facing Another Hard Time

The drop in daily cases doesn't mean that the pandemic is about to end. We have to anticipate that cases fluctuation may emerge if the social restriction is not carefully lifted. In addition lagging vaccine administration, lower testing and tracing rate, inconsistent policy measures, slower budget realization, lower loan disbursement and possible of U.S. monetary policy normalization are among the downside risks that may hinder domestic growth prospect. Therefore chasing the expected growth would be harder now in our view. Once again policy makers are facing a difficult time. Strengthening policy coordination and synergy among government institutions are still needed. Any possibilities for stimulus pullback we see as a premature and contradict policy towards pro-growth jargon.

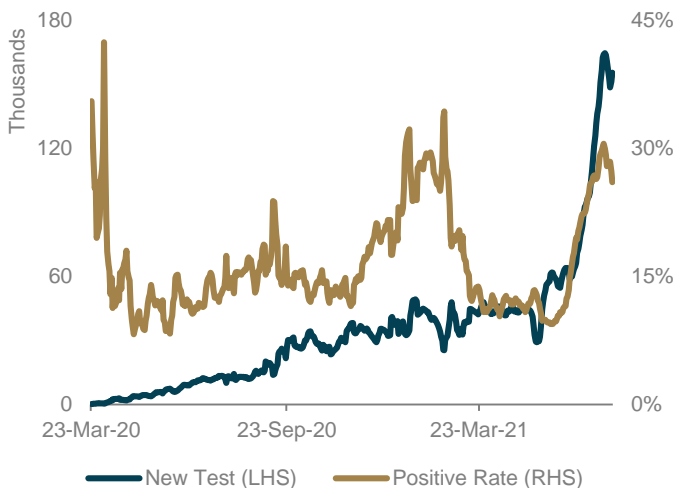
**Exhibit 20. Indonesia Covid-19 Cumulative Cases & Deaths**



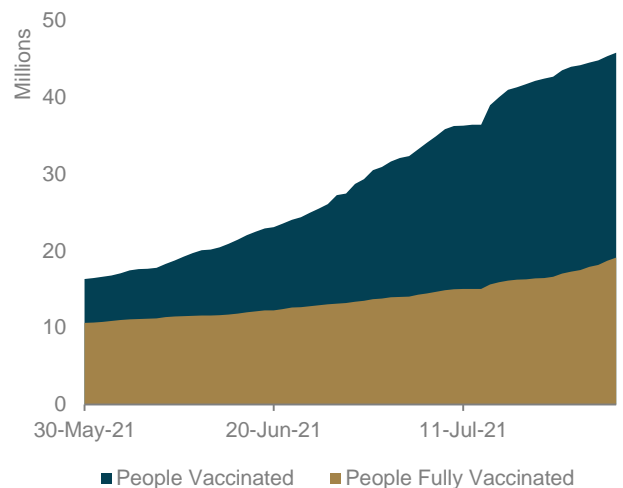
**Exhibit 21. Indonesia Daily Covid-19 Cases & Deaths (7-Day MA)**



**Exhibit 22. Indonesia Covid-19 Testing vs Positivity Rate**



**Exhibit 23. Indonesia Covid-19 Vaccination Progress**



Source : Our World in Data

## MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

## MNC Research Investment Ratings Guidance

**BUY :** Share price may exceed 10% over the next 12 months

**HOLD :** Share price may fall within the range of +/- 10% of the next 12 months

**SELL :** Share price may fall by more than 10% over the next 12 months

**Not Rated :** Stock is not within regular research coverage

## PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

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