

The Constraint on Domestic Demand Growth

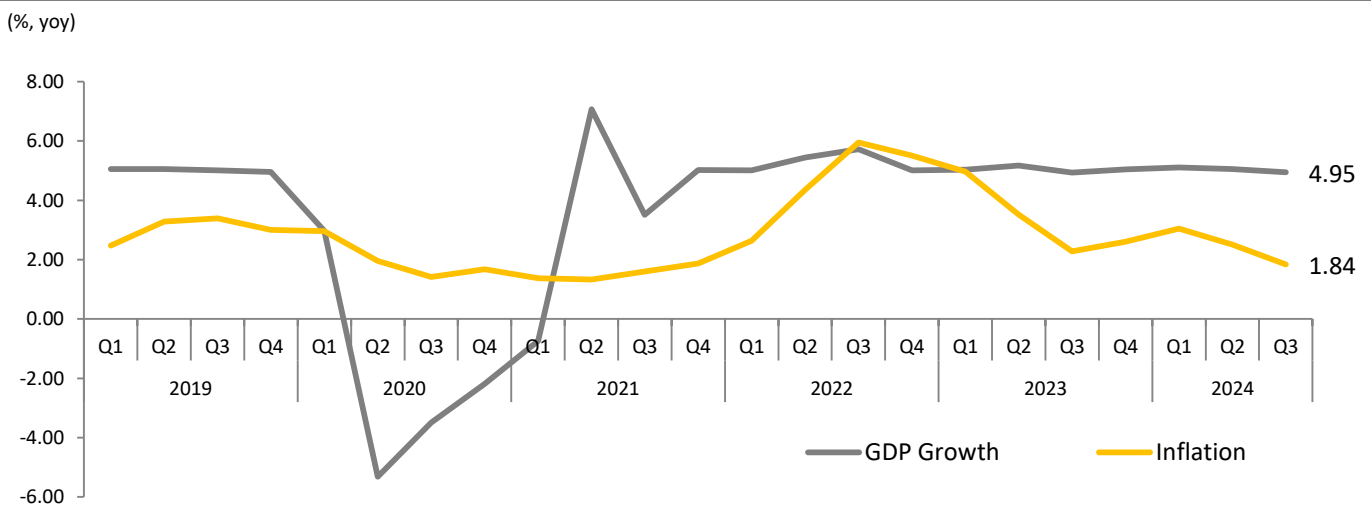
Indonesia's economic growth for 3Q24 reached 1.50% QoQ or 4.95% YoY, slightly below expectations (Cons: 1.58% QoQ or 5.00% YoY; KBVS: 1.56% QoQ or 5.01% YoY; Prev: 3.79% QoQ or 5.05% YoY). This placed Indonesia's nominal GDP at IDR5,638.9 tn in 3Q24 (Prev: IDR5,536.5 tn). Spatially, Indonesia's GDP composition continues to be driven by Java, which contributes 56.84% to the national GDP, followed by Sumatra at 22.30%. The stagnant growth in both regions—remaining at 4.92% YoY for Java (Prev: 4.92% YoY) and 4.48% YoY for Sumatra (Prev: 4.48% YoY)—also contributed to the subdued national growth rate at the period.

On the expenditure side, growth was primarily supported by household consumption, which, while still positive, decelerated slightly to 4.91% YoY (Prev: 4.93% YoY). This trend raises concerns over potential pressures on domestic demand, given that monthly deflation occurred throughout 3Q24, closing the quarter at 1.84% YoY (Prev: 2.51% YoY). This deflationary environment should theoretically provide consumers with more disposable income; however, consumer confidence indices have shown declines, particularly in the Consumer Expectations Index, driven by weakened expectations for job availability and business activity. This signals a “wait-and-see” sentiment on the domestic consumption front. Nonetheless, a significant rise in investment counterbalanced this trend, with Gross Fixed Capital Formation improving to 5.15% YoY (Prev: 4.43% YoY) due to substantial capital inflows, which reached USD8.82 bn (Prev: USD-2.53 bn).

From a production perspective, improvements were seen in the Manufacturing sector, which grew to 4.72% YoY (Prev: 3.95% YoY), and in the Construction sector, which rose to 7.48% YoY (Prev: 7.29% YoY). However, these increases were insufficient to lift overall economic growth above 5.00% YoY. The Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles sectors experienced growth deceleration to 4.82% YoY (Prev: 4.86% YoY); similarly, the Information & Communication sector growth slowed to 6.86% YoY (Prev: 7.66% YoY), and the Financial & Insurance sector dropped to 5.49% YoY (Prev: 7.90% YoY) — see Table 2, P.2.

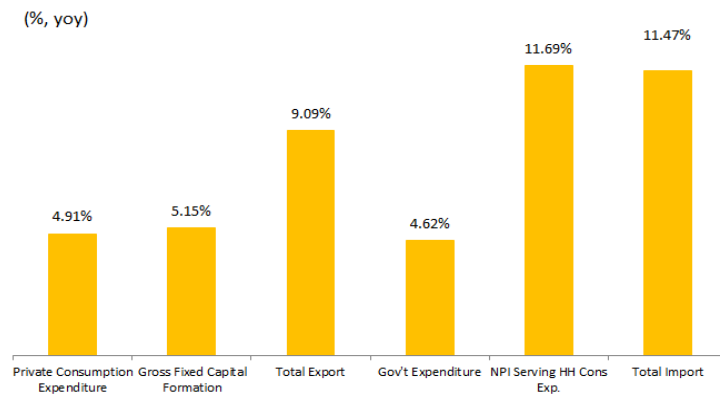
Looking ahead, we anticipate that the largest boost will come from an increase in domestic demand, supported by (a) social assistance programs aligned with the campaign promises of the Prabowo–Gibran administration, (b) the upcoming regional elections in November, (c) a potential improvement in the prices of Indonesia's main export commodities, particularly coal and palm oil, which could enhance the Agriculture, Forestry & Fisheries, and Manufacturing sectors, as well as Export and Household Spending components on the expenditure side, (d) stable inflation expectations, with inflation potentially closing below 2% YoY by the end of 2024, and (e) lower funding costs due to recent cuts in the domestic BI Rate. However, it is crucial to remain vigilant regarding geopolitical tensions and US fiscal policy approaches, which may weigh on export growth moving forward.

Fig 1. Indonesia's Economic Growth & Inflation



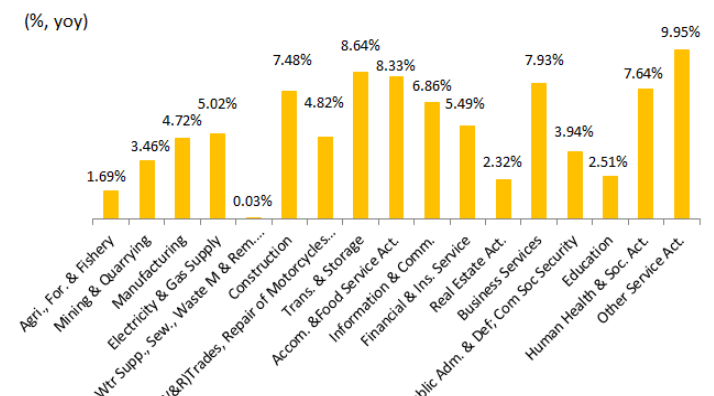
Sources: Bps, KBVS Research - treated (2024)

Fig 2. GDP Based On Expenditure on 3Q24



Sources: Bloomberg, KBVS Research - treated (2024)

Fig 3. GDP Based On Industrial Origin on 3Q24



Sources: Bloomberg, KBVS Research - treated (2024)

Table 2. Indonesia's GDP at Current Price and at Constant Price (2010) - in IDR TN

| Types | Current Price | | | Constant Price (2010) | | |
|---|----------------|----------------|----------------|-----------------------|----------------|----------------|
| | 3Q23 | 2Q24 | 3Q24 | 3Q23 | 2Q24 | 3Q24 |
| Based On Expenditure | | | | | | |
| Private Consumption Expenditure | 2,787.0 | 3,019.1 | 2,993.2 | 1,623.6 | 1,711.7 | 1,703.5 |
| Gross Fixed Capital Formation | 1,572.0 | 1,544.1 | 1,677.5 | 988.2 | 958.2 | 1,039.1 |
| Total Export | 1,125.9 | 1,184.8 | 1,270.4 | 727.0 | 735.6 | 794.3 |
| Total Import | 1,036.4 | 1,100.5 | 1,170.9 | 601.0 | 617.0 | 667.7 |
| Government Consumption Expenditure | 378.9 | 404.5 | 406.6 | 215.4 | 226.7 | 225.1 |
| NPI Serving Household Consumption Expenditure | 64.1 | 73.3 | 73.0 | 37.7 | 42.4 | 42.2 |
| Changes in Inventories | 116.0 | 148.7 | 216.1 | 22.4 | 73.3 | 106.9 |
| Based On Industrial Origin | | | | | | |
| Manufacturing | 992.7 | 1,025.1 | 1,072.6 | 637.6 | 640.5 | 667.6 |
| Agri., For. & Fishery | 718.4 | 762.6 | 773.2 | 397.3 | 403.7 | 404.1 |
| (W&R)Trades, Repair of Motorcycles & MC | 686.5 | 719.4 | 738.2 | 408 | 418.8 | 427.7 |
| Mining & Quarrying | 539.3 | 485.9 | 511.1 | 233.9 | 229.1 | 242.0 |
| Construction | 522.2 | 533.3 | 567.3 | 297.9 | 301.9 | 320.2 |
| Transportation & Storage | 316.6 | 345.6 | 347.9 | 141.2 | 152.0 | 153.5 |
| Information & Comm. | 223.4 | 239.8 | 241.2 | 203.9 | 216.7 | 217.9 |
| Financial & Ins. Service | 215.2 | 235.0 | 230.9 | 123.0 | 132.2 | 129.8 |
| Education | 140.4 | 157.9 | 147.7 | 86.1 | 94.3 | 88.2 |
| Public Adm. & Def; Com Soc Security | 138.4 | 179.2 | 147.3 | 84.9 | 106.1 | 88.2 |
| Accom. & Food Service Act. | 132.8 | 145.9 | 147.6 | 96.4 | 104.0 | 104.4 |
| Real Estate Act. | 127.3 | 128.9 | 130.9 | 86.6 | 87.3 | 88.6 |
| Other Service Act. | 99.6 | 113.1 | 111.6 | 59.6 | 66.2 | 65.6 |
| Business Services | 96.7 | 106.7 | 106.3 | 58.5 | 63.1 | 63.1 |
| Human Health & Soc. Act. | 63.6 | 69.2 | 69.8 | 42.6 | 45.4 | 45.8 |
| Electricity & Gas Supply | 55.5 | 56.0 | 57.9 | 32.6 | 33.1 | 34.2 |
| Wtr Supp., Sew., Waste M & Rem. Activities | 3.3 | 3.6 | 3.6 | 2.7 | 2.7 | 2.7 |
| Indonesia's GDP | 5,296.0 | 5,536.5 | 5,638.9 | 3,075.7 | 3,231.0 | 3,279.6 |

Sources: BPS, KBVS Research - treated (2024)

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