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ECONOMIC GROWTH IN INDONESIA, Q1/2007

- ✓ Indonesia's economic growth in Q1/2007, measured by GDP expansion over Q4/2006, reached 2.0 percent (q-t-q). Growth was recorded in agriculture, electricity, gas and water utilities, the trade, hotels and restaurants sector, finance, real estate and business services and in the services sector. Leading in growth was agriculture at 16.8 percent, due to the effect of the harvesting season in Q1/2007.
- ✓ GDP growth in Q1/2007 compared to the same quarter in 2006 (y-o-y) came to 6.0 percent.
- ✓ The Indonesian economy measured by GDP based on current prices in Q1/2007 expanded to Rp 915.9 trillion, while GDP based on constant 2000 prices was Rp 475.0 trillion.
- ✓ Household consumption in Q1/2007 fell by minus 0.5 percent in real terms from Q4/2006. Similarly, government consumption was down by minus 31.1 percent, gross fixed capital formation by minus 2.5 percent, exports of goods and services by minus 0.1 percent and imported components of goods and services by minus 1.4 percent.
- ✓ All expenditure components were up during Q1/2007 in comparison to the same quarter in 2006 (y-o-y) as follows: household consumption expenditures mounted by 4.5 percent, government consumption expenditures by 4.3%, gross fixed capital formation by 7.5%, exports of goods and services by 8.9% and imports of goods and services by 8.4 percent.
- ✓ The island of Java was the largest contributor to Indonesia's GDP formation in Q1/2007 at 60.2 percent. GDP in Java was dominated in order of importance by manufacturing, the trade, hotels and restaurants sector and agriculture.

I. Economic Growth in Q1/2007

Indonesia's economic performance in Q1/2007, measured by GDP growth over the preceding quarter, reached 2.0% (q-t-q) based on constant prices. Growth was concentrated in a number of sectors, with agriculture in the lead at 16.8 percent. Next was services at 2.1 percent, financial services, real estate and business services at 1.0 percent, the trade, hotels and restaurants sector at 0.9 percent and electricity, gas and water utilities at 0.6 percent. Sectors marked by negative growth were transportation and communications at minus 2.2 percent, mining and quarrying at minus 1.7 percent, construction at minus 1.0 percent and manufacturing at minus 0.5 percent.

The leading growth sector in comparison to Q4/2006 was agriculture at 16.8 percent, reflecting seasonal trends at the height of the food crop harvesting season. Analysed in greater detail, this performance resulted from growth of 56.1 percent in the food crops subsector and 2.6 percent in livestock farming. Other subsectors contracted significantly, with growth at minus 28.6 percent in estate crops, minus 17.1 percent in forestry and minus 7.8 percent in fisheries subsector.

The manufacturing sector recorded minus 0.5 percent contraction in Q1/2007 in comparison to Q4/2006. Contributing to this was the decline in the oil and natural gas subsector at minus 5.6 percent. Non-oil and gas manufacturing, on the other hand, recorded positive growth albeit at less than 0.1 percent.

Table 1
GDP Growth by Economic/Business Sector
(Percentages)

Economic/Business Sector	Q4/200	Q1/200	Q1/200	Source of Growth (y-o-y)
	6 vs. Q3/200	7 vs. Q4/200	7 vs. Q1/200	
(1)	(2)	(3)	(4)	(5)
1. Agriculture, Livestock, Forestry and Fisheries	-19.8	16.8	-0.5	-0.1
2. Mining and Quarrying	3.2	-1.7	5.6	0.5
3. Manufacturing	0.6	-0.5	5.4	1.5
4. Electricity, Gas and Water Utilities	1.9	0.6	8.2	0.1
5. Construction	3.0	-1.0	9.3	0.6
6. Trade, Hotels and Restaurants	-0.6	0.9	8.5	1.4
7. Transport and Communications	3.9	-2.2	11.1	0.7
8. Financial, Real Estate and Business Services	2.2	1.0	7.1	0.7
9. Services	0.8	2.1	7.0	0.7
GDP	-1.9	2.0	6.0	6.0

The leading sector by contribution to economic growth in Q1/2007 compared to Q1/2006 was manufacturing at 1.5%, followed by trade, hotels and restaurants at 1.4 percent. Contribution from other sectors was less than 1 percent. This indicates that manufacturing has begun to provide the driving force for accelerated growth in the Indonesian economy.

GDP growth in Q1/2007 measured against the same quarter in the previous year reflects the magnitude of change without the influence of seasonal factors (y-o-y). In Q1/2007, all sectors recorded growth compared to Q1/2006, with the exception of agriculture in which growth was negative. Total GDP growth reached 6.0 percent. Transport and communication recorded 11.1 percent growth, followed by construction at 9.3 percent, trade, hotels and restaurants at 8.5 percent, electricity, gas and water utilities at 8.2 percent, financial services, real estate and business services at 7.1 percent, the services sector at 7.0 percent, mining and quarrying at 5.6 percent and manufacturing at 5.4 percent.

Non-oil and gas GDP, measured back-to-back (q-t-q) for Q1/2007 in comparison to Q4/2006, recorded 2.4 percent growth. By comparison, Q1/2007 growth over the same quarter one year before (y-o-y) was 6.5 percent. This shows that growth in non-oil GDP gathered increased momentum during Q1/2007.

II. GDP Value by Current Prices and Constant 2000 Prices, Q4/2006 and Q1/2007

GDP in Q4/2006, based on current prices, was recorded at Rp 873.3 trillion and subsequently expanded in Q1/2007 to Rp 915.9 trillion. Calculated by constant 2000 prices, GDP in Q4/2006 came to Rp 465.9 trillion and widened in Q1/2007 to Rp 475.0 trillion.

At current prices, the leading sector by gross value added during Q1/2007 was manufacturing at Rp 250.7 trillion. Next was trade, hotels and restaurants at Rp 135.0 trillion, followed by agriculture at Rp 126.2 trillion, mining and quarrying at Rp 98.5 trillion, services at Rp 95.8 trillion, financial services, real estate and business services at Rp 74.0 trillion, construction at Rp 67.4 trillion, transport and communications at Rp 60.3 trillion and electricity, gas and water utilities at Rp 8.0 trillion.

Based on constant 2000 prices, among the above nine sectors the highest gross value added was again generated by manufacturing at Rp 131.2 trillion, followed by trade, hotels and restaurants at Rp 80.7 trillion, agriculture at Rp 66.4 trillion, services at Rp 44.5 trillion, financial services, real estate and business services at Rp 44.4 trillion, mining and quarrying at Rp 43.0 trillion,

transport and communications at Rp 32.3 trillion, construction at Rp 29.3 trillion and electricity, gas and water utilities at Rp 3.2 trillion.

Table 2.
GDP by Economic/Business Sector
Based on Current Prices and Constant 2000 Prices
(trillions of rupiahs)

ECONOMIC/BUSINESS SECTOR	Current Prices		Constant 2000 Prices	
	Q4/200	Q1/200	Q4/200	Q1/200
	6	7	6	7
(1)	(2)	(3)	(4)	(5)
1. Agriculture, Livestock, Forestry and Fisheries	100.3	126.2	56.9	66.4
2. Mining and Quarrying	96.7	98.5	43.8	43.0
3. Manufacturing	247.7	250.7	131.9	131.2
4. Electricity, Gas and Water Utilities	7.8	8.0	3.2	3.2
5. Construction	66.9	67.4	29.6	29.3
6. Trade, Hotels and Restaurants	130.3	135.0	80.0	80.7
7. Transport and Communications	61.4	60.3	33.0	32.3
8. Financial, Real Estate and Business Services	71.5	74.0	43.9	44.4
9. Services	90.7	95.8	43.6	44.5
GDP	873.3	915.9	465.9	475.0
NON-OIL AND GAS GDP	780.4	825.8	429.3	439.7

III. GDP Structure by Economic/Business Sector, Q1/2006 and Q1/2007

During Q1/2007, manufacturing accounted for the largest share of the economy at 27.4 percent, followed by the trade, hotels and restaurants sector at 14.7 percent, agriculture at 13.7 percent, mining and quarrying at 10.7 percent and services at 10.5 percent. Taken together, these five sectors made up 77.0 percent of the GDP while the four other sectors each contributed less than 10 percent.

The agriculture, mining and quarrying, trade, hotels and restaurants and services sectors expanded their role in the economy during Q1/2007 compared to Q1/2006. On the other hand, the role of the manufacturing, transport and communications and the financial services, real estate and business services sectors contracted during Q1/2007. In the case of electricity, gas and water utilities and construction, these sectors maintained a steady role at 0.9 percent and 7.4 percent.

Table 3.
GDP Structure by Economic/Business Sector,
2005-2006 and Q1/2006-2007
(Percentages)

ECONOMIC/BUSINESS SECTOR	First Quarter			
	2005	2006	2006	2007
(1)	(2)	(3)	(4)	(5)
1. Agriculture, Livestock, Forestry and Fisheries	13.0	13.0	13.6	13.7
2. Mining and Quarrying	11.1	10.6	10.5	10.7
3. Manufacturing	27.9	28.1	28.1	27.4
4. Electricity, Gas and Water Utilities	0.9	0.9	0.9	0.9
5. Construction	7.0	7.5	7.4	7.4
6. Trade, Hotels and Restaurants	15.4	14.9	14.6	14.7
7. Transport and Communications	6.4	6.8	6.8	6.6
8. Finance, Real Estate and Corporate Services	8.4	8.1	8.3	8.1
9. Services	9.9	10.1	9.8	10.5
GDP	100.0	100.0	100.0	100.0
NON-OIL AND GAS GDP	88.6	89.2	88.8	90.2

IV. Expenditure-Based GDP, Q4/2006 and Q1/2007

Analysed by expenditures side, Indonesia's GDP was influenced by various demand components: household consumption, government consumption, capital formation or investment and exports and imports.

Household consumption in real terms (based on constant 2000 prices) eased by a thin 0.5 percent (to Rp 274.8 trillion) in Q1/2007 compared to Q4/2006 (Rp 276.2 trillion). The decline in household consumption took place mainly in non-food commodities, with consumption down by minus 0.84 percent. Nevertheless, household consumption based on current prices widened from Rp 571.0 trillion in Q4/2006 to Rp 581.3 trillion in Q1/2007, a rise of 1.8 percent.

Government consumption in Q1/2007 narrowed from Q4/2006, mainly in the area of government procurement. Calculated by constant prices, government consumption fell from Rp 89.9 trillion in Q4/2006 to Rp 68.1 trillion in Q1/2007, a drop of minus 24.3 percent. During the same period, government consumption based on constant 2000 prices was down by minus 31.1 percent.

Table 4
Growth Rates for Components
of Expenditure-Based GDP
(percentages)

EXPENDITURE CATEGORY	Q4/2006	Q1/2007	Q1/2007	Source of Growth (y-o-y)
	vs. Q3/2006	vs. Q4/2006	vs. Q1/2006	
(1)	(2)	(3)	(4)	(5)
1. Household Consumption Expenditure	1.9	-0.5	4.5	2.6
2. Government Consumption Expenditure	28.6	-31.1	4.3	0.3
3. Gross Fixed Capital Formation	1.4	-2.5	7.5	1.6
4. Exports of Goods and Services	1.7	-0.1	8.9	4.1
5. <u>Minus Imports of Goods and Services</u>	-1.4	-1.4	8.4	-
GDP	-1.9	2.0	6.0	6.0

Economic growth in Q1/2007 (y-o-y) was driven mainly by exports of goods and services, which climbed 4.1 percent. The second largest contribution at 2.6 percent came from household expenditures, which comprise the largest component of the GDP. Gross fixed capital formation and government consumption generated the least contribution to growth at 1.6 percent and 0.3 percent.

Table 5.
Expenditure-Based GDP
Q4/2006 and Q1/2007
(trillions of rupiahs)

EXPENDITURE CATEGORY	Current Prices		Constant 2000 Prices	
	Q6/2006	Q1/2007	Q4/2005	Q1/2007
(1)	(2)	(3)	(4)	(5)
1. Household Consumption Expenditures	571.0	581.3	276.2	274.8
2. Government Consumption Expenditures	89.9	68.1	45.3	31.2
3. Gross Fixed Capital Formation	214.0	213.8	105.2	102.5
4. a. Change in Inventory	-1.2	6.1	-0.6	3.0
b. Statistical Discrepancies	-58.3	-0.8	-11.6	9.8
5. Exports of Goods and Services	275.7	264.0	224.8	224.7
6. <u>Minus</u> Imports of Goods and Services	217.8	216.6	173.4	171.0
GDP	873.3	915.9	465.9	475.0

Gross fixed capital formation based on current prices fell from Rp 214.0 trillion in Q4/2006 to Rp 213.8 trillion in Q1/2007, a drop of minus 0.1 percent. At constant 2000 prices, gross domestic capital formation in Q1/2007 (Rp 102.5 trillion) was similarly down by minus 2.5 percent compared to Q4/2006 (Rp 105.2

trillion). The decline based on constant 2000 prices was recorded mainly in foreign and domestic means of transportation.

Exports at current prices fell from Rp 275.7 trillion in Q4/2006 to Rp 264.0 trillion in Q1/2007, a drop of minus 4.2 percent that took place mainly in merchandise commodities. Compared to Q1/2006, exports at current prices in Q1/2007 were up 11.1 percent.

Table 6
Distribution of GDP Expenditure Components
Q4/2006 and Q1/2007
(Percentages)

EXPENDITURE CATEGORY	Current Prices		Constant 2000 Prices	
	Q4/2006	Q1/2007	Q4/2006	Q1/2007
	6	7	6	7
(1)	(2)	(3)	(4)	(5)
1. Household Consumption	65.4	63.5	59.3	57.8
2. Government Consumption	10.3	7.4	9.7	6.6
3. Gross Fixed Capital Formation	24.5	23.3	22.6	21.6
4. a. Change in Inventory	-0.1	0.7	-0.1	0.6
b. Statistical Discrepancies	-6.8	0.0	-2.6	2.1
5. Exports of Goods and Services	31.6	28.8	48.3	47.3
6. <u>Minus</u> Imports of Goods and Services	24.9	23.7	37.2	36.0
GDP	100.0	100.0	100.0	100.0

Based on constant 2000 prices, exports in Q1/2007 were down by minus 0.1 percent from Q4/2006, easing from Rp 224.8 trillion to Rp 224.7 trillion. When measured against the same quarter in 2006, based on constant 2000 prices, exports were up 8.9 percent. Even so, the 28.8 percent contribution from exports in Q1/2007 came below the 31.6 percent contribution recorded in Q4/2006, and was lower even than the 30.3 percent contribution of Q1/2006.

Indonesia's imports based on current prices eased from Rp 217.8 trillion in Q4/2006 to Rp 216.6 trillion in Q1/2007, a drop of minus 0.5 percent. Imports were down mainly for merchandise. In contrast, Q1/2007 imports based on current prices were up 8.0 percent from Q1/2006.

At the same time, based on constant 2000 prices, Indonesia's imports fell by minus 1.4 percent from the Q4/2006 level of Rp 173.4 trillion to Rp 171.0 trillion in Q1/2007. Similarly, compared with the same quarter in 2006, Q1/2007 imports based on constant 2000 prices mounted by 8.4 percent.

V. Indonesia's Economic Growth: Sectoral and Zonal Profile

Based on data for Q1/2007, economic growth was generally ahead of the average for 2000-2005. In 2006 and 2007, the economy has shown stronger growth compared to the previous average. The island of Java, except the Yogyakarta Special Territory, accounted for the leading contribution to the Indonesian economy at 59.23 percent. Jakarta was the largest single contributing province with 17.70 percent of the national economy. With growth outpacing the other regions at 5.8 percent, Jakarta was also the nation's largest source of national economic growth.

Sectors driving growth in the provinces in Java range from trade, hotels and restaurants (Jakarta) to agriculture (East Java, Central Java and Yogyakarta) and manufacturing (Banten).

Table 7
Contributing Provinces to National Economic Growth
Q1/2007 (percent)

Province	Regional GDP Contribution and Growth, Q1/2007				Average, 2000-2005	
	Contribution to the Total Economy	Growth	Largest Contributing Sector	Source of Growth	Contribution to Economy	Growth
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	59.23	5.2	THR	3.2	58.3	
1. Jakarta	17.70	5.8	Agriculture	1.0	17.1	5.2
2. East Java	14.95	5.1	THR	0.8	15.0	4.5
3. West Java	14.58	5.7	Agriculture	0.8	14.4	4.6
4. Central Java	8.53	5.4	Manufacturing	0.5	8.4	0.4
5. Banten	3.47	5.7	Agriculture	0.2	3.4	0.2
Total	0.44	20.2	Agriculture	0.0	0.4	
1. Gorontalo	0.12	6.6	THR	0.0	0.1	6.3
2. Maluku	0.19	7.0	THR	0.0	0.2	2.3
3. North Maluku	0.13	6.6		0.0	0.1	2.0

Note: THR = Trade, Hotels and Restaurants

Provinces in Sumatra were the second largest contributor at 21.96 percent, with the most significant growth contribution coming from agriculture at 1.8 percent over the preceding quarter and from manufacturing at 1.3 percent over Q1/2006.

Kalimantan contributed 8.95 percent of the national economy, with the largest growth contribution generated by agriculture at 1.2 percent over the preceding quarter and mining at 1.3 percent over Q1/2006.

In Sulawesi, the contribution to the national economy reached 4.48 percent. Other provinces (Maluku, North Maluku, West Papua and Papua) generated a collective contribution of 1.68 percent. The most important province among these other regions was Papua with a contribution of 1.04 percent. Papua

achieved 50.8 percent growth, driven mainly by the mining sector. This remarkable increase is explained by the decline that took place in previous quarters.

In most areas, agriculture continues to be the engine of regional economic growth, even though the trade, hotels and restaurants sector, manufacturing and mining are key growth sectors in some provinces. About 80 percent of large-scale industry is located in Java, and therefore this sector provides the main driving force for economic growth in this region. Even so, manufacturing growth needs to be taken to a higher level, and for this reason economic growth in Central Java and East Java was in fact driven primarily by agriculture.

Table 8
Summary, Regional GDP in Provinces, Q1/2007

PROVINCE	Growth (%)		Contribution (%) of Island to Indonesia	Contributing Sector to Growth by Island (%) (q-t-q)	Contributing Sector to Growth by Island (%) (y-o-y)		
	Q1/200 7 over Q4/200 6	Q1/200 7 over Q1/200 6					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INDONESIA	2.1	6.0	100.00	Agriculture	2.1	Manufacturing	1.5
SUMATRA	2.4	5.5	21.96	Agriculture	1.8	Manufacturing	1.3
JAVA	3.3	5.1	60.21	Agriculture	4.2	PHR	0.4
JAVA BALI	3.3	5.5	61.46	Agriculture + THR	0.4	Manufacturing	1.8
NUSA TENGGARA	-11.9	3.5	1.46	-	-	PHR	1.0
KALIMANTAN	-1.3	3.9	8.95	Agriculture	1.2	Mining	1.3
SULAWESI	-6.0	4.4	4.48	-	-	PHR	1.0
OTHERS	6.9	33.2	1.68	Mining	6.8	Mining	27.8