Indonesia

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

Agriculture is not overly affected by the coronavirus pandemic, and the government continues to distribute aid and assistance to farmers in order to increase production. In Q2 of 2020, the agricultural sector was the highest contributor to national economic growth compared to other industries. In 2020 value added is expected to increase by almost 2%.

Automotive/Transport

Remains Poor

According to the Association of Indonesian Automotive Industries (Gaikindo), the sales volume of vehicles with at least four wheels amounted to 290,000 units in H1 of 2020, compared to 500,000 units in H1 of 2019. Motorcycle sales decreased by about 30% year-on-year. A rebound is expected as of Q4 of 2020 at the earliest. In 2020 automotive value added is expected to contract by almost 30%, transport value added by more than 6%.

Chemicals/Pharmaceuticals

Remains Fair

Chemicals and pharmaceuticals businesses generally show robust business financials and good payment records compared to other industries. Consumption of chemicals in the construction materials sector is currently quite low, while still good in the food and pharmaceutical industries. Chemicals value added is expected to decrease by almost 6% in 2021, followed by a 9% increase in 2021.

Pharmaceuticals value added is forecast to increase by more than 2% in 2020, driven by higher health spending. About 90% of the pharmaceutical companies active in Indonesia focus on the downstream sector in producing medicines.

Construction/ Construction Materials

Remains Fair

In 2020 construction added value is expected to decrease 4%. Most of the larger construction companies have started to suffer from sales declines due to the economic slowdown and project delays, with construction activity not expected to rebound before early 2021. However, there are still some projects in the residential, hotel and industrial sectors that are reportedly running according to schedule. The same accounts for infrastructure projects in North Sumatra and North Sulawesi. In 2021 construction value added is forecast to rebound by 9%.

Consumer Durables

Remains Fair

In 2020 annual private consumption growth, a main driver of Indonesia´s economic expansion over the past years, is expected to contract 2.3% year-on-year. Although household spending on non-essential goods has substantially decreased, a large portion of Indonesia's spending is on essential goods, with sales remaining relatively stable. Many retailers temporarily closed due to lockdown measures, and ongoing subdued consumer sentiment and rising unemployment could hamper a rebound in the short-term. Retail value added is expected to contract by more than 6.5% in 2020, but has shown annual growth rates above 4% in 2018 and 2019. Payment delays from retailers directly affected by lockdown measures (e.g. operating in shopping malls) have increased.

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Electronics/ICT

Remains Fair

Domestic ICT sales have deteriorated due to the temporary closure of businesses during the lockdown and subsequent delays in the completion of projects. However, this has been mitigated by higher demand from businesses and the education sector for laptops, tablets and servers in order to support remote working and learning. Until recently, the financial profile of ICT service providers has been generally good, with the majority of companies generating high revenues and profits, coupled with strong balance sheets. However, even before the coronavirus outbreak, ICT wholesalers and retailers already operated in a highly competitive environment, with generally low profit margins, which makes them susceptible to downside risks. ICT value added is forecast to decrease by about 3.5% in 2020.

Financial Services

Remains Good

In Q1 of 2020, credit growth was 2.8% percent, but decreased gradually to 1.5% in June, while financing company receivables contracted 7.3%. Since July there are signs of an improvement, and the government will continue to provide various stimuli to support the performance of the financial sector. These stimuli includes interest subsidies, placement of funds in banks, and credit guarantees for micro, small and medium enterprises, as well as corporations.

Food

Remains Fair

The sector has been impacted negatively by the lockdown measures, and food businesses supplying tourism sites, hospitality and food services recorded decreasing demand. The volume of food production has decreased in H1 of 2020. After robust 6% growth in 2019, value added is forecast to decrease by about 1% in 2020. The depreciation of rupiah against major currencies has also added burden to the cash flow of businesses dependent on raw materials and food imports.

Machines/Engineering

Remains Fair

The Heavy Equipment Industry Association Hinabi expects that in H1 of 2020, heavy equipment manufacturers produced only around 35%-40% of the year-end target (usually manufacturers can produce about 55%-60% of the year-end target. Nevertheless, the machines/engineering industry rating still remains “fair”, as many businesses are still supplying to manufacturing, which has a more positive performance outlook compared to construction, mining and logistics (the main buyer sectors of the heavy equipment segment).

Metals/Mining

Remains Poor

Lower demand from China and deteriorating prices have hit producers and exporters in the mining and energy industries, which already faced a difficult year in 2019. While exports are currently helped by a lower exchange rate, investments in the industry will nevertheless decrease in 2020. Mining and quarrying value added is forecast to decrease 4% in 2020.

Paper

Remains Fair

The sector remains impacted by the ongoing digitalization, which has led to decreasing demand over the last couple of years. Lockdown measures have additionally led to lower demand in H1 of 2020, and value added growth of the industry is expected to contract by about 6% in 2020. However, demand for brown paper used for packaging is still relatively stable, and the growth of e-commerce has increased demand for paper packaging, especially from the food and beverage and the fast-moving consumer goods industries.

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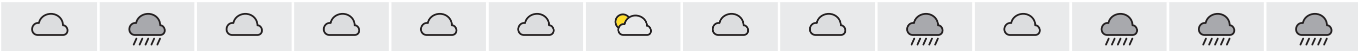

Source: Atradius

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Services

Remains Poor

Due to the comprehensive lockdown measures in early 2020 and the ongoing pandemic, many segments have suffered heavily, especially tourism-related hotels, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotel and catering value added is expected to contract by more than 8.5% in 2020. In order to revive tourism inflow, the government prepared IDR 298.5 billion in funds (IDR 98.5 billion for airlines and travel agencies, IDR 103 billion for tourism promotion, IDR 25 billion for tourism activities, and IDR 72 billion for influencers). Nevertheless, both payment delays and insolvencies are expected to increase in the tourism-related service segments.

Steel

Remains Poor

In 2019 the value added of the steel industry contracted 2.6% amid lower demand and rising pressure on margins. In 2020 the situation has further worsened due to the economic downturn triggered by the coronavirus pandemic. Demand from construction material, automotive and mining sectors continues to decline, and payment delays in the steel sector could increase in the coming months.

Textiles

Remains Poor

Producers already suffered in 2019 from overcapacity, fierce competition and working capital pressure. Wholesalers and retailers are negatively affected by changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales during the lockdown in early 2020. Textile value added is expected to shrink by about 7% in 2020 after a contraction in 2019, with rising payment delays and defaults.