Indonesia Outlook

OCBC Bank

Growth slowed in 1Q but expect slight pick-up next quarter

Monday, May 06, 2019

Highlights

- **GDP growth slowed to 5.07% yoy, below both the Bloomberg median consensus (5.20% yoy) and our OCBC (5.40% yoy) forecasts.**
- **The slowdown was driven by much weaker Gross Fixed Capital Formation (GFCF) expansion which could possibly be due to election uncertainty.**
- **However, household consumption, against our expectations, also slowed despite election campaigning being in full swing.**
- **We expect growth to slightly pick – up to 5.2% yoy in 2Q 2019, supported by stronger household consumption as the country enters the festive season whilst GFCF should strengthen as political uncertainty may recede.**
- **Hence, at this point, we think Bank Indonesia (BI) may still want to continue to monitor the economic situation and therefore, we see them staying on hold at next week's May policy meeting.**

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GDP growth slowed to 5.07% yoy (4Q 2018: 5.18% yoy), which was below the Bloomberg median consensus (5.20% yoy) and our OCBC (5.40% yoy) forecast. The main contributor to the slowdown was a weaker expansion in gross fixed capital formation (GFCF) at 5.03% yoy (4Q 2018: 6.01% yoy). Household consumption was still the main driver of growth whilst net exports became a positive contributor to growth for the first time since 3Q 2017.

Unsurprisingly, GFCF growth came out weaker which was possibly due to the election uncertainty. However, there is a strong possibility now of political continuity as an online count by the General Elections Commission shows that Jokowi has garnered about 56.2% of the vote compared to 43.8% for his rival Prabowo, with 50% of the ballots having been tallied. **Given this, GFCF is likely to pick – up going forward.** Furthermore, in the case of a Jokowi second term, there is likely to be a continued push to develop infrastructure, which may also help spur private investment interest in the country.

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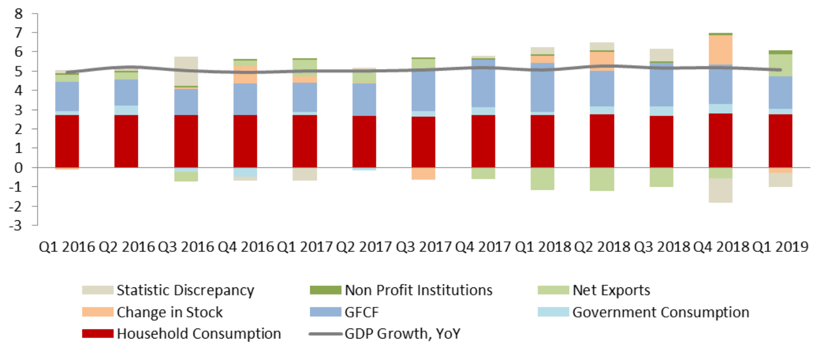
Against our expectations, household consumption growth slightly slowed to 5.01% yoy (4Q 2018: 5.08% yoy). This happened despite the election campaigning season being in full swing for the entire quarter, which would have led to consumers spending more. Regardless, **we expect that household consumption could eventually pick-up as the country enters into the festive Ramadan season.** In contrast, government consumption expanded more strongly at 5.21% yoy (4Q 2018: 4.56% yoy) which may be a result of the elevated expenditure expected of the election season.

We don't expect net exports to continue to be a positive contributor in future quarters. The last quarter had seen overall trade volumes fall as exports fell by 2.08% yoy but imports declined by a much larger amount of 7.75% yoy. However, it is difficult to see that imports can continue to fall by such levels going forward as demand for consumable items such as fuel begin to rise as the country enters the festive season. Exports meanwhile would probably continue to be affected by the global slowdown and the limited progress in US – China trade talks.

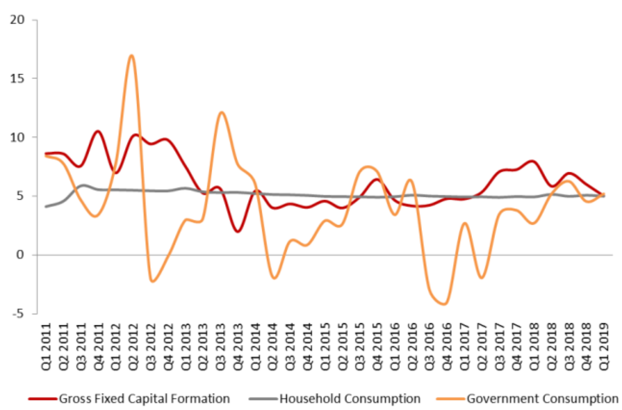
Going forward, **we expect growth to slightly pick – up in 2Q 2019 to 5.2% yoy**, driven by stronger household consumption and GFCF expansion. Overall, we keep **our full year 2019 growth forecast at 5.3% yoy. Hence, at this point, we think BI may still want to continue to monitor the economic situation and therefore, we see them keeping on hold at next week's May policy meeting.**

Chart 1: Contributors to GDP Growth, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 2: Household and Government Consumption and GFCF Growth, % yoy



Source: CEIC, Bloomberg and OCBC

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