Indonesia Outlook

Slower growth but still beat our expectations

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Highlights

- **3Q 2018 growth was at 5.2% yoy compared to 5.3% yoy in 2Q 2018.**
- **Growth in investment and government consumption remains strong.**
- **Household consumption slowed but remains above the 5.00% mark.**
- **We see growth coming out at 5.2% yoy for 2018 but it will strengthen to 5.3% yoy for 2019.**

GDP growth has come out at 5.2% yoy for the 3Q 2018. This was just slightly above our expectations at 5.1% but slightly below the Bloomberg median consensus forecast at 5.3%. This represented only a very slight slowdown from 5.3% yoy in the previous quarter. Generally, this doesn't come as much of a surprise given that following the previous policy meeting, Bank Indonesia had already warned of slower growth although they had expected it to be at "a little less than 5.1 percent". On a quarterly basis, the results represented an increase of 3.1% QoQ, compared to 4.21% QoQ for the previous quarter. Consumption was the main driver once again, followed on by investment growth. Net exports remained a drag on growth.

Household consumption slowed to 5.01% yoy (2Q 2018: 5.14% yoy), just barely being above the 5.00% mark. This comes as a surprise given the hosting of the Asian Games this quarter. However, the quarter did also see the IDR face a substantial amount of pressure amid various external pressures such as the emerging market sell-off and the US economic outperformance. The currency had begun the quarter at around 14,300 and ended close to 15,000 before just breaking that mark in early October. The benchmark interest rate had also risen by about 50bps during the quarter with wide expectations going forward that the central bank may still raise rates further in line with the Fed hikes.

Investment growth however came out strong at 7.0% yoy (2Q 2018: 5.9% yoy). All components of the gross fixed capital formation (GFCF) in fact showed positive growth this quarter. In particular, the intellectual property products components turned positive at 1.5% yoy (2Q 2018: -12.8% yoy) whilst cultivated biological resources saw an expansion of 2.5% yoy (2Q 2018: 0.02% yoy), a significant acceleration. That said, this growth in investment came amid government attempts to slowdown imports of capital goods as they tried to stabilize the IDR. In particular, the government had announced that both infrastructure and power projects would be delayed. Imports of goods and services growth though continued to remain strong this quarter at 14.1% yoy.

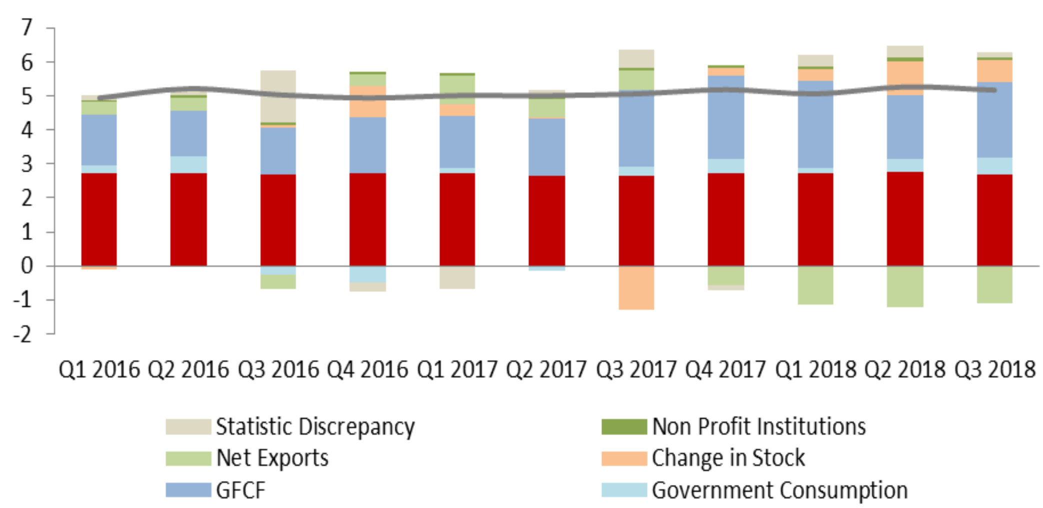
Government consumption though strengthened further to 6.3% yoy (2Q 2018: 5.3% yoy). Such growth rates are very much elevated compared to 2017, when government consumption was stayed below 4.0% and contracted even in 2Q 2017. This year, government consumption has constantly been expansionary and not faced any contraction yet. Going forward, we see it more likely that government consumption will probably continue to expand strongly given the build up to the upcoming presidential election in April 2019.

Trade remained a drag on growth with little change in the expansion rate for both exports and imports. The imports of goods & services grew at 14.1% yoy (2Q 2018: 15.2% yoy), which is only slightly slower than the previous quarter. Government measures to control imports did only come into effect closer towards the end of the quarter although there could have been a possibility of a front-loading of imports amid currency concerns and the introduction of import control measures. Meanwhile, exports growth was also stable at 7.5% yoy (2Q 2018: 7.7% yoy) although monthly trade data showed that after an elevated expansion in goods exports at 19.7% yoy in July, growth substantially slowed to 4.5% yoy and 1.7% yoy for August and September respectively.

For 2018, we are now expecting that the entire year growth rate to come out at 5.2% yoy. The final quarter will most likely see growth remain stable at 5.2% yoy. Consumption will also most likely be unchanged at current levels whilst investment growth from such elevated levels may just slowdown slightly. Government consumption will likely remain strong due to the build-up to the presidential elections. The PMI for October continued to be in expansion territory signaling that economic activity could also remain fairly strong going forward.

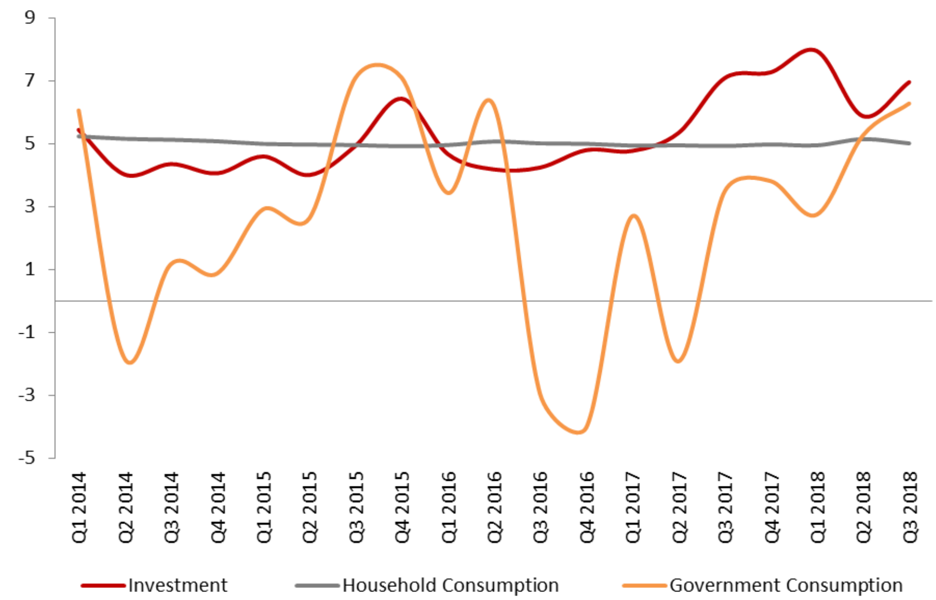
For 2019, we are expecting growth to come out stronger at 5.3% yoy. Consumption will probably pick-up amid the campaigning for the presidential election and continued moderate inflation. Similarly, government spending will also likely remain strong in the midst of the elections. Investment could strengthen once there is more political certainty though. Trade may still remain a drag on growth amid the risk of an escalating trade war although the IDR may recover next year.

Chart 1: Contribution to GDP growth, % yoy



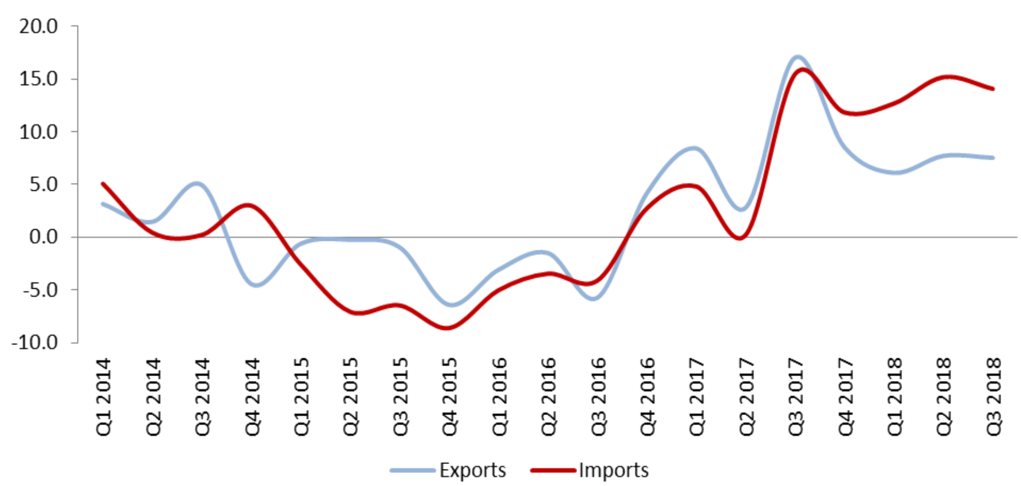
Source: CEIC, Bloomberg and OCBC

Chart 2: Investment, household and government consumption growth, % yoy



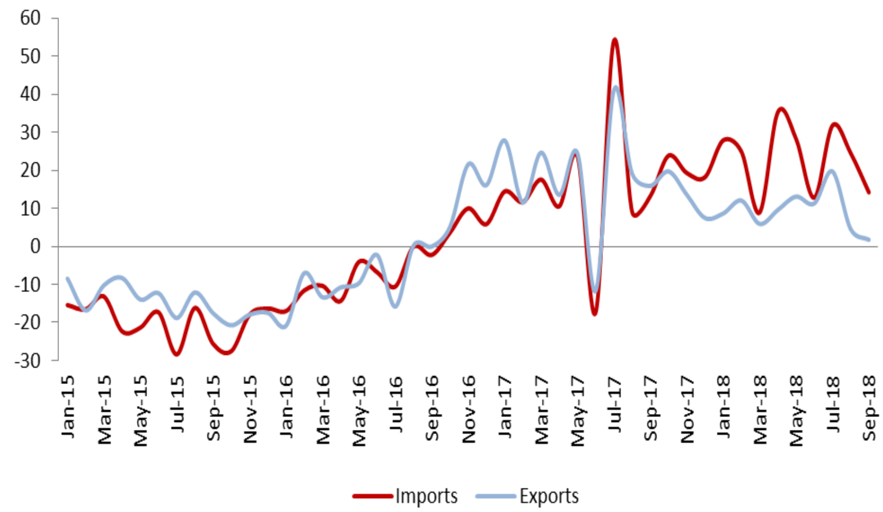
Source: CEIC, Bloomberg and OCBC

Chart 3: Export and imports of goods & services growth, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 4: Exports and imports of goods (monthly trade data), % yoy



Source: CEIC, Bloomberg and OCBC

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