

Slower growth but still beat our expectations

Monday, November 05, 2018

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

Treasury Research
Tel: 6530-8384

Alan Lau
Tel: 6530-5949
AlanLau@ocbc.com

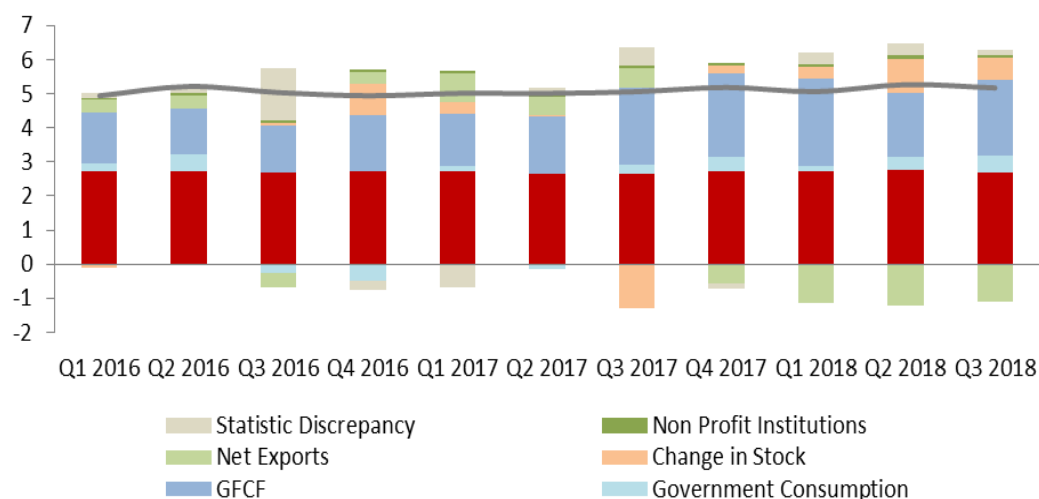
probably continue to expand strongly given the build up to the upcoming presidential election in April 2019.

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.

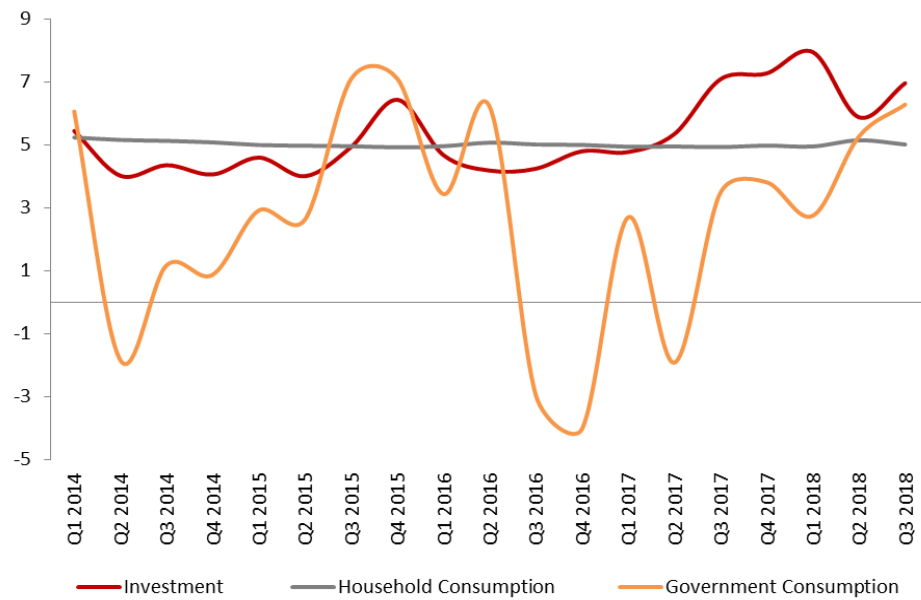
For 2018, we are now expecting that the entire year growth rate to come out at 5.2% yoy. The final quarter will most likely see growth remain stable at 5.2% yoy. Consumption will also most likely be unchanged at current levels whilst investment growth from such elevated levels may just slowdown slightly. 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.

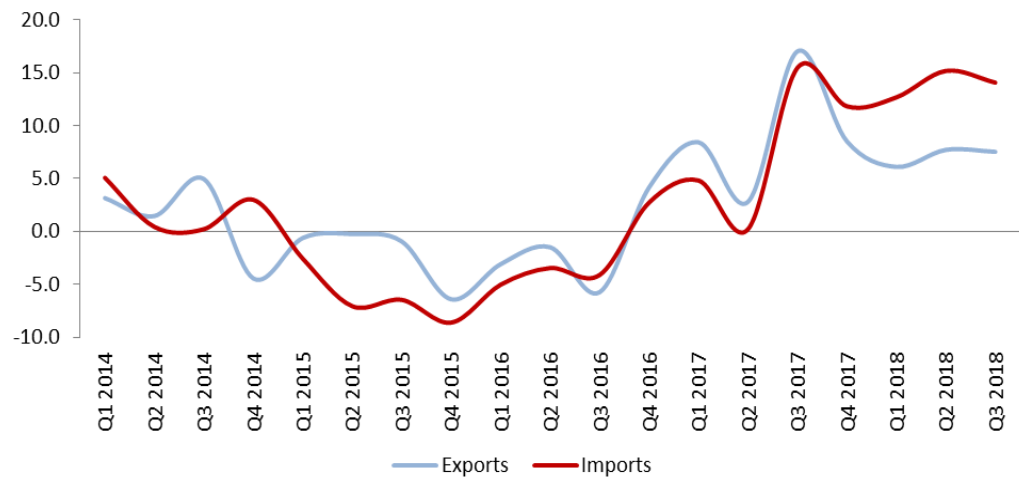
Chart 1: Contribution to GDP growth, % yoy



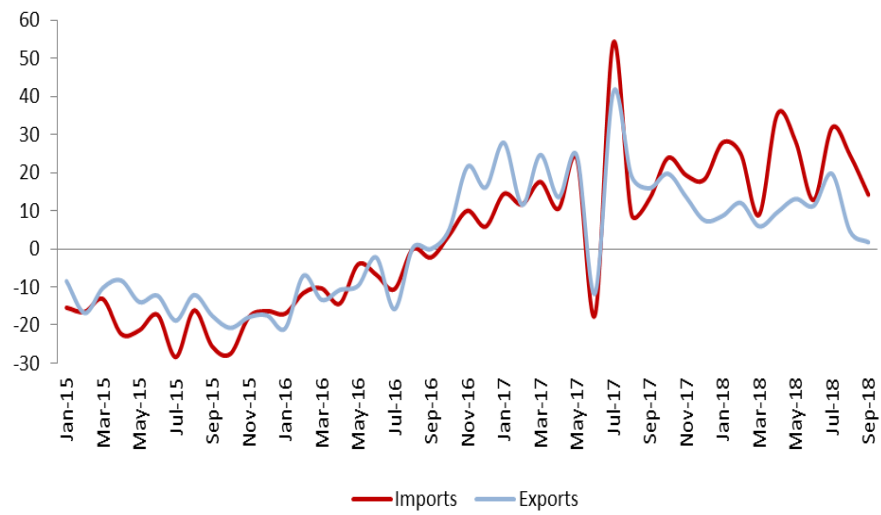
Source: CEIC, Bloomberg and OCBC

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W