Indonesia Outlook

OCBC Bank

Steady and stable 2018 growth

Thursday, February 07, 2019

Highlights

- **2018 final quarter GDP growth came out at 5.18% yoy (-1.69% qoq), which was in line with our expectations and a tad faster than the 5.17% yoy seen in 3Q18.**
- **The entire 2018 year growth averaged 5.17% yoy, which was faster than the 5.07% growth seen in the previous year.**
- **We expect that growth for 2019 will marginally increase to 5.3% yoy, supported by stronger household consumption, government expenditure and investment.**
- **The central bank would probably not be inclined to cut rates as current growth rates continue to be above estimated trend growth levels.**
- **Instead, we now believe that the central bank would hold the benchmark rate at 6.00% for 2019 given our house view that the Fed will pause for 2019.**

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The final quarter 2018 growth came in at 5.18% yoy, which matched our expectations although it did beat the Bloomberg consensus median growth forecast at 5.10% yoy. Growth was again mainly driven by household consumption as it continued to expand above 5.00% yoy. Household consumption for 2018 was likely supported by stable labor market conditions and moderate inflation levels (as the government froze energy prices). Investment was also another major growth driver for the quarter as it grew by 6.01% yoy (3Q 2018: 6.96% yoy). Net exports was still a drag on growth but imports expanded at a slower pace of 7.10% yoy (3Q 2018: 14.02% yoy) whilst exports growth also slowed to 4.33% yoy (3Q 2018: 8.08% yoy). The import slowdown happened as power and oil & gas projects were delayed amid a government attempt to control import levels. The government also implemented other measures to reduce import levels including the B20 biodiesel measure and requiring all contractors to sell their output to the state energy firm Pertamina. Exports meanwhile may have been affected by the slowdown in China and the escalating US – China trade tensions. Government consumption remained strong for the quarter as it grew 4.56% yoy ahead of the presidential elections scheduled for April 2019.

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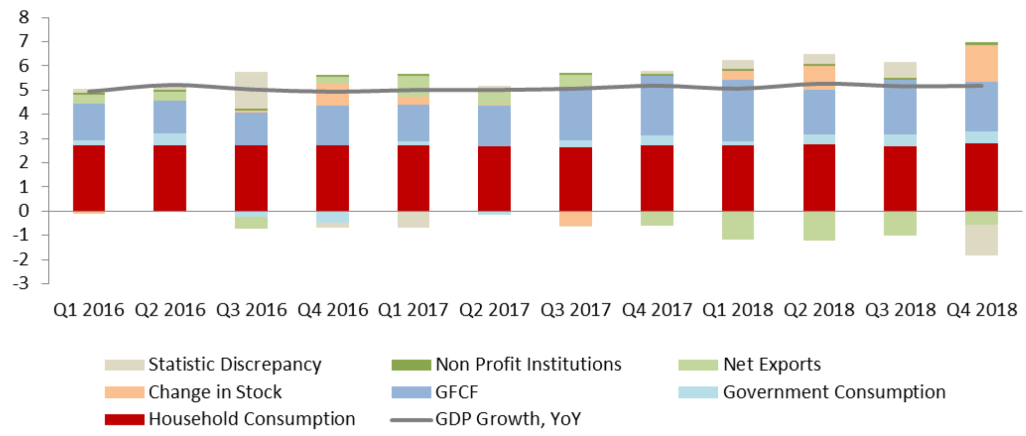
Overall, this brought the entire 2018 year growth to 5.17% yoy, which was also in line with our forecast. For 2018, household consumption edged marginally above 5.00%. Government consumption was the strongest it has been since 2015 at 4.80% yoy. Imports did however grow at an elevated level of 12.03% yoy, the highest since 2011 possibly due to higher levels of capital goods imports (as the trade data had shown), driven in turn possibly by the strong investment growth. Exports growth for the entire 2018 was weaker at 6.48% yoy (2017: 8.91% yoy) as it was possibly dragged down towards the year end by the as mentioned escalation in US – China trade tensions and a China slowdown. The IDR did close slightly stronger on the day of the GDP release on 6th February 2019 although market liquidity was thinner due to the holiday season.

Going forward, we see 2019 growth is likely to come out slightly stronger at 5.3% yoy. Growth would most likely be driven by higher household consumption that we believe would continue to sustain above 5.0%. Higher household consumption would probably be supported by moderate inflation, social handouts and stable labor market conditions. The government is planning to allocate Rp102.0 trillion to social expenditure for 2019, which is a 26% yoy increase from the 2018 initial allocation of Rp81.3 trillion. In addition, the social affairs minister Agus Gumiwang Kartasasmita has also already announced that the conditional aid or PKH will cost Rp38 trillion for 2019 compared to Rp19 trillion in 2018. Inflation will probably come out moderate at 3.5% yoy in 2019 (2018: 3.2% yoy) as the government has committed to freezing energy prices until the end of 2019. Meanwhile, government expenditure is expected to remain strong with the presidential elections set to occur in April 2019. Gross fixed capital formation would also likely remain strong and probably pick – up after the presidential elections as political uncertainty dissipates. Net exports may continue to remain a drag on growth as exports would likely be hurt by the expected global growth slowdown and lingering trade tensions.

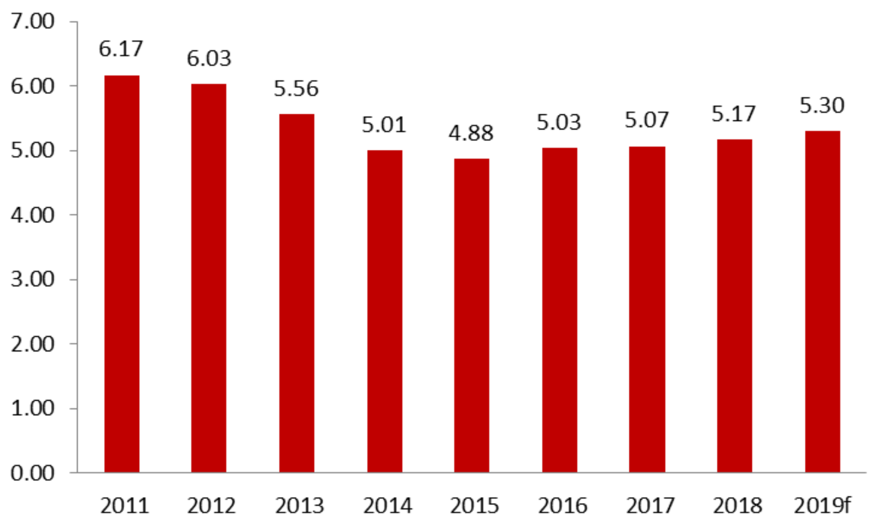
Although 2018 actual and 2019 expected growth rates remain well below Jokowi's target of 7.0% and the Fed has turned more dovish, nevertheless we do not believe the central bank is inclined to cut interest rates at this juncture. Current growth rates are still running above our estimated trend growth levels at 5.0% and a preemptive reduction in the benchmark rate could risk higher inflationary pressures. **We also now expect that the central bank would keep the benchmark rate on hold at 6.00% for 2019 given our house view that the Fed would likely pause for 2019.**

Chart 1: Contributors to GDP Growth Quarterly, % yoy



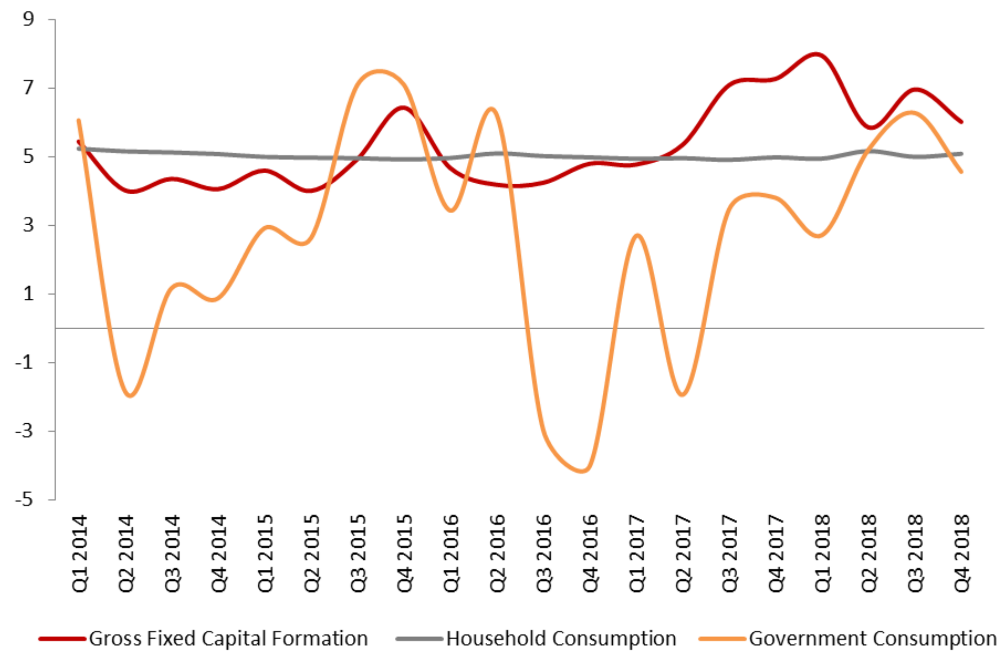
Source: CEIC, Bloomberg and OCBC

Chart 2: GDP Growth Annually, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 3: Growth of Household and Government Consumption and Gross Fixed Capital Formation, % yoy



Source: CEIC, Bloomberg and OCBC

Table 1: Forecasted GDP Growth 2019, % yoy

	2018	2019f
GDP	5.2	5.3
Household Consumption	5.0	5.3
Government Consumption	4.8	5.3
Gross Fixed Capital Formation	6.7	7.5
Exports	6.5	7.2
Imports	12.0	10.7

Source: CEIC, Bloomberg and OCBC