Between Delta and Omicron

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Indonesia squeezed in robust growth in Q4 2021

- From the higher frequency indicators, we had already surmised that the Indonesian economy should be doing well in the last quarter of 2021, as the country exited its months-long social mobility restrictions, releasing pent-up consumption demand that was aided by an uplift from commodities exports.
- Still, the actual data came in at a stronger-than-expected 5.02% yoy, higher than the 4.8% that we and the market had pencilled in. Details suggested that consumption had indeed posted a strong recovery, but it was the uptick in investment activities that presented the bigger pleasant surprise.
- Overall, the GDP data augurs well for the recovery momentum going into 2022, whereby we see a full-year growth of 5.0% yoy compared to 3.7% of 2021. However, the economy will have to go through the unavoidable speed bump presented by the Omicron spread in the next month or two, that has necessitated the reintroduction of some social restrictions in Java and Bali.

Fighting for Five

It remains a hallmark of pandemic-era global economy that a country's GDP print is still intertwined closely with the ebb and flow of Covid-19 case counts. Indonesia's GDP outturn is a case in point. Having printed a subpar 3.5% yoy growth in Q3 when the delta variant was threatening lives and livelihoods across the country at that time, the economy wrangled itself out of the malaise once the pandemic situation came under better control in Q4.

Going into the release, we had expected a respectable 4.8% yoy print on account of recovery in private consumption, as social restrictions began to be eased alongside the retreat of the Covid-19 wave throughout the period. Higher frequency indicators such as consumer confidence and car sales had also broadly pointed to an increasingly robust recovery momentum, as well.

Source: OCBC, Bloomberg, BPS.

Indeed, today's beat in the headline GDP print – which showed growth eked out a print of just above 5% at 5.02% yoy – would not have been possible without such a recovery in private consumption, given its lion's share in the economy. The segment grew by 3.55% yoy in Q4, compared to 1.03% in the prior quarter, adding an indispensable 1.9ppt to the headline growth.

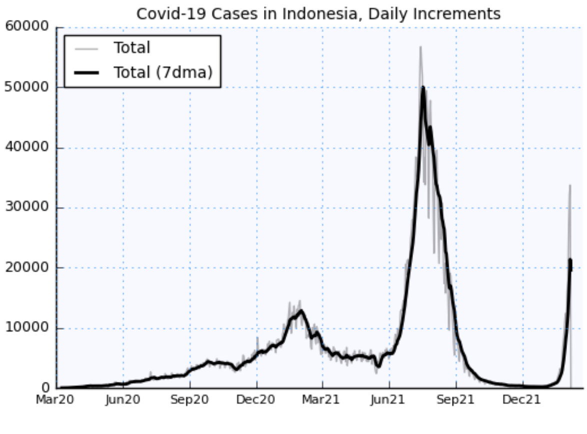
However, the 'star of the show' when we dive deeper is really the uptick in investment outlays, which grew by 4.49% yoy and added a solid 1.48ppt to the headline GDP spurt. This is in tandem with the encouraging FDI data that was previously released, which indicated that investments grew by 10.1% yoy in nominal terms over the period.

While the government's insistence on moving the country's resource-based economy up the value chain has generated controversies of its own, the uptick in investment and its contribution to growth might further encourage a continuation of such policies.

Elsewhere, trade activities signalled another step towards growth normalization. On the exports front, the GDP component grew by 29.8% yoy, as Indonesia continued to benefit from the better commodities landscape. On the other end of the flow, imports had stayed strong too, growing by a similar rate of 29.6% yoy – another broad signal of a recovery in the underlying momentum of private consumption and investment activities.

Overall, while the data capped a year of recovery for Indonesia at 3.69% yoy growth in 2021, compared to a contraction of 2.07% in 2020, the underlying pattern of quarterly ups and downs speak to the lingering hold of the pandemic development on the economic trajectory.

Unfortunately, that pattern of correlation may continue to some extent as we sketch out how the Indonesian economy would shape up in 2022.



Source: OCBC, Bloomberg.

Indeed, even as we were digesting the GDP data, news flow surrounding the rise of omicron-induced Covid-19 cases continued to stream in to remind us of "who's boss" still. Already, Jakarta has recorded its highest case count number of over 15,800 today, higher than the previous all-time-high of around 14,600 in July last year. For good measure, the government has been compelled to reinstitute some of the “PPKM” social restriction measures in the most populous regions of Java and Bali today, which would limit the capacity and operating hours of businesses in the areas.

To be sure, the consumption recovery momentum from Q4 as shown by today’s GDP data might not be replicated in Q1 this year because of the shadows cast by the Omicron uptick. However, as things stand, we continue to hold out the assumption that it would be a relatively contained episode and that the underlying growth momentum can be sustained enough for the economy to grow at an ‘okay’ rate of 5.0% this year.

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