Indonesia

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The Pandemic Punch

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Indonesia's Q3 GDP hit by the pandemic resurgence

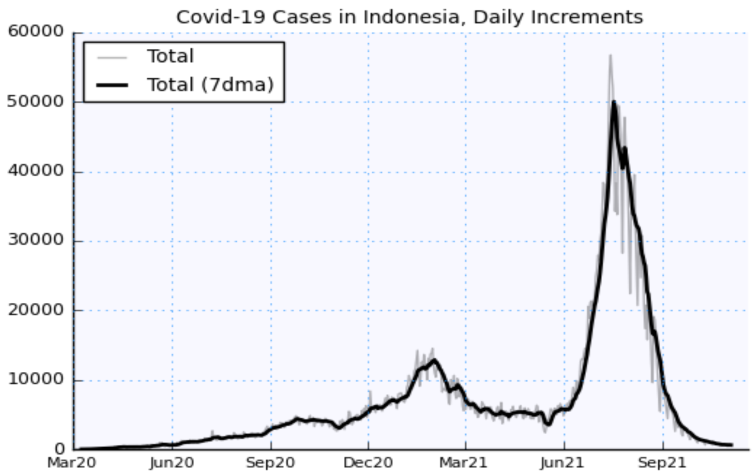
- At 3.51% yoy, Indonesia's Q3 GDP print came below what the market and we had pencilled in at 3.9-4.0%. It is also effectively half of the 7.07% growth rate in Q2, before the delta-driven pandemic resurgence walloped the economy. Private consumption was especially badly hit over the period.
- That was the bad news. The more fortunate development since then is that the country appears to have gotten a handle on the pandemic situation, with daily cases stabilizing at sub-700 handle, much lower than the nearly 57k seen at its peak. Consumer and business sentiments have started to show signs of life yet again, that should pave the way for an uplift in momentum.
- Together with the support coming from the commodities-driven trade front, we expect 2021 growth to still clock an "okay" 3.7% yoy, despite the Q3 miss. On the policy front, the downbeat data is unlikely to shift the MOF and BI from the course of fiscal consolidation and policy rate stability, respectively.

Walloped by the Wave

Going into the data release, market players would have known that the Q3 GDP would not be a pretty one. Indonesia was battling the worst wave of pandemic resurgence yet over the period that saw cases surging seemingly unstoppably especially in the month of July.

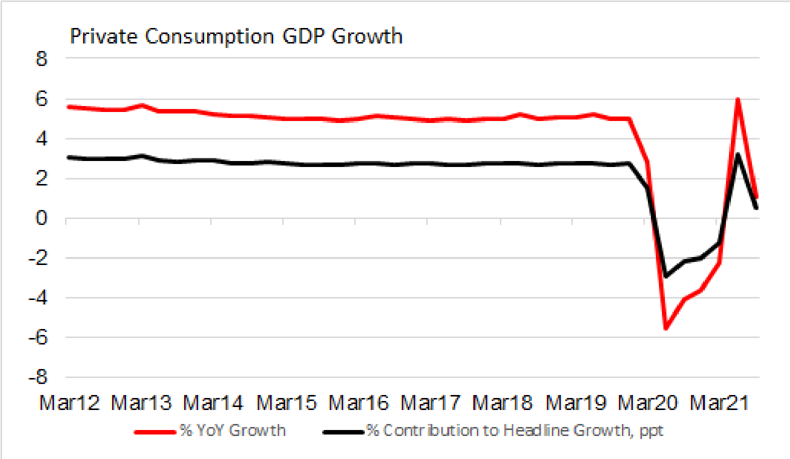
Almost as if to allow for an ease of timestamping, the government had also instituted a host of PPKM social restriction measures from the start of the quarter that saw malls and most businesses shut across the most populous provinces in Java and Bali.

Hence, a slowdown was to be expected. Still, at 3.51% yoy, it did mark a more rapid slowdown from Q2's 7.07% that had been expected, considering how we pencilled in 4.0% and the market consensus at 3.88% yoy.



Source: OCBC, Bloomberg.

The miss came down largely to the larger-than-expected degree of slowdown in private consumption during the period. While it remained in the positive territory with a 1.03% yoy growth, that is courtesy of the base effect from the Q3 2020 slump when the economy was still reeling from the initial pandemic attack. Indeed, on a non-seasonally adjusted basis, consumption shrank by 0.15% from the prior quarter.



Source: OCBC, Bloomberg.

The degree of the private consumption slowdown in Q3 can be seen as a direct manifestation of consumer concerns with the virus spread itself and indirectly due to the social restrictions that were imposed during the period.

Looking ahead, in the near term, the close relationship between the pandemic path and private consumption should work in the favour of economic growth. As the pandemic situation stays under better control, allowing consumer confidence to regain ground and the social restriction measures to be lax, consumption growth should be able to gain ground in Q4. Indeed, our view that the overall GDP growth can clock 4.8%, allowing the full-year figure to still hit 3.7% is predicated on that.

Over the medium term, however, the high sensitivity of Indonesia's consumption growth to the pandemic situation may remain the Achilles' heels of the economy. That may be especially so given how Indonesia's vaccination rate remains low. Even if major areas such as Jakarta have achieved high inoculation rate, at the broader national level, just 28% of the population have been fully vaccinated.

While the government is keen to talk up the need to move towards an endemic state of "living with the virus" – whatever that ultimately means – the low vaccination rate presents a substantial roadblock. It could ultimately make it hard for Indonesia to limit the damage wrought by any new pandemic wave on the economy, as well.

Despite such lingering concerns for the future, to be sure, the momentum is turning positive for now for the Indonesian economy. For one, investment cycle has held up relatively well despite the pandemic impact. It grew by

3.74% yoy in Q3. Even if it was considerably lower than the 7.54% growth clocked in Q2, it was nonetheless a commendable feat given the challenging circumstances.

Looking at the industry-breakdown of the GDP data for clues, the respectable performance of the investment activities may have been due to the good performance in the mining industry, which grew by 7.78% yoy over the period. The fact that Indonesia benefits from the commodities uptick can also be seen in the supportive growth in the exports portion of the GDP, which grew by 29.16% yoy in Q3. That favourable trade sector's momentum should build on itself heading into Q4, considering the help coming from the commodities complex.

Overall, despite the miss in the Q3 GDP, the Indonesian economy is undoubtedly in a better place now compared to the dark period covered by the data time window. There are still pockets of uncertainties to be sure, especially due to the potential havoc brought by any new round of virus resurgence on a less-than-prepared population. However, the momentum is heading the right way for now such that policymakers can breathe more easily.

On the fiscal front, the government continues to posture towards further fiscal consolidation, rather than stepping into any fiscal largesse, into next year. Already, it has reportedly cancelled the bond auctions for the rest of 2021, partly because it is spending less than scheduled but also because revenue collection is coming stronger – a sign of better growth prospects. Into next year, there remains a chance that deficit might come lower than the 4.85% of GDP that it had pencilled in, partly because of the recent tax reforms.

Similarly, on the monetary policy front, Bank Indonesia has time and again signalled that it is not looking to change its policy rate from the record-low 3.5% anytime soon. That stance is unlikely to be rocked by today's GDP data release, especially when it can – rightly – argue that it is too much of a backward-looking print given the way momentum has moved up in recent months as the pandemic situation stays under better control.

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