Waiting for Godot

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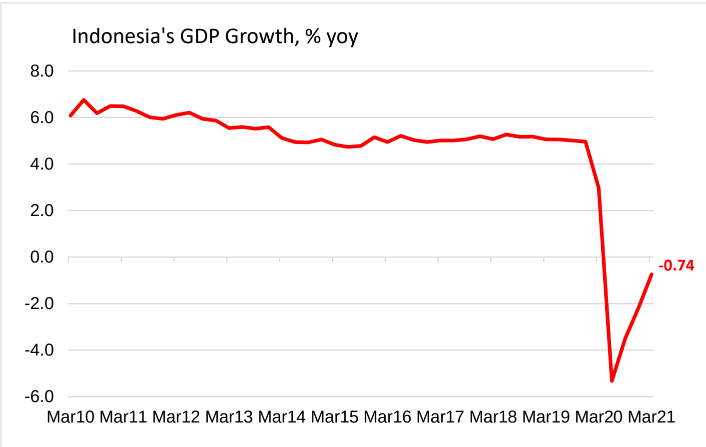
When can Indonesia return to positive growth?

- Another quarter, another negative print for Indonesia's GDP. At -0.74% yoy, the Q1 figure marks the fourth time that the once stable-as-it-grows economy shrank. It also begs the question of when it can bounce back to outright positive growth once again; or, like the characters in the absurdist Beckett play, market will continue to wait in vain for Godot to show up.
- Judging from the breakdown of today's data, there is hope that Indonesia may start to see outright growth as soon as Q2, however, helped by base effect. For one, while private consumption remains broadly tepid, the momentum is heading in the right direction, that is up. No less importantly, investment activities are actually returning in earnest, close to breaking even in Q1 and may start to add to headline growth in the coming months.
- Still, the virus resurgence presents considerable risks and the upcoming holiday travel season does not help. If Indonesia can go through the quarter without a big surge in cases, however, Q2 might see yoy growth of 7.5%, helping to clock 4.6% for the full year. Overall, BI is unlikely to be nudged away from holding its policy rate by the GDP number. It will continue to urge banks to pass on previous rate cuts, rather than undertake new ones.

The End is Near

We have been waiting and hoping for that elusive positive yoy growth to return to Indonesia. However, one way or another, it just refuses to show up.

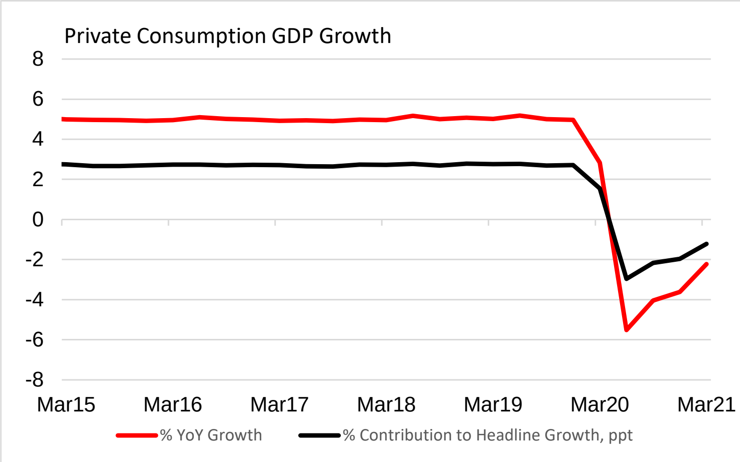
Granted that, at -0.74% yoy, the rate of growth in Q1 2021 is a lot less painful than -2.19% of the previous quarter, it has nonetheless reminded us of just how tough it is to climb out of the pandemic-induced deep slump of last year. It did come a tad short of the -0.5% and -0.65% that we and the market pencilled in, respectively.



Source: OCBC, Bloomberg.

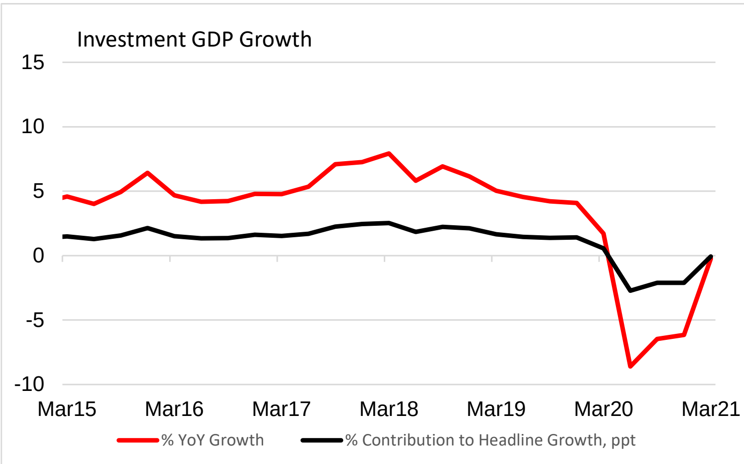
Still, despite the negative headline print, market should take note of some of the details in the data release that offer a relatively more encouraging picture for the periods ahead.

First, zooming in on the all-important private consumption. Just to be clear, it remains in contractionary territory, whether you see it from the year-on-year perspective (-2.23%) or in terms of contribution to headline growth (-1.22ppt). However, on a relative basis, things have indeed continued to start turning up more robustly from the previous quarter, contracting by less.



Source: OCBC, Bloomberg.

The momentum within the quarter matters as well. And, from the higher-frequency indicators such as consumer confidence and car sales, we could garner that although January and February were challenging, there was a palpable sense of improvement by March, with car sales surging in particular on the back of favourable tax treatment and down-payment (non)-requirement. Hence, we do see a continuation of such momentum to help the overall upturn in Q2 for private consumption.



Source: OCBC, Bloomberg.

Elsewhere, what looks more encouraging to us is the fact that investment activities have started to improve considerably in Q1. The segment grew by -0.23% yoy, compared to -6.2% yoy in the previous quarter. To look at it from another way, it nearly added to headline growth in an outright manner, at -0.07ppt, compared to -2.1ppt in the prior quarter.

Such uptick is in concert with the investments outlay as reported by the coordinating board recently, whereby Indonesia saw a record-high investment of IDR219.7tn in Q1. Encouragingly, FDI grew by 14% to a 3-year high IDR111.7tn, with the outer-lying regions taking the bulk of it.

Already, as we highlighted here, the government has continued to signal its seriousness in elevating investments as a major driver of growth by upgrading the investment board into a full-blown ministry, although it came at the expense of effectively downgrading the research and technology portfolio.

Hence, if Indonesia can continue to capitalize on its well-known strength of demographics even while it captures new opportunities surrounding the green-energy push – by leveraging on its abundant nickel deposits, for instance – it should bode well for investment-driven growth push ahead.

Outside of consumption and investment, export activities have shown considerable recovery as well, growing at 6.7% yoy after three consecutive quarters of shrinkage. The net effect, however, has been muted by a concomitant return of growth in imports as well.

All in all, while headline growth has again languished in the negative territory in yoy terms, the fact that the momentum is moving in the right direction lends a new lease of hope that growth will return to positive zone soon.

For that, there is base effect to thank, first of all. Even if Indonesia's economy does not grow at all quarter-on-quarter in Q2, it would still be registering a yoy growth of 3.6%, purely because the dip was so sharp in Q2 last year. If the economy, however, manages to post a 3.8% qoq expansion on a non-seasonally adjusted basis, growth would come in at 7.5% yoy.

To be sure, while the arithmetic is on its side, the epidemic might not be as cooperative. While Indonesia's daily cases continue to remain broadly in check, the pop-ups of cases in neighbouring countries should present a clear warning that nothing can be taken for granted. Indeed, with the traditional peak travel season for Eid festivities taking place in the coming weeks, there is a risk of sudden uptick in cases once again, especially now that the more transmissible variant from India appears to have made landfall in the country.

At the risk of stating the obvious, if the epidemic rears its ugly head in a big way once again, our relatively sanguine outlook will be put at risk. Indeed, we have downshifted our full year forecast from 4.9% to 4.6% partly because of such unfavourable risks. The characters in "Waiting for Godot" waited for nothing in the end. Godot simply didn't show up. Hopefully our wait for the return of positive yoy growth in Indonesia will end up being more satisfactory.

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