

GDP:

New driver needed

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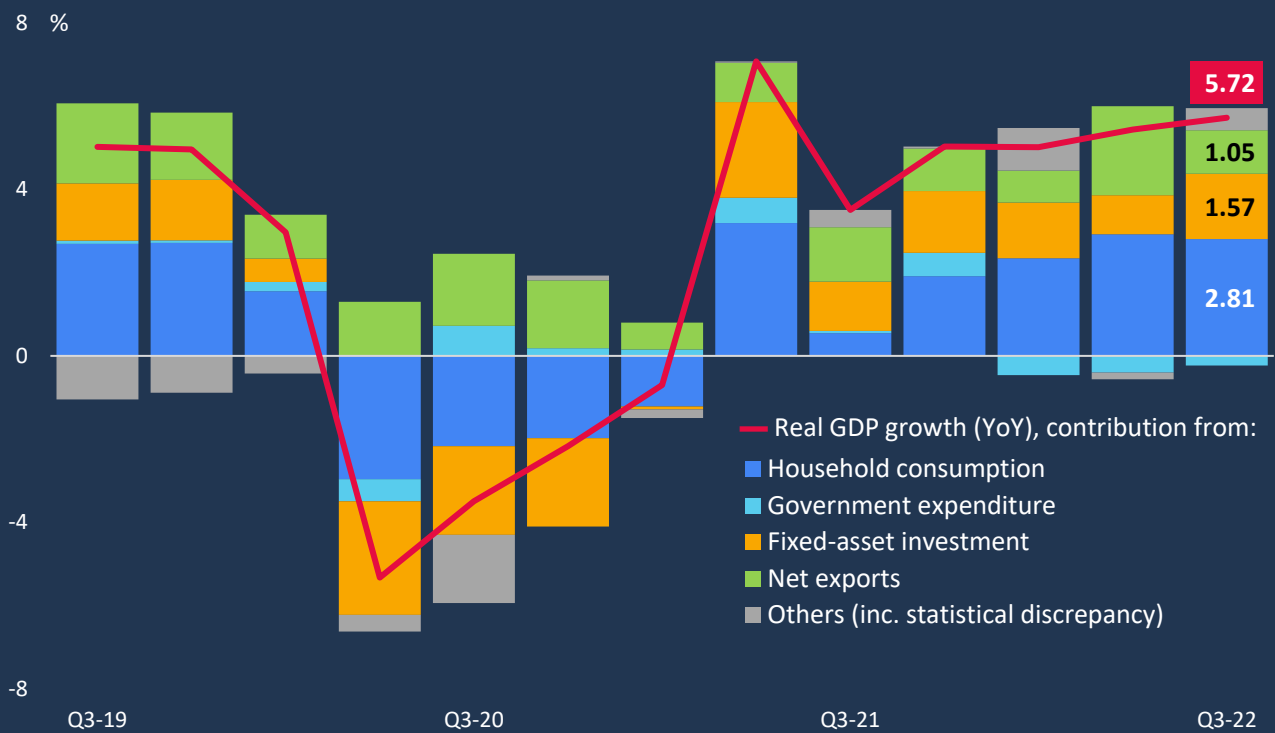
Executive Summary

- Indonesia's GDP grew by 5.72% YoY in Q3-2022 with exports continuing to provide considerable support. Slowdown in global economic activities coupled with relatively robust domestic demand may suppress the role of exports in driving economic activity in periods ahead.
- Household consumption appears to be holding up in Q3-2022. However, demand may start to normalise as lower liquidity in the private sector and escalating inflationary pressures may weaken consumer confidence.
- Ample liquidity in the domestic private sector and the government's renewed interest in infrastructure projects may boost fixed-asset investments. However, a weaker IDR may complicate investment realisation in the upcoming periods.

- Indonesia's gross domestic product (GDP, in constant term) grew by 5.72% YoY in Q3-2022, outpacing the +5.44% YoY recorded in the previous quarter. Sectoral breakdown of the GDP data shows continued growth in various sectors, most notably in the manufacturing (+4.83% YoY) and service-related industries (Transportation and warehousing industry +25.81% YoY, Accommodation and food & beverages +17.83% YoY) as consumers continue to take benefit of the expanding domestic mobility.
- Looking closer at the expenses side of the GDP data, the external sector (+21.64% YoY) remains a reliable driver behind Indonesia's continued economic growth, with exports contributing 5.21% to the GDP. This, of course, was largely fuelled by still-high coal prices due to persistent disturbances to the global energy market. However, continued dependence on coal as a fulcrum of domestic economic growth may not be a wise option. The rumoured 'reopening plan' of Chinese economy may provide a sentiment boost for coal prices in periods ahead. But, its broader impact remains questionable as China's reopening may coincide with slowing global demand, while property bust would slow down demand for steel and hence demand for coking coal.
- On net terms, however, the external sector contributes less to Indonesia's economic growth in Q3-2022 than in the previous quarter, courtesy of escalating import activities. Despite its negative impact on growth, higher imports must not be taken as a sign of slowing growth. For one, Indonesia's imports have largely been geared up to pursue long-term economic target as evident from robust capital goods imports (more on this later).

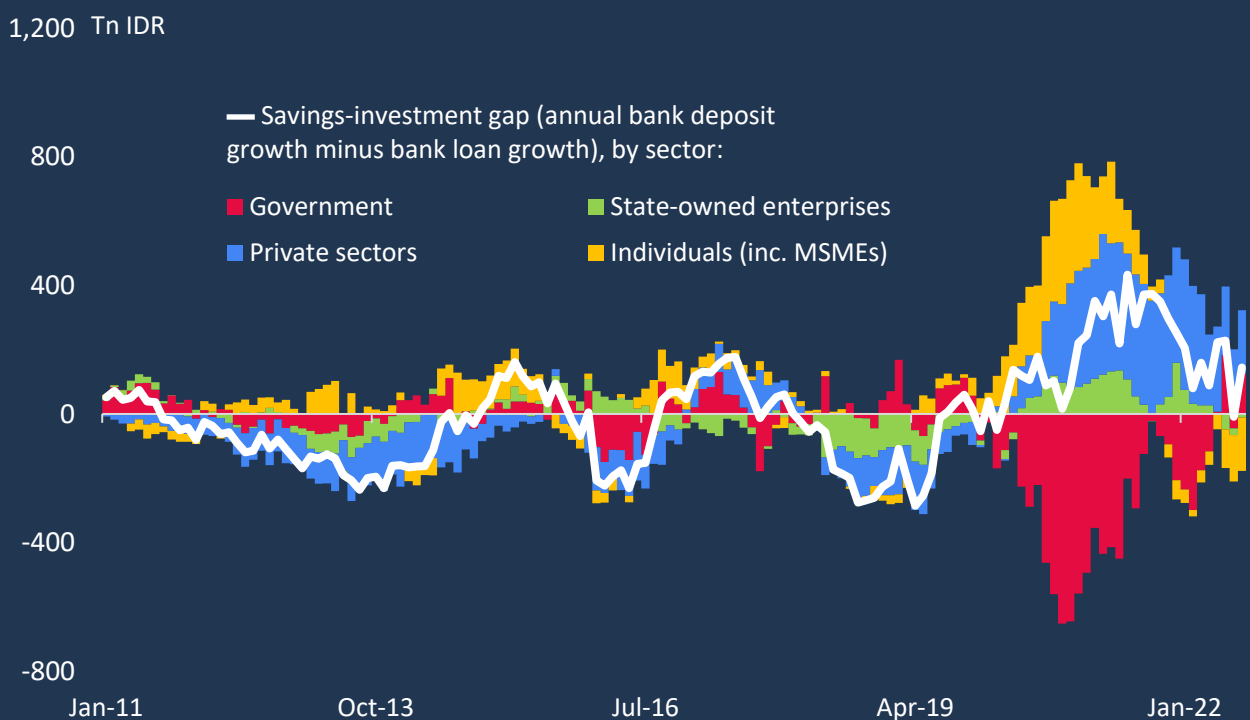
- Demand from domestic consumers also appears to holding up (despite weakening imports of consumer goods), as evident from still-robust raw material imports (+12.2% YoY in Sep-2022). In contrast, the slowdown in global economic activity will continue to hamper demand in the commodity market, thereby depressing Indonesia's export gains and its contribution to domestic economic growth. It appears, then, that we have to look inward to find other factors that may drive domestic growth in periods ahead.
- On the other side of the data, household consumption (+5.39% YoY) remains solid despite slower growth than the previous quarter. Continued growth in many consumer-facing industries signals the still-robust demand from domestic consumers. Indeed, domestic consumers have not (yet) felt the negative impact of the increase in subsidised fuel prices in Q3-2022, and transfer payments from the government have helped to sustain consumption levels in some segments of the population.
- However, the positive development of Q3-2022 household consumption data has to be taken with some caveats. BCA's transaction index shows a spike in a transaction in July 2022, which reflects last year's delta-variant outbreak that dragged the Indonesian economy to its nadir. Consumption appears to slow down after July 2022 as consumers are now running out of dry powder to continue to fuel consumption. Bank Indonesia's still-accommodative macroprudential policies may provide some cushion to sustain domestic consumption in upcoming periods. But, it remains to be seen whether such stimulus could stimulate consumption amid expectations of higher interest rates and escalating inflationary pressures that weaken consumer confidence.
- Fixed-asset investment, then, may take centre stage as the primary driving force of the domestic economy in the coming months. The still-robust domestic demand provides the impetus for domestic manufacturers to continue to expand, which in some way explains the effervescent growth in productive loans (working capital loan +12.03% YoY in Aug-22, investment loans +9.93% YoY) and imports of capital goods (+41.1% YoY in Sep-2022). Moreover, the government's current budget balance may portend accelerating spending budget realisation in Q4-2022, while multiple infrastructure projects would support fixed-asset investments in many periods ahead. Higher interest rates may have a limited impact on the private sector's willingness to expand, as many in the private sector are now sitting atop substantial liquidity. Finally, the global push for the green energy revolution would also increase demand for minerals, boosting Indonesia's attractiveness as a long-term investment destination.
- Some speedbumps remain that could limit domestic investment realisation in the coming months. For one, it is unlikely (at least in the very near term) that global demand would arise from its presently moribund state while domestic consumptions seem to have reached its peak and may start to normalise. The steadily weakening Rupiah is another concern, as a depreciating currency would make it more expensive for domestic manufacturers looking to source machinery from abroad. In this regard, some increases to the policy rate may be consistent with BI's growth-accommodative policy outlook as it would provide more protection for the IDR against the yet-to-peak USD. Thus, adjustments to the BI-7DRR to the tune of 75bps in the next two meetings seem to be the plausible scenario.

Chart 1. Normalising demand means that Indonesia may soon need to look for investments to boost economic growth



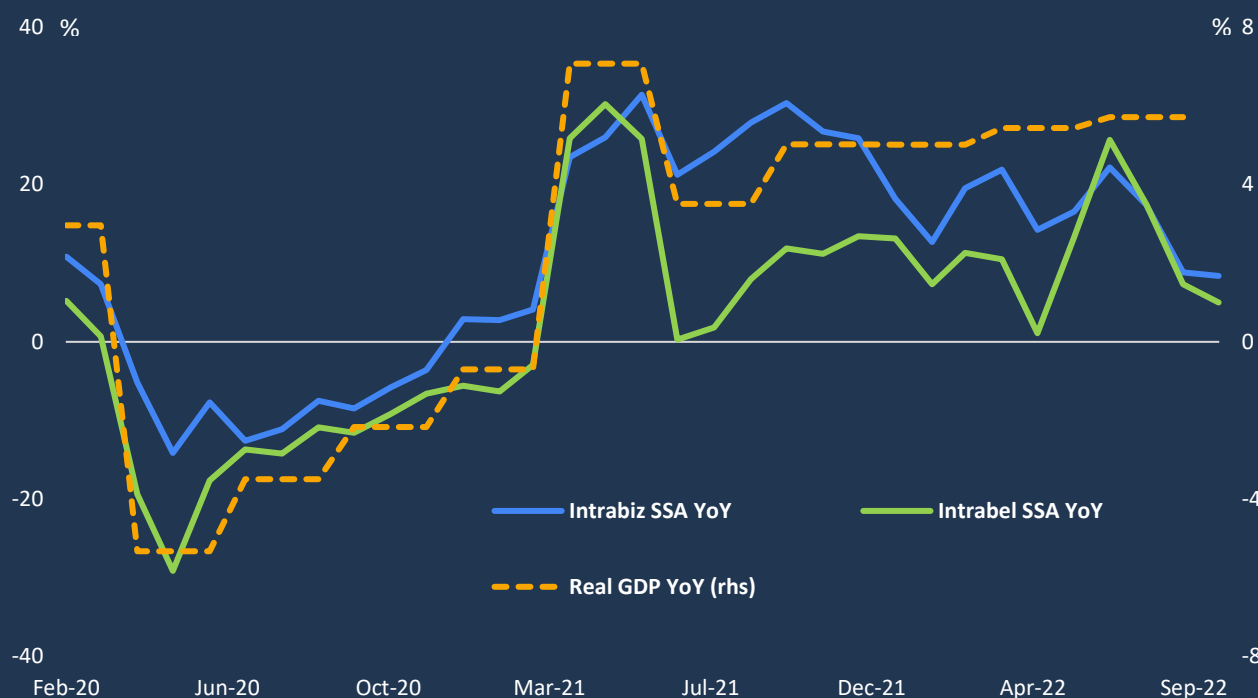
Source: BPS

Chart 2. Private sectors still have the liquidity to expand while consumers are running out of fuel to maintain consumption



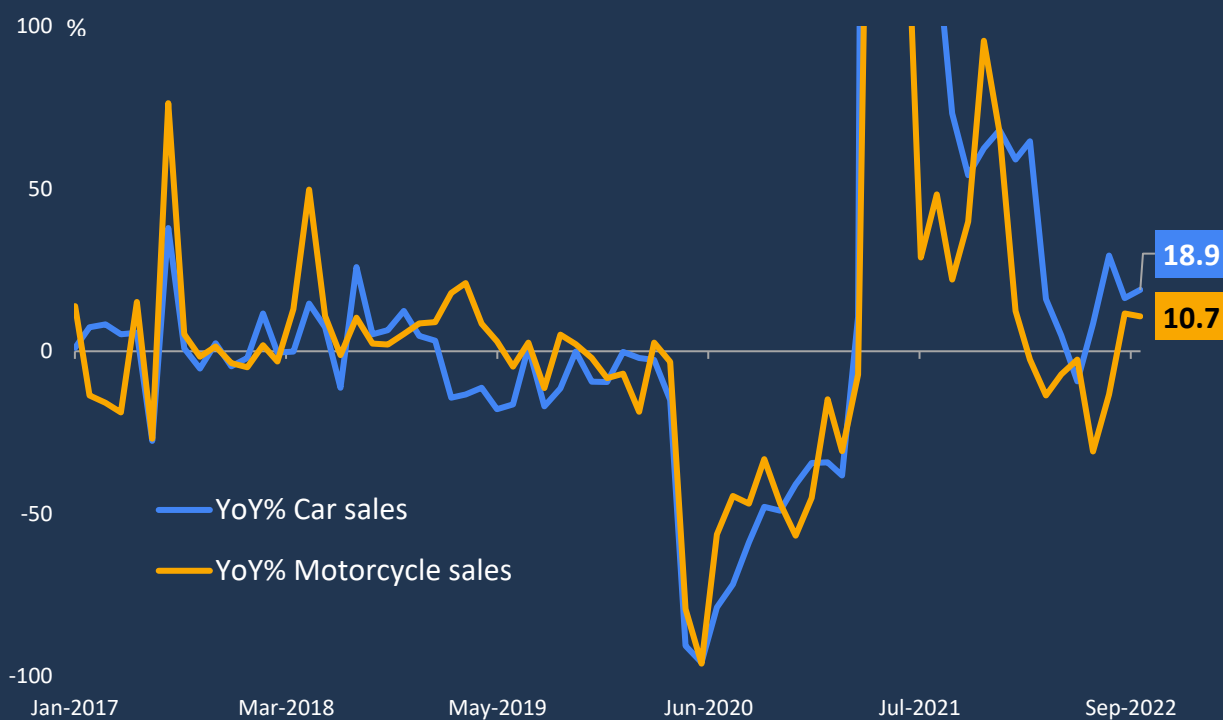
Source: BI
Data as of August 2022

Chart 3. BCA transaction index reached its peak in July-2022, courtesy last year's Delta outbreak that plunge the economy to its nadir



Source: BCA Big Data, BPS
GDP data as of September 2022

Chart 4. BI's still-lax macroprudential policies provide a cushion that support demand for durable goods



Source: GAIKINDO, AISI

Selected Macroeconomic Indicators

Table 1. Gross Domestic Products by sector (nominal)

	2020		2021		Q3-21	Q4-21	Q1-22	Q2-22	Q3-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,115.4	13.7	2,253.8	13.3	619.4	512.2	566.8	638.9	657.2
Mining and quarrying	993.5	6.4	1,523.7	9.0	413.1	469.1	472.9	642.5	686.0
Manufacturing industry	3,068.0	19.9	3,266.9	19.3	828.4	845.4	866.3	877.8	910.4
Electricity and gas	179.7	1.2	190.0	1.1	47.6	49.7	50.0	50.5	52.0
Water provisioning and waste recycling	11.3	0.1	12.0	0.1	3.0	3.1	3.0	3.2	3.2
Construction	1,652.7	10.7	1,771.7	10.4	449.3	471.3	470.4	449.5	480.9
Wholesale trade and repairs	1,994.1	12.9	2,200.5	13.0	562.9	571.9	590.9	625.1	648.6
Transportation and warehousing	689.6	4.5	719.6	4.2	168.9	205.2	208.5	235.9	254.9
Hotels, restaurant, and catering	394.1	2.6	412.3	2.4	97.6	109.7	110.1	116.2	118.3
Information and communication	696.0	4.5	748.8	4.4	189.0	192.7	196.0	201.6	204.0
Financial services and insurance	696.1	4.5	736.2	4.3	184.4	185.5	195.9	203.6	202.8
Real estate	453.8	2.9	468.2	2.8	118.3	119.3	120.4	121.4	122.6
Business services	294.3	1.9	301.1	1.8	73.7	77.2	81.0	84.5	85.9
Govt. administration , defence, and social security	582.6	3.8	584.4	3.4	127.6	159.8	138.9	154.6	146.5
Educational services	549.6	3.6	556.3	3.3	132.8	153.6	128.7	139.7	141.6
Healthcare and social services	201.2	1.3	227.0	1.3	60.9	64.2	52.4	56.3	60.8
Other services	302.6	2.0	312.2	1.8	76.5	81.4	84.7	87.2	87.2
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	4,325.2	4,498.0	4,513.7	4,920.4	5,091.2

Table 2. Gross Domestic Products by expenditure (nominal)

	2020		2021		Q3-21	Q4-21	Q1-22	Q2-22	Q3-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,899.9	57.6	9,236.0	54.4	2,296.2	2,379.7	2,421.4	2,532.4	2,564.7
Consumption by non-profit organizations	201.4	1.3	207.8	1.2	52.6	53.3	53.2	57.5	58.7
Government consumption	1,474.1	9.5	1,551.7	9.1	391.8	531.5	250.5	342.8	385.5
Fixed-asset investment	4,897.0	31.7	5,227.9	30.8	1,316.4	1,394.9	1,373.7	1,343.6	1,453.7
Exports of goods and services	2,666.4	17.3	3,659.0	21.6	971.7	1,065.9	1,046.7	1,217.5	1,335.5
Imports of goods and services	2,424.4	15.7	3,201.0	18.9	790.3	923.8	930.6	1,008.0	1,102.2
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	4,325.2	4,498.0	4,513.7	4,920.4	5,091.2

Source: BPS

Table 3. Gross Domestic Products by sector (%YoY)

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q1-22	Q2-22	Q3-22
Agriculture, livestock, forestry, and fishery	3.60	1.77	1.84	1.21	1.38	1.65
Mining and quarrying	1.22	-1.95	4.00	3.82	4.01	3.22
Manufacturing industry	3.80	-2.93	3.39	5.07	4.01	4.83
Electricity and gas	4.04	-2.34	5.55	7.04	9.33	8.05
Water provisioning and waste recycling	6.83	4.94	4.97	1.30	4.46	4.25
Construction	5.76	-3.26	2.81	4.83	1.02	0.63
Wholesale trade and repairs	4.60	-3.78	4.65	5.73	4.42	5.35
Transportation and warehousing	6.37	-15.05	3.24	15.79	21.27	25.81
Hotels, restaurant, and catering	5.79	-10.26	3.89	6.56	9.76	17.83
Information and communication	9.42	10.61	6.81	7.16	8.07	6.88
Financial services and insurance	6.61	3.25	1.56	1.64	1.50	0.87
Real estate	5.76	2.32	2.78	3.78	2.16	0.63
Business services	10.25	-5.44	0.73	5.96	7.92	10.79
Govt. administration , defence, and social security	4.63	-0.03	-0.33	-1.38	-1.56	12.42
Educational services	6.30	2.61	0.11	-1.66	-1.09	4.46
Healthcare and social services	8.66	11.56	10.46	4.50	6.49	-1.74
Other services	10.56	-4.10	2.12	8.25	9.26	9.13
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	5.02	5.45	5.72

Table 4. Gross Domestic Products by expenditure (%YoY)

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q1-22	Q2-22	Q3-22
Household consumption	5.04	-2.63	2.02	4.34	5.51	5.39
Consumption by non-profit organizations	10.67	-4.25	1.59	5.85	5.05	6.09
Government consumption	3.29	1.96	4.17	-6.94	-4.86	-2.88
Fixed-asset investment	4.48	-4.96	3.80	4.09	3.07	4.96
Exports of goods and services	-0.51	-8.14	24.04	16.70	20.02	21.64
Imports of goods and services	-6.92	-16.72	23.31	15.88	12.37	22.98
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	5.02	5.45	5.72

Source: BPS

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Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	6.4
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

** Estimation of Rupiah's fundamental exchange rate

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