GDP:
Dragged down by a pull forward

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Executive Summary

- The GDP grew 4.94% YoY in Q3-23, as shifts in the fiscal calendar (with civil servant bonuses disbursed in June instead of July) pulled forward some of the Q3 growth towards Q2. Excluding government spending, the GDP actually grew faster in Q3 (5.64% vs. 4.77% in Q2).
- The nominal growth was only 4.52% YoY, attributed to a continued global disinflation albeit declining especially as commodity prices began to stabilize in Q3.
- FAI grew strongly, reflecting strong private and foreign appetite in several industries, as well as a push to expedite government projects before Pres. Jokowi's term ends.
- Despite challenges especially from food inflation, consumption remains robust and ready to enjoy a substantial boost from the upcoming Election-related spending in Q4-23 and Q1-24.
- Indonesia's goods-producing sectors, including mining, manufacturing and construction are growing above 5% YoY, bucking the global shift towards services. This newfound prowess may face a challenge from China's manufacturing push, which could at the same time benefit and threaten domestic industries.

- The constant-price GDP grew 4.94% YoY (1.60% QoQ) in Q3-23, weaker than the median consensus of 5.00%. Meanwhile, the nominal or current-price GDP only grew 4.52%, which is the slowest pace since the deep, dark pandemic days of Q1-21. These headline numbers, then, may seem to spell doom and gloom, but a closer inspection of the data reveals a more robust underlying situation than it appears to be.

- Two factors conspired to depress the headline numbers. The first is what we have discussed at length in Q2: global disinflation. The GDP deflator, i.e. the overall price level of the GDP, actually went negative in Q3 at -0.4% YoY – no mean feat, given that it was already very low (1.5%) in the previous quarter.

- As in Q2, disinflation affected most areas of the economy, but with a particularly sharp impact on exports and imports. This is unsurprising, as disinflation has been driven mainly by external factors – declining commodity prices on one hand, and China's excess industrial capacity on the other.

- The good news is, while disinflation is still ongoing, it is at least slowing down. Export prices were down -0.4% QoQ (versus -3.9% in Q2), while import prices actually went up 1.0% QoQ (versus -0.4% in Q2). An ad hoc measurement that we introduced last quarter, where we took out the asymmetric effect of global disinflation, put the underlying nominal GDP growth at 6.8% YoY – still low, but much closer to the growth of bank loans (9.0%) and especially deposits (6.5%) by the end of Q3.

- The second factor that affected the headline is the shift in the government's fiscal calendar. As we mentioned recently, the government has not been as aggressive in disbursing its budget, perhaps for fear of widening the current account (CA) deficit or – more likely – to conserve it for future spending needs (Election-related spending, stabilizing food and energy prices). Per Sep-23, the fiscal balance stood at +0.32% of the GDP, which is miles away from the -2.84% target set in the Annual Budget.

- This sluggish spending was further compounded by the decision to disburse civil servant bonuses (the so-called "13th-month wage") in June, a month earlier than customary, and also to disburse part of the social assistance budget in April-May to coincide with Ramadan and Lebaran (Eid-al-Fitr) festivities. By doing so, the government essentially "pulled forward" to Q2 part of the growth that would have otherwise happened in Q3.

- Without this forward-pull, the Q3 numbers would have certainly been better – indeed, far better than Q2. Excluding government consumption, real GDP growth actually rebounded to 5.64% YoY in Q3-23, after a noticeable dip during Q1 (5.14%) and Q2 (4.77%). This is very much in line with our two big data indices, the Business Transaction Index (Intrabiz BCA) and Consumer Spending Index (Intrabel BCA), which dipped during the first half of the year but have since rebounded.

- The trend was especially encouraging in fixed-asset investment (FAI), which seems surprising given the uncertain prospects engendered by falling commodity prices, global turmoil, and the upcoming Elections. But this is backed up by FDI/DDI data and, most importantly, listed companies' filings which showed robust CAPEX growth. By and large, sectors that see bright prospects in the long-run – energy, mining, metals, telecom – are still undaunted by the bumps and potholes that might appear along the road.

- The government also made positive contributions to FAI, the weak fiscal consumption notwithstanding. Its CAPEX spend in Q3 was double that in Q1 and Q2 combined, which likely reflects a push to expedite two of its mega-projects: the Jakarta-Bandung high-speed railway (HSR) and especially the New Capital City (IKN) in Kalimantan. As we mentioned previously, these were given greater urgency by the fact that Pres. Jokowi's term is ending in a year's time. Even as the HSR project has been completed, then, we would expect "the visible hand" to still contribute visibly to FAI growth in the coming quarters.

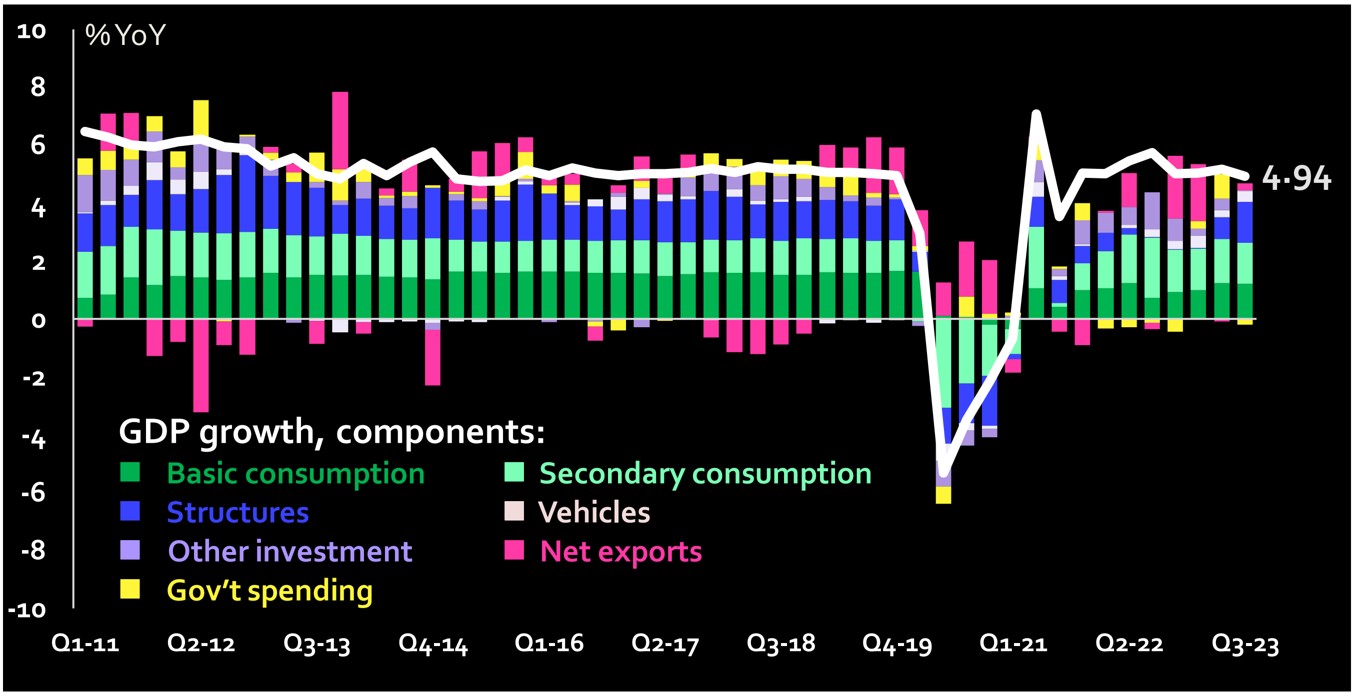
- Consumption growth – still robust at 5.06% YoY but down a bit from 5.23% – seemed pale in comparison to FAI. But remember that consumption, particularly for low-income households, are quite dependent on government assistance (which temporarily slowed) and on food prices. The latter is especially problematic during a prolonged, El Nino-induced drought, which depressed the incomes of rural households – agricultural GDP only rose 1.5% YoY – and also ate into urban consumers' budget.

- But considering the Election-related spending that is about to be unleashed in Q4-23 and Q1-24 (and perhaps into Q2 if the presidential vote goes to a 2nd round), the figure in Q3 was not a bad launching pad at all. Remember that Elections typically add 0.1-0.2% to annual growth, mostly from spending by non-profit organizations (political parties, NGOs, etc.), and it provides a temporary boost to certain sectors like media and advertising, transportation, and FMCGs in general.

- One final point of optimism is the strength of Indonesia's goods-producing sectors outside of agriculture – with mining, manufacturing, and construction all growing above 5% YoY. This is backed not only by the positive real export growth at 6.8% QoQ, but also by the robust growth in businesses' electricity consumption at 11.4% YoY.
- This is remarkable for several reasons. First, Indonesia's growth during the 2010's was typically dominated by domestically-oriented retail and service sectors. Such growth pattern is inherently limited by Indonesia's per-capita GDP, and any attempt to grow beyond that "soft cap" would quickly run into CA deficit. An economy geared more towards trading with richer nations can simply grow much faster, as demonstrated spectacularly by China.
- Secondly, this is all happening while the global growth pattern has been shifting away from goods and towards services. Recall that demand for goods was at a peak in 2021 and early 2022, as stay-at-home consumers have little to spend their money on other than goods delivered via e-commerce. The global reopening has flipped the dynamics, and its impact is obvious when we look at sectoral data from, say, the US – where most of the job creation has been concentrated in services, while manufacturing has continued to shed jobs.
- The fact that Indonesia can buck this trend, then, is a testament to the success of the industrial policies of the past decade (downstreaming, Job Creation Law, and infrastructure development). But this newfound industrial prowess is about to get tested by what could simultaneously be a big opportunity and a big threat: China's massive manufacturing push.
- As we have touched in other reports, China is responding to the debt overhang in its property sector not by deleveraging nor supporting consumption, but by orchestrating a great push to expand its manufacturing capacity. By all accounts, Beijing's focus is on high-tech industries, where it is engaged in a strategic "cold war" with the US and its allies. However, it is hard imagine that China would simply abandon its inherent strength – low-cost and labor-intensive manufacturing – when it still has a large pool of low-income workforce to absorb and inland provinces to develop.
- The initial phase of this push in Q3 has mostly worked to Indonesia's advantage, with commodity prices stabilizing, manufacturing PMI rising alongside China's, and cheap imported goods helping to maintain purchasing power. But as this stimulus continues, it could overwhelm certain industries in Indonesia – textiles and steel being the most obvious candidates. It is also running into what could be a sharp contraction in global demand, especially as the US economy cools down next year, resulting in a potential oversupply and subsequent cutback in global manufacturing.
- Our sanguine read of a seemingly-disappointing GDP data, then, should still be tempered with caution. We believe that Indonesia remains on track for a narrow CA deficit in Q3, within the same order of magnitude as in Q2 (0.3 – 0.6% of GDP). This deficit, compounded by faster government spending – and correspondingly bigger government bond issuance – in Q4 has been at the heart of the Rupiah's recent struggles, which was only partially soothed by a renewed hope of pivot from the US Fed.

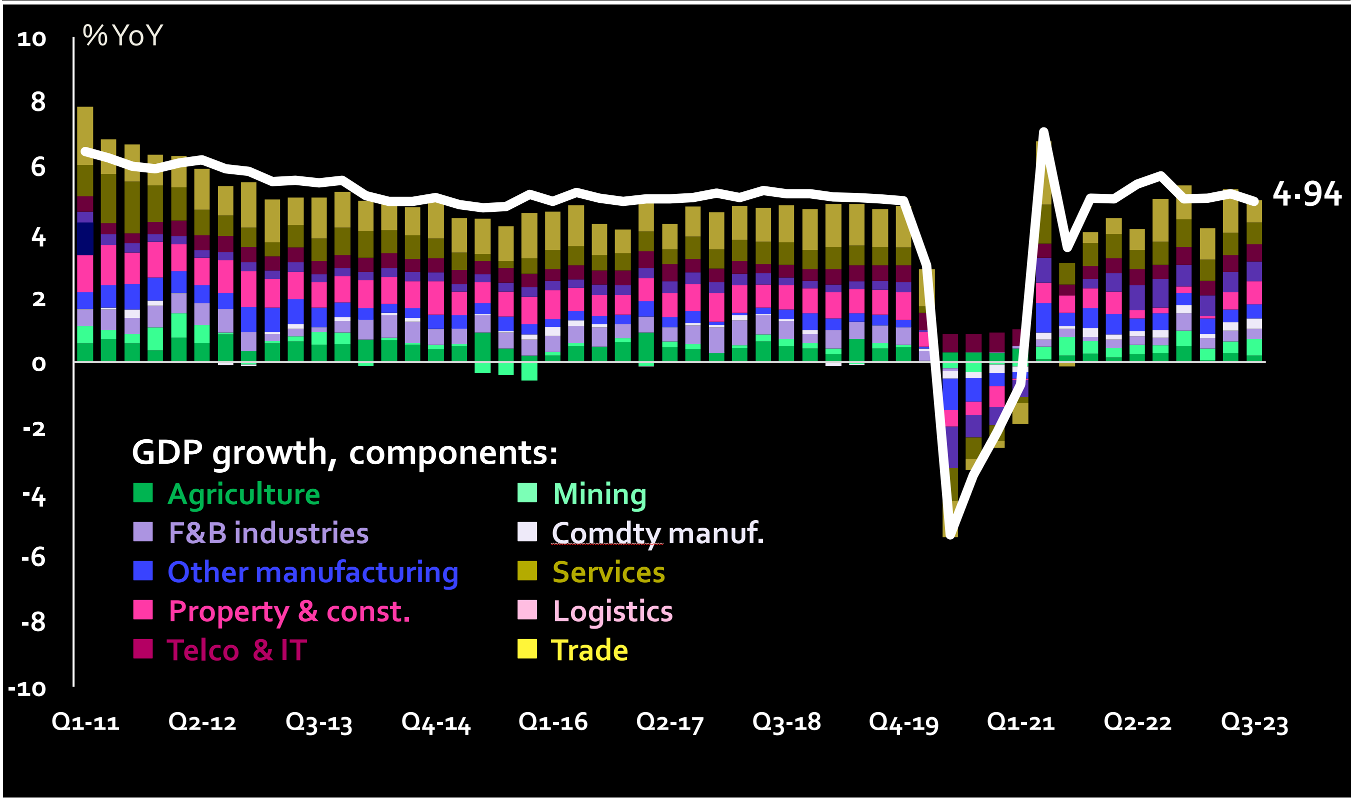
- The Rupiah’s recovery may raise hope that BI does not need to hike the 7-day Repo Rate further (making October’s hike a “one and done”), but on balance, we still think that one more rate hike (to 6.25%) is likelier to happen in November. In addition to the sizable bond issuance, investors are still holding the whip hand in terms of short-end yields, as shown by the result of recent SRBI auctions. Finally, as we have discussed at length, the weak GDP growth in Q3 was by no means a sign that the economy is cooling down, and – given the upcoming Election cycle and fiscal disbursement – the risk that another 25 bps hike could derail growth in the short-term is fairly minimal.

Chart 1. The GDP in Q3-23 slowed as shifts in the fiscal calendar pulled growth towards Q2, with the major contributors are consumption and FAI



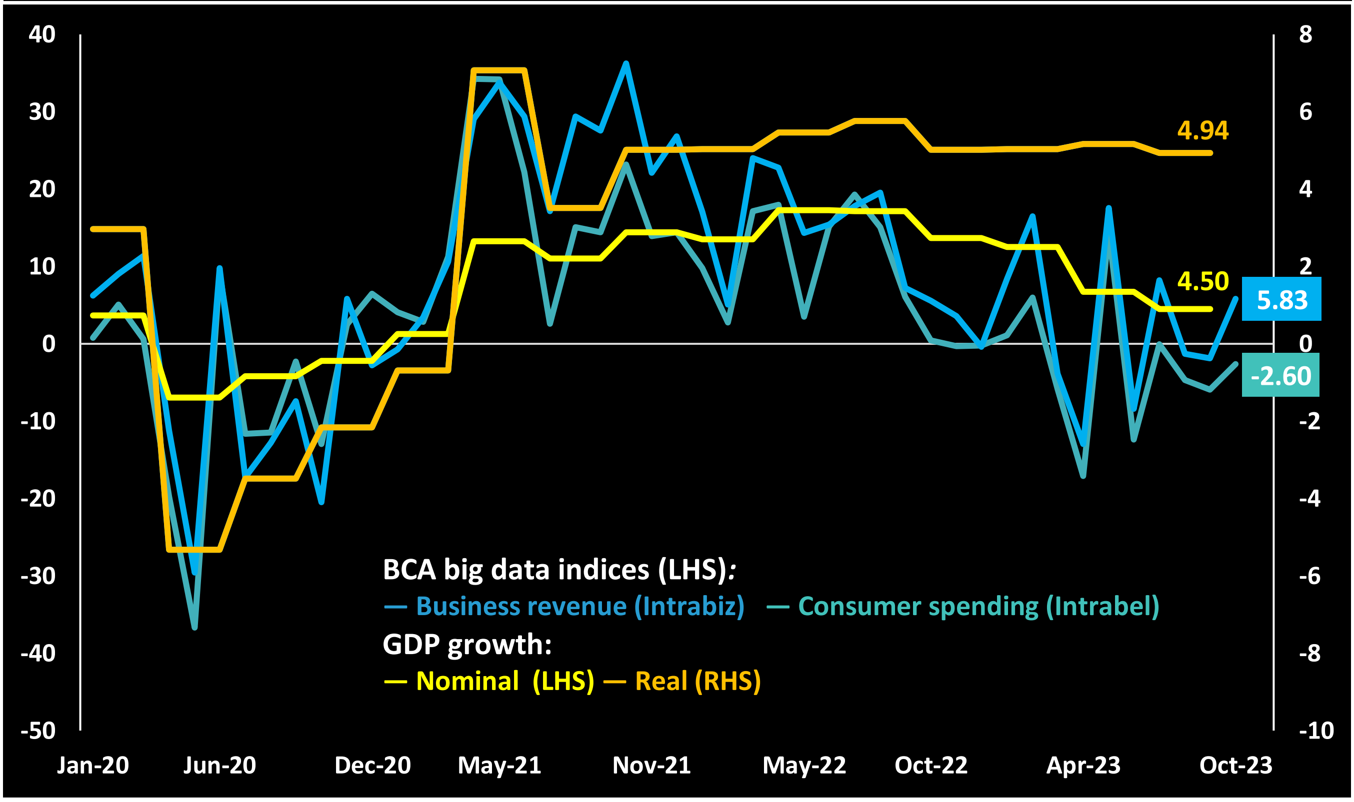
Source: BPS, BCA Economist

Chart 2. Sectors including mining, manufacturing and construction experienced robust growth, while agriculture suffered due to El Nino



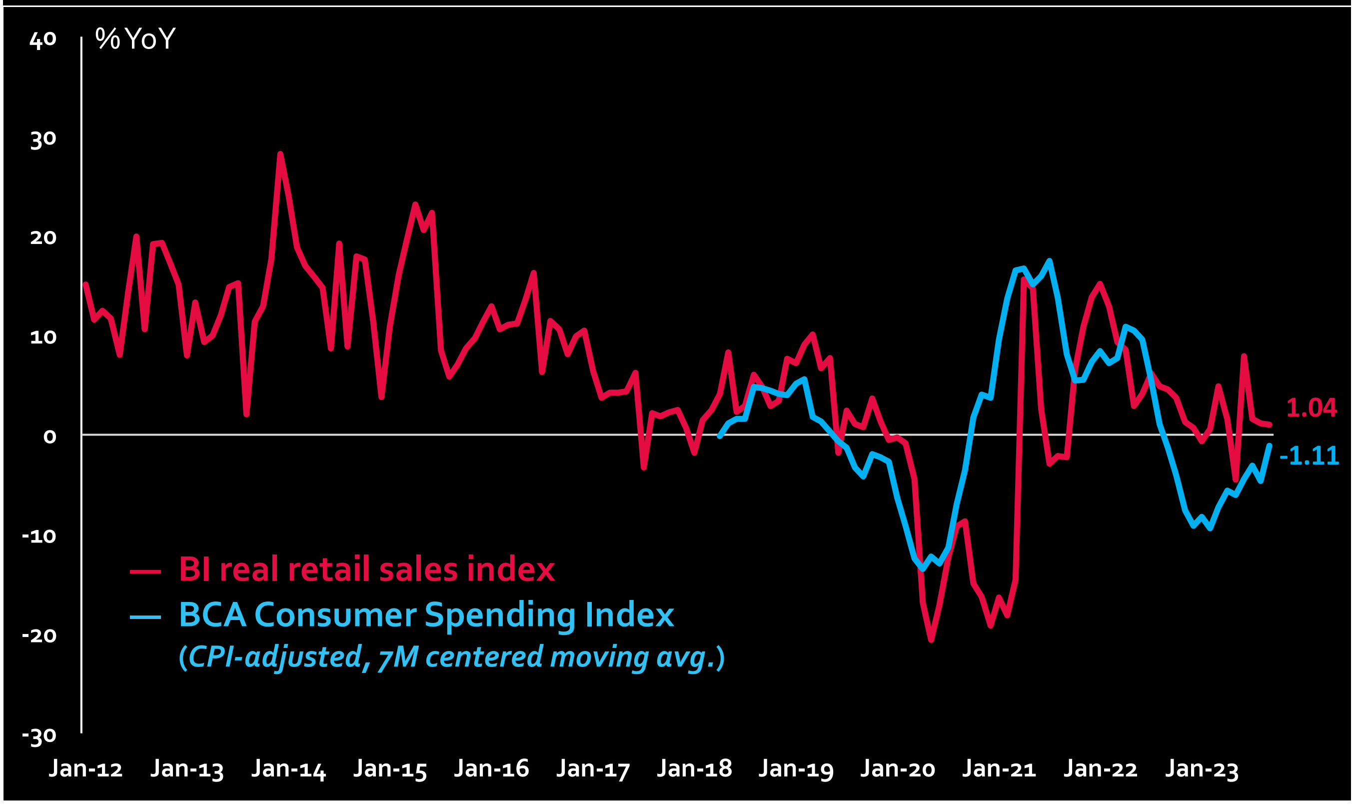
Source: BPS, BCA Economist

Chart 3. Our Big Data indices show a gradual uptrend in nominal growth, although it remains underwhelming due to global disinflation



Source: BCA Big Data, BCA Economist

Chart 4. Consumer spending appears to be stabilizing after a substantial decline following Sep-22 fuel price hike



Source: BI, BCA Big Data, BCA Economist

Table 1. Household consumption slowed both in nominal and real terms, while FAI and exports only accelerated in real term which due to disinflation

	Nominal Growth (%YoY)		Real Growth (%YoY)		Gap (i.e. Deflator %YoY)	
	Q2-23	**Q3-23**	**Q2-23**	**Q3-23**	**Q2-23**	**Q3-23**
Household consumption	10.0	8.7 (▼)	5.2	5.1 (▼)	4.8	3.6 (▼)
Nonprofit org consumption	12.9	9.2 (▼)	8.6	6.1 (▼)	4.3	3.1 (▼)
Government consumption	12.4	-3.1 (▼)	10.6	-3.7 (▼)	1.8	0.7 (▼)
Fixed-asset investment	8.5	8.1 (▼)	4.6	5.8 (▲)	3.9	2.3 (▼)
Exports, G&S	-12.2	-13.1 (▼)	-2.7	-4.3 (▼)	-9.5	-8.8 (▲)
Imports, G&S	-2.9	-6.2 (▼)	-3.1	-6.2 (▼)	0.2	0.0 (▼)
Net exports	-57.0	-53.1 (▲)	-1.0	6.0 (▲)	-	-
GDP	6.7	4.5 (▼)	5.2	4.9 (▼)	1.5	-0.4 (▼)

Table 2. Gross Domestic Products by Sector (nominal)

	2021		2022		Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,253.8	13.3	2,428.9	12.4	658.9	562.6	597.5	697.6	718.4
Mining and quarrying	1,523.7	9.0	2,393.4	12.2	660.0	647.0	600.9	547.9	539.3
Manufacturing industry	3,266.9	19.3	3,591.8	18.3	910.4	937.3	941.6	953.9	992.7
Electricity and gas	190.0	1.1	204.7	1.0	52.0	52.2	52.7	53.2	55.5
Water provisioning and waste recycling	12.0	0.1	12.5	0.1	3.2	3.2	3.2	3.3	3.3
Construction	1,771.7	10.4	1,913.0	9.8	480.9	512.2	501.2	492.8	522.2
Wholesale trade and repairs	2,200.5	13.0	2,516.6	12.8	648.1	653.0	657.0	671.6	686.5
Transportation and warehousing	719.6	4.2	983.5	5.0	254.9	284.3	281.8	306.7	316.6
Hotels, restaurant, and catering	412.3	2.4	472.1	2.4	118.3	127.5	124.9	129.6	132.8
Information and communication	748.8	4.4	812.8	4.1	203.8	211.3	212.3	220.0	223.4
Financial services and insurance	736.2	4.3	809.4	4.1	202.8	207.1	218.3	214.3	215.2
Real estate	468.2	2.8	488.3	2.5	122.6	123.9	124.9	125.6	127.3
Business services	301.1	1.8	341.4	1.7	85.9	90.0	90.7	96.3	96.7
Govt. administration , defence, and social security	584.4	3.4	605.1	3.1	148.0	161.4	144.9	172.5	138.4
Educational services	556.3	3.3	566.6	2.9	142.3	154.7	133.1	151.5	140.4
Healthcare and social services	227.0	1.3	236.2	1.2	60.9	66.4	56.4	62.6	63.6
Other services	312.2	1.8	354.2	1.8	87.2	95.0	96.9	101.3	99.6
GROSS DOMESTIC PRODUCT	**16,970.8**	100.0	**19,588.4**	100.0	**5,067.0**	**5,114.9**	**5,072.3**	**5,226.6**	**5,296.0**

***Numbers in recent quarters are subject to revision from BPS**

Table 3. Gross Domestic Products by Expenditure (nominal)

	2021		2022		Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	9,236.0	54.4	10,160.4	51.9	2,564.7	2,641.9	2,682.0	2,786.1	2,787.0
Consumption by non-profit organizations	207.9	1.2	229.0	1.2	58.7	59.5	59.5	65.0	64.1
Government consumption	1,569.5	9.2	1,500.7	7.7	390.9	507.0	267.9	393.0	378.9
Fixed-asset investment	5,227.9	30.8	5,697.3	29.1	1,454.0	1,525.9	1,476.5	1,458.1	1,572.0
Exports of goods and services	3,634.4	21.4	4,797.7	24.5	1,295.6	1,264.2	1,161.7	1,054.4	1,125.9
Imports of goods and services	3,189.9	18.8	4,094.2	20.9	1,105.2	1,068.9	1,004.6	968.2	1,036.4
GROSS DOMESTIC PRODUCT	**16,976.7**	100.0	**19,588.4**	100.0	**5,067.0**	**5,114.9**	**5,072.3**	**5,226.6**	**5,296.0**

Source: BPS

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

	Last 3 Years					
	2020	**2021**	**2022**	**Q1-23**	**Q2-23**	**Q3-23**
Agriculture, livestock, forestry, and fishery	1.77	1.87	2.31	0.43	2.02	1.46
Mining and quarrying	-1.95	4.00	4.38	4.92	5.01	6.95
Manufacturing industry	-2.93	3.39	4.89	4.43	4.88	5.20
Electricity and gas	-2.34	5.55	6.61	2.67	3.15	5.06
Water provisioning and waste recycling	4.94	4.97	3.23	5.69	4.78	4.49
Construction	-3.26	2.81	1.92	0.32	5.23	6.39
Wholesale trade and repairs	-3.79	4.63	5.55	4.92	5.26	5.08
Transportation and warehousing	-15.05	3.24	19.62	15.93	15.28	14.74
Hotels, restaurant, and catering	-10.26	3.89	11.97	11.55	9.89	11.55
Information and communication	10.61	6.82	7.74	7.13	8.05	8.52
Financial services and insurance	3.25	1.56	1.82	4.45	2.85	5.24
Real estate	2.32	2.78	1.72	0.37	0.96	2.21
Business services	-5.44	0.73	8.83	6.37	9.59	9.37
Govt. administration , defence, and social security	-0.03	-0.33	2.57	2.09	8.15	-6.23
Educational services	2.61	0.11	0.59	1.02	5.43	-2.07
Healthcare and social services	11.56	10.45	2.77	4.77	8.27	2.92
Other services	-4.10	2.12	9.47	8.90	11.89	11.14
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.04**	**5.17**	**4.94**

Table 5. Gross Domestic Products by Expenditure (%YoY)

	Last 3 Years					
	2020	**2021**	**2022**	**Q1-23**	**Q2-23**	**Q3-23**
Household consumption	-2.63	2.02	4.93	4.54	5.22	5.06
Consumption by non-profit organizations	-4.21	1.62	5.64	6.17	8.61	6.21
Government consumption	2.12	4.24	-4.51	3.34	10.57	-3.76
Fixed-asset investment	-4.96	3.80	3.87	2.11	4.63	5.77
Exports of goods and services	-8.42	17.95	16.28	11.94	-2.97	-4.26
Imports of goods and services	-17.60	24.87	14.75	3.69	-3.06	-6.18
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.04**	**5.17**	**4.94**

Source: BPS

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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.1
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.25
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	16,114
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

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