

# Indonesia's second-quarter contraction more severe than expected

Indonesia's economy contracts for the first time since the Asian financial crisis in the second-quarter as partial lockdown measures knocked out consumption



Source: Stenly Lam

**-5.3%** 2Q GDP change

Worse than expected

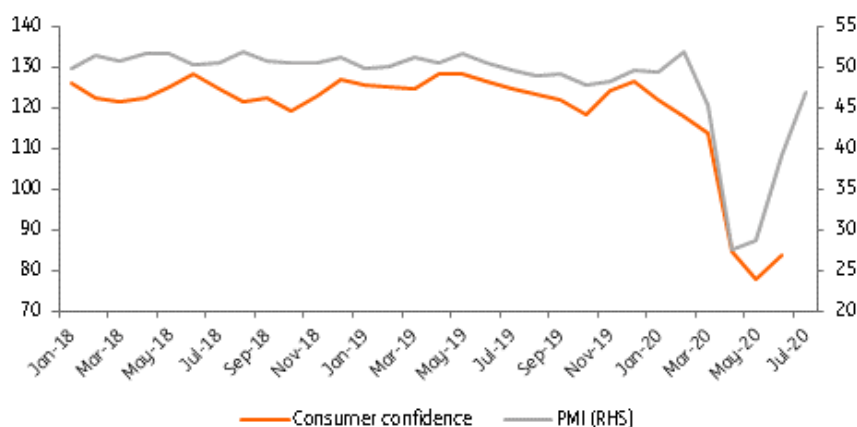
## First contraction since the Asian financial crisis

Indonesia's economy contracted by 5.3% in the second quarter as the pandemic slowed global trade and knocked out household consumption - the economy's main driver of growth.

The -5.3% reading was worse than the -3.1% forecasted by the finance minister and the market consensus of a 4.7% contraction.

Despite rolling out a substantial fiscal package worth IDR695 trillion, roughly only 20% of the budget was disbursed during the quarter forcing the President to urge authorities to fast track disbursement in 3Q to support the economy.

## Indonesia PMI manufacturing and consumer confidence



Source: BPS and Bank Indonesia

### 3Q outlook doesn't look too rosy either

The partial lockdown measures implemented in April remain in place until 13 August as Covid-19 new daily infections remain high with the 7-day moving average now at 1,858 and total Covid-19 infections at roughly 115,000.

Given that the partial lockdown measures and anxiety over Covid-19 were the main reasons for the drop off in household consumption, we expect economic activity to remain in a lower gear in 3Q. Overall manufacturing activity remains in contraction too with the latest PMI manufacturing reading at 46.9 and consumer confidence at 83.8 in June.

We forecast the economy to contract in the third-quarter too by 5.1% with pressure on Indonesian fiscal and monetary authorities to provide more stimulus to bolster sagging growth momentum.