Indonesia: 2Q GDP surprises on the upside but momentum not likely to last

2Q GDP unexpectedly rose by 7.1% YoY, but mobility curbs implemented in July could sap momentum considerably

Source: Stenly Lam

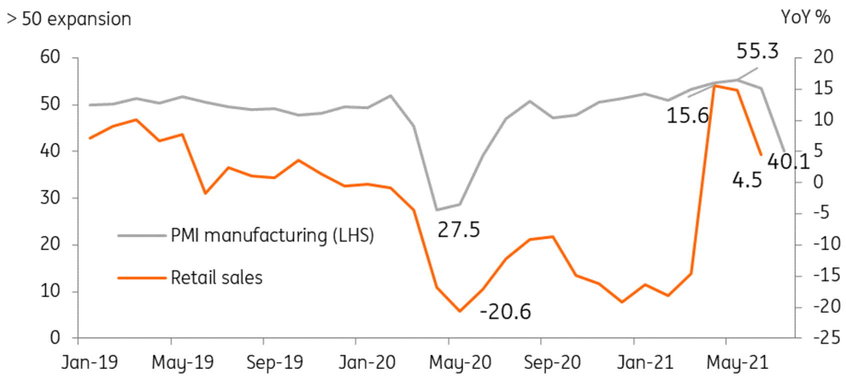
7.1% 2Q YoY GDP growth

Better than expected

7.1% growth moves past expectations

Indonesia's economy grew by 7.1% in 2Q21 bolstered in large part by base effects after the economy plunged 4.2% from the previous quarter in the same period last year. Growth was supported by positive trends in consumer confidence and retail sales coinciding with the start of its vaccination drive in January this year. A decent pickup in export demand drove a rebound in manufacturing activity with the manufacturing PMI index hitting a record high of 55.3 in May. Year-to-date growth will likely settle at roughly 3.1% for the first half of the year with Indonesia posting its first YoY expansion after 4 periods of contraction.

Speed bump ahead: both retail sales and PMI manufacturing slip as mobility curbs sap momentum



Source: IHS Markit and Bank Indonesia

Warning speedbump ahead

Looking ahead, we expect growth momentum in 2H21 to be sapped by the ongoing mobility restrictions (PPKM) implemented to slow the spread of Covid-19. Indonesia had previously shied away from tight mobility curbs in a bid to help support economic activity. But a surge in Covid-19 cases has forced the authorities to tighten restrictions and expand coverage to the entire country by July. The negative impact from these heightened measures is reflected in the recent manufacturing PMI index. This slid to a reading consistent with contraction in July while retail sales growth also decelerated as consumer confidence fades.

Bank Indonesia (BI) has recently adopted a “pro-growth” stance, citing the likely impact of mobility curbs on growth and we expect the central bank to retain policy rates at current low levels for the balance of the year. The 2Q GDP "surprise" will likely lead to near-term support for the IDR. But more timely data suggesting a slowdown in 3Q21 may offset any optimism. BI has vowed to provide support to both the economy and the currency with the central bank deploying the full weight of its "triple intervention" to steady the IDR during bouts of market risk aversion.

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