

Indonesia: GDP growth surprises on the upside

Household, government and business spending remained healthy in the second quarter and offset the more challenging net trade sector. The growth figures are in line with our 2018 growth forecast of 5.2%



Source: Shutterstock

5.27%

2Q 2018 GDP growth rate

Stronger government and household spending

Higher than expected

Low inflation and accelerated government support boost growth

Economic growth in the second quarter surprised on the upside and was faster than our 5.2% forecast and the consensus forecast of 5.1%.

- Government spending delivered a major upside surprise with growth rebounding to a 2Q growth of 5.3% from the contraction of -1.9% in 2Q 2017.

- Household spending provided a modest upside surprise with growth of 5.1%, mildly faster than from 2Q 2017's 5% growth and 1Q 2018 growth of 4.9%.
- Business spending moderated in 2Q to 5.9% from 1Q growth of 8% but was still slightly faster than 2Q 2017's pace of 5.3%.

These improvements offset the more challenging net trade. Import growth of 15.2% was almost twice as fast as export growth of 7.7%.

Outlook for second half

Government spending is likely to continue to post faster growth in the second half against the average 2H 2017 growth rate of 3.7%. Household spending growth should also remain high thanks to low inflation and an expanded energy subsidy from the government. Low inflation contributed to consumer spending in 2Q and will likely continue in the second half of the year. Average 2Q 2018 inflation was only 3.3%, slower than 2Q 2017 average of 4.3%.

Stabilisation efforts from Bank Indonesia, which raised policy rates by 100 basis points in the second quarter may keep business spending growth moderate in the second half. The risk-free 10-year yield in 2Q 2018 averaged 7.2%, around 10 basis points higher year-on-year. The yield on 10-year local government bonds in 3Q 2017 averaged 6.8%. The July 2018 10-year yield average is already 7.7%, almost 100 basis points higher than the 3Q 2017 average.

We expect the strong performance of household and government spending to bring overall economic growth to an average of 5.2% this year, mildly higher than 2017's growth of 5.1% and slightly below the consensus forecast of 5.3%.