

Mizuho Flash: Indonesia

Economics & Strategy | Asia ex-Japan

February 6, 2023

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MIZUHO

Q4 GDP: Understated Weakness

In a nutshell: Q4 GDP growth slowed to 5.0% from 5.7% in Q3, bringing 2023 GDP growth to 5.3%. The details point to clear domestic demand weakness, which when combined with easing inflationary pressures, reduces the need for Bank Indonesia to raise rates further. As such, we now expect BI to remain on a prolonged pause through 2023.

Q4 GDP growth slowed to 5.0%YoY from 5.7% in Q3, (Consensus: 4.9%), bringing annual 2022 GDP growth to 5.3%. **The details suggest that despite the sharp slowdown in Q4 GDP growth, the weakness was understated:** a broad based across domestic demand marrying up with slower services sector growth signals impending weakness.

On the demand-side, **the contribution of domestic demand weakened to 3.0 percentage points (pp) from 4.2pp in Q4 as private consumption, government consumption and investment spending weakened sharply.** Mirroring this, **import growth slowed perceptibly to 6.3% YoY in Q4 from 25.4% in Q3** while the **export growth slowed in a more moderate fashion.** This resulted in net exports adding 2.2pp to growth after subtracting 0.2pp in Q3¹.

Meanwhile, **details on the supply side suggest that growth picked up in the agriculture, mining, manufacturing sectors but slowed in the utilities and services sectors**, particularly transportation & storage and accommodation & food. The latter is consistent with the slowdown in private consumption.

The growth slowdown taken together with easing GDP deflator growth to 8.3% YoY from 10.7% in Q3 will put BI in a more comfortable position to hold off on further rate hikes. Beyond Q1, we expect headline inflation to ease leaving BI with fewer reasons to hike rates as GDP growth also slows, cementing a case to hold rates.

Drivers of GDP growth - Demand and Supply-side								
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Real GDP growth	-0.7	7.1	3.5	5.0	5.0	5.5	5.7	5.0
Demand-side, % YoY								
Private consumption	-2.2	6.0	1.0	3.6	4.3	5.5	5.4	4.5
Government consumption	2.6	8.2	0.6	5.3	-6.6	-4.6	-2.6	-4.8
Gross Fixed Capital Formation	-0.2	7.5	3.8	4.5	4.1	3.1	5.0	3.3
Exports of Goods and Services	2.2	28.4	20.7	22.2	14.2	16.4	19.4	14.9
Imports of Goods and Services	5.2	33.2	31.1	32.6	16.0	12.7	25.4	6.3
Contribution, pp								
Domestic final demand	-1.2	6.2	1.8	4.0	3.3	3.6	4.2	3.0
Inventories	0.4	-0.4	0.6	-0.2	0.0	-0.1	0.3	0.1
Net exports	-0.5	0.1	-0.4	-0.9	0.1	1.2	-0.2	2.2
Statistical discrepancy	0.5	1.2	1.6	2.1	1.7	0.8	1.4	-0.3
Supply-side, % YoY								
Agriculture	3.5	0.6	1.4	2.3	1.2	1.6	2.0	4.8
Mining & Quarrying	-2.0	5.2	7.8	5.2	3.8	4.0	3.2	6.5
Manufacturing	-1.4	6.6	3.7	4.9	5.1	4.0	4.8	5.6
Utilities	2.0	8.8	3.9	7.5	6.6	8.9	7.8	2.3
Construction	-0.8	4.4	3.8	3.9	4.8	1.0	0.6	1.3
Services	-1.8	10.3	2.2	4.1	5.3	5.7	7.8	6.9

As such, we now expect BI to remain on a prolonged pause through 2023, with the policy rate holding at 5.75%.

¹ Slower pace of inventory re-stocking (0.1pp from 0.3pp) and statistical discrepancy (-0.3pp from 1.4pp) accounted for the rest of GDP growth.

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