

Indonesia Investments

Q3-2021 GDP Misses Forecasts

- Economy of Indonesia Expands 3.51% (y/y) in Q3- 2021, Below Most Analysts' Forecasts
- Household Consumption Weaker Than Expected; Exports of Goods Save the Day
- Uncertainty Related to COVID-19 Pandemic Persists in Last Quarter of 2021
- Indonesia Investments' Outlook for Full-Year 2021 GDP Growth at 3.5% (y/y)
- Indonesia Investments' Outlook for Full-Year 2022 GDP Growth in the Range of 4.0-5.0% (y/y)

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Van Der Schaar Investments B.V.
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Update – 10 November 2021

Indonesia's Q3-2021 Economic Growth Misses Forecasts



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates will be discussed in more detail (and in an updated form) in the forthcoming report.

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- Economic Update -

Indonesia's Economy Recovery from COVID-19 Crisis Tougher than Expected at 3.51% in Q3-2021

On Friday 5 November 2021 Indonesia's Statistical Agency (*Badan Pusat Statistik*, BPS) released the official Q3-2021 gross domestic product (GDP) data for Indonesia. While we had predicted a mediocre performance (based on the country's lackluster retail sales, consumer confidence, credit growth and low inflation in this year's third quarter), the figure was still below our forecast.

The data show that Indonesia's economy expanded 3.51 percent year-on-year (y/y) in the third quarter of 2021.

Indonesia's Gross Domestic Product Growth per Quarter (annual % change):

Quarter	2016	2017	2018	2019	2020	2021
Q1	4.94	5.01	5.06	5.06	2.97	-0.71
Q2	5.21	5.01	5.27	5.05	-5.32	7.07
Q3	5.03	5.06	5.17	5.01	-3.49	3.51
Q4	4.94	5.19	5.18	4.96	-2.19	
Full-Year	5.03	5.07	5.17	5.02	-2.07	(3.24)

Source: Badan Pusat Statistik (BPS)

Most analysts and policymakers had put their growth outlooks in the range of 4.0 – 4.5 percent (y/y), and so we can certainly argue that this official figure is somewhat disappointing. On the other hand, we have repeatedly warned that the recovery from the COVID-19 crisis goes slower than (initially) assumed.

Meanwhile, having the fresh Q3-2021 GDP data in hand, we can now also set a more accurate forecast for Indonesia's full-year 2021 economic growth. Expecting a GDP growth figure of 4.0 – 4.5 percent (y/y) in Q4-2021, our full-year outlook is now set at 3.5 percent (y/y). Previously, we had this outlook in the range of 2.5 – 3.5 percent.

Forecasts for the Indonesian Economy (annual % change):

Institution	2021	2022
World Bank	4.4	5.0
International Monetary Fund	3.2	5.9
Asian Development Bank	3.5	4.8
OECD	3.7	4.9
Indonesian Government	3.7 – 4.5	5.2 – 5.8
Bank Indonesia	3.5 – 4.3	n/a
Indonesia Investments	3.5	4.0 – 5.0

Various sources

Global Picture

When we take a quick look at the global circumstances, then we detect a couple of trends in Q3-2021. First of all, international trade has been strong, surpassing pre-COVID-19 crisis levels. Moreover, commodity prices have been strong on the back of robust demand, with palm oil, coal, coffee, cocoa, tin, nickel, and aluminum (both on a quarter-on-quarter level and year-on-year level). As we shall see below, Indonesia posted a great export performance (being a key commodity exporter).

However, in Q3-2021 we also saw the normalization of economic growth (after most countries had recorded very sharp economic growth in the preceding quarter thanks to the low base effect; having experienced their rock bottoms in the COVID-19 crisis in Q2-2020). So, countries' Q3-2021 growth fell sharply from their Q2-2021 growth.

Economic Growth in Key Trading Partners of Indonesia (annual % change):

	Q2-2021	Q3-2021
China	7.9	4.9
United States	6.7	2.0
Singapore	15.2	6.5
South Korea	6.0	4.0
Vietnam	6.6	-6.2

[Continued]

	Q2-2021	Q3-2021
Hong Kong	7.6	5.4
European Union	13.7	3.9
Japan	0.5	(Negative Outlook)

Various sources

The table above shows that all of Indonesia's key trading partners saw their GDP growth decline in Q3-2021 (compared to the preceding quarter). This can, partly, be contributed to the normalization of economic growth but in some cases this is also related to the ongoing impact of the COVID-19 crisis. For example, Japan's economy is expected to contract in Q3-2021 as curbs to contain COVID-19 cases and supply constraints hit consumption and output. Or, Vietnam, where GDP even contracted 6.2 percent (y/y) in Q3-2021 amid pandemic restrictions.

[...]

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