Mizuho Flash: ASEAN-3

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Lavanya Venkateswaran, Market Economist

Q3 GDP: A Show of Resilience

In a nutshell: Q3 GDP growth for Indonesia, Malaysia and the Philippines exceeded expectations. Indonesia and the Philippines growth underscored domestic demand resilience while for Malaysia, the bump in headline growth masked a sequential growth slowdown. While the resilient outlook affords the central banks of these countries room to remain hawkish; the extent of hawkishness will differ. The pecking order of central bank hawkishness, from highest to lowest, will be Bangko Sentral ng Piliapinas (BSP), followed by Bank Indonesia (BI) and subsequently Bank Negara Malaysia (BNM). BSP has already telegraphed a 75bp hike at its 17 November meeting, we expect a 50bp hike from BI at its 17 November meeting (admittedly, recent IDR appreciation allows BI room to dial back to 25bp) while for BNM, we expect a 25bp hike in early Q1 2023 before it readies for a prolonged pause.

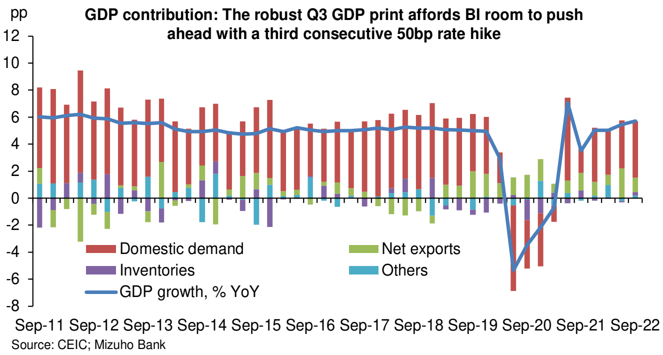
The Q3 GDP prints for Indonesia, the Philippines and Malaysia beat consensus, in a show of combined resilience. But the finer details matter so we look at the breakdown for each country individually below:

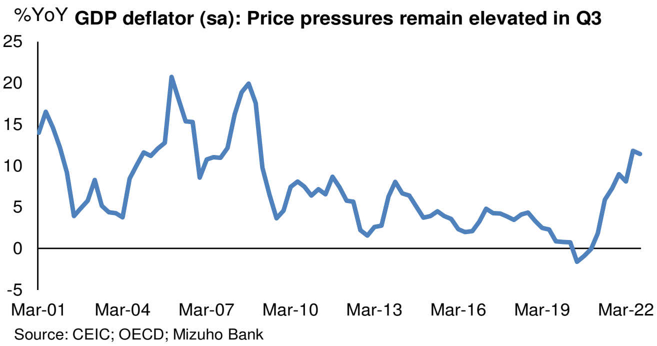
Indonesia: Resilient but not Immune

Indonesia's economy expanded 5.7% YoY in Q3 from 5.4% in Q2, taking year-to-date GDP growth to 5.4%. The main driver remained domestic demand; within this, investment spending rose to 5.0% YoY from 3.1% in Q2 while the contraction in government spending narrowed to -2.9% YoY from -4.9% in Q2. Private consumption spending slowed to 5.4% YoY from 5.5% in Q3 but this was modest considering the ~30% increase in retail fuel prices in September and elevated inflationary pressures. Overall, the contribution of domestic demand rose to 4.2 percentage points (pp) in Q3 from 3.6 in Q2. Consistent with this, import growth rose to 23% YoY from 12.4% in Q2 while export growth rose by less to 21.6% YoY from 20.0% in Q2. The led to a narrower contribution of net exports to 1.0pp from 2.2pp in Q2.

On the supply-side, the drivers were more mixed. The services sector was the biggest driver followed by the manufacturing and the agriculture sectors. Growth in the mining and utilities sectors slowed in Q3 from Q2.

Importantly, the GDP deflator showed that inflationary pressures remained elevated in Q3. Growth in the deflator moderated only slightly to 11.5% YoY from 11.7% in Q2.



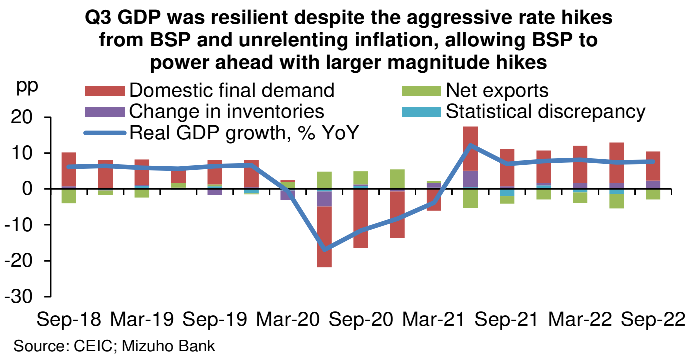


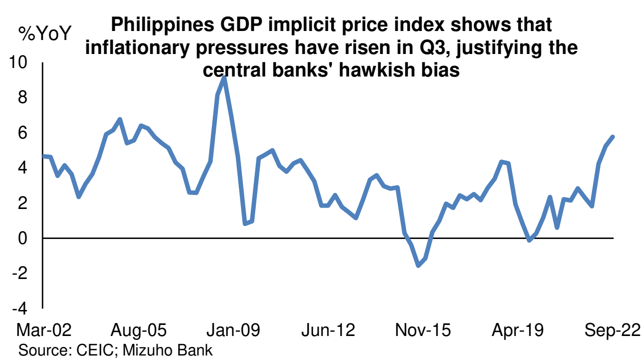
Philippines: Strong Growth but the Buck Stops at Inflation

The pick-up in Q3 GDP to 7.6% YoY in Q3 from 7.5% in Q2 is complemented by a sequential growth pick-up of 2.9% QoQ Sa from -0.1% in Q2. Importantly, the implicit price index underscored still elevated price pressures rising 5.8% YoY from 5.2% in Q2.

Indeed, the details suggest that higher inflationary pressure and a cumulative 225bp in rate hikes from Bangko Sentral ng Pilipinas (BSP) is starting to have an impact on the real economy. The contribution of domestic final demand eased to 8.1pp in Q3 from 11.2pp in Q2 on a slower growth in all major components, i.e. private consumption, government spending and investments[1]. Meanwhile, inventory restocking added 2.3pp to headline growth after adding 1.8pp in Q2.

This is consistent with the moderation in goods import growth to 11.1% YoY in Q3 from 11.3% in Q2 but higher services import (55.2% YoY from 31.1% in Q2) pushed import growth for Q3 higher than Q2. Robust export growth of 13.1% YoY from 4.4% in Q2 led to a narrowing of the negative contribution of net exports to -2.8pp from -4.0pp in Q3.





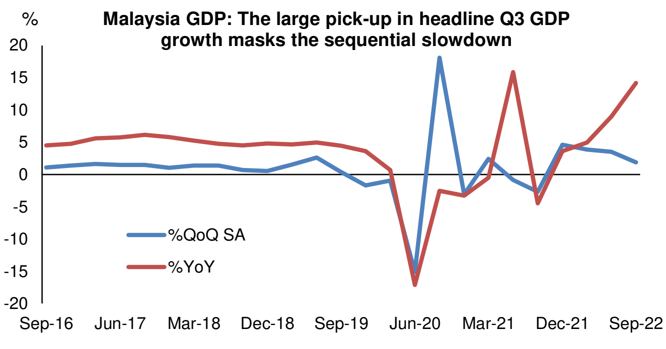
Malaysia: Signs of Weakness Behind a Tough Exterior

Q3 GDP growth of 14.2% YoY from 8.9% in Q2 masks a sequential slowdown to 1.9% QoQ SA from 3.5% in Q2, reflecting the depressed base from the same period in 2021.

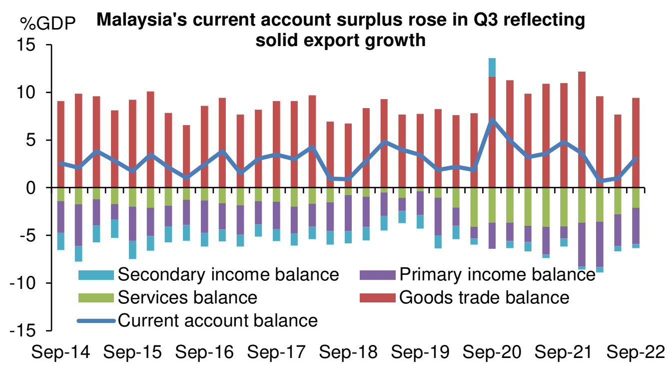
[1] Oddly, a higher share of private consumption in the corresponding quarter led to a larger contribution to headline growth despite the slower growth rate.

But this is not to say that the print was all weak. For one, the private sector contribution to headline GDP growth remained solid at 11.2pp in Q3, similar to Q2. This reflects a higher contribution from private investment spending offsetting lower private consumption while for the public sector, the contribution from both government spending and investment was bumped up in Q3 versus Q2. Second, the stellar performance of goods and services exports (23.9% YoY from 10.4% in Q2) more than offset still resilient import growth (24.4% YoY from 14.0% in Q2) to lead to higher net export contribution of 1.0pp from -1.7pp in Q2. Third, growth in the implicit GDP deflator slowed to 5.9% YoY from 9.2% in Q2 suggesting that some underlying price pressures are easing.

Separately, the solid external backdrop was also reflected in the higher current account surplus of 3.1% of GDP in Q3 from 1.0% in Q2. A higher goods surplus and a narrower services deficit more than offset the higher primary income account.



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

Different Degrees of Central Bank Hawkish

The resilience of the Q3 prints will allow the central banks of these countries more leeway to remain hawkish and tackle still elevated inflationary pressures. The pecking order of central bank hawkishness, from highest to lowest, will remain BSP, BI and BNM.

The robustness in growth justifies BSP's bias towards large magnitude rate hikes to curb still robust domestic consumption. BSP has already telegraphed that it will hike its policy rate by 75bp at its 17 November meeting and we expect another 50bp in December, taking the policy rate to 5.25% by end-2022.

At the opposite end of the spectrum, the sequential growth moderation puts into context BNM's reluctance to raise rates by larger magnitudes than 25bp. We expect BNM to hike by another 25bp in early Q1 2023 before pausing for the rest of the year. This risk, however, is that elevated inflationary pressure may compel BNM into another 25-50bp hike.

BI is in the middle of the spectrum. Given the solid growth backdrop, BI would be justified in hiking by another 50bp at its 17 November. However, the recent rally in the currency (IDR) following a lower-than-expected October US CPI may allow BI to dial back the magnitude of rate hikes to 25bp from 50bp this week itself.

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