

## Making do with less

23 September 2024

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### Summary

- The domestic consumption trend has shown some slight improvement, driven by lower food prices despite the still-uncertain outlook for disposable income.
- However, the improvement in consumption trends among upper-middle-income households appears to be more limited, as better-off households still face relatively high food prices, while the government focuses its support on the lower segment of the household sector.
- Rather than a quick burst of rate cuts, a stronger Rupiah may be more effective in maintaining the purchasing power of upper-middle-income households.

- The market seems to have had no reason to complain in the past week. All doves are breaking loose in many central bank meetings, as the Fed projected another 50 bps rate cuts in 2024, while BoJ governor Ueda signalled no rush in resuming Japan's rate normalisation campaign. Although the PBoC initially surprised the market by holding its benchmark lending rate (the loan prime rate), its recent move to cut the 14-day reverse repo rate to 1.85% reinforces the broader theme of easing monetary conditions worldwide, signifying the Fall of falling rates that we now find ourselves in.
- This rate-cut bonanza also reached the Indonesian financial market. Bank Indonesia began cutting its policy rate in Q3-2024, defying its earlier guidance and most analysts' expectations. This pleasant surprise reinvigorated foreign investors' interest in the Indonesian market, resulting in a surge of

foreign inflows despite the short trading week. The Rupiah, of course, is not behind in the rally, as the currency is now up 1.60% YTD against the USD from its previous trough of -6.84%.

- While we continue to believe that peak rate cut expectations have driven the Rupiah to trade above its fair value, we must also acknowledge BI's role in stabilising the currency. The SRBI instrument has defined what success means as a liquidity absorption tool, while the central bank's macroprudential policy mix and various liquidity incentives have helped sustain robust bank loan growth. The much-strengthened Rupiah now allows the central bank to shift its focus from currency stability to the domestic growth outlook, which increasingly appears to be in a less-than-ideal condition, as indicated by the deflationary trend (in MoM terms) over the past four months.

## Some support is better than none

- Bank Indonesia have faced numerous setbacks and hiccups in its effort to stabilise the Rupiah during its depreciatory trend between March and July 2024. **Fortunately, the central bank may have some head start in its ongoing quest to turn the domestic growth outlook around.** BI's real sales index (RSI) data shows a considerable pick-up in the past five months (5.8% YoY in August 2024, -2.7% YoY in April 2024), while our internal big data also shows that the consumer transaction growth has been trending slightly northwards in the past month (*see Chart 1*).
- Private consumption, we should note, is the largest gear in the machine driving the Indonesian economy forward and the central bank's primary channel in which the central bank could utilise its monetary instruments to influence economic growth momentum. However, any arguments linking the recent pick-up in the consumption data to anticipation of BI's rate-cut campaign seem to be too premature, as other factors could be seen as the main drivers behind the recent (albeit still limited) recovery in the domestic aggregate demand condition.
- **What drives the recent recovery in private consumption, it seems, is the same factor prompting some analysts to advocate for a BI rate cut in the September 2024 meeting: falling inflationary pressures (*see Chart 2*).** The food, beverages, and tobacco component recorded the highest yearly growth in BI's retail sales survey for August 2024, with a 7.7% YoY increase compared to 6.5% YoY previously.

*“Further improvement in the demand condition remains uncertain, given the limited outlook for disposable income”*

- While the consumption trend appears to be improving, **it should be noted that the overall private demand condition is still some measures away from its ideal shape.** Indeed, households in the upper-middle-income segment may not expect a significant improvement in their disposable income, and the situation is even more challenging for those in the worse-off segment, given the increasingly limited employment conditions.
- **Fortunately, the government's expanding fiscal posture could be expected to provide some relief for households in the lower-income segment.** For instance, the reported 19.0% MoM spike in grain imports in August 2024 demonstrates the government's commitment to keep the domestic food supply and prices stable, protecting economic groups more sensitive to a swing in food prices. The re-acceleration of the government's social spending realisation could also be expected to provide some relief to worse-off households, allowing them to maintain their consumption basket despite the overall challenging conditions.
- **The government, of course, cannot be expected to provide the same level of support for better-off households.** This situation is particularly true for food prices, as prices in the traditional market (which mostly cater to worse-off households) seem to have fallen more significantly compared to prices in modern markets (which cater to more affluent households). **What results, then, is more affluent households facing a rising food price**

**premium compared to their lower-income counterparts (see Chart 3), further limiting the improvement in their consumption basket.**

- BI's decision to expedite its rate-cut timeline may help bridge the gap between the middle-upper-income households' lagging consumption growth and that of their lower-income counterparts. However, we remain sceptical that this effect will materialise in the short term. Monetary policy, after all, is transmitted through long and variable lags (especially given the low households' exposure to banking products), and the still-robust growth in productive loans may also limit banks' capacity to distribute more consumptive loans. Hence, as we have argued before, **the impact of BI's recent rate cut action seems to be limited to the financial market, while households in the middle-upper-income segment continue to face challenges to maintain their consumption basket.**
- However, this does not mean that BI has no role in supporting domestic consumption in the short term. The ongoing industrial consolidation has led to a slower inventory build-up of manufactured goods in China, making Chinese manufacturers less inclined to

sell at discounted prices. This, in turn, could push imported prices higher in Indonesia and other importing countries (see Chart 4). **A stronger Rupiah, of course, would help to neutralise this effect, keeping imported goods affordable for households and allowing them to maintain their consumption basket despite limited improvements in disposable income.**

- Therefore, rather than quickly following up on the 25-bps rate cut from the previous meeting, efforts to boost domestic consumption in the short term may require BI to share the responsibility with the government. Government spending remains crucial for stabilizing domestic prices and supporting lower-income households' purchasing power, while BI continues to focus on stabilising the Rupiah and, consequently, the prices of imported goods.

***“Despite its threat to the manufacturing sector, allowing cheap imported goods remains crucial to support the domestic aggregate demand condition”***

Chart 1

### Marginal improvement

Indonesia's consumer transactions appear to have bottomed out in August 2024 as the Rupiah strengthened and food prices declined.

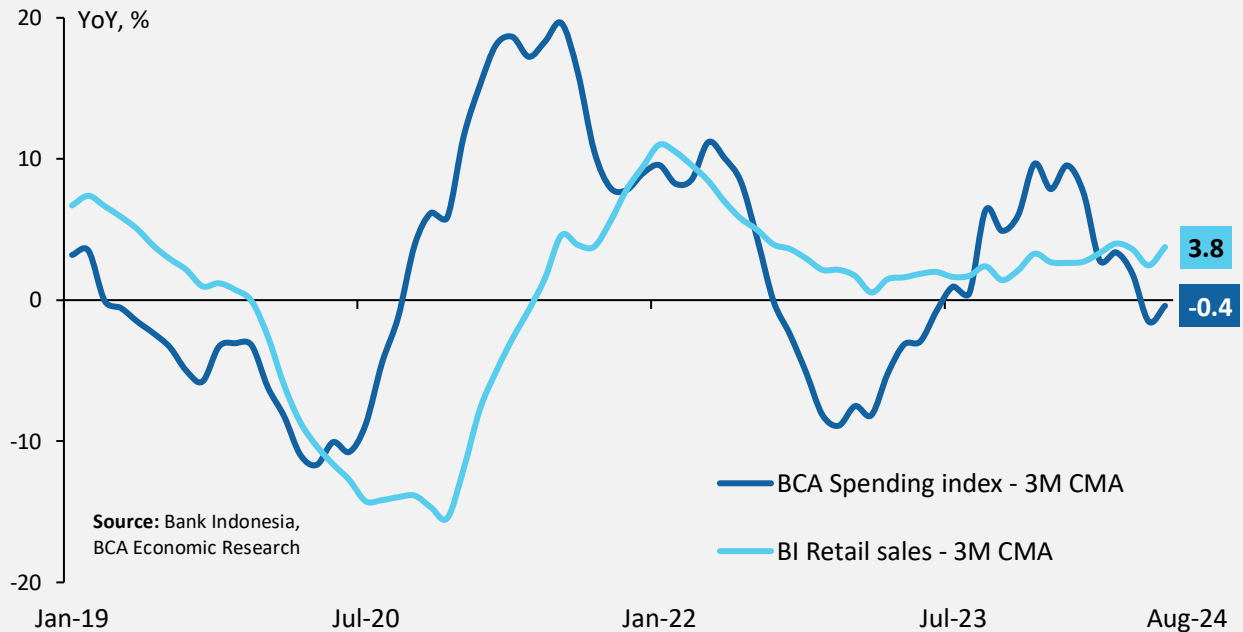


Chart 2

### Going traditional

Indonesian households are now benefitting from lower food prices, but food prices in the traditional market may remain lower, given the government's readiness to intervene.

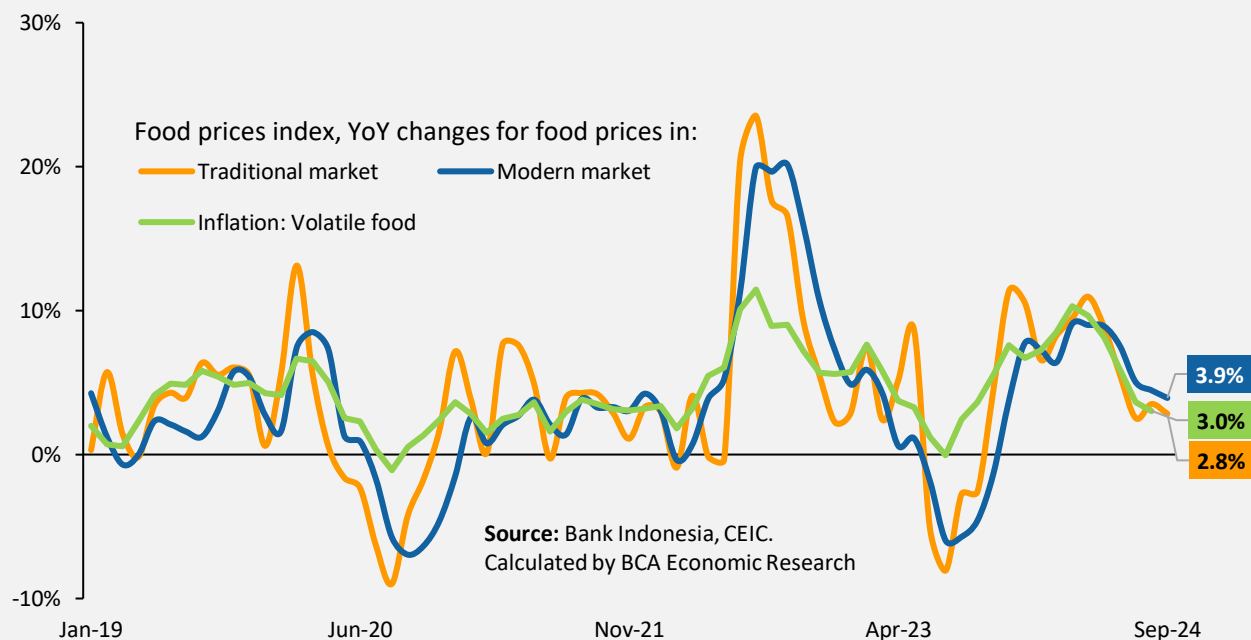


Chart 3

**Modern costs more**

The declining food prices seem to benefit lower-middle-income consumers more than households in the middle-upper-income segment.

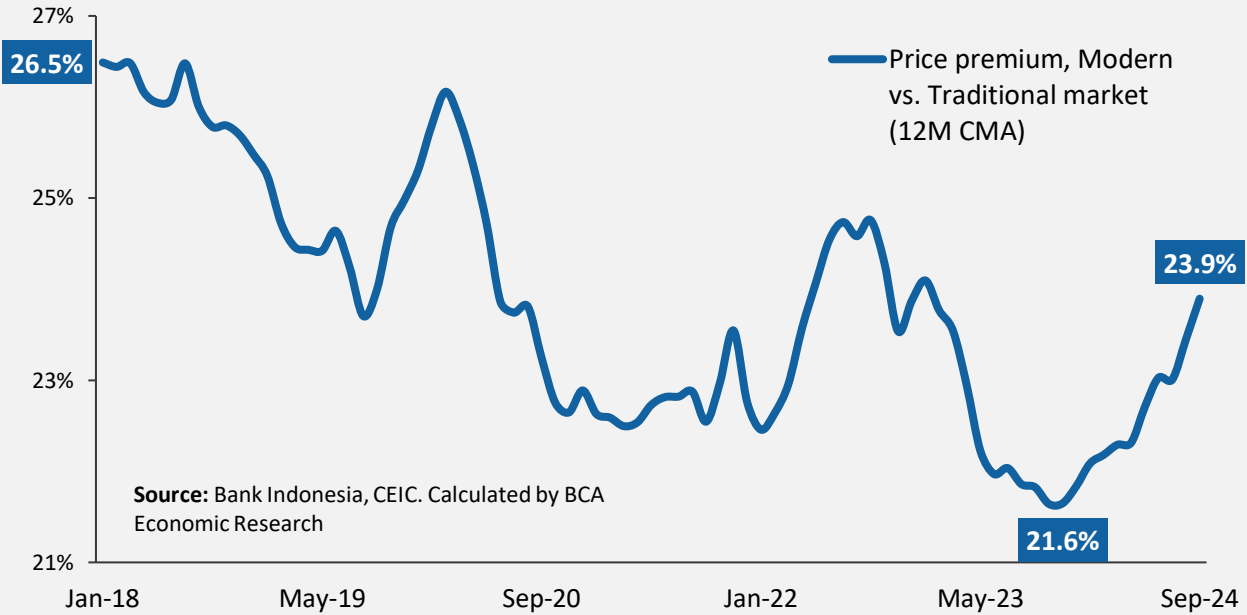
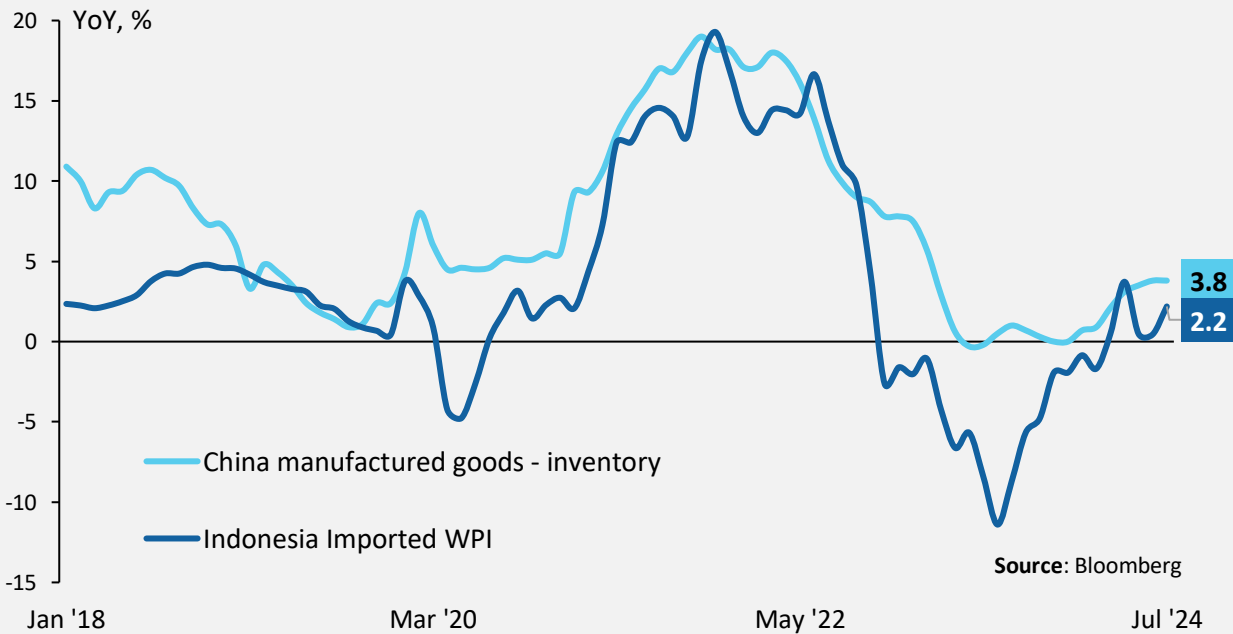


Chart 4

**Haggling for prices**

A stronger Rupiah may keep imported goods affordable as Chinese manufacturers seem less willing to offer discounts amid the ongoing industrial consolidation.



| Economic Calendar |  |              |              |             |
|-------------------|--|--------------|--------------|-------------|
|                   |  | Actual       | Previous     | Forecast*   |
| 02 September 2024 |  |              |              |             |
| ID                | <b>CPI Inflation YoY, %</b>              | <b>2.12</b>  | <b>2.13</b>  | <b>2.30</b> |
| ID                | S&P Global Manufacturing PMI             | 48.9         | 49.3         | 49          |
| 03 September 2024 |  |              |              |             |
| US                | S&P Global Manufacturing PMI             | 47.9         | 49.6         | 4.8         |
| 04 September 2024 |  |              |              |             |
| US                | Balance Of Trade, Bn                     | -78.8        | -73          | -78.5       |
| US                | Redbook YoY (%)                          | 6.3          | 5            | -           |
| 05 September 2024 |  |              |              |             |
| EU                | Retail Sales YoY, %                      | -0.1         | -0.4         | -0.1        |
| 06 September 2024 |  |              |              |             |
| ID                | <b>Foreign Exchange Reserves, USD Bn</b> | <b>150.2</b> | <b>145.4</b> | -           |
| US                | Non Farm Payrolls, K                     | 142          | 89           | 120         |
| 09 September 2024 |  |              |              |             |
| CN                | Inflation Rate YoY, %                    | 0.6          | 0.5          | 0.5         |
| ID                | Motorbike Sales YoY, %                   | 7.4          | 26           | -           |
| ID                | Car Sales YoY, %                         | -14.2        | -7.8         | -           |
| 10 September 2024 |  |              |              |             |
| ID                | Retail Sales YoY, %                      | 4.5          | 2.7          | 3.0         |
| 11 September 2024 |  |              |              |             |
| US                | Inflation Rate YoY, %                    | 2.5          | 2.9          | 2.7         |
| 14 September 2024 |  |              |              |             |
| CN                | Retail Sales YoY, %                      | 2.1          | 2.7          | 2.5         |
| 17 September 2024 |  |              |              |             |
| ID                | <b>Balance of Trade, USD Bn</b>          | <b>2.89</b>  | <b>0.50</b>  | <b>1.3</b>  |
| 18 September 2024 |  |              |              |             |
| ID                | <b>Interest Rate Decision, %</b>         | <b>6.0</b>   | <b>6.25</b>  | <b>6.25</b> |
| 19 September 2024 |  |              |              |             |
| US                | Fed Interest Rate Decision, %            | 5            | 5.5          | 5.25        |
| 23 September 2024 |  |              |              |             |
| ID                | M2 Money Supply YoY, %                   | 7.3          | 7.6          |             |
| 24 September 2024 |  |              |              |             |
| US                | S&P/Case-Shiller Home Price YoY, %       |              | 6.5          | 5.9         |
| 27 September 2024 |  |              |              |             |
| US                | PCE Price Index YoY, %                   |              | 2.5          | 2.3         |

\*Forecasts of some indicators are simply based on market consensus  
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

### Selected Macroeconomic Indicator

| Key Policy Rates                    | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities             | 20-Sep   | -1 mth   | Chg (%)   |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US                                  | 5.00     | Jul-23      | 2.50          | Baltic Dry Index                | 1,977.0  | 1,735.0  | 13.9      |
| UK                                  | 5.00     | Aug-23      | 2.80          | S&P GSCI Index                  | 533.4    | 534.3    | -0.2      |
| EU                                  | 3.65     | Jul-23      | 1.45          | Oil (Brent, \$/brl)             | 74.5     | 77.2     | -3.5      |
| Japan                               | -0.10    | Jan-16      | -3.10         | Coal (\$/MT)                    | 139.0    | 150.8    | -7.8      |
| China (lending)                     | 2.30     | Aug-23      | 3.75          | Gas (\$/MMBtu)                  | 2.20     | 2.18     | 0.9       |
| Korea                               | 3.50     | Jan-23      | 1.50          | Gold (\$/oz.)                   | 2,621.9  | 2,514.0  | 4.3       |
| India                               | 6.50     | Feb-23      | 2.85          | Copper (\$/MT)                  | 9,346.5  | 9,085.8  | 2.9       |
| Indonesia                           | 6.00     | Sep-24      | 3.88          | Nickel (\$/MT)                  | 16,274.4 | 16,786.5 | -3.1      |
|                                     |          |             |               | CPO (\$/MT)                     | 958.5    | 890.5    | 7.6       |
|                                     |          |             |               | Rubber (\$/kg)                  | 1.99     | 1.77     | 12.4      |
| Money Mkt Rates                     | 20-Sep   | -1 mth      | Chg (bps)     | External Sector                 | Aug      | Jul      | Chg (%)   |
| SPN (3M)                            | 6.06     | 6.45        | -38.6         | Export (\$ bn)                  | 23.56    | 22.24    | 5.97      |
| SUN (10Y)                           | 6.42     | 6.62        | -19.8         | Import (\$ bn)                  | 20.67    | 21.74    | -4.93     |
| INDONIA (O/N, Rp)                   | 6.18     | 6.39        | -20.4         | Trade bal. (\$ bn)              | 2.90     | 0.50     | 478.90    |
| JIBOR 1M (Rp)                       | 6.66     | 6.90        | -24.4         | Central bank reserves (\$ bn)*  | 150.2    | 145.4    | 3.32      |
| Bank Rates (Rp)                     | Jul      | Jun         | Chg (bps)     | Prompt Indicators               | Aug      | Jul      | Jun       |
| Lending (WC)                        | 8.81     | 8.82        | -1.72         | Consumer confidence index (CCI) | 124.4    | 123.4    | 123.3     |
| Deposit 1M                          | 4.78     | 4.70        | 7.49          | Car sales (%YoY)                | -14.2    | -7.8     | -9.7      |
| Savings                             | 0.65     | 0.67        | -1.66         | Motorcycle sales (%YoY)         | 7.4      | 24.1     | 3.5       |
| Currency/USD                        | 20-Sep   | -1 mth      | Chg (%)       | Manufacturing PMI               | Aug      | Jul      | Chg (bps) |
| UK Pound                            | 0.751    | 0.767       | 2.20          | USA                             | 47.9     | 49.6     | -170      |
| Euro                                | 0.896    | 0.898       | 0.29          | Eurozone                        | 45.8     | 45.8     | 0         |
| Japanese Yen                        | 143.9    | 145.3       | 0.98          | Japan                           | 49.8     | 49.1     | 70        |
| Chinese RMB                         | 7.047    | 7.129       | 1.17          | China                           | 50.4     | 49.8     | 60        |
| Indonesia Rupiah                    | 15,150   | 15,435      | 1.88          | Korea                           | 51.9     | 51.4     | 50        |
|                                     |          |             |               | Indonesia                       | 48.9     | 49.3     | -40       |
| Capital Mkt                         | 20-Sep   | -1 mth      | Chg (%)       |                                 |          |          |           |
| JCI                                 | 7,743.0  | 7,534.0     | 2.77          |                                 |          |          |           |
| DJIA                                | 42,063.4 | 40,835.0    | 3.01          |                                 |          |          |           |
| FTSE                                | 8,230.0  | 8,273.3     | -0.52         |                                 |          |          |           |
| Nikkei 225                          | 37,723.9 | 38,062.9    | -0.89         |                                 |          |          |           |
| Hang Seng                           | 18,258.6 | 17,511.1    | 4.27          |                                 |          |          |           |
| Foreign portfolio ownership (Rp Tn) | Aug      | Jul         | Chg (Rp Tn)   |                                 |          |          |           |
| Stock                               | 3,322.0  | 3,322.0     | 0.00          |                                 |          |          |           |
| Govt. Bond                          | 852.3    | 813.1       | 39.24         |                                 |          |          |           |
| Corp. Bond                          | 7.0      | 7.6         | -0.62         |                                 |          |          |           |

Source: Bloomberg, BI, BPS

Notes:

\*Data from an earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, **>50** indicates economic expansion, **<50** otherwise



## Indonesia – Economic Indicators Projection

|   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024E  |
|---|--------|--------|--------|--------|--------|--------|
| Gross Domestic Product (% YoY)            | 5.0    | -2.1   | 3.7    | 5.3    | 5.0    | 5.0    |
| GDP per Capita (US\$)                     | 4175   | 3912   | 4350   | 4784   | 4920   | 5149   |
| Consumer Price Index Inflation (% YoY)    | 2.7    | 1.7    | 1.9    | 5.5    | 2.6    | 2.6    |
| BI 7-day Repo Rate (%)                    | 5.00   | 3.75   | 3.50   | 5.50   | 6.00   | 5.50   |
| USD/IDR Exchange Rate (end of the year)** | 13,866 | 14,050 | 14,262 | 15,568 | 15,397 | 15,650 |
| Trade Balance (US\$ billion)              | -3.2   | 21.7   | 35.3   | 54.5   | 37.0   | 32.6   |
| Current Account Balance (% GDP)           | -2.7   | -0.4   | 0.3    | 1.0    | -0.1   | -0.5   |

\*Estimated number

\*\* Estimation of the Rupiah's fundamental exchange rate

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