The Focal Point

Not waking up even as September ends

30 September 2024

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kukuh Mamia
barra_mamia@bca.co.id

Scan for the link to our report depository

Summary

- Consumer transaction, retail, and big-ticket item sales data continue to show mixed results, indicating a limited recovery in private consumption in Q3 2024.
- BI rate cuts may help boost private consumption, as the widening real interest rates since Q1 2024 seem to have lowered households' consumption rates in favour of portfolio investments.
- However, the private demand condition may remain subdued in general, given the expected lower income growth, as the slowing labour market growth appears to disproportionately affect the middle-income class.

- Newsflow from the US financial sector seems to have peaked a fortnight ago, as focus largely shifted to the east in the past week. In the occidental part of the Pacific, the market continues to measure their FFR cuts expectation against FOMC members' recently updated summary of economic projections, pencilling another 75 bps of FFR cuts in 2024 against the Fed's 50 bps signal. The widespread dovish mood weights down on the USD (the DXY stood at 100.6 as the market closed last week, -5.30% from its YTD peak), providing a relief for currencies from the GBP (+0.22% WoW) to the IDR (+0.45% MoM).
- However, despite the Rupiah's strong performance last week, foreign investors appear to be hitting pause on their recent inroads into the Indonesian financial market. Bank Indonesia reported around USD 0.64 Bn in foreign capital outflows over the past week, driven primarily by USD 0.37 Bn outflows from the SRBI market as the central bank scales down its market operations. Meanwhile, the PBoC's latest stimulus package has also impacted the Indonesian stock market and beyond, as stronger demand for Chinese assets has prompted investors to reduce their portfolios in financial markets in other Asian countries.
- Foreign investors' decision to sell their Rupiah assets in favour of opportunities in China and other parts of Asia should not raise too many eyebrows. Concerns over China's slowing growth potential may have led investors to be bearish on the Chinese stock market for much of the post-pandemic years, but the recent stimulus introduced by the PBoC seems to have flipped the script. However, years of foreign selloffs have kept valuations in China relatively low even after the recent rally, in contrast to the Indonesian stock market, which is now trading at a multiple above its 3-year average.

Low incentives, still-limited means

- Fortunately, several factors may continue to positively impact the outlook for the Indonesian corporate sector (and, by extension, the domestic stock market). For instance, the weakening USD could lead to higher commodity prices in the coming period, which strongly correlates with corporate revenue growth in Indonesia. Additionally, declining WPI inflation (including imported inflation) may enable the corporate sector to improve its margins, positively affecting its bottom line, particularly for companies that rely on imported goods, such as those in the consumer discretionary sector.
- Unfortunately, the few positive developments in the corporate sector appear to contrast with the broader pessimism surrounding the current state of Indonesia's real economy. **Our observations of internal consumer transaction date (BCA Intrabel) show that private consumption continues to march southward by the end of September**, recording a -3.83% growth despite some early signs of recovery earlier in the month ***(see Chart 1)***. This reading strengthens our conviction that the higher consumption rate in late August – early September 2024 is event-driven and heavily concentrated, as the period coincides with numerous sales expos and other promotional activities.
- **The plummeting private consumption does not singularly point to worsening financial conditions across Indonesia's household sector.** The anaemic growth in consumer transactions and retail sales data in recent periods coincides with the accelerating growth in SBN ownership by individual investors and mutual funds ***(see Chart 2)***, indicating a continued increase in investment appetite among Indonesian households.
- **Given that development, further BI rate cuts may thus go some length to improve demand conditions within the household sector.** The domestic household sector has faced higher incentives to invest in paper assets since the end of Q1-2024, driven by the widening real interest rate as CPI inflation has fallen more sharply than the benchmark SBN yield. Hence, a lower BI rate may allow the government to auction its debt at lower yields (along with returning inflationary pressures back to the economy), reducing households' incentive to cut back on consumption in favour of paper investments.

> ***"The lower BI rate may reduce the incentive to invest, potentially improving Indonesia's consumption rate"***

- While it is true that some segments of the domestic household sector face a higher opportunity cost to increase their consumption, **it is also true that an overwhelming number of Indonesian households simply lack the means to expand their consumption basket**, especially those in the middle-lower-income segment. **The widely reported slowdown in the domestic labour market seems to disproportionately hit the blue-collar sector *(see Chart 3)***, limiting employment opportunities and upward economic mobility for those in the middle- and aspiring middle-income economic groups.
- The limited prospect for increased revenue for blue-collar workers (or the lower and entry-level segments of the white-collar sector) may also dampen the revenue outlook for lower-

middle-income households in general, given the autarkic and self-reinforcing nature of economic activity within this segment.

- Alas, it seems unlikely that this trend will reverse anytime soon. **Recalling the formula for minimum wage adjustments, workers may not expect a significant increase in their wages in the upcoming year, considering the lower CPI inflation and the expected slowdown in the real GDP growth number in 2024.** Indeed, most provinces experienced a decline in real GDP growth and headline inflation in the first half of 2024, with only 13.65% of workers employed in provinces where regional minimum wages (upah minimum regional, UMR) are set to increase at a higher growth rate than last year (assuming the trend in H1 2024 holds until the end of the year).
- We have previously argued that BI may help sustain private demand by continuing to focus on stabilising the Rupiah, thus keeping imported inflation low and making goods more affordable for Indonesian consumers. Alas, this kind of strategy is not without its drawbacks. The deluge of cheap manufactured goods will create a race-to-the-bottom dynamic within the domestic manufacturing sector ***(see Chart 4)***, making it harder for the domestic manufacturing sector to expand and thus limiting the demand for workers. In other words, **while allowing for the influx of cheap imported manufactured goods (coupled with higher social spending by the government) may help sustain private consumption at its current level, such a short-term fix may prevent private consumption from receiving the solution it truly needs – an improving labour market and a corresponding rise in household income.**
- Hence, **while some consumption indicators (such as retail, motorcycle, and car sales) are showing some measure of improvements in Q3-2024, further improvements may increasingly follow a K-shaped pattern.** Lower returns from investments and higher social spending by the government may lift consumption in the upper- and lower-crest of the population, while the limited prospects for higher revenues for blue-collar workers (and the salaried class in general) may continue to weigh down the purchasing power of the middle-income segment. **The question, then, is whether this K-shaped recovery in private consumption will be enough to offset the apparent slowdown in another part of the economy** (such as net exports and FAI), leading to possibly lower GDP growth at least in Q3-2024.

"While the lower-income segment may benefit from more fiscal support, it remains unclear how consumptions in the middle-income segment may turn its downward trend around"

Chart 1

Still falling by Fall

Consumer transactions failed to pick up the pace in September 2024, portending a lower household consumption growth in Q3-2024

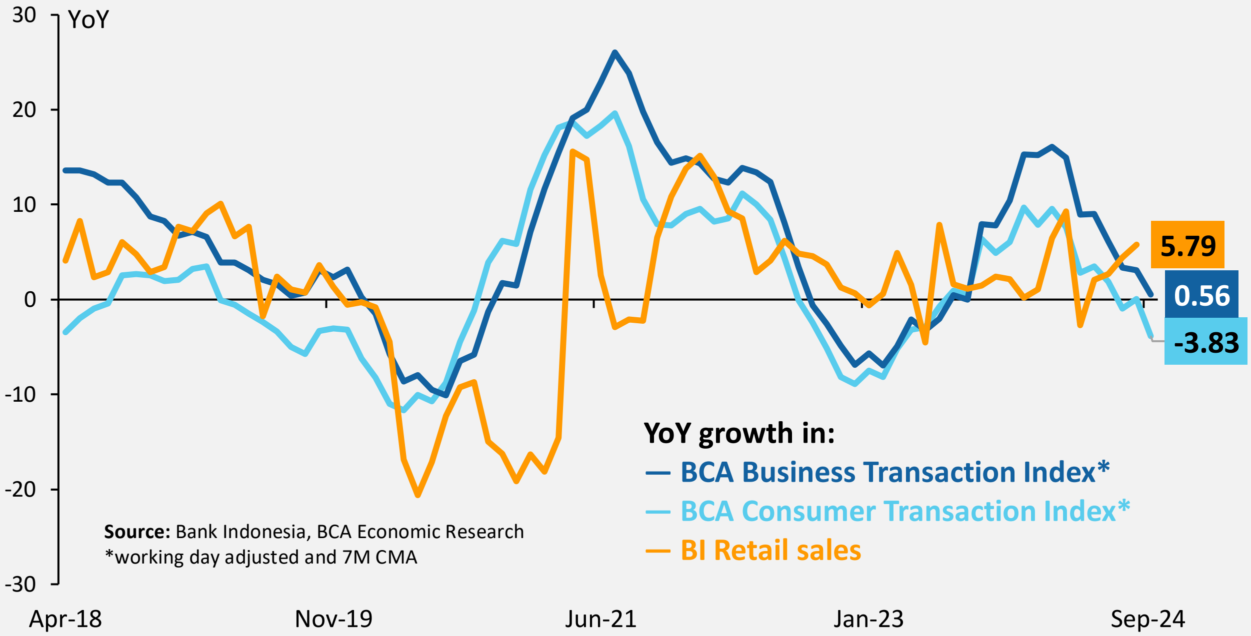


Chart 2

Why spend when you can invest?

Individual investors and mutual funds continue to drive demand for SBN in 2024 as higher real interest rates encourage households to shift to investment rather than consumption.

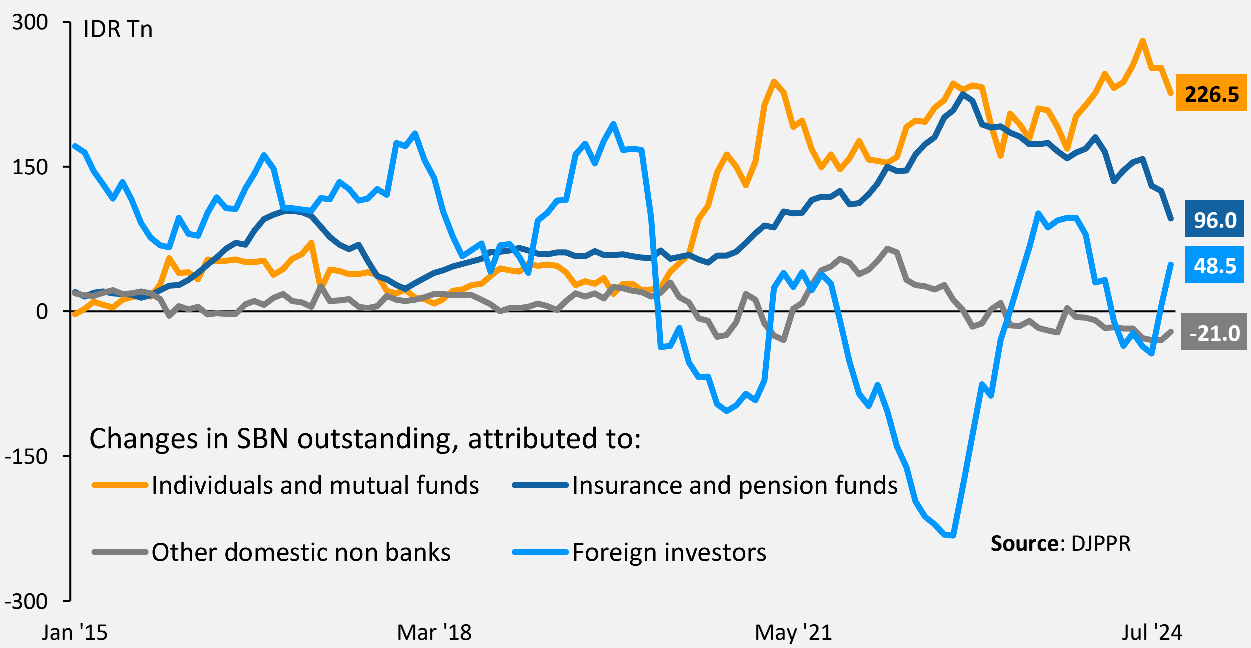


Chart 3

Blue collars' blues

Limited job opportunities in 2024 hurt the prospect of household consumption, especially for lower-income households.

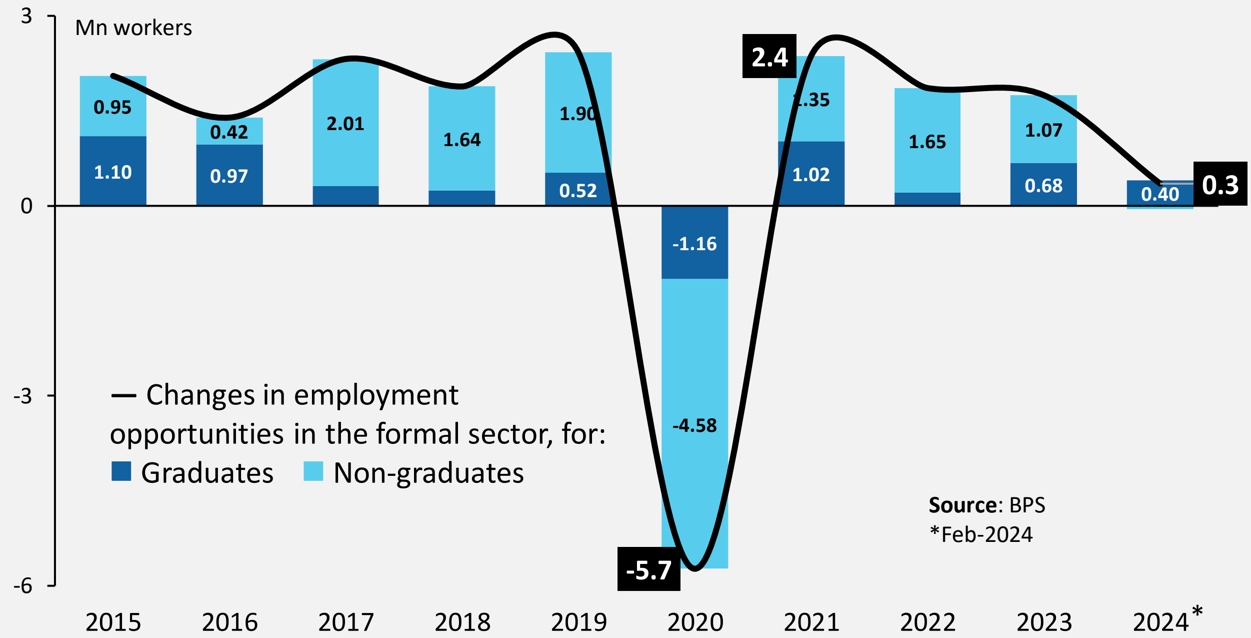
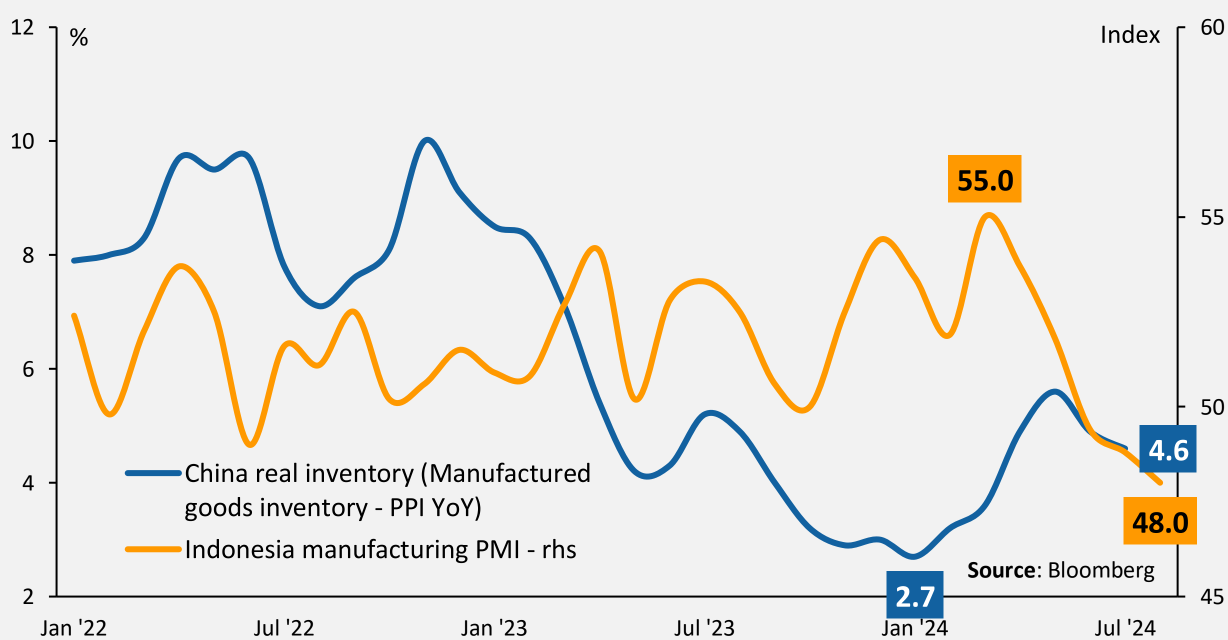


Chart 4

A Ricardian elegy

The deluge of cheap imports may discourage domestic manufacturers from expanding, which may translate negatively to employment in labour-intensive sectors



Economic Calendar

		Actual	Previous	Forecast*
02 September 2024				
ID	**CPI Inflation YoY, %**	**2.12**	**2.13**	**2.30**
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	**Foreign Exchange Reserves, USD Bn**	**150.2**	**145.4**	**-**
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	**Balance of Trade, USD Bn**	**2.89**	**0.50**	**1.3**
18 September 2024				
ID	**Interest Rate Decision, %**	**6.0**	**6.25**	**6.25**
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, %	5.9	6.5	5.9
27 September 2024				
US	PCE Price Index YoY, %	2.2	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 (%)
US	5.00	Jul-23	2.50
UK	5.00	Aug-23	2.80
EU	3.65	Jul-23	1.45
Japan	-0.10	Jan-16	-3.10
China (lending)	2.00	Aug-23	3.75
Korea	3.50	Jan-23	1.50
India	6.50	Feb-23	2.85
Indonesia	6.00	Sep-24	3.88

Money Mkt Rates	27-Sep	-1 mth	Chg (bps)
SPN (3M)	6.06	6.45	-38.6
SUN (10Y)	6.44	6.62	-18.5
INDONIA (O/N, Rp)	6.16	6.43	-26.3
JIBOR 1M (Rp)	6.65	6.90	-24.6

Bank Rates (Rp)	Jul	Jun	Chg (bps)
Lending (WC)	8.81	8.82	-1.72
Deposit 1M	4.78	4.70	7.49
Savings	0.65	0.67	-1.66

Currency/USD	27-Sep	-1 mth	Chg (%)
UK Pound	0.746	0.754	1.03
Euro	0.895	0.894	-0.13
Japanese Yen	143.0	144.0	0.66
Chinese RMB	7.012	7.124	1.60
Indonesia Rupiah	15,125	15,495	2.45

Capital Mkt	27-Sep	-1 mth	Chg (%)
JCI	7,696.9	7,597.9	1.30
DJIA	42,175.1	41,250.5	2.24
FTSE	8,321.7	8,345.5	-0.28
Nikkei 225	39,829.6	38,288.6	4.02
Hang Seng	20,632.3	17,874.7	15.43

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

Trade & Commodities	27-Sep	-1 mth	Chg (%)
Baltic Dry Index	2,091.0	1,721.0	21.5
S&P GSCI Index	531.2	544.5	-2.5
Oil (Brent, $/brl)	71.7	79.6	-9.8
Coal ($/MT)	145.5	149.2	-2.4
Gas ($/MMBtu)	2.64	1.91	38.2
Gold ($/oz.)	2,664.7	2,524.6	5.5
Copper ($/MT)	9,944.8	9,326.5	6.6
Nickel ($/MT)	16,497.5	16,905.8	-2.4
CPO ($/MT)	1,009.7	925.9	9.0
Rubber ($/kg)	2.06	1.85	11.4

External Sector	Aug	Jul	Chg (%)
Export ($ bn)	23.56	22.24	5.97
Import ($ bn)	20.67	21.74	-4.93
Trade bal. ($ bn)	2.90	0.50	478.90
Central bank reserves ($ bn)*	150.2	145.4	3.32

Prompt Indicators	Aug	Jul	Jun
Consumer confidence index (CCI)	124.4	123.4	123.3
Car sales (%YoY)	-14.2	-7.8	-9.7
Motorcycle sales (%YoY)	7.4	24.1	3.5

Manufacturing PMI	Aug	Jul	Chg (bps)
USA	47.9	49.6	-170
Eurozone	45.8	45.8	0
Japan	49.8	49.1	70
China	50.4	49.8	60
Korea	51.9	51.4	50
Indonesia	48.9	49.3	-40

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** otherwis

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

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839
Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.
All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: eri_tristanto@bca.co.id