

## What's in a price when there's nought to sell

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### Summary

- Higher prices for tropical crops continue to fuel growth in the domestic agriculture sector. However, such growth is limited to nominal terms as production continue to stagnate.
- Stagnant domestic agriculture production will expose Indonesia to the increasingly volatile global food prices, with its effect on inflation may outweigh the positive impact on trade.
- Stagnant agriculture production highlights the urgency to expand the food estate programme, which may also help to improve output in less-productive regions.

- The “Trump trade” mania continues to weigh on Indonesia and other emerging markets. Alas, recent developments have offered little relief for these riskier markets. Robust retail sales growth data (2.8% YoY vs. 1.9% forecast) and an uptick in headline inflation (2.6% YoY, up from 2.4% previously) have dampened the expectation for a December 2024 FFR cut, as reflected in the FFR futures market.
- Unsurprisingly, foreign investors remain hesitant to back the Indonesian financial market, driving the Rupiah to a two-month low of 15,585/USD, while the domestic bond and stock markets again reeling from foreign capital outflows to the tune of USD 141.6 Mn throughout last week.
- Combined with the energised Chinese market following the CNY 10 Tn fiscal

stimulus, the spectre of reflation due to speculations over policy changes in the US may limit the prospect of sustained foreign capital inflows to the Indonesian market (and other Asian markets) in the upcoming months. We have discussed the possible inflationary effect of President-elect Trump’s policy agenda, ranging from higher import tariffs and tighter immigration controls that may translate to higher core inflation in the US.

- Indonesia may not face the same issue with core inflation, given the feeble domestic demand and watershed of cheap imported goods from Asian manufacturing hubs such as China. Unfortunately, this does not mean that the long shadow of inflation fails to reach Indonesia and the wider global economy.

**Inflation concerns over trade benefits**

- While President-elect Trump’s selection of fossil fuel advocates as US energy czars may ease price pressures in the global energy market, inflationary pressures from the global “bioenergy” market (read: food) may remain beyond control. Indeed, the global economy has faced multiple food price shocks in recent years, including spikes in rice (USD 196.7/MT peak in June 2023), cocoa (USD 9795.1/MT peak in April 2024), and more recently, coffee beans (USD 5332.5/MT peak in September 2024). What unites these agricultural products is their being tropical crops, highlighting the recurring, probably climate-related supply disruptions against the backdrop of the still-growing global demand.
- It should be noted that some previous episodes of tropical crop price spikes tend to benefit the Indonesian economy, particularly when they involve key export commodities such as CPO, which has been on an upswing again since Q3-2024. As we have discussed in an earlier report on Indonesia’s [October 2024 trade data](#), higher CPO prices may eventually translate to accelerating economic activities after a quarter or two, with the impact on economic activities in CPO-producing regions starting to show as indicated by the accelerating motorcycle sales growth (5.4% YoY in October 2024, 3.7% previously).
- However, the Q3-2024 GDP data shows a rather grim picture of the apparent acceleration in Indonesia’s agriculture industry. **The accelerating GDP deflator growth shows that much of the improvement in the domestic agriculture industry has been**

*“Growth in the domestic agricultural sector has primarily been driven by higher prices, while real output remains stagnant”*

- **driven by price effect rather than higher real output (see Chart 1 & 2)**, which is particularly true for CPO producers and other plantation businesses as CPO plantations are entering the re-planting cycle.
- The stagnating sectoral GDP growth (in real term) extends to other parts of the domestic agriculture industry, most notably the food crops sector. For instance, the total harvested area for key crops like paddy has been declining in recent years, dropping by -2.7% in 2023 to 10.16 million hectares, particularly in more-dynamic regions like West Java. **This constrained real output growth underscores Indonesia’s limited capacity to capitalise on recurring tropical crop price upswings**, as domestic producers may struggle to generate the additional supply needed to stabilise the condition in the export market.
- Hence, rather than signalling the dawn of an economy-wide boom cycle, **the effect of a continued rally in global CPO prices and other tropical crops may be more universally felt in the form of returning inflationary pressures**, akin to what happened in H1-2022 where elevated global prices incentivised CPO producers to prioritise exports over domestic consumers – leading to higher food-driven inflation (cooking oil shortage, anyone?). This period of inflation, as we recall, eventually stifled the upward consumption momentum driven by pent-up demand in 2022. **Such a scenario will surely bode ill for the Indonesian economy moving forward, considering**

**the fragile state of household demand at present.**

- Attentive to this risk, the government maintained its policy of permitting food imports throughout 2024, with total rice import volumes surging by 80.54% YoY as of September 2024. However, **the government's ability to exert greater control over domestic food crop prices may exacerbate the K-shaped nominal GDP growth within the domestic agriculture industry (see Chart 3).**
- This stands in stark contrast to the plantation sector, which could ride on its positive price effect for longer thanks to the flexibility to redirect its products to the export market. Notably, GDP deflator growth in the food crops sector has continued to decelerate following its peak in Q2-2023, even amidst periods of elevated global rice prices due to India's halting rice exports from July 2023 to October 2024.
- A less significant price effect in the food crops sector, of course, will not increase the incentive for farmers to return and expand their fields. Given this concern, we understand the urgency of the government to expand the food estate programme, as the combination of land conversion and higher population growth may lead to further food inflation problems going forward.
- The government's plan to uproot the food estate programme from Kalimantan to Papua

***"The government's tighter control over domestic rice prices and other food crops seem to help aggravate the K-shaped trend in the domestic agriculture sector"***

also checks a couple of boxes. First, investments poured to develop the required infrastructure will further close the investment gap between regions, as Kalimantan is already a home for big-ticket projects such as the IKN development. Second, investments in Papua could help to improve productivity in the island-wide agriculture industry, which has been lagging compared to other regions (*see Chart 4*).

- The question, then, is who best to develop and execute the food estate programme. While we understand that the government is approaching the food estate question through the perspective of food security and supply chain sovereignty, empowering local farmers to improve their production under the auspices of the food estate programme is also crucial, as it may help to generate the direct spillover effect needed to strengthen local support for the programme.
- That being said, the food estate program may not offer much protection to the Indonesian economy against increasingly volatile global food prices in the short term. **Ergo, given the constrained real output growth, the household sector and the wider Indonesian economy stand to benefit more from stable global food prices than from another upswing in the global market.**

Chart 1

### Real term stagnation

Stagnant production means rising global food prices will generally be felt as higher inflation than a higher trade balance for the Indonesian economy.

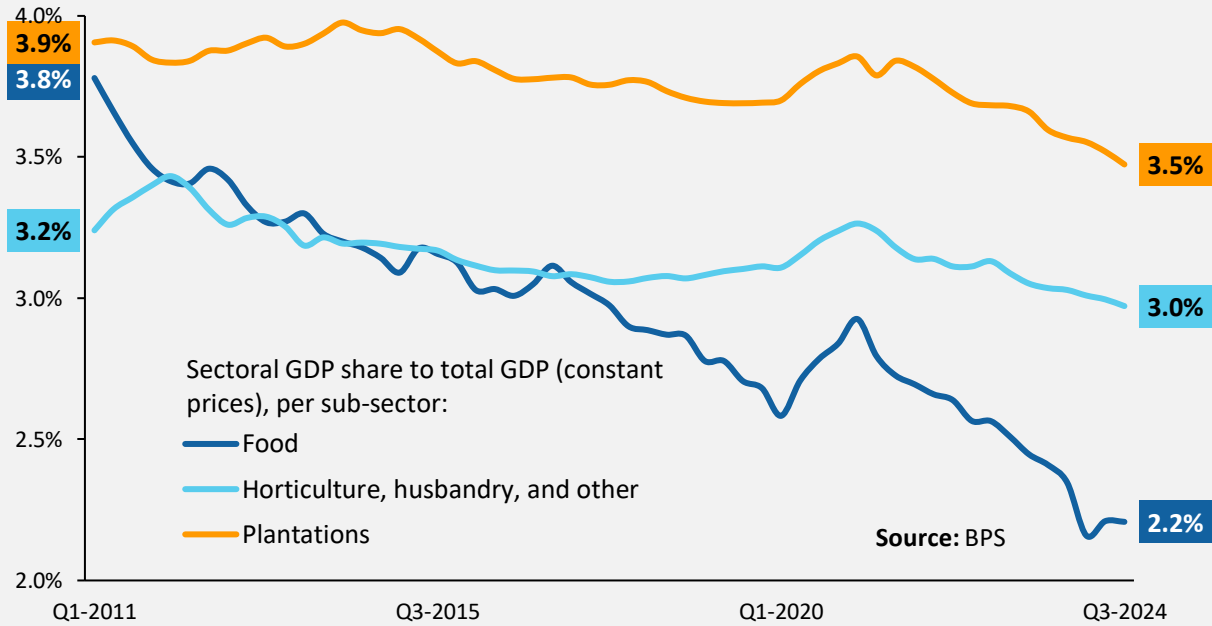


Chart 2

### Dragged upwards by prices

GDP growth in the agriculture industry has been driven by prices rather than a meaningful increase in production.

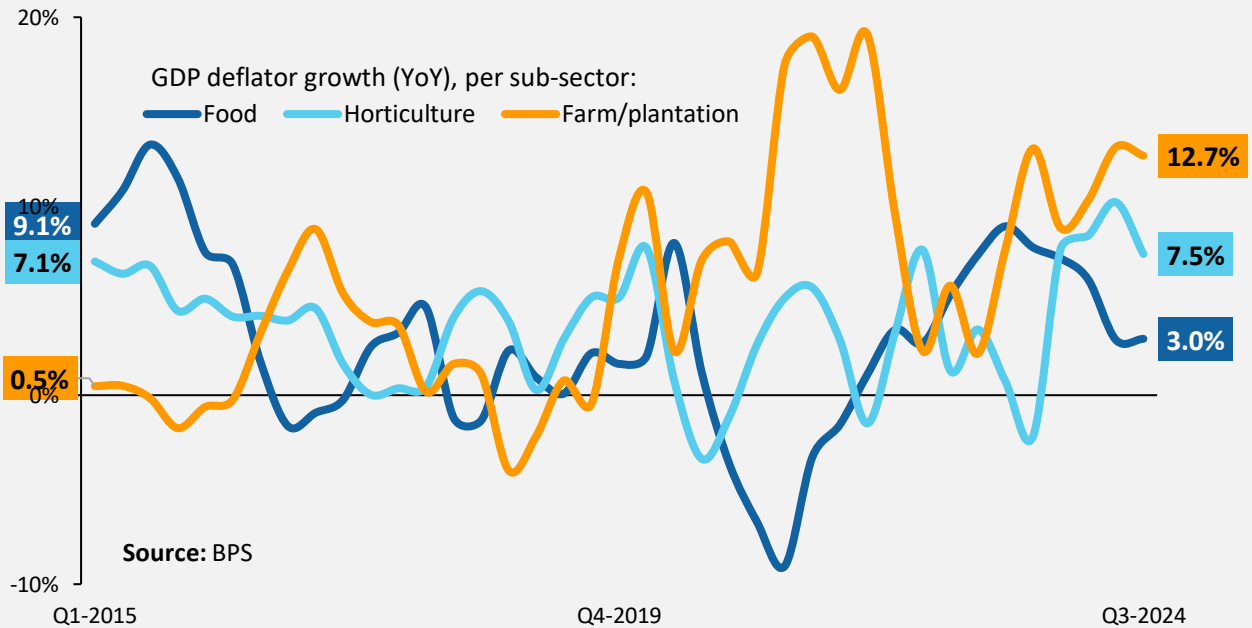


Chart 3

**Another K-shaped story**

The domestic agriculture sector is increasingly concentrated on the plantation sub-sector, as tighter control over domestic prices hamstrung food crop producers

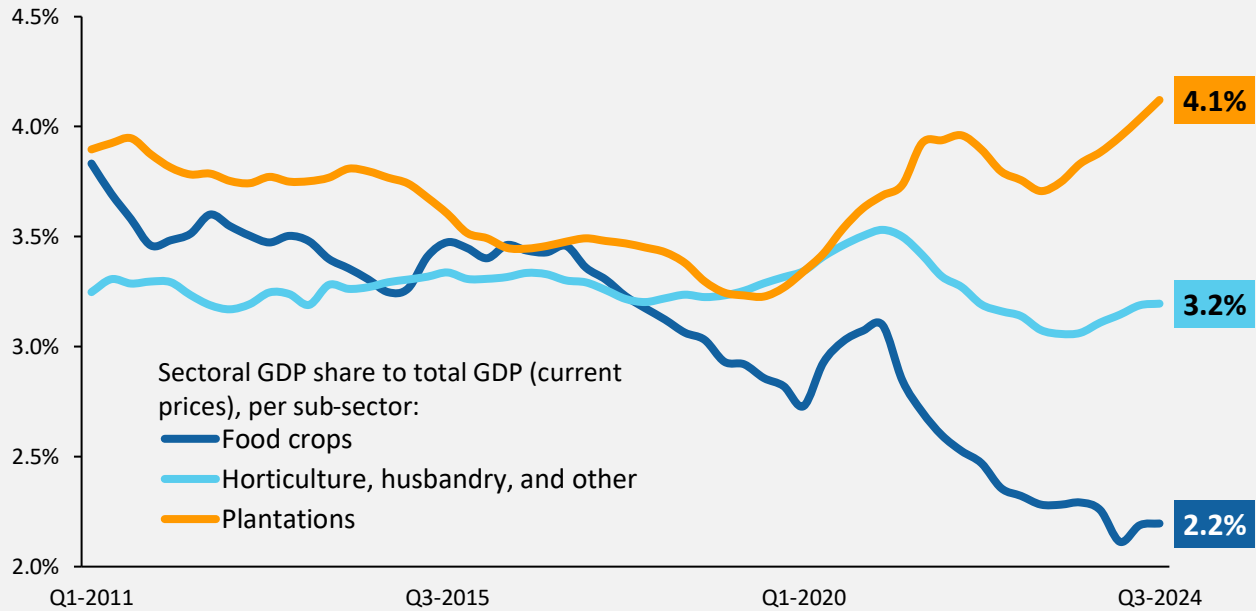
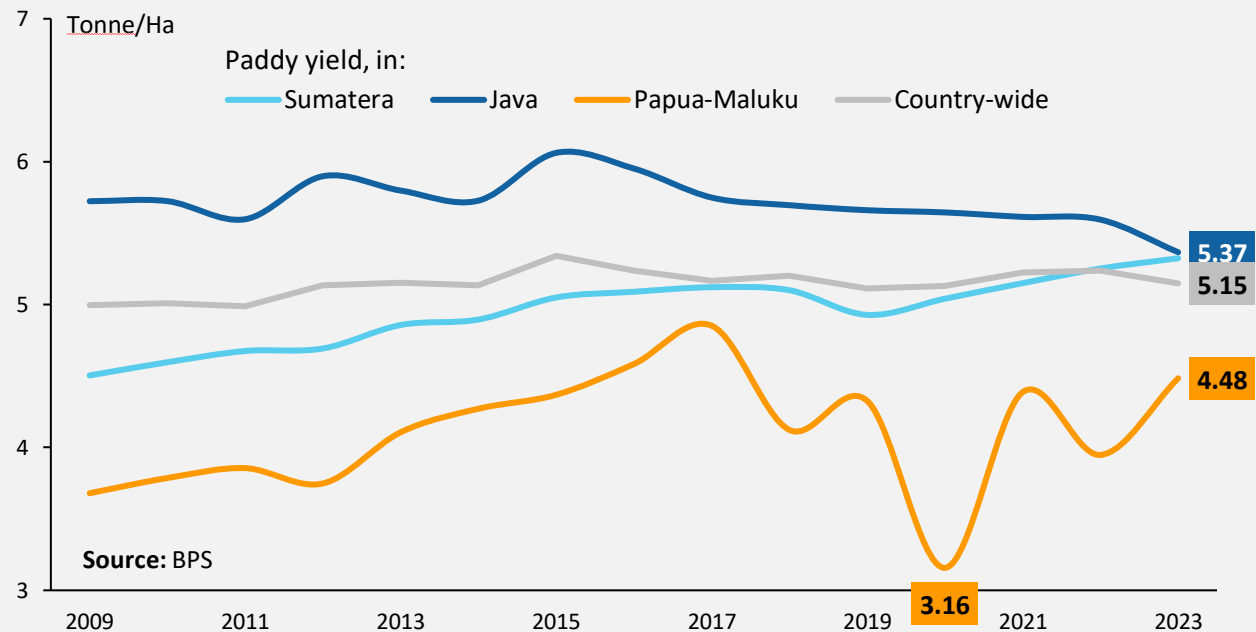


Chart 4

**Growing where growth is needed**

The government’s plan to focus the food estate programme in Papua may help to increase agricultural productivity in the region, which lags other regions



Economic Calendar				
		Actual	Previous	Forecast*
01 November 2024				
ID	S&P Global Manufacturing PMI	49.2	49.2	49.6
<b>ID</b>	<b>Inflation Rate YoY, %</b>	<b>1.71</b>	<b>1.84</b>	<b>1.7</b>
ID	Tourist Arrivals YoY, %	19.53	18.3	19.0
US	Non Farm Payrolls, th	12	223	180
US	S&P Global Manufacturing PMI	48.5	47.3	-
05 November 2024				
<b>ID</b>	<b>GDP Growth Rate YoY, %</b>	<b>4.95</b>	<b>5.05</b>	<b>5</b>
US	Balance of Trade, USD Bn	-84.4	-70.8	-82.0
07 November 2024				
<b>ID</b>	<b>Foreign Exchange Reserves, USD Bn</b>	<b>151.2</b>	<b>149.9</b>	-
CN	Balance of Trade, USD Bn	95.27	81.71	70
08 November 2024				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>	<b>4.75</b>	<b>5</b>	<b>4.75</b>
ID	Motorbike Sales YoY, %	5.4	3.7	-
09 November 2024				
CN	Inflation Rate YoY, %	0.3	0.4	0.5
11 November 2024				
ID	Consumer Confidence	121.1	123.5	123.2
ID	Car Sales YoY, %	-3.9	-9.1	-
12 November 2024				
ID	Retail Sales YoY, %	4.8	5.8	2.5
13 November 2024				
US	Inflation Rate YoY, %	2.6	2.4	2.6
15 November 2024				
<b>ID</b>	<b>Balance of Trade, USD Bn</b>	<b>2.47</b>	<b>3.23</b>	<b>3.3</b>
CN	Retail Sales YoY, %	4.8	3.2	4.0
19 November 2024				
EU	Inflation Rate YoY, %		1.7	2.0
20 November 2024				
ID	Loan Growth YoY, %		10.85	-
<b>ID</b>	<b>Interest Rate Decision, %</b>		<b>6.0</b>	-
22 November 2024				
ID	M2 Money Supply YoY, %		7.2	-
27 November 2024				
US	PCE Price Index YoY, %		2.1	-

\*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	15-Nov	-1 mth	Chg (%)
US	4.75	Nov-24	2.15	Baltic Dry Index	1,785.0	1,766.0	1.1
UK	4.75	Nov-24	3.05	S&P GSCI Index	527.2	536.8	-1.8
EU	3.40	Oct-24	1.40	Oil (Brent, \$/brl)	71.0	74.3	-4.3
Japan	0.25	Jul-24	-2.60	Coal (\$/MT)	143.4	150.6	-4.7
China (lending)	2.00	Sep-24	4.05	Gas (\$/MMBtu)	1.65	2.37	-30.4
Korea	3.25	Oct-24	1.95	Gold (\$/oz.)	2,563.3	2,662.6	-3.7
India	6.50	Feb-23	0.29	Copper (\$/MT)	8,881.9	9,386.7	-5.4
Indonesia	6.00	Sep-24	4.29	Nickel (\$/MT)	15,292.0	17,162.9	-10.9
Money Mkt Rates	15-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,139.0	1,010.4	12.7
				Rubber (\$/kg)	1.92	2.03	-5.4
SPN (1Y)	6.64	6.57	6.7	External Sector	Oct	Sep	Chg (%)
SUN (10Y)	6.90	6.68	22.4	Export (\$ bn)	24.41	22.06	10.69
INDONIA (O/N, Rp)	6.07	6.16	-9.0	Import (\$ bn)	21.94	18.82	16.54
JIBOR 1M (Rp)	6.63	6.64	-1.1	Trade bal. (\$ bn)	2.48	3.23	-23.39
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Central bank reserves (\$ bn)*	151.2	149.9	0.87
Lending (WC)	8.78	8.81	-2.51	Prompt Indicators	Oct	Sep	Aug
Deposit 1M	4.79	4.78	1.00	Consumer confidence index (CCI)	121.1	123.5	124.4
Savings	0.65	0.65	-0.09	Car sales (%YoY)	-3.9	-9.1	-14.2
Currency/USD	15-Nov	-1 mth	Chg (%)	Motorcycle sales (%YoY)	5.4	3.7	7.4
UK Pound	0.793	0.765	-3.49	Manufacturing PMI	Oct	Sep	Chg (bps)
Euro	0.949	0.918	-3.24	USA	48.5	47.3	120
Japanese Yen	154.3	149.2	-3.31	Eurozone	46.0	45.0	100
Chinese RMB	7.229	7.120	-1.52	Japan	49.2	49.7	-50
Indonesia Rupiah	15,855	15,580	-1.73	China	50.3	49.3	100
Capital Mkt	15-Nov	-1 mth	Chg (%)	Korea	48.3	48.3	0
JCI	7,161.3	7,627.0	-6.11	Indonesia	49.2	49.2	0
DJIA	43,445.0	42,740.4	1.65				
FTSE	8,063.6	8,249.3	-2.25				
Nikkei 225	38,642.9	39,910.6	-3.18				
Hang Seng	19,426.3	20,318.8	-4.39				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	3,573.9	3,558.2	15.66				
Govt. Bond	885.6	870.6	14.98				
Corp. Bond	6.9	6.9	-0.07				

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	1.9
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	15,947
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

\*Estimated number

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

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