Our expectation for the next year

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Summary

- Inward-focused, deficit-funded policies may help the US maintain above-trend GDP growth in the coming year but could come at the expense of other economies, as geopolitical shifts and tariff threats heighten uncertainties.
- A muted commodity market rally and a sluggish domestic business sector may continue to dampen demand and economic sentiment. Combined with high interest rates, these factors are likely to constrain loan demand.
- While FDIs have insofar does little to improve Indonesia's strategic positions in the global supply chain, securing a trade deal with the US may open opportunities in more promising sectors.

- The global economy is expected to maintain its robust growth as the end of the year draws near, with the IMF forecasting a 3.2% GDP growth for FY 2024. However, mounting political and economic turmoil has, for many, overshadowed what is technically (in growth terms) a strong year. Governmental changes happened across the globe, whether through elections or other means, as recently unfolded in Syria. At the same time, two of Europe's economic giants are grappling with domestic government crises, further fuelling the year's pervasive theme of uncertainties.
- Meanwhile, the USD continue to reign supreme over other currencies (the DXY index recorded a 4.65% YTD growth), a symptom of investors dialling down their risk appetite amidst the highly volatile period. Coupled with the series of monetary and fiscal stimulus thrown into the Chinese economy, this underscores the challenges for financial markets in Indonesia and Asia. Foreign investors have cut exposure to Indonesia's stock market by around USD 1.75 billion since the start of Q4-2024, while the Rupiah continued to hover between 15,670–15,850/USD in the past couple of months.

Global: Embracing the reality of American exceptionalism

- The global trend of "strong economic data but weak vibes" may resolve in the coming year, though likely in select economies. President-elect Trump's plans for corporate tax cuts and deregulation are expected to bolster U.S. investments, driving growth in fixed-asset investments, particularly private non-residential investments (up 3.99% YoY in Q3-

2024). Additionally, the extended personal income tax break and a resilient labour market are likely to sustain US consumers' purchasing power, while the strengthening USD helps mitigate the impact of tariffs on prices.

- The U.S. economy is expected to maintain its above-average GDP growth trend, with an average growth of 2.7% SAAR since 2022, compared to the pre-pandemic average of 1.9% SAAR. Alas, persistently robust growth will likely mean persistent inflationary pressures in the US. For instance, more stringent immigration policies are expected to tighten the already tight US labour market, keeping the services component of inflation high. The returning inflationary pressure may compel the Fed to neither go far nor fast when executing its rate cut campaign in 2025, indicating that the current atmosphere of high UST yield and expensive USD may persist in the new year ***(see Chart 1)***.

- The seemingly returning spectre of US inflation is not the only factor that may keep the UST yield at a relatively high level. More robust US growth trends and the tight labour market in the past couple of years have shifted the neutral interest rate (the so-called R-star) to around 1.2%, compared to around 0.8% between 2009 and 2019 (per the estimates from the New York Fed). The term premium on UST securities has also been rising lately, as the US Treasury Department is expected to issue more long-term bonds following the experiment with activist treasury issuance in the past couple of years.

- Meanwhile, the conditions outside of the US continue to be mired in uncertainties. Apart from the pressure due to the higher-for-longer UST yield and expensive USD, President Trump's unorthodox approach to geopolitics also highlights the challenge facing economic policymakers outside of the US. His repeated criticisms of NATO may pressure other member countries to meet the 2% defence spending commitment, potentially diverting public funds from other expenditures such as social spending–key to Western Europe's social-democratic systems. The primary concern remains tariffs, as Trump has reaffirmed his commitment to impose broad and high tariffs on US imports, differing from the tiered approach proposed by figures like Treasury nominee Bessent.

"Inward-looking policies may help the US economy to continue moving from strength to strength, but at the cost of a higher UST yield and more global uncertainties

- While it is also a serious topic in Europe, nowhere that the tariff question more central to the economy than in China. The country remains dependent on the US and global demand to absorb its massive surplus of manufacturing goods, given the Chinese authorities' continued unwillingness to use fiscal stimulus to directly re-energise their domestic aggregate demand condition. The uncertain demand outlook from the US import market may narrow the room for Chinese manufacturers to further expand, keeping the demand for industrial raw materials relatively muted ***(see Chart 2).***

Indonesia: Things are (not) *gonna* get easier

- The less optimistic outlook for global demand for minerals and industrial raw materials signals another challenging period for the Indonesian economy. Our observations of the domestic corporate sector show a positive correlation between corporate revenues and commodity prices (even in sectors unrelated to the commodity-producing sector), suggesting a continued period of slow recovery in the outlook for corporate revenue in the coming months.
- A prolonged period of below-trend corporate revenue growth would have wider implications for the domestic economy. The corporate sector often bases its strategies, including on capital expenditures, on revenue trends, with CAPEX realisation typically lagging revenue growth. By extension, lower CAPEX realisation, a consequence of the sluggish revenue growth, may suppress the demand for labour in the corporate sector. This limited improvement in the labour market condition may further dampen consumer sentiment, creating a feedback loop that further influences businesses' perceptions of domestic market conditions.
- Recent developments in the financial sector seem to strengthen the argument for the companies and the wider business sector's low expectations for the Indonesian economy in the upcoming periods. Businesses appear to be throwing fewer calls to banks and the broader financial sector in 2024 ***(see Chart 3)***, reflecting reduced demand (or urgency) to raise money to spend on investments or other expenditures. Below-trend revenue growth, of course, has also left many businesses unable to self-finance such projects. Persistently high interest rates may continue to discourage borrowing, signalling lower private investment across most sectors, except for a few that have continued to attract investors' interest.
- Alas, where investors seem to gather in the domestic manufacturing and the wider business sector does not seem to help much in improving Indonesia's strategic position in the global supply chain. Foreign investments, mostly from China, are instrumental in moving Indonesia's mineral-producing sector downstream, while the production of final goods appears to be declining amidst the lack of investments ***(see Chart 4)***. Indeed, Indonesia has been successful in cementing itself as the primary supplier of China's industrial inputs, while the influx of cheap imported goods (as Chinese manufacturers are losing their access to the US market) has put domestic manufacturers of finished goods in a quandary. What this means, then, is that the Indonesian manufacturing sector has in practice moved upstream of the tariff-hit China's supply chain despite the down-streaming agenda, potentially exposing the domestic manufacturing sector to greater volatilities following the logic of the bullwhip effect.

"Securing a trade deal with the US may become the gamechanger for Indonesia amidst the ongoing poly-challenges"

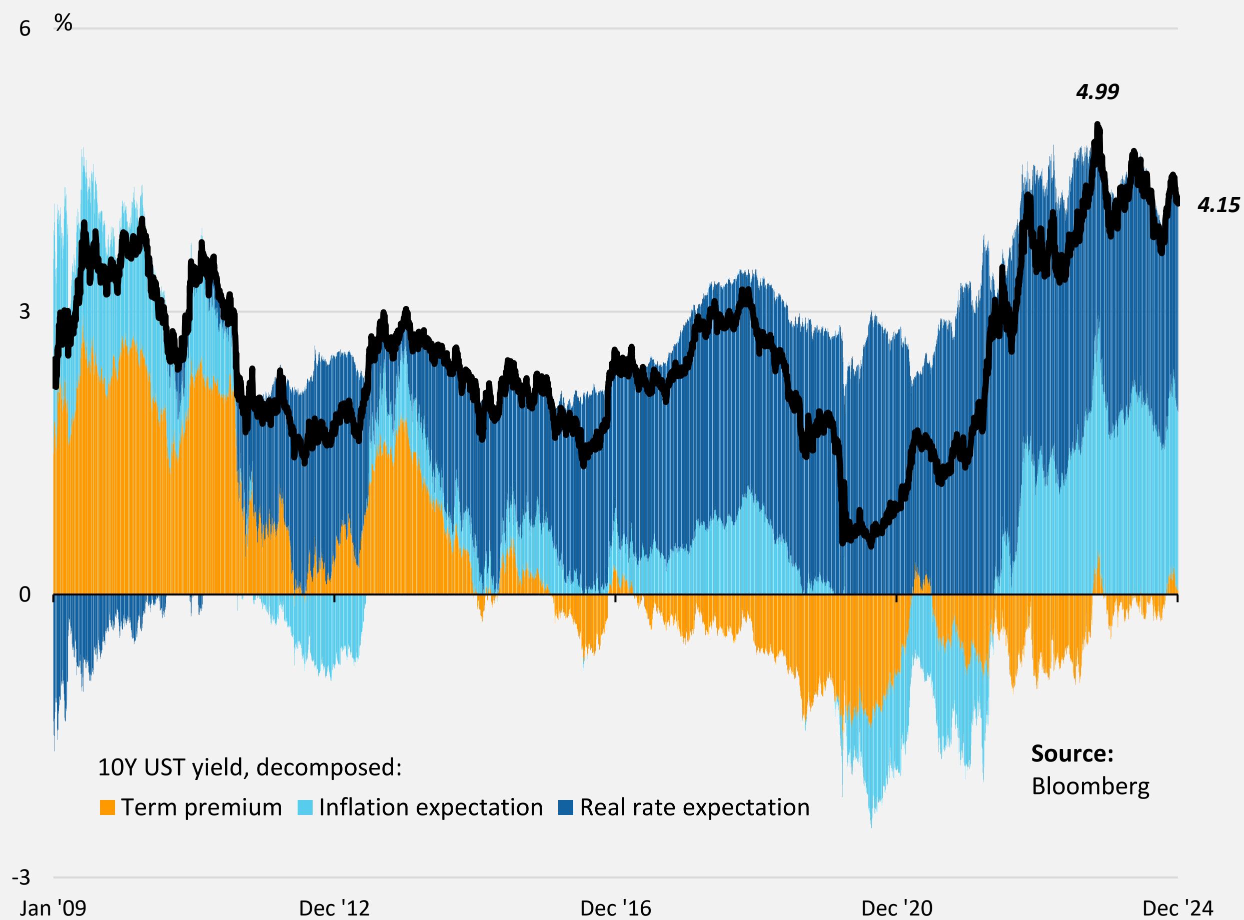
- The new year, then, may not be too kind for the Indonesian economy. The still-high UST yield means that Bank Indonesia may continue to put currency stabilisation over growth, despite the slowing demand for credit amid the weakening businesses and consumers' sentiment. The high interest rate burden also means that the government may need to maintain its primary balance at a surplus, limiting its ability to use fiscal policies to boost domestic consumption. The question mark on the demand for China-made goods, of course, will also add to the poly-challenges now facing the Indonesian economy.

- Indonesia, of course, is not doomed despite the apparent gloom. Securing a bilateral trade deal with the US will be a game-changer, potentially spurring FDIs in other export-oriented sectors beyond the commodity-related ones. The newly launched Danantara may also enable the government to maintain its role in spurring investments, although it remains to be seen how the SWF will perform. Ergo, it is safe to say that Indonesia is on a more promising path than many other countries, although the poly-challenges mean that a below 5% GDP growth is, at this moment, more likely than not to transpire in the upcoming year.

Chart 1

Still-high rates

Returning inflationary pressures, the higher neutral interest rate, and the expected increase in long-term bond issuance may keep the benchmark US interest rate high

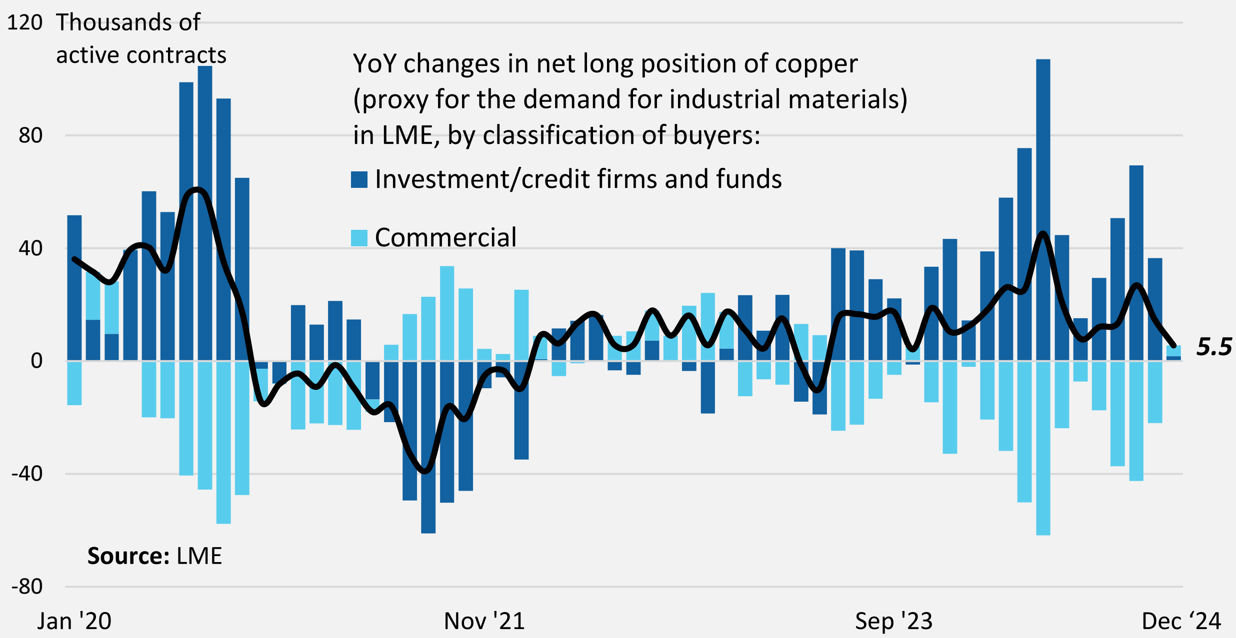


Source: Bloomberg

Chart 2

More users, less speculators

The global commodity market finally faces more demand from commercial buyers, but the uncertain outlook for China's manufacturing sector may hamstrung further recovery

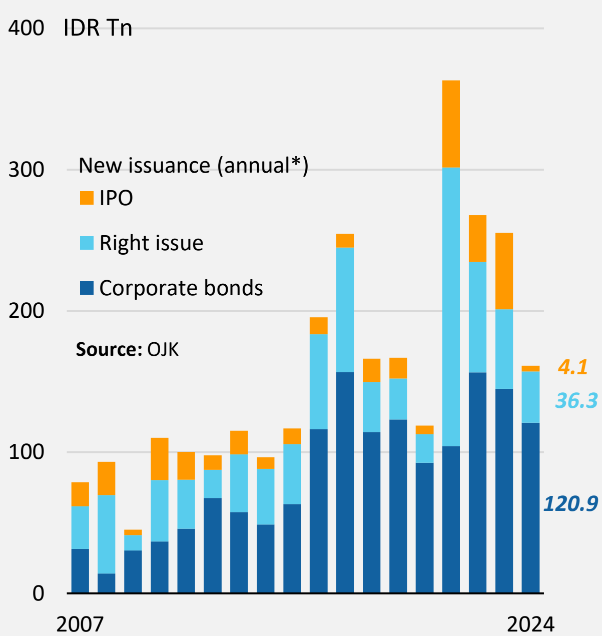


Source: LME

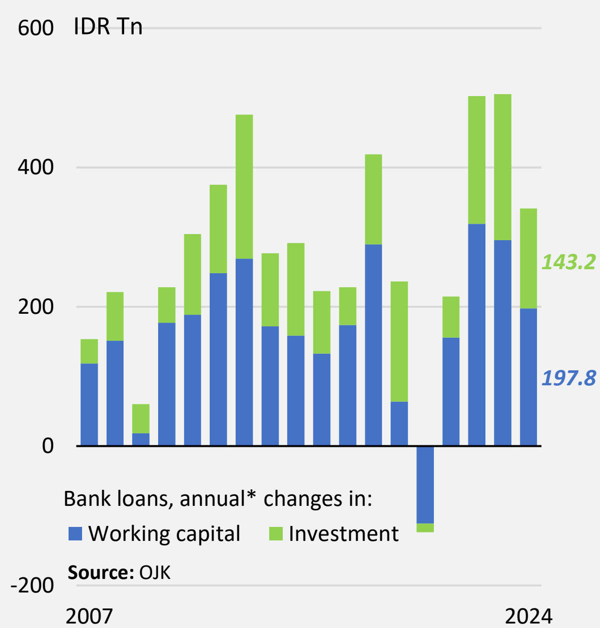
Chart 3

No need for loans

Still-elevated interest rates discourage companies to raise money from banks and the market, highlighting the crucial role of outside investments to drive the corporate sector.



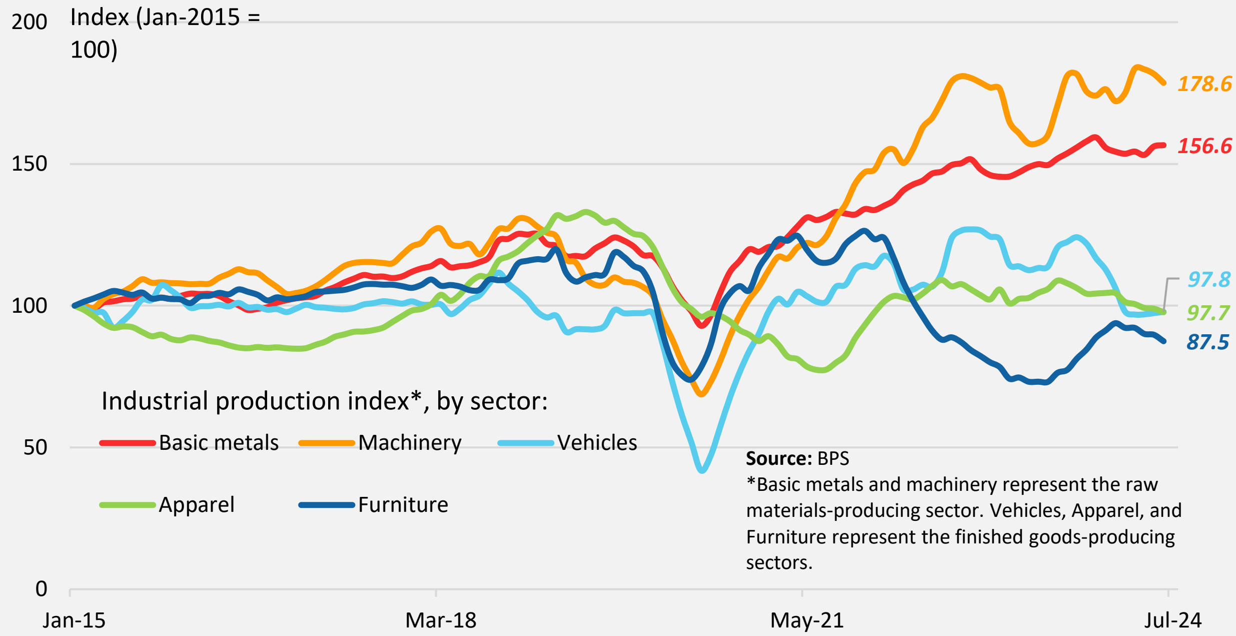
Source: OJK



Source: OJK

As downstream, so upstream

Indonesia have succeeded to move down-stream its commodity-producing sector at the cost of other sectors, potentially exposing the economy to more global demand shocks.



Source: BPS

*Basic metals and machinery represent the raw materials-producing sector. Vehicles, Apparel, and Furniture represent the finished goods-producing sectors.

Economic Calendar

		Actual	Previous	Forecast*
02 December 2024				
ID	S&P Global Manufacturing PMI	49.6	49.2	49.6
ID	**Inflation Rate YoY, %**	**1.55**	**1.71**	**1.6**
US	S&P Global Manufacturing PMI	49.7	48.5	48.8
05 December 2024				
US	Balance of Trade, USD Bn	-73.8	-83.8	-83
06 December 2024				
ID	**Foreign Exchange Reserves, USD Bn**	**150.2**	**151.2**	**152.0**
US	Non-Farm Payrolls, th	227	36	194.0
08 December 2024				
ID	Motorbike Sales YoY, %	-10.3	5.4	-
09 December 2024				
CN	Inflation Rate YoY, %	0.2	0.3	0.5
ID	Consumer Confidence	125.9	121.1	121
10 December 2024				
ID	Retail Sales YoY, %		4.8	4.5
CN	Balance of Trade, USD Bn		95.27	89.0
11 December 2024				
US	Inflation Rate YoY, %		2.6	2.7
16 December 2024				
CN	Retail Sales YoY, %		4.8	4.5
ID	**Balance of Trade, USD Bn**		**2.47**	**-**
17 December 2024				
EU	Balance of Trade, USD Bn		12.5	-
US	Retail Sales YoY, %		2.8	-
18 Desember 2024				
ID	Loan Growth YoY, %		10.92	-
ID	**Interest Rate Decision, %**		**6.0**	-
EU	Inflation Rate YoY, %		2.0	2.3
19 Desember 2024				
US	**Fed Interest Rate Decision, %**		**4.75**	**4.5**
20 December 2024				
US	PCE Price Index YoY, %		2.3	-
ID	Car Sales YoY, %		-3.9	-
22 December 2024				
ID	M2 Money Supply YoY, %		6.7	-

*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	4.75	Nov-24	2.15
UK	4.75	Nov-24	2.45
EU	3.40	Oct-24	1.10
Japan	0.25	Jul-24	-2.40
China (lending)	2.00	Sep-24	4.15
Korea	3.00	Oct-24	1.50
India	6.50	Feb-23	0.29
Indonesia	6.00	Sep-24	4.45

Money Mkt Rates	6-Dec	-1 mth	Chg (bps)
SPN (1Y)	6.74	6.69	5.2
SUN (10Y)	6.90	6.72	17.8
INDONIA (O/N, Rp)	5.97	6.12	-14.9
JIBOR 1M (Rp)	6.63	6.63	-0.4

Bank Rates (Rp)	Sep	Aug	Chg (bps)
Lending (WC)	8.87	8.78	8.91
Deposit 1M	4.81	4.79	2.01
Savings	0.67	0.65	1.33

Currency/USD	6-Dec	-1 mth	Chg (%)
UK Pound	0.785	0.767	-2.28
Euro	0.946	0.915	-3.31
Japanese Yen	150.0	151.6	1.08
Chinese RMB	7.272	7.105	-2.30
Indonesia Rupiah	15,850	15,735	-0.73

Capital Mkt	6-Dec	-1 mth	Chg (%)
JCI	7,382.8	7,491.9	-1.46
DJIA	44,642.5	42,221.9	5.73
FTSE	8,308.6	8,172.4	1.67
Nikkei 225	39,091.2	38,474.9	1.60
Hang Seng	19,865.9	21,007.0	-5.43

Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)
Stock	3,402.4	3,573.9	-171.49
Govt. Bond	872.5	885.6	-13.07
Corp. Bond	7.1	6.9	0.23

Trade & Commodities	6-Dec	-1 mth	Chg (%)
Baltic Dry Index	1,167.0	1,405.0	-16.9
S&P GSCI Index	531.5	545.5	-2.6
Oil (Brent, $/brl)	71.1	75.5	-5.8
Coal ($/MT)	132.4	144.8	-8.5
Gas ($/MMBtu)	2.84	1.72	64.7
Gold ($/oz.)	2,633.4	2,744.0	-4.0
Copper ($/MT)	9,011.9	9,598.0	-6.1
Nickel ($/MT)	15,824.5	15,864.9	-0.3
CPO ($/MT)	1,207.3	1,142.6	5.7
Rubber ($/kg)	2.12	2.00	6.0

External Sector	Oct	Sep	Chg (%)
Export ($ bn)	24.41	22.06	10.69
Import ($ bn)	21.94	18.82	16.54
Trade bal. ($ bn)	2.48	3.23	-23.39
Central bank reserves ($ bn)*	151.2	149.9	0.87

Prompt Indicators	Nov	Oct	Sep
Consumer confidence index (CCI)	125.9	121.1	123.5
Car sales (%YoY)	-11.9	-3.9	-9.1
Motorcycle sales (%YoY)	-10.3	5.4	3.7

Manufacturing PMI	Nov	Oct	Chg (bps)
USA	49.7	48.5	120
Eurozone	45.2	46.0	-80
Japan	49.0	49.2	-20
China	51.5	50.3	120
Korea	50.6	48.3	230
Indonesia	49.6	49.2	40

Source: Bloomberg, BI, BPS
Notes:
Car and motorcycle sales data to be released on the third week of January 2022
^Data for January 2022
*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

	2020	2021	2022	2023	2024E	2025E
Gross Domestic Product (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.9
GDP per Capita (US$)	3912	4350	4784	4920	4945	4980
Consumer Price Index Inflation (% YoY)	1.7	1.9	5.5	2.6	1.9	2.5
BI 7-day Repo Rate (%)	3.75	3.50	5.50	6.00	5.75	5.00
USD/IDR Exchange Rate (end of the year)**	14,050	14,262	15,568	15,397	15,947	16,393
Trade Balance (US$ billion)	21.7	35.3	54.5	37.0	29.3	26.2
Current Account Balance (% GDP)	-0.4	0.3	1.0	-0.1	-0.7	-0.9

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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