3 August 2017

Indonesia Economic Briefing

Sluggish Consumption: A Change in Consumer's Behaviour?

Danamon

Dian Ayu Yustina
Economist
dian.yustina@danamon.co.id

Anton Hendranata
Chief Economist
anton.hendranata@danamon.co.id

Please see the important disclaimer and information on the back of this report.

- **GDP number for Q2 will be released next week and we forecasted a stagnant growth at 5.04%yoy.** This is mainly due to the sluggishness in consumption growth as the main driver of the economy.
- **Sales indicators are all showing a slowdown in the consumer's activities which in turn also impacted the production activities.** These slowing indicators has been a topic of debate lately as the government's various stimulus packages does not seem to generate significant impact on the economy.
- Up to 2Q17, vehicle sales and retail sales is still on declining trend. Based on the AC Nielsen consumer survey, people are spending less or delaying unnecessary consumption. This behavior is also reflected in the faster growth in the third party fund (by 11.2%yoy, per May), compared to the credit growth (by 8.7%yoy). This shows that consumers tend to save more and spend less.
- **Production activities seem to respond to the slow sales by delaying/cut off production.** PMI index decline further to 48.6 in July, marking the lowest point since July 2016. But if we look at the profit and loss data of listed retail companies, most companies still reported positive growth in its earnings. This may due to the efforts of efficiencies in operational cost as retail demand looks slow.
- Few reasons that may explain this slow demand phenomenon i.e.

  (1) **A change in the economic and social structure.** The economy has lost a big chunk of revenue from declining commodity income which deters consumption especially in the commodity concentrated regions i.e. Sumatera, Kalimantan. Furthermore, rising efforts of Corruption Eradication Committee (KPK) seem to have reduced the 'hot' money that is usually spent on consumption.

  (2) **Better efficiency.** Rising trend of e-commerce and *fintech* may indicate missing roles of the 'middlemen'. Despite the share of e-commerce is still relatively low to the overall economy, but they may contribute to the declining income of workers/land owners due to operational efficiencies. Online shops do not need many workers and may not need to rent spacious office or buildings. **Other efficiency comes from the government's policy.** Efforts to tightly monitored the use of operational state budget resulted in the declining travelling (hotels and transportation) expenses for meeting or business purposes. And then we have the escalated pace of infrastructure development which in some part increase the efficiency but has also caused changes in behavior of companies. For example, the shorter time and distance due to the opening of toll road across Java may reduce the role of warehouses since it is easier to transport goods to Java. This indicated that infrastructure development most likely will not bring instant impact to the economy. Economic actors need time to adjust with the changing demand and cost structure of the economy.

  (3) **Distortive government's policies.** Some of the policies related to tax compliance (i.e. plans to monitor credit card transactions or depositors account) have discouraged consumers' (mostly upper middle class) willingness to spend. The removal of electricity subsidy (in three-stages since January 2017) for the upper lower income class (900 VA), also sets a higher cost of living that caused lower allocation to spend on goods.

- **The slowing demand however, not necessary means lower consumer's purchasing power.** This is because we still see the real money supply increasing (from 9.7%yoy to 13.4%yoy in June). Labor force absorption (participation rate) is also still in an increasing trend while consumers still maintain optimism reflected in the rising consumer confidence index. **Therefore we conclude that for now, the economy is still in transition mode.** The structural and technological changes may cause the economic actors to do some adjustment or changes in behavior or economic strategy.
- **Furthermore, the government needs to reduce distortions in designing or communicating its economic policies** so as not to affect the perception of domestic consumers/companies. We may see some significant impact of these structural policies to the economy in 2-3 years from now, if better coordinated and communicated.

Chart 1. Domestic Demand Indicators

Indicators	Unit	4Q16	1Q17	2Q17	Trend
Consumption					
Domestic Car Sales	yoy	18%	9%	-28%	↓
Domestic Motorcycle Sales	yoy	-16%	-16%	-27%	↓
Retail Sales Index	yoy	10%	4%	7%	↓
Consumer Confidence Index	yoy	7%	11%	8%	↑
Real M2	yoy	7%	6%	7%	↑
Fixed Investment					
PMI	bps	49.0	50.5	49.5	↓
Cement Sales	yoy	-3%	4%	-27%	↓
Imported Capital Goods	yoy	-1%	19%	-27%	↓
Government Spending	yoy	4%	18%	3%	↓
Trade Volume	yoy	3%	9%	-14%	↓
		4Q16	1Q17	2Q17F	
Gross Domestic Product	yoy	4.9%	5.0%	5.0%	↓

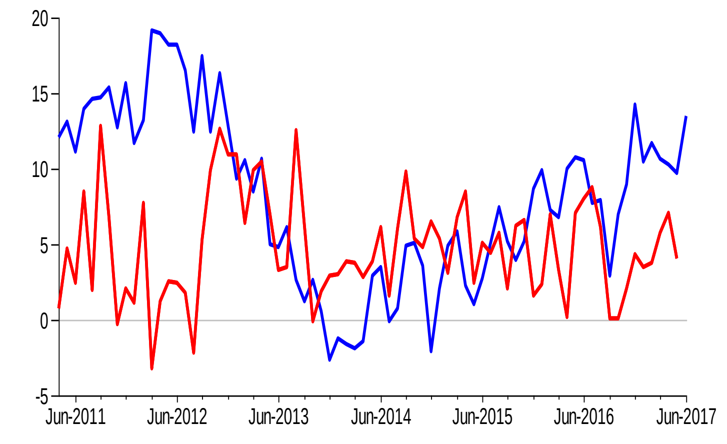
Source: BPS, CEIC, Danamon Calculation

Chart 2. Profit/Loss Some of Listed Companies

	1H17	1H16	YOY
Bank and Finance	38,159	29,623	28.8
Consumer & Pharmacy	19,644	18,412	6.7
Auto and Heavy Equipment	13,163	9,585	37.3
Retail	2,356	1,874	25.7
Telco, Tech and Media	14,100	12,500	12.8
Property	1,679	1,704	(1.4)
Construction	2,485	1,364	82.2
Infrastructure Related	1,098	485	126.4
Services	(3,358)	(805)	317.3
Energy and Mining	2,166	994	117.8

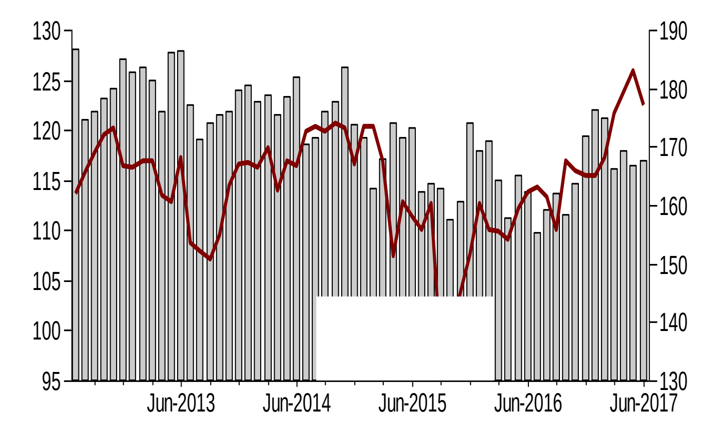
Source: JSX, Danamon Calculation

Chart 3. Real M1 and Industrial Production Index



Source: BPS, CEIC, Danamon Calculation

Chart 4. Consumer Confidence Index



Source: BPS, CEIC, Danamon Calculation

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	913	890	861	932	1,005
GDP per capita (USD) — nominal	3,648	3,529	3,371	3,604	3,838
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US$ (Year-end)	12,189	12,440	13,795	13,436	13,430
Currency/US$ (Average)	10,428	11,900	13,392	13.308	13,349
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

Anton Hendranata anton.hendranata@danamon.co.id	**Chief Economist**	+62 21 8064-5000 ext. 8867
Wisnu Wardana wisnu.wardana@danamon.co.id	**Economist**	+62 21 8064-5000 ext. 8873
Dian Ayu Yustina dian.yustina@danamon.co.id	**Economist**	+62 21 8064-5000 ext. 8875

PT Bank Danamon Indonesia, Tbk.
Menara Bank Danamon
Jalan Prof. Dr. Satrio Kav. E IV #6
Mega Kuningan, Jakarta 12950
INDONESIA
***
Facs: +62 21 5799-1048

ANALYST CERTIFICATION
We hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views in this report.

DISCLAIMER
The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bank Danamon Indonesia, 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. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bank Danamon Indonesia, Tbk. its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action , suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Bank Danamon Indonesia, Tbk. its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not be taken as any recommendation made by P.T. Bank Danamon Indonesia, Tbk. or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.