

The World After Rate Cuts: Declining Consumer Confidence and Disruptions in Middle-Class Spending

Highlights

- Globally, United States consumer confidence weakened significantly to pessimistic region in September 2024, with the Consumer Confidence Index falling to 98.7 from 105.6 in August 2024, marking the largest drop since August 2021. Concerns about job security, reduced hours, and fewer job openings contributed to the decline. Meanwhile, US Purchasing Manager's Index indicates a third consecutive month of manufacturing sector deterioration and the sharpest decline since June 2023. US inflation rose more than projected in September 2024, surpassing analysts' projections that had predicted a further slowdown in inflation.
- Major economies like France and Germany saw worsening sentiment, while Poland, Spain, and Italy experienced notable improvements. Industry confidence fell due to weaker assessments of order books and export demand, while consumer confidence improved, driven by optimism about household finances. The Eurozone's manufacturing sector deepened its contraction, with the HCOB Eurozone Manufacturing PMI falling to 45.0 in September 2024 from 45.8 in August 2024, marking its lowest level in 2024.
- China's economic expansion slowed in the third quarter of 2024 despite tentative signs of improvement. China's disinflation problem is getting worse along with the weak consumer price index or inflation and factory-level prices in the September 2024 period. Moreover, China's manufacturing sector experienced a notable decline, as indicated by the Purchasing Managers' Index (PMI), which fell to 49.3 from 50.4 in August, signalling contraction after a brief recovery.
- In Indonesia, the income of upper middle-class households has recovered above pre-pandemic levels, while lower class households have not recovered to pre-pandemic levels. This condition is partly due to the structure of the Indonesian workforce, which is still dominated by informal workers reaching 59%, with a recovery rate that has not returned to pre-pandemic conditions. Moreover, the middle class has not played a major role in state tax revenues. In percentage terms, the middle class only contributes 1% to tax revenues. Ideally, in developed countries, individual tax payments are the mainstay of state tax revenues.

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Recent Economic Development: Global Market

United States

- Consumer Confidence:** In September, U.S. consumer confidence weakened significantly, with the Conference Board Consumer Confidence Index falling to 98.7 from 105.6 in August 2024, marking the largest drop since August 2021. Consumers' assessments of both current business conditions and the labour market deteriorated, and future expectations for income, business, and job prospects declined, particularly among those aged 35-54 and lower-income groups. Concerns about job security, reduced hours, and fewer job openings contributed to the decline, despite overall low unemployment and stable wages. Inflation expectations rose slightly to 5.2%, with interest rates and economic conditions continuing to influence consumer sentiment. Plans for big-ticket purchases like appliances, smartphones, and cars were mixed, while interest in services such as dining out, travel, and entertainment remained strong. Political concerns, including the upcoming elections, played a lesser role in consumer views compared to previous election years.
- Manufacturing Sector:** At the end of the third quarter of 2024, the US manufacturing sector deepened its contraction, with the S&P Global Manufacturing Purchasing Managers' Index (PMI) falling to 47.3 in September 2024 from 47.9 in August, indicating a third consecutive month of deterioration and the sharpest decline since June 2023. This downturn was driven by a significant drop in output and new orders, with the rate of contraction for new orders reaching its fastest pace in 15 months, amid weakened demand and uncertainty surrounding the upcoming Presidential Election. Employment decreased at its steepest rate since January 2010 (excluding the pandemic), and purchasing activity also contracted sharply, leading to a reduction in input stocks. Despite these challenges, input cost inflation softened, while firms increased their selling prices at the fastest rate since April, reflecting optimism about potential demand recovery following the election. Overall, while business conditions worsened, manufacturers expressed cautious confidence about future output increases, bolstered by expectations of lower interest rates and a potential rebound in demand.
- Inflation:** US inflation rose more than projected in September 2024, surpassing analysts' projections that had predicted a further slowdown in inflation. The US Bureau of Labor Statistics (BLS) reported that the US consumer price index (CPI) rose 2.4% year on year (YoY) in September 2024, surpassing analysts' projections of 2.3% (YoY). Compared to the previous month (month on month/MoM), US inflation reached 0.2%, higher than analysts' projections of 0.1%. Meanwhile, the core CPI, which excludes food and energy costs, rose 0.3% MoM and 3.3% YoY. Economists view core inflation data as a better indicator than headline inflation.
- Monetary Policy:** Federal Reserve Chairman Jerome Powell reiterated that the U.S. central bank is in no rush to cut interest rates. Powell said the central bank will lower rates over time and reiterated that the U.S. economy as a whole remains strong. Powell also reiterated his belief that inflation will continue to move toward the Fed's 2% target, adding that economic conditions will be a factor in setting the stage for further easing in price pressures.

Euro Zone

- Economic and Employment Expectations:** In September 2024, economic sentiment in the EU remained broadly stable, with the Economic Sentiment Indicator (ESI) unchanged at 96.7, and the Employment Expectations Indicator (EEI) rising slightly to 100.0. Confidence in construction and among consumers improved, offsetting declines in industry confidence, while confidence in services and retail trade remained stable. Major economies like France and Germany saw worsening sentiment, while Poland, Spain, and Italy experienced notable improvements. Industry confidence fell due to weaker assessments of order books and export demand, while consumer confidence improved, driven by optimism about household finances. Construction confidence rose modestly, supported by better order book assessments, though labor and financial constraints increased. Employment plans improved in services and construction but weakened in industry, and labor hoarding hit its lowest level since February 2022. Selling price expectations decreased notably in retail trade, while remaining stable in other sectors. Economic uncertainty remained steady overall, but consumer concerns about future financial situations intensified.
- Inflation:** In September 2024, the Eurozone's inflation rate sits at 1.7% YoY. This value marks a 0.5% decrease from the inflation rate in August which was 2.2%. This decline is driven primarily by falling energy prices, which decreased from -3% to -6.1%. On the other hand, core inflation, which excludes volatile energy and food prices, remains stickier, slightly easing to 2.7% from 2.8%. Services inflation is also proving stubborn, running at 3.9% year-on-year. While the headline inflation rate is forecast to remain near 2%, economists suggest it may slightly overshoot the target by the year's end.
- Manufacturing:** In September, the Eurozone's manufacturing sector deepened its contraction, with the HCOB Eurozone Manufacturing PMI falling to 45.0 from 45.8 in August, marking its lowest level in 2024. This sharp decline reflects a worsening in key metrics, including production, new orders, employment, and procurement, driven by weakening demand both domestically and internationally. New orders experienced their steepest drop since December 2022, while Germany, the region's largest manufacturing economy, recorded its most severe factory downturn in 12 months, offsetting pockets of growth in Spain and Greece. As a result, Eurozone factories cut purchasing activity and rapidly reduced inventories, while job cuts hit their highest levels since October 2012 (excluding the pandemic). Declining input costs and selling prices pointed to reduced pricing power, further signaling economic stress. Despite slight optimism, overall business sentiment slumped to a ten-month low, as ongoing inflation, weak global demand, and economic uncertainty weighed heavily on the sector.
- Monetary Policy:** In October, the European Central Bank (ECB) implemented its third consecutive interest rate cut, reducing the main refinancing rate to 3.40%, the marginal lending facility to 3.65%, and the deposit facility to 3.25%. The decision to lower rates by 25 basis points was driven by a reassessment of the inflation outlook, which shows disinflation on track, alongside weakening economic activity. With inflation falling to 1.7% in September—below the ECB's 2% target for the first time in three years—the ECB aims to stimulate growth amid tepid economic conditions, including stagnant private consumption and sluggish GDP growth of 0.2% in the second quarter. The move also follows signs of contraction in the eurozone's largest economy, Germany, and aligns with the broader effort to ease financing conditions as inflation moderates.

China

- **GDP Growth:** China's economic expansion slowed in the third quarter of 2024 despite tentative signs of improvement, as policymakers ramp up stimulus to help the world's second-largest economy reach its annual growth target. Gross domestic product increased 4.6% in the third quarter of 2024 from a year prior (YoY), the slowest growth since the first quarter of 2023 and down from 4.7% growth (YoY) in the second quarter of 2024. While slightly higher than the median estimate by economists (4.4% YoY), the quarterly figure meant growth for the first nine months of 2024 fell to 4.8%, lower than China's full-year target of 5%.
- **Inflation:** China's disinflation problem is getting worse along with the weak consumer price index or inflation and factory-level prices in the September 2024 period. Data from the National Bureau of Statistics (NBS) noted that China's consumer price index (CPI) rose to 0.4% compared to September 2023. This record was supported by a surge in fresh vegetable prices. China's inflation was below the 0.6% estimate from a Bloomberg survey of economists. Meanwhile, core inflation rose 0.1% (YoY) in September 2024, or the lowest since February 2021.
- **Monetary Policy:** China's central bank, the People's Bank of China (PBOC), announced a medium-term lending facility (MLF) rate cut to 2%, down 30 basis points. This cut is the largest since the central bank began using monetary tools to guide market interest rates in 2016. This step is a continuation of the stimulus package announced by PBOC Governor Pan Gongsheng. Following the decision, the yuan strengthened past 7 per US dollar for the first time in 16 months. Chinese stocks also continued their rise, with the benchmark CSI 300 index on track to erase all declines in 2024. China's 10-year bond yield fell 1 basis point to 2.05%.
- **Manufacturing:** In September, China's manufacturing sector experienced a notable decline, as indicated by the Purchasing Managers' Index (PMI), which fell to 49.3 from 50.4 in August, signalling contraction after a brief recovery. This downturn was largely driven by a sharp drop in new orders, including export orders, due to weakened global demand and heightened competition in international markets. Domestic demand remained sluggish, compounding the sector's struggles. While manufacturers managed to keep production in positive territory by working through their backlogs, output growth slowed significantly, marking the weakest expansion since July 2023. Firms also responded to declining workloads by reducing hiring and purchasing activities, contributing to a build-up in inventories. Input costs, particularly for raw materials like metals, fell due to weaker demand, prompting manufacturers to lower selling prices in a bid to remain competitive. Optimism among Chinese manufacturers hit one of the lowest levels recorded since 2012, as concerns about global economic conditions and trade uncertainty persisted, leading to a cautious outlook for the coming months.

Recent Economic Development: Domestic Market

- Household Income:** Bank Indonesia (BI) noted that household income is still increasing, but with different recovery trends between income classes. Based on the Financial Stability Study Book No. 43, the household income index was recorded to have increased to 118.61% in semester I/2024, higher than semester II/2023 of 117.59%. However, the income of upper middle-class households has recovered above pre-pandemic levels, while lower class households have not recovered to pre-pandemic levels. This condition is partly due to the structure of the Indonesian workforce, which is still dominated by informal workers reaching 59%, with a recovery rate that has not returned to pre-pandemic conditions. Households' ability to pay their loans is maintained with the Debt Service Ratio (DSR) of households which has increased, especially in the KPR (mortgage) segment owned by upper class households, with LaR and NPL of households still relatively low.
- Inflation:** The Consumer Price Index (CPI) in September 2024 recorded monthly deflation of 0.12% (month-to-month/mtm). On an annual basis, the CPI in that period recorded inflation of 1.84% (year-on-year/yo), lower than the previous month's inflation of 2.12% yoy. CPI in September 2024 decreased and remained within the target range of 1.5% to 3.5%. The controlled inflation is the result of consistent monetary policy and close synergy in controlling inflation between BI and the government, both central and regional, in the Central and Regional Inflation Control Team (TPIP and TPID). The Central Statistics Agency (BPS) revealed Papua became the region with the highest annual inflation in September 2024. A number of commodities were observed to contribute to the high inflation in the Papua region. However, the contributors to annual inflation in the Papua region vary, depending on the characteristics of the region. Meanwhile, the highest annual inflation by province occurred in Papua Pegunungan province, reaching 4.14% (yo). On the other hand, the lowest inflation occurred in Kepulauan Bangka Belitung province at 0.49% (yo).
- Tax Revenue:** The Directorate General of Taxes (DGT) of the Ministry of Finance (Kemenkeu) stated that the middle class has not played a major role in state tax revenues. In percentage terms, the middle class only contributes 1% to tax revenues. Ideally, in developed countries, individual tax payments are the mainstay of state tax revenues. Ministry of Finance (Kemenkeu) recently reported that tax revenues had reached IDR 1,196.54 trillion as of August 31, 2024. This figure contracted 4% compared to the same period last year. Referring to the DJP's statement, the middle class' contribution of 1% to tax revenues was only around IDR 11.96 trillion as of August 2024.
- Trade Balance:** Indonesia's trade balance surplus reached US\$ 3.26 billion in September 2024. This achievement marks a surplus that has occurred for 53 consecutive months. The trade balance surplus in September 2024 increased compared to the surplus in August 2024 of US\$2.78 billion. However, The Central Statistics Agency (BPS) stated that Indonesia experienced the largest trade balance deficit with China in September 2024. Indonesia's trade balance with China recorded a deficit of US\$630 million in September 2024. Meanwhile, cumulatively from January to September 2024, Indonesia's trade balance deficit with China was US\$8.8 billion. In September 2024, the commodities that contributed to the deficit in the Indonesia-China trade balance were machinery and mechanical equipment and its parts (US\$ 1.43 billion); electrical machinery and equipment and parts (US\$ 1 billion); as well as vehicles and parts (US\$ 314.8 million).

- Digital Transaction:** Bank Indonesia noted that QRIS transactions grew 209.61% annually and reached IDR188.36 trillion in the third quarter of 2024. Primarily, QRIS users made transactions for food and beverage payments. Deputy Governor of Bank Indonesia (BI) Filianingsih Hendarta said that QRIS is the only digital financial instrument that has grown very rapidly, with more than 200% growth (year on year/YoY). In terms of volume, BI noted that to date, there have been a total of 4.08 billion transactions using QRIS or have reached 163.6% of the central bank's target. Most people shop using QRIS in the food and beverage sector, especially retail traders who represent 35.9% of total transaction.
- Monetary Policy:** Bank Indonesia has decided to hold the BI Rate (benchmark interest rate) at 6%. Macroprudential policies and payment systems also continue to be directed to support sustainable economic growth. Bank Indonesia (BI) Governor Perry Warjiyo said that in line with holding the BI Rate, loose macroprudential policies continue to be pursued to encourage bank credit/financing to priority sectors in supporting economic growth. Perry Warjiyo emphasized that to encourage further credit growth, Bank Indonesia continues to strengthen the implementation of macroprudential liquidity credit (KLM).
- Foreign Exchange Reserves:** Bank Indonesia (BI) recorded US\$ 149.9 billion foreign exchange reserve position at the end of September 2024, down slightly after last month's record of highest position (US\$ 150.2 billion) since December 2023. The foreign reserve position was relatively stable and had decreased slightly due to the government's obligation to pay debts. The foreign exchange reserve position at the end of September 2024 was equivalent to financing 6.6 months of imports or 6.4 months of imports and government foreign debt payments, and was above the international adequacy standard of around 3 months of imports.
- Consumer Confidence Index:** The results of a Bank Indonesia (BI) survey show a decline in consumer confidence (optimism) towards Indonesia's economic conditions in September 2024, after showing an increase in the previous two months. The decline was reflected in the September 2024 Consumer Confidence Index (IKK) which was at an optimistic level (>100), namely 123.5. Down from the previous month, which was 124.4. Despite the decline, this figure shows that people are still optimistic about the country's economy.
- Purchasing Manager's Index (PMI):** Indonesia's manufacturing PMI in September 2024 experienced a slight increase although it was still in the contraction zone. During that period, the Purchasing Manager's Index or Indonesian manufacturing PMI was recorded at 49.2, up compared to the August 2024 period which was at 48.9. The position of Indonesia's PMI continued the contraction that had occurred since July 2024, after previously experiencing 34 consecutive months of expansion. This occurred due to weak market conditions, both domestically and abroad.

- MSME (UMKM) Credit:** In September 2024, banking credit growth in the MSME sector showed signs of improvement by growing 5% YoY, reaching IDR 1,399.3 trillion, up from 4.3% YoY growth in the previous month which was the lowest rate throughout the year. This increase was mainly driven by small business credit which grew 6.6% YoY from the previous 4% YoY. Credit for medium-sized businesses also improved slightly with growth of 2.4% YoY compared to 2.3% YoY in the previous month, reaching IDR 309.6 trillion. However, micro business credit is still experiencing a slowdown, growing only 5.1% YoY compared to 5.6% YoY in the previous month, with a value of IDR 637.3 trillion. Although since February 2024 MSME credit growth has experienced a downward trend from a peak of 9.4% YoY, September 2024 data shows the beginning of improvement after several months of slowing.
- Selling Price (Business Survey):** the decline in the trade sector performance was influenced by negative sentiment from the decline in selling prices during Q3-2024, as reported in the Business Activity Survey from Bank Indonesia. The realized selling price was recorded to be lower than expected selling price in the third quarter of 2024, and at the lowest in the past 3 years. The last time realized selling price was lower than the expected selling price was in Q2 2023. This condition indicates that the supply side or business world activities will also experience pressure in the remainder of 2024, which will also have an impact on slowing the performance of the trade sector.

Exhibit 1. Indonesia Macroeconomics Indicator

	2023												2024		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
Real															
CPI Inflation*	% YoY	2.28	2.56	2.86	2.81	2.57	2.75	3.05	3	2.84	2.51	2.13	2.12	1.84	
Core Inflation *	% YoY	2	1.91	1.87	1.8	1.68	1.68	1.77	1.82	1.93	1.9	1.95	2.02	2.09	
Manufacturing PMI*	Level	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	
External															
Exports*	% YoY	-16.22	-10.43	-8.56	-5.85	-8.2	-9.61	-3.75	1.72	2.85	1.18	6.6	7.13		
Imports*	% YoY	-12.45	-2.42	3.29	-3.81	0.28	15.84	-12.76	10.09	-8.84	7.58	11.07	9.48		
Foreign Reserves*	USD bn	119.76	123.72	124.44	132.62	131.45	130.46	126.43	121.99	124.66	125.96	130.90	135.33	134.6	
Monetary and Fiscal															
Money Supply (M2) *	% YoY	6.00	3.40	3.30	3.50	5.44	5.29	7.21	6.87	7.59	7.67	7.59	7.28		
Deposit*	% YoY	5.86	3.10	3.01	2.87	4.86	4.54	6.36	7.05	7.36	6.95	6.24	5.76		
Commercial Banking Credit**	% YoY	9.00	9.00	9.70	10.30	12.00	11.50	12.60	13.20	12.30	12.60	12.61			
Fiscal Surplus/Deficit*	% GDP	-2.191			-1.614			-2.168			-2.646				

Sumber: *CEIC, **Bloomberg

Exhibit 2: Exchange Rate

Exhibit 2.1 Difference of Spot and Forward IDR

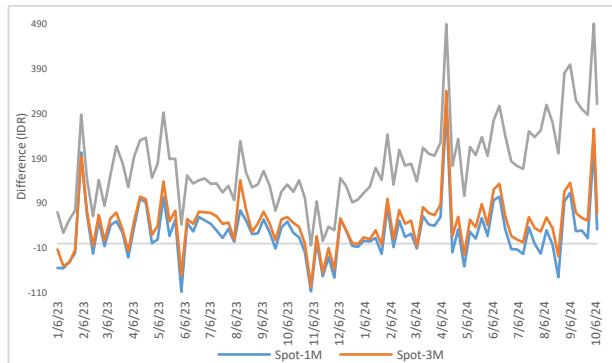


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

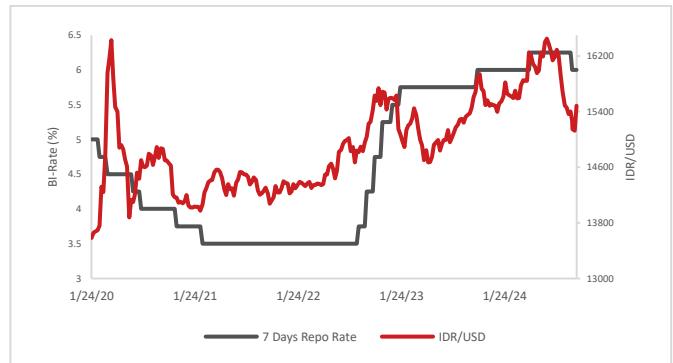


Exhibit 2.3 EM's Exchange Rate against USD

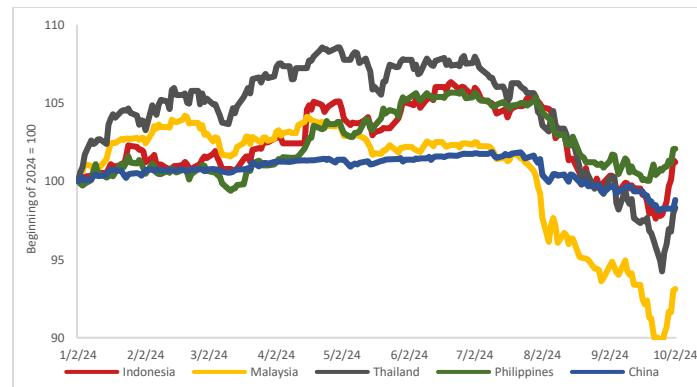


Exhibit 3: Indonesia's Liquidity

Exhibit 3.1 JIBOR 1 & 3 Months and BI-Rate

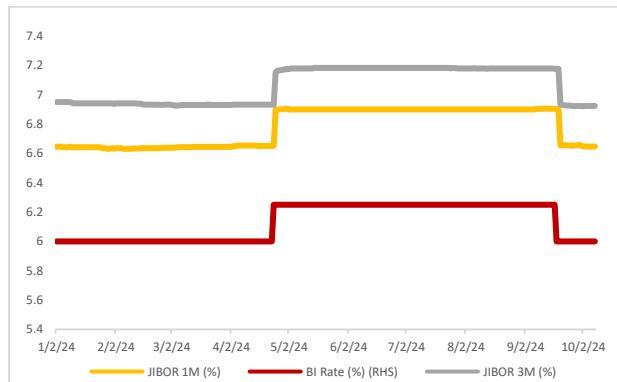


Exhibit 3.2 Monetary Operations of BI

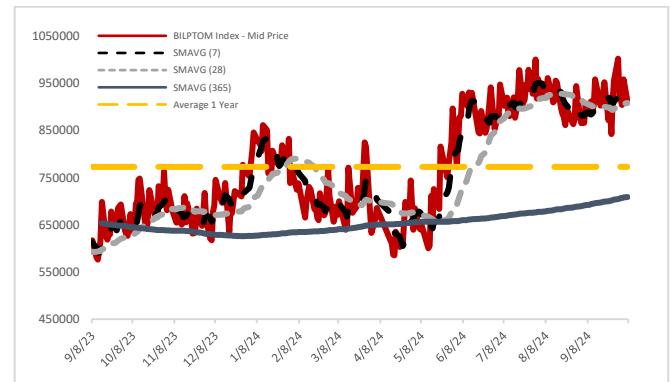


Exhibit 3.3 Indonesia's Net International Reserves
USD

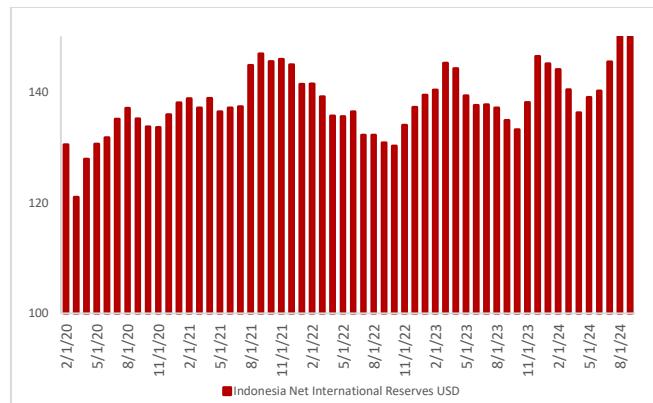


Exhibit 4: Financial Market

Exhibit 4.1 Stock Market index

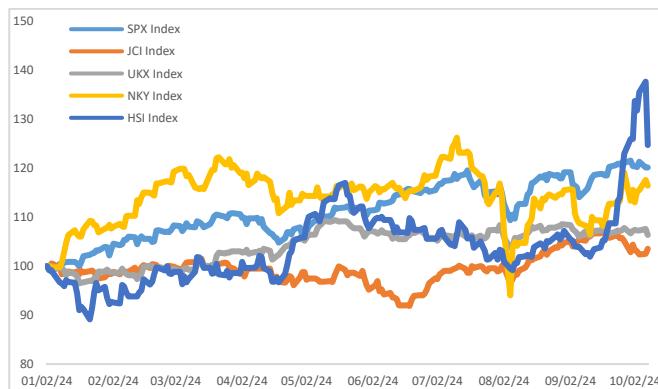


Exhibit 4.2 Indonesia Bond Yield Curve

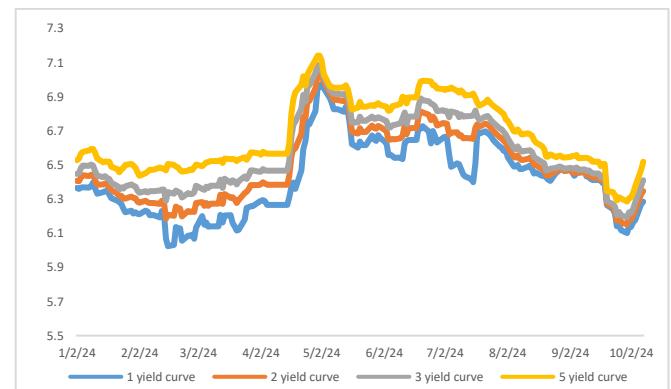


Exhibit 4.3 Indonesia Stock Market & Turnover

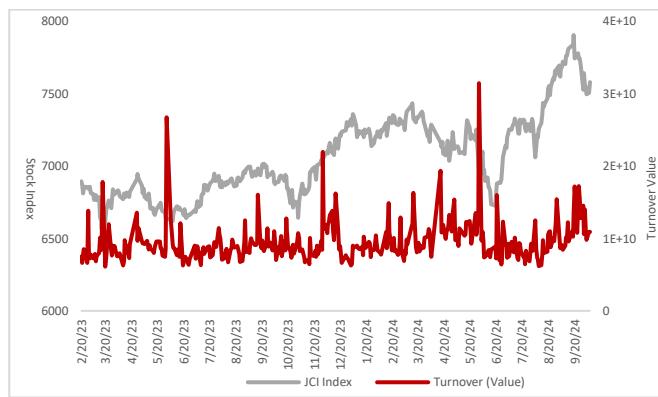


Exhibit 4.4 Indonesia CDS & Government Bond 5Y



Exhibit 5. Expected Impact of Macroeconomic on Subsidiary of IFG holding Performance

Indikator Makroekonomi	Askrindo			Jamkrindo			IFG Life		Jasa Raharja			Jasindo			
	LitR	Cad	RBC	Premi	Klaim	GR	Premi	Klaim	RBC	LitR	Klaim	RBC	Premi	Cad	RBC
Inflasi, y/y (1% change)	N.A	↓	↑	N.A	N/A	↑	N/A	N/A	↓	↓	↑	N/A	N/A	↑	↓
Nilai Tukar (IDR/USD 1% change)	N.A	N.A	N.A	N.A	↓	↓	↓	↓	↓	N/A	N/A	↓	↓	N/A	N/A
BI Rate (1 % change)	↓	↑	↑	↓	N/A	↓	N/A	N/A	↑	↑	N/A	N/A	↑	↑	↓

*LitR = Liquidity Ratio, Cad = Cadangan Teknis, RBC = Risk Based Capital, Premi = % change in Premi, Claim = % change in claim. The direction of the increase or decrease in the insurance indicator is based on the regression model coefficient multiplied by the changes of each macroeconomic indicator.

All of data sources: CEIC, Bloomberg, BI, and Various sources

Footnotes:

1. The conversion rate from US dollars to the local currency unit is shown by the exchange rates that are used, which stated as USD/LCU
2. The stock market indexes being taken into account are the S&P 500 (US), Jakarta Composite Index (JCI), FTSE 100 (UKX), Nikkei 225 (NKKY), and Hang Seng Index (HSI) which serve as regional benchmarks.
3. Ten-year US Treasury bill yield differential and Indonesian Government Bond denominated in USD serve as a proxy for Indonesia's sovereign risk.
4. The oil prices listed are based on the NYMEX current month futures price.
5. The natural gas prices listed are based on the NYMEX current month futures price.
6. The coal prices listed are based on the ICE Newcastle current month futures price.
7. A higher turnover index in the stock market typically indicates a higher level of trading activity

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Indonesia Financial Group (IFG)

Indonesia Financial Group (IFG) adalah BUMN Holding Perasuransian dan Penjaminan yang beranggotakan PT Asuransi Kerugian Jasa Raharja, PT Jaminan Kredit Indonesia (Jamkrindo), PT Asuransi Kredit Indonesia (Askrindo), PT Jasa Asuransi Indonesia (Jasindo), PT Bahana Sekuritas, PT Bahana TCW Investment Management, PT Bahana Artha Ventura, PT Bahana Kapital Investa, PT Graha Niaga Tata Utama, dan PT Asuransi Jiwa IFG. IFG merupakan holding yang dibentuk untuk berperan dalam pembangunan nasional melalui pengembangan industri keuangan lengkap dan inovatif melalui layanan investasi, perasuransian dan penjaminan. IFG berkomitmen menghadirkan perubahan di bidang keuangan khususnya asuransi, investasi, dan penjaminan yang akuntabel, prudent, dan transparan dengan tata kelola perusahaan yang baik dan penuh integritas. Semangat kolaboratif dengan tata kelola perusahaan yang transparan menjadi landasan IFG dalam bergerak untuk menjadi penyedia jasa asuransi, penjaminan, investasi yang terdepan, terpercaya, dan terintegrasi. IFG adalah masa depan industri keuangan di Indonesia. Saatnya maju bersama IFG sebagai motor penggerak ekosistem yang inklusif dan berkelanjutan.

Indonesia Financial Group (IFG) Progress

The Indonesia Financial Group (IFG) Progress adalah sebuah *Think Tank* terkemuka yang didirikan oleh Indonesia Financial Group sebagai sumber penghasil pemikiran-pemikiran progresif untuk pemangku kebijakan, akademisi, maupun pelaku industri dalam memajukan industri jasa Keuangan.