

On the Domestic Tourism Sector: Sit back, and relax, but fasten your seatbelt

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Summary

- Recent shifts in the global commodity market may heighten the strain on Indonesia's current account balance. Unfortunately, the travel segment of the current account is unlikely to offer substantial support, with signs pointing to a decline in average tourist spending.
 - While the weakened Rupiah could help limit travel imports, it may not lead to a significant surge in travel exports, considering the equally feeble position of other Asian currencies.
 - The domestic tourism sector remains in a consolidation mode due to persistent challenges. However, the modest progress in the sector is not a cause for alarm, given Indonesia's diversified economic activities.
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- External pressures have continued to besiege the Indonesian market throughout the last week. Foreign investors continue to head towards the exit door, as indicated by the USD 226.01 Mn decline in foreign capital stocks in the Indonesian market recorded throughout last week. However, continuous foreign capital outflows in the domestic bond market, which amounted to USD 237.87 Mn in the last week, should not be considered a clarion call for the government. Indonesia's 10Y bond yield touched the 7% mark in early October 2023. But the domestic bond market stabilised soon after, again lowering Indonesia's 10Y SBN yield to the government's approved level of 6.7-6.8% thanks to resilient demand from domestic investors.
 - Meanwhile, foreign investors recorded a net buy in the Indonesian stock market last week, albeit only a paltry USD 11.86 Mn. The success of an IPO last week coupled with anticipations of the upcoming earnings season could be behind this renewed (although nascent) trend of foreign inflows to the domestic stock market. But it might be worth giving extra care to the renewed trend given the still-high discount rate.
 - The relatively stable, although still challenging, domestic market situation provides the Rupiah with some fighting chance. After losing its YTD gains in early October, the Rupiah remains stable at the present 15,600 – 15,700 level, thanks in part to BI's market interventions. However, the worsening development (from Indonesia's perspective) in the global financial and

commodity market may continue to exert depreciatory pressures on the currency, which could add more challenges to BI's Rupiah stabilisation effort in the upcoming periods.

- The Rupiah's relative resiliency amidst the year-long downward trend in commodity prices allows the currency to keep some distance from its historical status as a commodity currency. However, the impact of the global commodity cycle on Indonesia's CA balance (and in effect, changes in the Rupiah's value) remains pervasive. For instance, the deficit CA balance in Q2 2023 is largely explained by the USD 3.85 decline in goods (non-oil/gas) exports. Recent

developments in the global commodity market, then, present the worst of both worlds for the Indonesian economy and its CA balance; the global manufacturing slowdown may continue to suppress Indonesia's exports, while the import situation may also get bleaker given the continued ascendance in oil prices

"The worsening development in the global financial and commodity market may continue to exert depreciatory pressures on the Rupiah "

Limited distance

- Looking strictly from the goods side of the CA balance, it could be argued that a weaker Rupiah may work better for the Indonesian economy given the current circumstances. The now-weaker Rupiah (-0.7% YTD, peak +5.77% in May-23) would reduce the attractiveness of imports, tilting the competition in favour of domestic manufacturers. Recent pickups in Indonesian manufacturing export orders further highlight the argument for a weaker currency, especially considering the strengthening currencies of other manufacturing hotspots such as Vietnam (+4.2% YTD) or Mexico (+8.0% YTD).
- Another argument for a weaker currency came from the 'travel' side of Indonesia's CA balance. A long-time positive contributor to the CA number, Indonesia's travel account recorded a deficit of USD 128.7 Mn in Q2

2023, its deepest deficit since Q4 2010. There are similarities between the two dates. The first one is the seasonal hajj pilgrimage, which naturally spurs an increase in external payments as at least 221,000 Indonesians travel to Saudi Arabia during the same period.

- The other, less visible similarity is the Rupiah's resiliency against the USD (*see Chart 1*). The transition from the Fed's QE1 to QE2 and the start of China's spending spree contributed to overwhelmingly positive sentiments on the Rupiah in 2010. The increase in the Rupiah's value, in turn, allows more Indonesians to travel abroad – as evident from the continuous rise in Indonesia's travel imports in Q1-Q4 2010. While the source behind the IDR's strength in 2023 is different than in 2010, the currency's relative resiliency in 2023, at least up until

the start of Q3 2023, appears to have the same effect in encouraging Indonesians to travel and spend money abroad, just like in 2010.

- The deficit in Indonesia's Q2 2023 travel account is also due to the slow recovery of the domestic tourism sector. The number of foreign tourist arrivals in Indonesia may already be a stone's throw away from its 2019 peak. But this growing number of tourists does not seem to be too eager to spend their money in Indonesia (*see Chart 2*). The Rupiah's diametrical strength reveals the crux of the problem. While the IDR's relative weakness to the USD and other Western currencies invites a growing number of Westerners to Indonesia, the Rupiah's resiliency compared to other Asian currencies may discourage higher-spending Asian tourists from picking Indonesia as their travel destination.
- Asia's highly uncertain growth prospects may continue to put the domestic tourism sector in this predicament. Fortunately, the dawn may soon come for travel operators longing to greet their higher-spending Asian guests. For instance, recent readings on real economic data and news of further rounds of stimulus suggest early signs of recovery in China's economic activity, which may well positively impact the aggregate demand level and thus lead to a growing number of Chinese households seeking leisurely

activities abroad. The now-weaker Rupiah may also improve Indonesia's attractiveness as a holiday destination. Alas, it is important to consider that other economies may be better positioned to capture the initial surge in Chinese households' travel demand. Additionally, the recent decline in the value of the Rupiah may not significantly impact Asian travellers, given the similarly weak position of other Asian currencies.

- Some good may still come out of this unideal scenario. While it might take some time before Asian tourists start contributing more significantly to Indonesia's CA, the now-

"The recent decline in the value of the Rupiah may not significantly impact Asian travellers, given the similarly weak position of other Asian currencies"

weaker Rupiah means that local tourists are at least not draining the CA coffer either. The domestic tourism sector may also continue to rely on domestic tourists to fill the lurch left by foreign tourists. Alas, the

prospect of attracting these domestic tourists is not too promising either (*see Chart 3*). The risk of rising prices, most ominously foodstuffs such as rice, could force local tourists to 'downgrade' their itineraries if not cancel their plans altogether. Indeed, Indonesian households appear to be quick to cut their non-essential spending, as staples start to take a greater portion of households' disposable income in 2023 (*see Chart 4*).

- This rather unoptimistic outlook, unfortunately, is also shared by the domestic tourism sector itself. We arrived at this conclusion by looking at regional-level data, particularly the Bali province given the

central role of the tourism sector in the province's economy. Despite the widely reported recovery, it is quite clear that the domestic tourism industry remains in a consolidation mode (*see Chart 5*), limiting the prospect for expansion as utility maximisation remains the order of the day. The ongoing challenges experienced by the domestic tourism sector are thoroughly documented in our business revenue index. However, given the more diversified nature

of the Indonesian economy, the difficulties now faced by the tourism sector should not raise too much alarm.

"Indonesian households appear to be quick to cut their non-essential spending, as staples start to take a greater portion of disposable income in 2023"

Chart 1

Some changes in the itinerary

The Rupiah's strength in H1 2023 may contribute to the increase in travel imports, but the now-weaker currency may keep the demand for tourism within the domestic economy.

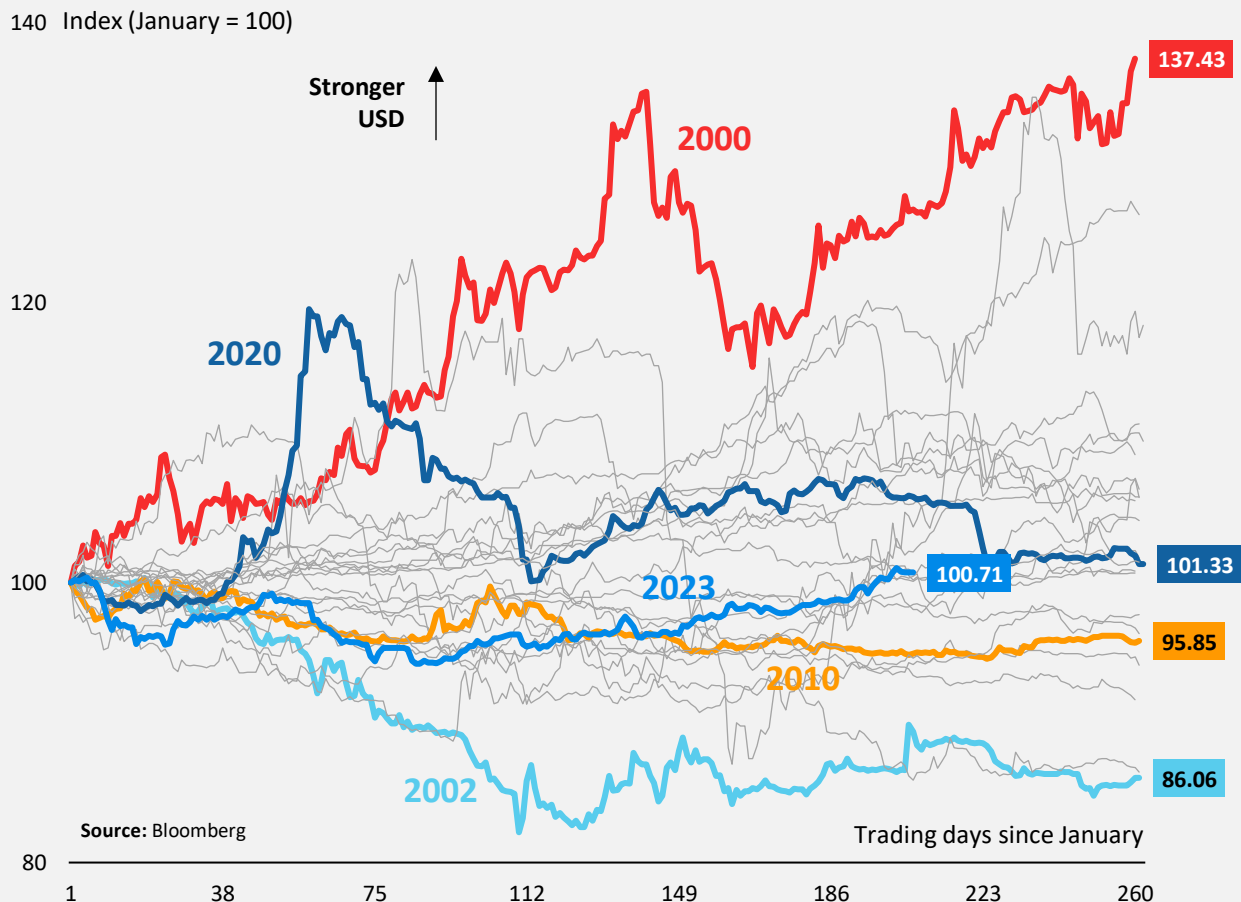


Chart 2

More for less

Despite the continuous recovery in foreign tourist visits, revenues in the tourism sector remain constrained as high-spending tourists have yet to travel to Indonesia

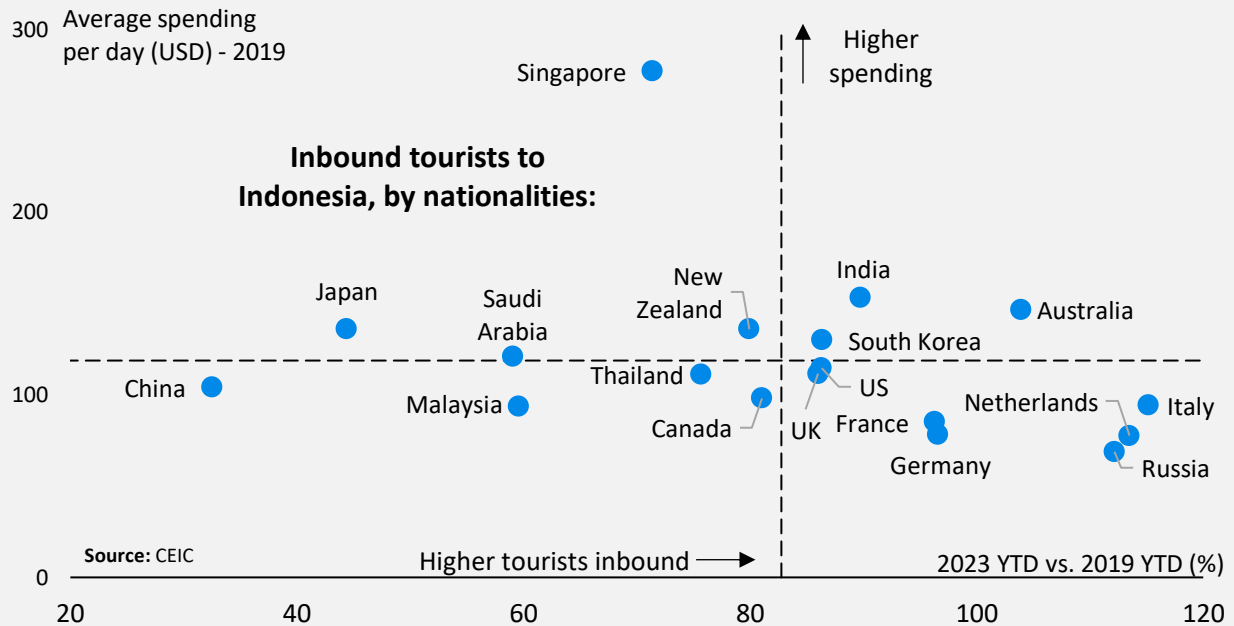


Chart 3

Sleepy hotels

Hotel occupancy in local tourist-oriented destination (such as Yogyakarta) fall faster than in foreign tourist-oriented one (Bali), indicating weakening domestic demand for tourism

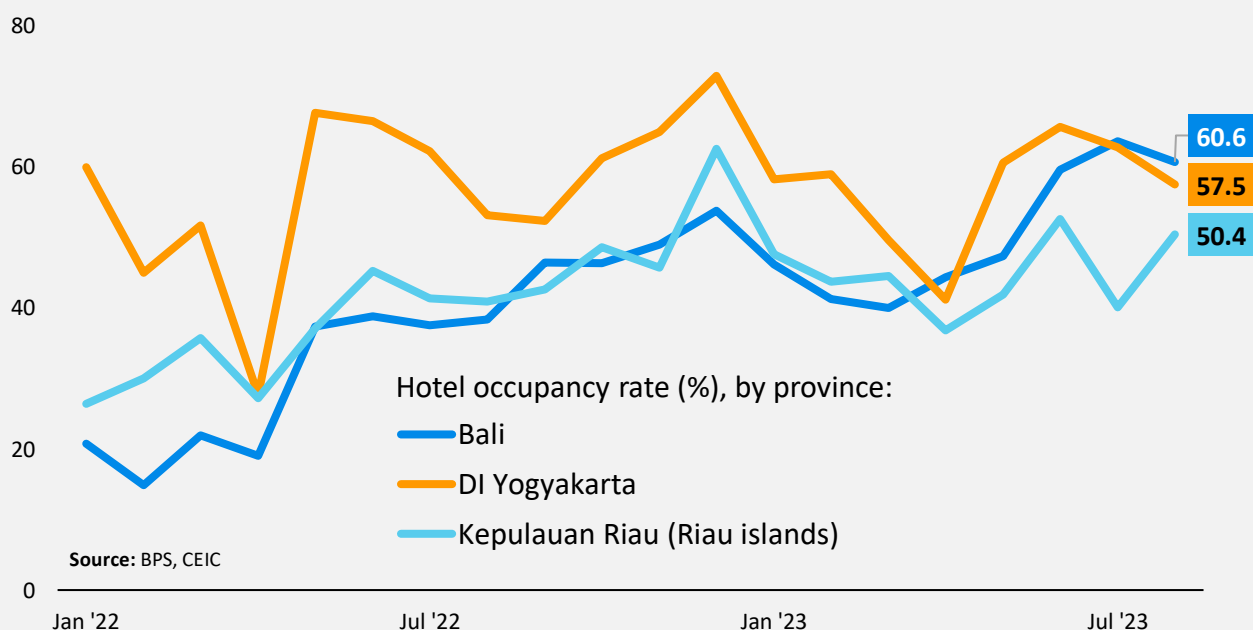


Chart 4

No inner power

The tourism sector may not rely too much on domestic travellers as the risk of higher food prices may lead to a downturn in discretionary spending

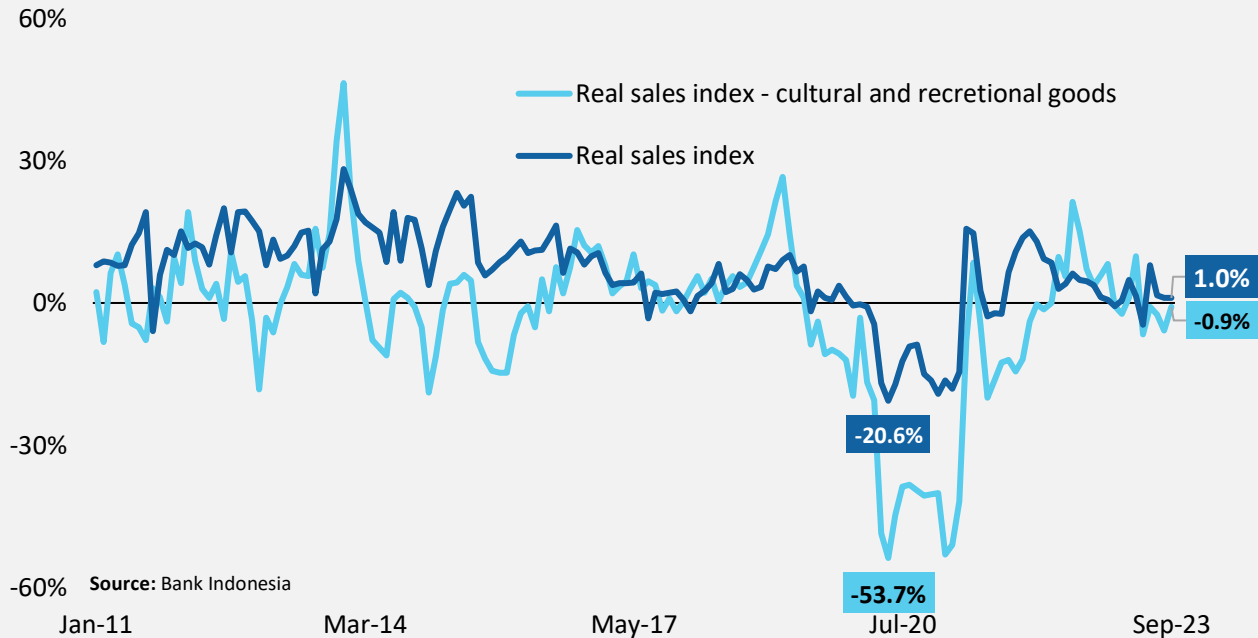
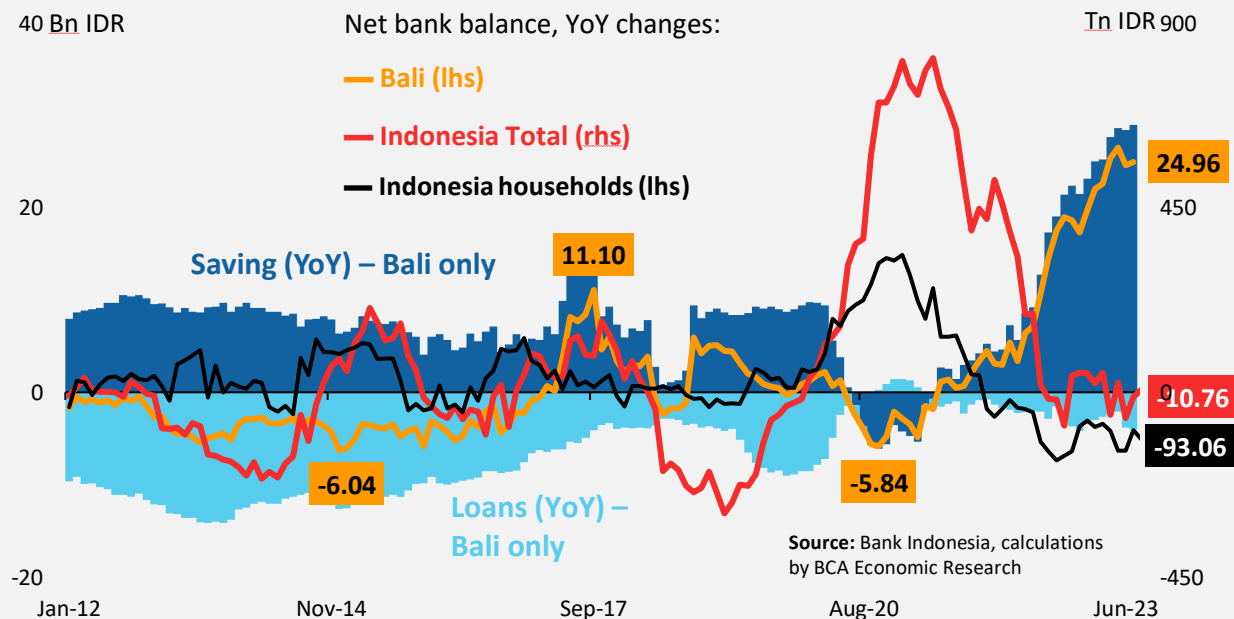


Chart 5

Discretionary savings

The domestic tourism industry remains in a consolidation mode as revenue and occupancy conditions have not yet recovered to pre-pandemic levels



Economic Calendar				
		Actual	Previous	Forecast*
1 October 2023				
CN	Caixin Manufacturing PMI	50.6	51.0	51.2
2 October 2023				
ID	S&P Global Manufacturing PMI	52.3	53.9	53
ID	Inflation rate YoY	2.28%	3.27%	2.23%
US	ISM Manufacturing PMI	49	47.6	48.1
3 October 2023				
US	JOLTs Job Openings (USD Mn)	9.6	8.8	8.6
5 October 2023				
US	Balance of Trade (USD Bn)	-58.3	-65	-58.3
6 October 2023				
ID	Foreign Exchange Reserves (USD Bn)	134.9	137.1	136.0
US	Unemployment Rate	3.8%	3.8%	3.8%
7 October 2023				
CN	Foreign Exchange Reserves (USD Tn)	3.12	3.16	3.15
9 October 2023				
ID	Consumer Confidence	121.7	125.2	125
10 October 2023				
ID	Retail Sales YoY	1.1%	1.6%	1.3%
ID	Motorbike Sales YoY	-0.9%	1.8%	-
11 October 2023				
ID	Car Sales YoY	-20.1%	-8.3%	-
12 October 2023				
US	Inflation rate YoY	3.7%	3.7%	3.8%
13 October 2023				
CN	Inflation Rate YoY	0%	0.1%	0.2%
CN	Balance of Trade (USD Bn)	77.7	68.36	64.0
16 October 2023				
ID	Balance of Trade (USD Bn)	3.42	3.12	2.6
EA	Balance of Trade (EUR Bn)	6.7	6.5	12.5
19 October 2023				
ID	Loan Growth YoY	-	9.06%	-
ID	Interest Rate Decision	-	5.75%	5.75%
24 October 2023				
ID	Foreign Direct Investment YoY	-	14.2%	-

*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	13-Oct	-1 mth	Chg (%)
US	5.50	Oct-23	1.80	Baltic Dry Index	1,945.0	1,235.0	57.5
UK	5.25	Oct-23	-1.45	S&P GSCI Index	595.8	612.4	-2.7
EU	4.50	Oct-23	0.20	Oil (Brent, \$/bbl)	90.9	92.1	-1.3
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	150.8	166.5	-9.5
China (lending)	2.50	Oct-23	4.35	Gas (\$/MMBtu)	3.11	2.72	14.3
Korea	3.50	Aug-23	-0.20	Gold (\$/oz.)	1,932.8	1,913.7	1.0
India	6.50	Oct-23	1.48	Copper (\$/MT)	7,875.8	8,367.5	-5.9
Indonesia	5.75	Sep-23	3.47	Nickel (\$/MT)	18,284.3	19,683.5	-7.1
Money Mkt Rates	13-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	757.1	780.5	-3.0
SPN (1M)	6.01	5.69	31.1	Rubber (\$/kg)	1.47	1.43	2.8
SUN (10Y)	6.76	6.63	13.5	External Sector	Sep	Aug	Chg (%)
INDONIA (O/N, Rp)	5.51	5.59	-8.2	Export (\$ bn)	20.76	22.00	-5.66
JIBOR 1M (Rp)	6.40	6.40	0.0	Import (\$ bn)	17.34	18.88	-8.15
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	3.42	3.12	9.39
Lending (WC)	8.95	8.93	2.84	Central bank reserves (\$ bn)*	134.9	137.1	-1.60
Deposit 1M	4.24	4.19	4.92	Prompt Indicators	Sep	Aug	Jul
Savings	0.67	0.67	-0.41	Consumer confidence index (CCI)	121.7	125.2	123.5
Currency/USD	13-Oct	-1 mth	Chg (%)	Car sales (%YoY)	-20.1	-8.3	-6.7
UK Pound	0.824	0.801	-2.78	Motorcycle sales (%YoY)	-0.9	1.8	45.6
Euro	0.951	0.930	-2.27	Manufacturing PMI	Sep	Aug	Chg (bps)
Japanese Yen	149.6	147.1	-1.66	USA	49.0	47.6	140
Chinese RMB	7.305	7.292	-0.17	Eurozone	43.4	43.5	-10
Indonesia Rupiah	15,683	15,340	-2.19	Japan	48.5	49.6	-110
Capital Mkt	13-Oct	-1 mth	Chg (%)	China	50.6	51.0	-40
JCI	6,926.8	6,934.0	-0.10	Korea	49.9	48.9	100
DJIA	33,670.3	34,646.0	-2.82	Indonesia	52.3	53.9	-160
FTSE	7,599.6	7,527.5	0.96				
Nikkei 225	32,316.0	32,776.4	-1.40				
Hang Seng	17,813.5	18,025.9	-1.18				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	2,833.3	2,869.7	-36.44				
Govt. Bond	823.0	846.3	-23.30				
Corp. Bond	10.8	11.1	-0.26				

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



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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.1
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	15,535
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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