

Reviving loan growth through the labour market

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Summary

- The recent FFR cut may not significantly contribute to job creation in the US economy, as the additional liquidity may instead fuel investments in AI and related sectors, whose impact on labour demand remains limited.
- The Indonesian labour market appears to be facing a similar structural imbalance, as investments have largely generated employment in sectors misaligned with the interest of job seekers.
- The lower confidence in employment conditions correlates positively with consumption loan growth, suggesting that efforts to revive loan growth may first require an improvement in labour market conditions.

- Bank Indonesia and the Federal Reserve cut their policy rate in the past week, making it worthwhile to examine market developments now that the dust has largely settled. On Indonesia's side, the market did not appear to react positively to the surprise rate cut, as evidenced by USD 262.7 Mn in net foreign outflows recorded in the past week and a 1.30% WoW drop in the USD/IDR exchange rate to 16,624/USD.
- On the US side, the anticipative tone in the recent FFR cut did little to alter the prevailing market narrative, as evidenced by the DXY index climbing 0.46% to 97.8 in the days

following the announcement. The 10Y UST yield also rose by 3.84 bps to 4.14%, erasing the gains recorded since the release of the non-farm payroll data.

- As previously argued, current conditions suggest that the ongoing FFR loosening cycle may have only a limited impact on the US (and global) yield curve, underscoring the risks that Indonesia and other peripheral markets may continue to face. Nevertheless, the market remains confident that the Fed will lower its policy rate by another 50 bps in the final two meetings of the year, in line with the FOMC's Summary of Economic Projections.

Breaking the structural challenge in the labour market

- The Fed, as we know, justified its 'anticipative' rate cut on the grounds of material weakness in the labour market. While many have speculated that the Trump administration's

tighter stance on immigration may curb labour supply growth, the downward trend in the services-less-energy-services component of US inflation (2.17% YoY recently, 2.62% YoY in

January 2025) adds to the argument that the demand for labour has moderated faster than supply, potentially damaging the US economy via lower household income and consumption.

- **The question, however, is to what degree a lower policy rate could help revive the demand for labour.** For one, the benchmark lending rate (UST yields) has so far failed to respond to the lower policy rate, though a more committed policy signal may help reduce the lag in policy transmission. However, even if we were to disregard this lag, looser liquidity conditions in the US may continue to flow disproportionately into AI and related sectors. **The multi-purpose nature of AI and related technologies may prove to be a net negative for labour demand,** at least in the short term.

- President Trump has marketed his trade war rhetoric as a means to improve job prospects for blue-collar Americans, hoping that manufacturers will succumb to the high tariff barrier and opt to bring their productive capacity to the US instead. However, **the stagnant US private non-residential fixed investment trend (5.32% YoY in Q2-2025, 6.05% YoY post-COVID average) shows that the Rust Belt (US de-industrialising regions) may not be humming anytime soon,** while the recent corporate intervention further shows that the US government is also preoccupied with AI and semiconductors rather than labour-intensive industries.

- **The same problem seems to befall the Indonesian economy, although the technologies and industries involved could**

not be more different. In the previous credit cycle (which ran from 2021 until it peaked in early 2024 as commodity prices normalised), we observed an above-trend increase in loan growth from inward-looking sectors such as trade and financial services, rather than from the manufacturing sector, which would have been more conducive to improving Indonesia's long-term export potential and labour absorption.

- Fortunately, some programmes that have been in place may help to break this structural weakness in labour absorption. For instance, the Indonesian government's focus on food resiliency has translated into increased activity in the labour-intensive, rural-dominated

agricultural sector, as reflected in the sector's rising share of total GDP in recent quarters (12.08% in Q2-2025, up from 11.3% in 2024).

- **While the government has demonstrated early success in boosting labour demand, the labour market**

may not expand in a direction that aligns with the expectations of most aspirant job seekers.

First, the sectors registering higher labour demand are primarily rural, whereas the growth in labour supply has been concentrated in urban areas. Second, the available opportunities appear largely confined to lower-paying sectors (*see Chart 1*), thereby limiting their impact on household income growth and doing little to counteract the prevailing sense of immiseration.

- The disconnect between labour demand and supply appears to be most pronounced among university graduates, who represent the upper

"Indonesia primarily invested in inward-looking services sectors during the previous credit cycle, rather than labour-intensive, export-oriented sectors such as manufacturing"

segment of the workforce pyramid (*see Chart 2*). Demand for white-collar workers appears unable to keep pace with the continued rise in years of schooling (a proxy for the supply pipeline of university-educated workers), with BPS data showing that the increase in university graduates employed in administrative, clerical, and managerial roles has declined by one-fifth in recent years.

- Official BPS data also indicate a decline in the number of university graduates employed as production workers, which, when contrasted with Chart 1, suggests that the recent rise in manufacturing-sector labour demand may be driven primarily by less technically skilled workers. Adding to the concern is the uptick in university graduates employed as technicians or agriculture workers, which may damage the job prospects of other workers with fewer schooling years.
- One could argue that stagnant household income, resulting from this structural labour market imbalance, has not yet had a significant impact on overall demand. After all, the household sector is still benefitting from stable prices, while seasonal effects and rounds of consumption stimulus provide the catalyst. However, while this may explain the resilience in retail demand, indicators tracking big-ticket purchases continued to trend downward in recent months. Indeed, **lower confidence in employment prospects seems to weigh heavily on consumers' willingness to purchase big-ticket items, which in turn translates**

negatively to the demand for consumption loans (*see Chart 3*).

- As such, efforts to accelerate bank loan growth (particularly consumption loans) may first require improvements in domestic labour market conditions, even though BI and the government's strategy to expand the money supply may prove effective in lowering lending rates. Fortunately, the government appears to be taking a positive direction, incorporating the cash-for-work programme into the recent stimulus package to boost employment in sectors such as construction and transportation.
- Moreover, the paid internship programmes may also help to enhance the employability of recent university graduates, although we may have to wait a couple of months to see how these programmes make their impact on the labour market and the economy in general. Until then, the possibility for BI to continue building on its pro-growth policy mix should not be discounted, especially if bank loans continue to grow below potential.

"Better employment prospects may enable households to be more confident in purchasing big-ticket items, which, in turn, may increase the demand for consumption loans"

Chart 1

New job but the wallet stays thin

The demand for worker is limited to sectors that typically pay lower wages, weakening the relation between employment and consumption given the constrained income growth.

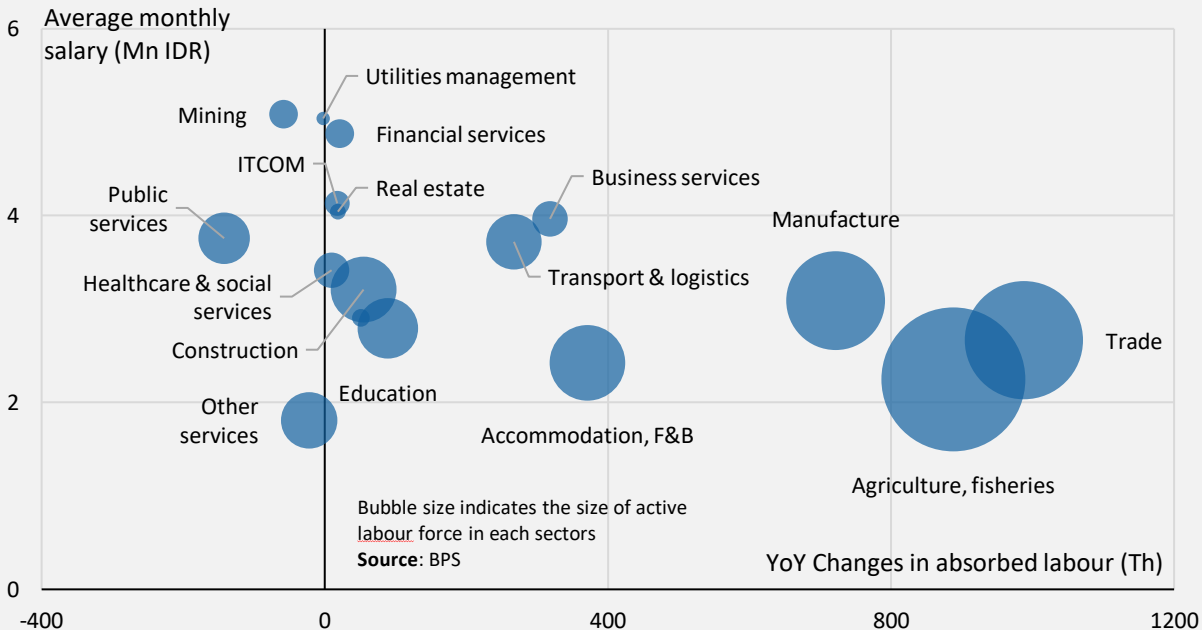
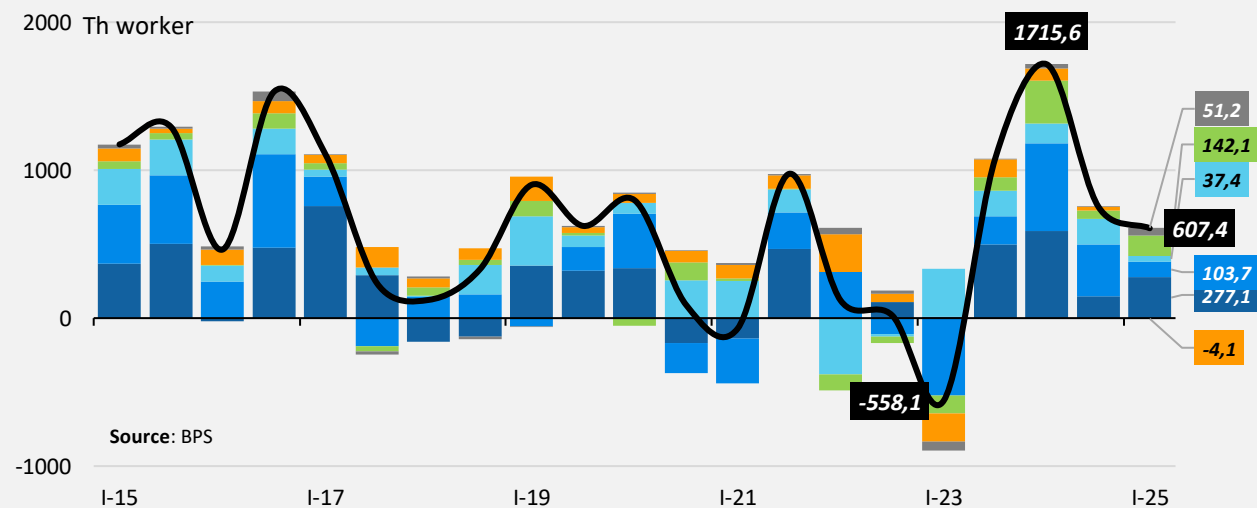


Chart 2

Not the job Gen-Z wants

The demand for white collar jobs is declining, forcing university graduates to either invest in more technical skills, adapt to a more blue-collar job, or accept unemployment.



Labour absorption per type of work, university graduates only:

- Professional/technical workers
- Administrative & clerical workers
- Sales & services workers
- Agriculture
- Production workers
- Others

Chart 3

Work first, shop later

Rather than lower lending rate, improving the sentiment on the labour market may provide a more significant uplift to the demand for consumption loans.

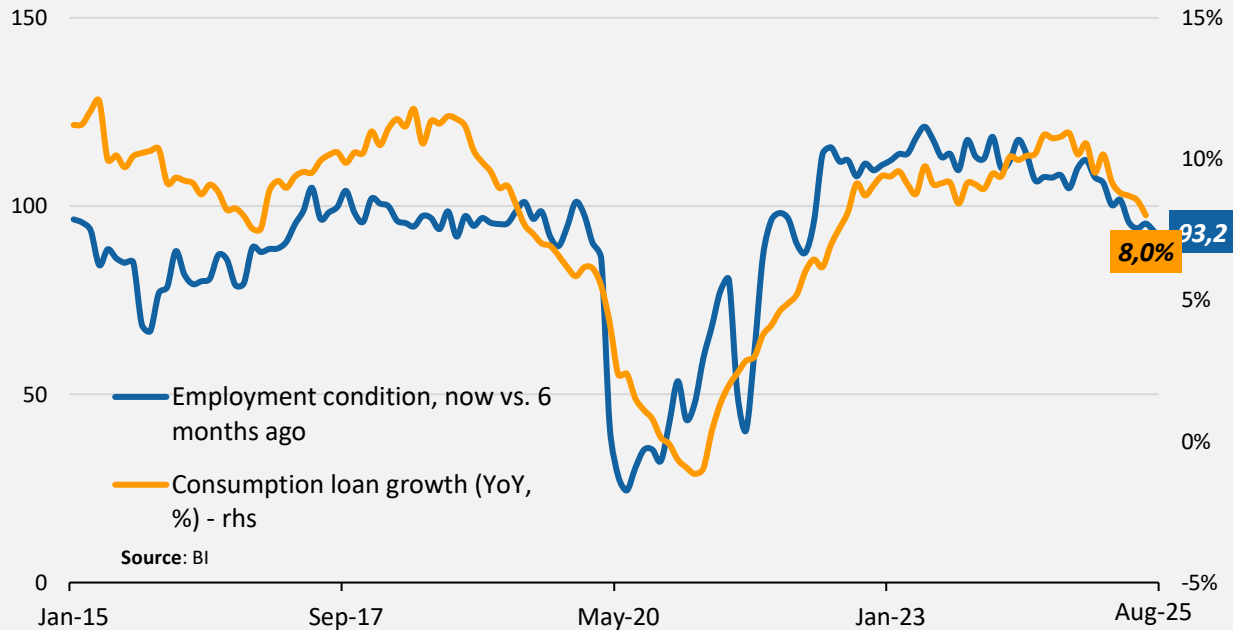
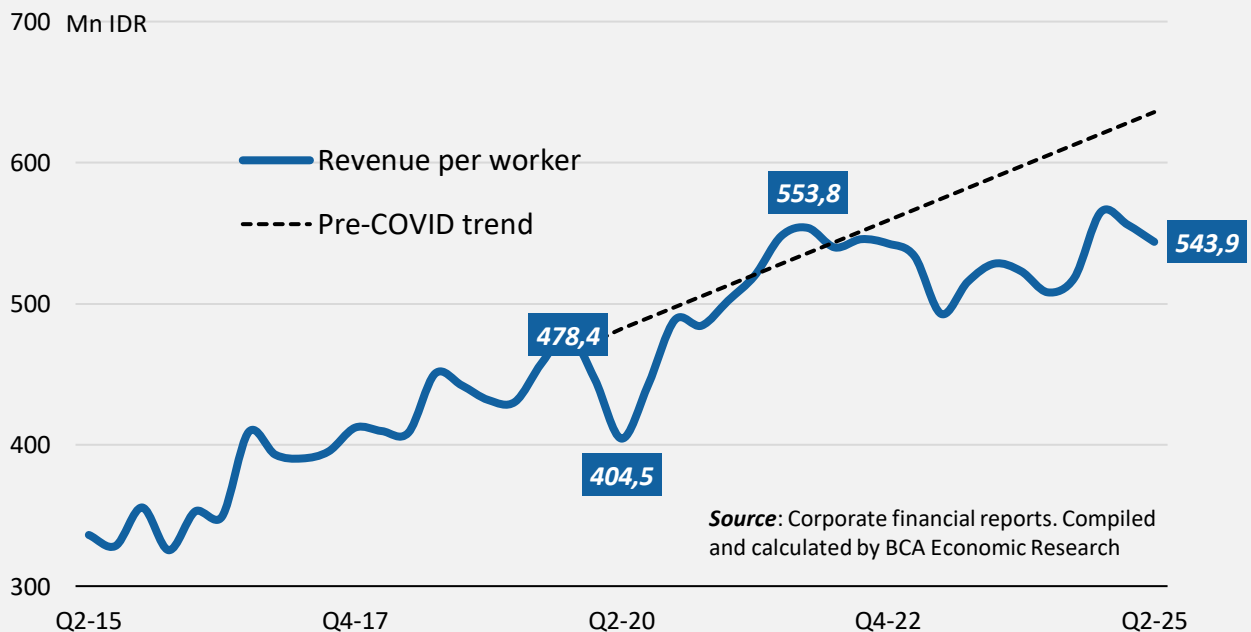


Chart 4

In need of productivity boost

The corporate sector may not see much urgency to absorb more labour, given the stagnant labour productivity in recent years.



Economic Calendar				
		Actual	Previous	Forecast*
01 September 2025				
ID	S&P Global Manufacturing PMI	51.5	49.2	49.8
ID	Trade balance (Jul-25), USD Bn	4.18	4.11	6.0
ID	Inflation Rate YoY, %	2.31	2.37	2.4
02 September 2025				
US	S&P Global Manufacturing PMI	53.0	49.8	53.3
04 September 2025				
EA	Retail Sales YoY, %	2.2	3.5	2.3
US	Trade balance, USD Bn	-78.3	-59.1	-79.3
05 September 2025				
US	Non Farm Payrolls, th	22	79	75.0
08 September 2025				
CN	Trade balance, USD Bn	102.33	98.24	95.0
ID	Foreign Exchange Reserves, USD Bn	150.7	152	-
ID	Motorbike Sales YoY, %	0.7	-2.0	-
09 September 2025				
ID	Car Sales YoY, %	-19.0	-18.0	-
10 September 2025				
CN	Inflation Rate YoY, %	-0.4	0	-0.1
ID	Consumer Confidence	117.2	118.1	119.3
11 September 2025				
ID	Retail Sales YoY, %	4.7	1.3	1.5
US	Inflation Rate YoY, %	2.9	2.7	2.8
15 September 2025				
CN	Retail Sales YoY, %	3.4	3.7	5.0
16 September 2025				
US	Retail Sales YoY, %	5	4.1	3.2
17 September 2025				
ID	BI-Rate Decision, %	4.75	5.0	5.0
ID	Loan Growth YoY, %	7.56	7.03	-
18 September 2025				
US	Fed Interest Rate Decision, %	4.25	4.5	4.25
23 September 2025				
ID	M2 Money Supply YoY, %		6.5	-
26 September 2025				
US	PCE Price Index YoY, %		2.6	-

*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	19-Sep	-1 mth	Chg (%)
US	4.25	Sep-25	1.35	Baltic Dry Index	2,203.0	1,964.0	12.2
UK	4.00	Aug-25	0.20	S&P GSCI Index	545.9	532.5	2.5
EU	2.15	Jun-25	0.15	Oil (Brent, \$/bbl)	66.7	65.8	1.4
Japan	0.50	Jan-25	-2.20	Coal (\$/MT)	109.1	113.6	-4.0
China (lending)	2.00	Sep-24	4.75	Gas (\$/MMBtu)	3.08	2.87	7.3
Korea	2.50	May-25	0.80	Gold (\$/oz.)	3,685.3	3,315.8	11.1
India	5.50	Jun-25	3.43	Copper (\$/MT)	9,924.1	9,595.2	3.4
Indonesia	4.75	Sep-25	2.44	Nickel (\$/MT)	15,091.6	14,800.8	2.0
Money Mkt Rates	19-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	1,040.7	1,059.5	-1.8
				Rubber (\$/kg)	1.73	1.75	-1.1
Bank Rates (Rp)	Jun	May	Chg (bps)	External Sector	Jul	Jun	Chg (%)
SPN (1Y)	5.00	5.13	-13.4	Export (\$ bn)	24.75	23.44	5.60
SUN (10Y)	6.29	6.40	-11.0	Import (\$ bn)	20.58	19.33	6.43
INDONIA (O/N, Rp)	4.13	4.78	-65.5	Trade bal. (\$ bn)	4.17	4.10	1.71
JIBOR 1M (Rp)	5.20	5.86	-65.8	Central bank reserves (\$ bn)*	152.0	152.6	-0.38
Currency/USD	19-Sep	-1 mth	Chg (%)	Prompt Indicators	Aug	Jul	Jun
UK Pound	0.742	0.741	-0.14	Consumer confidence index (CCI)	117.2	118.1	117.8
Euro	0.851	0.859	0.85	Car sales (%YoY)	-19.0	-18.4	-22.5
Japanese Yen	148.0	147.7	-0.19	Motorcycle sales (%YoY)	0.7	-0.5	-0.3
Chinese RMB	7.118	7.182	0.90	Manufacturing PMI	Aug	Jul	Chg (bps)
Indonesia Rupiah	16,588	16,245	-2.07	USA	53.0	49.8	320
Capital Mkt	19-Sep	-1 mth	Chg (%)	Eurozone	50.7	49.8	90
JCI	8,051.1	7,862.9	2.39	Japan	49.7	48.9	80
DJIA	46,315.3	44,922.3	3.10	China	50.5	49.5	100
FTSE	9,216.7	9,189.2	0.30	Korea	48.3	48.0	30
Nikkei 225	45,045.8	43,546.3	3.44	Indonesia	51.5	49.2	230
Hang Seng	26,545.1	25,122.9	5.66				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	3,760.3	3,539.4	220.93				
Govt. Bond	953.9	1,213.4	-259.57				
Corp. Bond	4.5	4.7	-0.16				

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	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.75

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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