Year-end surge in consumption

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Summary

- Consumer spending is trending upward, supported by factors such as faster fiscal disbursement for social spending and improvements in household income conditions.
- The household sector appears to have rebuilt its liquidity buffers during the previous period of weak consumption, providing a solid foundation for further spending.
- The government still has a major role to play in sustaining the ongoing uptrend in household consumption, given the still-weak consumer confidence.

- Situations in the global market have not changed much in the past week compared to weeks prior. Politics becomes the topic of the week, with the US government shutdown entering its third week while US President Trump's peace proposals for Ukraine and the Middle East continue to face opposition.
- Meanwhile, conditions on the global trade front appear somewhat more promising, as President Trump remarked that the additional 100% tariffs on China would raise duties to an unsustainable level, suggesting that China need only rescind its new export control measures to bring tariffs back down. Both President Trump and Treasury Secretary Bessent will be meeting their Chinese counterparts later in the month, potentially defusing the trade tension with China.
- While tensions against the US have not dented its manufacturing sector (China's industrial capacity utilisation improves to 74.6% in Q3-2025, up from 73.8% prior), the urgency appears to be on China to bring global trade closer to normalcy in the short term. The decline in Q3-2025 GDP growth to 4.8% YoY show weakness in China's domestic economy, meaning that domestic consumers cannot be called upon to absorb China's industrial outputs.
- Hence, further damage in trade relations with the US may make Chinese manufacturers increasingly reliant on regional markets. Alas, despite the robust demand for imports, weaker consumer profiles in these markets seem to be detrimental to Chinese manufacturers' margins, as highlighted by the slim 0.9% YTD increase in China's industrial profits as of September 2025.
- Chinese manufacturers, then, may be hoping for two things. First, that the reconciliation talks between the US and China will bear fruit, helping them avoid further setbacks in accessing the US import market. The second wish is for demand conditions across

developing markets (including Indonesia) to start improving, as such a condition will enable Chinese manufacturers to stop racing to the bottom, allowing improvements in exporters' margins.

Moving up from the nadir

- Fortunately, the current situation in Indonesia may answer the prayers and hopes of not only Chinese manufacturers but also other shareholders of the Indonesian economy in general. Indeed, **BCA Big Data observes a pick-up in consumer spending *(see Chart 1)***, as the popular unrest in late August 2025 does not seem to leave a lasting effect on the economy.
- Several factors may explain the late surge in domestic household consumption. First, **higher commodity prices may have also played a role in sending Indonesia's aggregate demand condition on an uptrend *(see Chart 2)***. Despite its still-negative YTD return, prices of Indonesia's mainstay export commodities are recovering from their 2025 bottom, as indicated by the 0.88% increase in Indonesia's exports terms of trade since May 2025. The higher export prices seem to have spilt over positively to households' income condition, strengthening their purchasing power relative to the past quarters.
- Second, the government has launched multiple ad-hoc interventions to boost stagnant household consumption, ranging from travel discounts to encourage domestic tourism during the mid-year holiday season, to the recently announced cash transfers scheduled for distribution in the final three months of the year. **The government's extra effort to lift domestic consumption is evident in the current fiscal disbursement pattern**, as spending on social assistance has accelerated despite considerable lags in other expenditure categories ***(see Chart 3)***.
- The combination of factors outlined above has led to an uptick in household deposits, which has also contributed to improving banks' liquidity conditions. At the same time, **the lower consumption rate observed through much of H1 2025 appears to have allowed households to reduce their exposure to high-interest loans** (such as loans from fintech platforms), thereby freeing up more disposable income due to the reduced interest payment. **The result is a noticeable improvement in households' net liquidity condition *(see Chart 4)***, providing a stronger foundation for further growth in household consumption.

"The household sector has rebuilt its liquidity buffer amidst the previous weak consumption period, providing a solid base for further recovery"

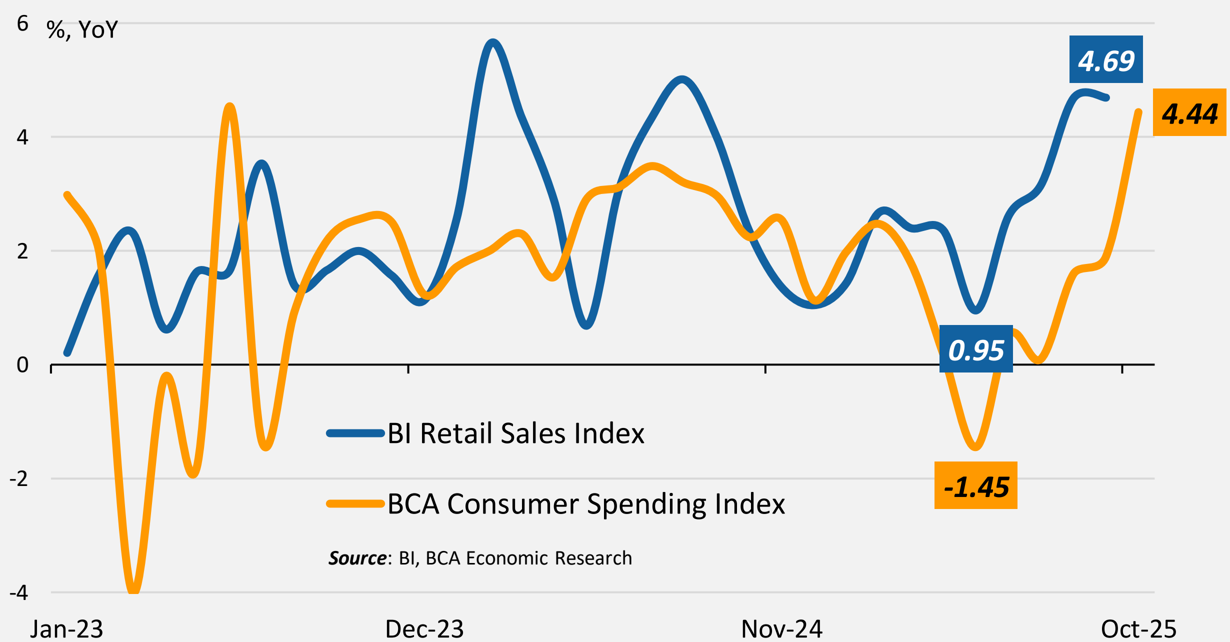
- It might be worthwhile to note that while an improved liquidity buffer is a necessary condition for stronger household consum-ption, it is difficult to regard it as a sufficient one. As we have often argued, theories linking the household sector's subdued consumption solely to its low bank deposits are often overstated. Alternatively, high real interest rates have encouraged households (at least better-off households) to build financial asset portfolios, rather than holding said funds in bank deposits or channelling them toward consumption.

- **Government policies, then, have played a major role not only in strengthening worst-off households' purchasing power, but also in encouraging better-off households to consume.** As we know, the government is now putting greater emphasis on growth in its policy decisions, one example being the decision to park part of the public sector's funds into the banking system to help lower interest rates ***(see Chart 5)***.
- Combined with Bank Indonesia's increasingly accommodative stance, the lower real interest rates should encourage better-off households to swap their purchase of paper assets into real assets. **Adding to this is the positive wealth effect generated from the ongoing rally in bond and equity prices, given the substantial portfolios accumulated during previous periods of subdued consumption**.
- However, it is important not to take the current uptrend in household consumption for granted. For one, the lower real interest rate is partly a result of rising inflation, which threatens the purchasing power of lower-income households, as headline inflation has been driven up by higher food prices and a weakening Rupiah.
- Moreover, consumer expectations for the economy have hardly improved ***(see Chart 6)***, which may discourage purchases of big-ticket items. Ergo, government supports may remain crucial, as swifter fiscal realisation and a stronger focus on programmes that sustain household income growth—such as expanding the manufacturing sector—could offer a quick win in boosting consumption.

Chart 1

Jumping higher

The seasonal spike in fiscal spending in Q4-2025 and year-end festivities may help to maintain consumer transaction growth in its upward trend.



Source: BI, BCA Economic Research

Chart 2

Commodity-led

Coal and CPO prices are increasing relative to its April 2025 nadir, creating a spillover impact on households' consumption

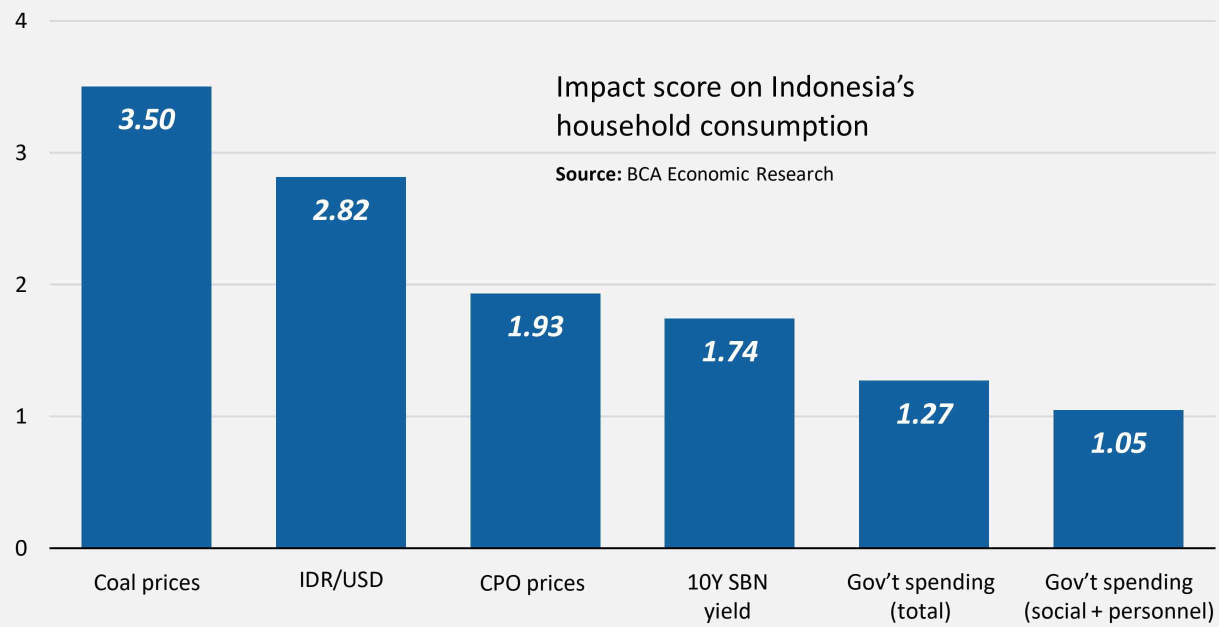
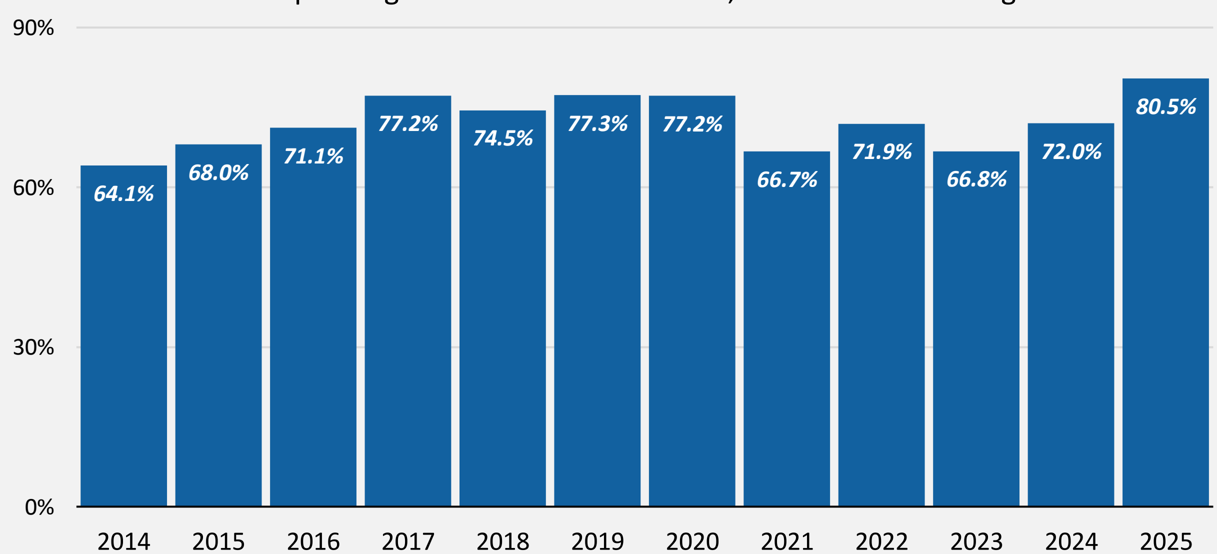


Chart 3

Fiscal support

The government set to launch another round of consumption incentives in Q4-2025, further accelerating social spending realisation despite lagging fiscal disbursement elsewhere

Social spending realisation as of 9M2025, % annual social budget

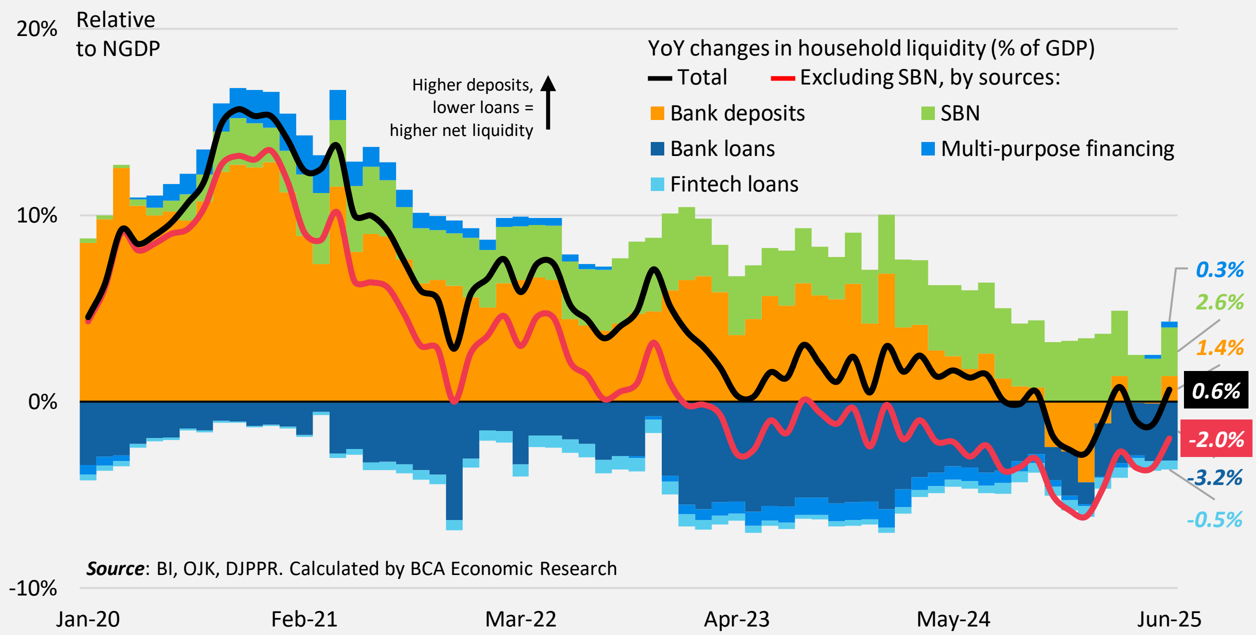


Source: Indonesia MoF, BCA Economic Research

Chart 4

Stockpiled dry powders

Households' bank deposits are increasing by the end of Q2-2025 while non-bank financing is pulling back, adding to the liquidity needed for consumption to recover.

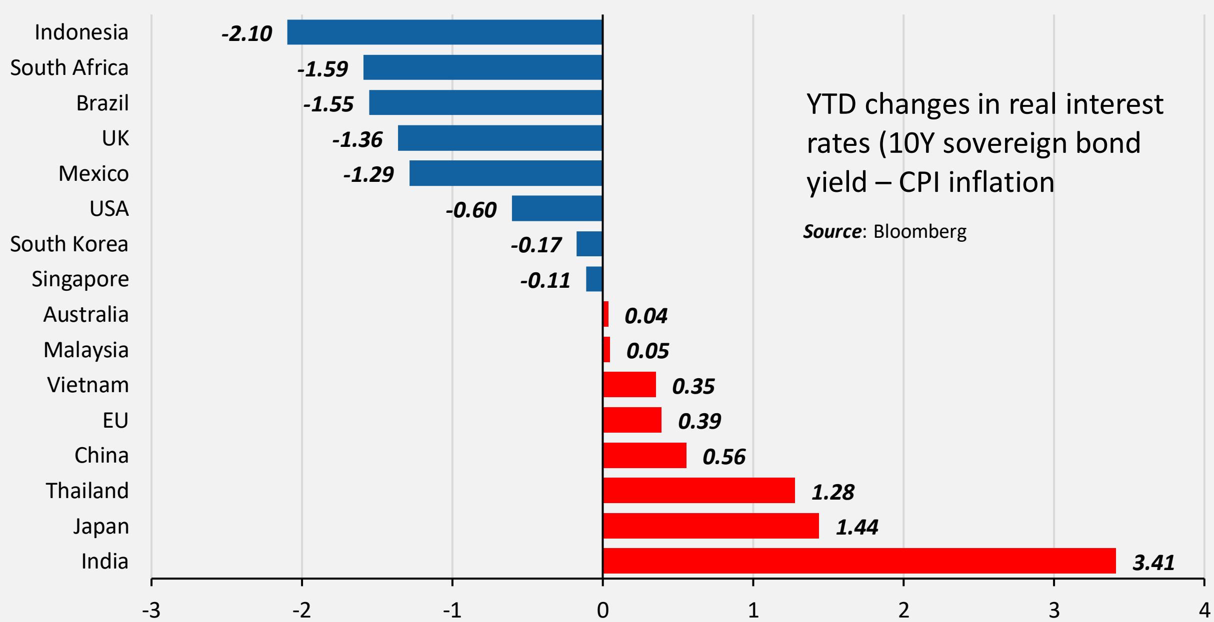


Source: BI, OJK, DJPPR. Calculated by BCA Economic Research

Chart 5

Lower motivation to save

Indonesia's real interest rates declined the most compared to other economies, lowering consumers' incentive to maintain their saving rate

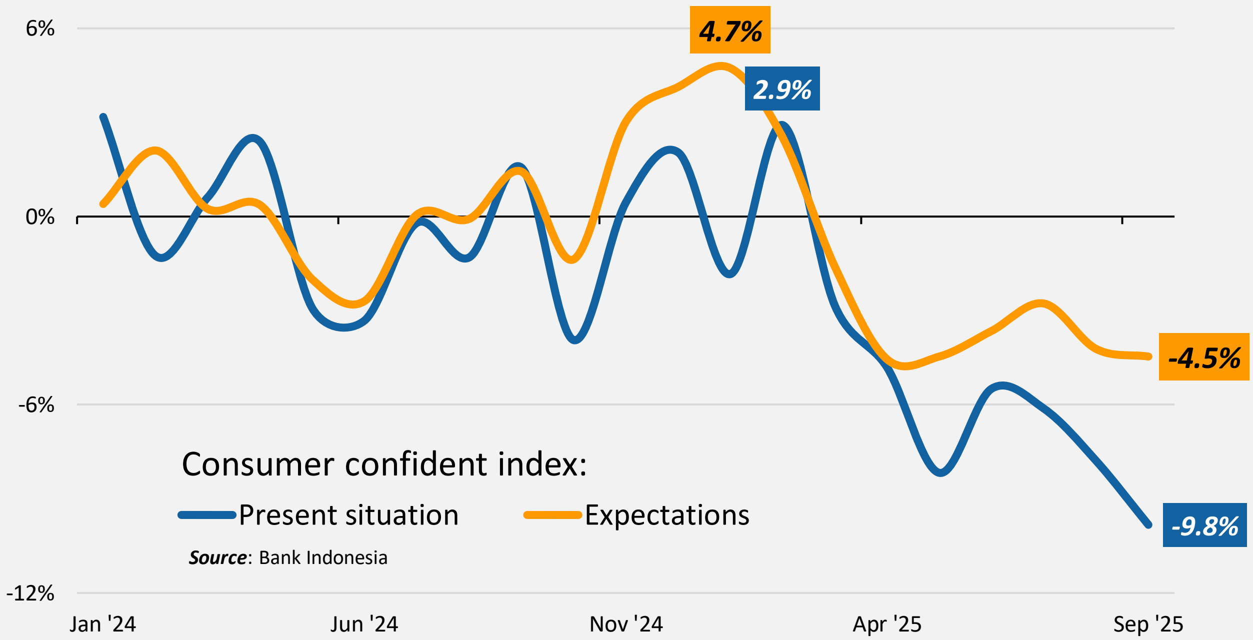


Source: Bloomberg

Chart 6

Low on confidence

Consumer expectations remain weak as underlying macroeconomic problems persists, necessitating further fiscal supports



Source: Bank Indonesia

Economic Calendar

		Actual	Previous	Forecast*
17 October 2025				
ID	**Foreign Direct Investment YoY, %**	**-8.9**	**-7**	**-6.0**
20 October 2025				
CN	Retail Sales YoY, %	3	3.4	3.3
22 October 2025				
ID	**BI-Rate Decision, %**		**4.75**	**4.5**
ID	Loan Growth YoY, %		7.56	7.5
23 October 2025				
ID	M2 Money Supply YoY, %		7.6	-
24 October 2025				
US	Inflation Rate YoY, %		2.9	3.0
30 October 2025				
US	**Fed Interest Rate Decision, %**		**4.25**	**4.0**
31 October 2025				
US	PCE Price Index YoY, %		2.7	2.8

*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	4.25	Sep-25	1.35
UK	4.00	Aug-25	0.20
EU	2.15	Jun-25	-0.05
Japan	0.50	Jan-25	-2.20
China (lending)	2.00	Sep-24	4.65
Korea	2.50	May-25	0.40
India	5.50	Jun-25	3.96
Indonesia	4.75	Sep-25	2.10

Money Mkt Rates	17-Oct	-1 mth	Chg (bps)
SPN (1Y)	4.89	5.08	-18.9
SUN (10Y)	5.95	6.32	-36.9
INDONIA (O/N, Rp)	4.03	4.59	-55.6
JIBOR 1M (Rp)	5.15	5.50	-35.1

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.62	8.64	-1.78
Deposit 1M	4.89	4.86	2.28
Savings	0.71	0.70	0.82

Currency/USD	17-Oct	-1 mth	Chg (%)
UK Pound	0.745	0.733	-1.61
Euro	0.858	0.843	-1.79
Japanese Yen	150.6	146.5	-2.74
Chinese RMB	7.127	7.114	-0.18
Indonesia Rupiah	16,585	16,440	-0.87

Capital Mkt	17-Oct	-1 mth	Chg (%)
JCI	7,915.7	7,957.7	-0.53
DJIA	46,190.6	45,757.9	0.95
FTSE	9,354.6	9,195.7	1.73
Nikkei 225	47,582.2	44,902.3	5.97
Hang Seng	25,247.1	26,438.5	-4.51

Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)
Stock	3,846.5	3,760.3	86.20
Govt. Bond	912.8	1,213.4	-300.66
Corp. Bond	4.1	4.5	-0.40

Trade & Commodities	17-Oct	-1 mth	Chg (%)
Baltic Dry Index	2,069.0	2,154.0	-3.9
S&P GSCI Index	539.8	558.5	-3.3
Oil (Brent, $/brl)	61.3	68.5	-10.5
Coal ($/MT)	111.5	109.7	1.6
Gas ($/MMBtu)	2.65	3.07	-13.7
Gold ($/oz.)	4,251.8	3,690.0	15.2
Copper ($/MT)	10,587.7	10,067.2	5.2
Nickel ($/MT)	14,923.9	15,239.4	-2.1
CPO ($/MT)	1,043.3	1,047.1	-0.4
Rubber ($/kg)	1.74	1.75	-0.6

External Sector	Aug	Jul	Chg (%)
Export ($ bn)	24.96	24.75	0.87
Import ($ bn)	19.48	20.58	-5.35
Trade bal. ($ bn)	5.49	4.17	31.50
Central bank reserves ($ bn)*	150.7	152.0	-0.84

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	115.0	117.2	118.1
Car sales (%YoY)	-15.1	-19.0	-18.4
Motorcycle sales (%YoY)	7.3	0.7	-0.5

Manufacturing PMI	Sep	Aug	Chg (bps)
USA	52.0	53.0	-100
Eurozone	49.8	50.7	-90
Japan	48.5	49.7	-120
China	51.2	50.5	70
Korea	50.7	48.3	240
Indonesia	50.4	51.5	-110

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	16,461
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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