BCA

COLLIDEASCOPE

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#2

REFILL, PLEASE?

Consumer savings are running out. Can fiscal and pre-election spending refill it?

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Image credit: Bluewater Sweden (*Unsplash*)

Executive Summary

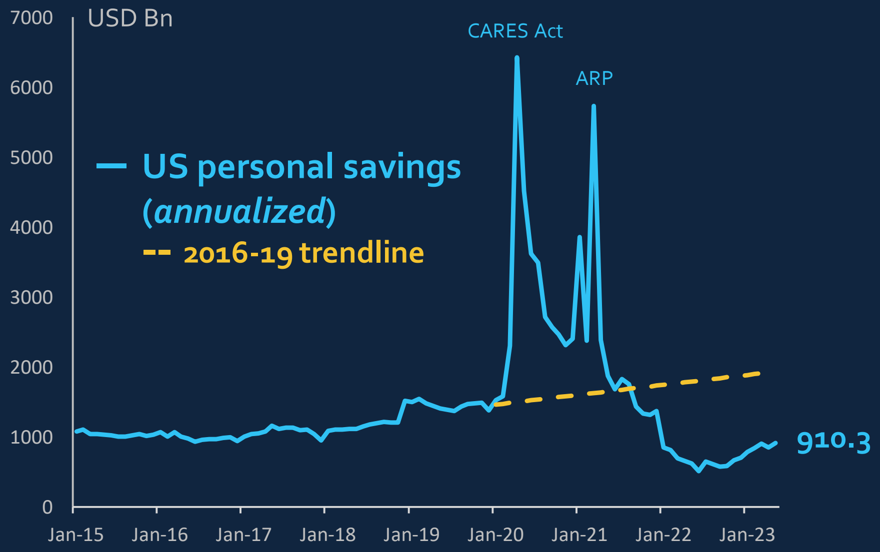
- Excess savings carried over from the pandemic have fueled consumption recovery in the past year, especially as household saving rates declined.
- These savings are dwindling and will likely run out in H2-23, while spillover from corporate savings are limited by the weak appetite to expand or recruit.
- Consumer loans, as an alternative liquidity source for households, are also slowing down despite regulatory support and a relative lack of transmission in terms of interest rate hikes.
- Declining liquidity translates to a slowdown in consumption and retail investment – but, interestingly, not consumer confidence.
- Part of the recent decline in household liquidity can be attributed to the fiscal cycle – which means the flow of funds could reverse (i.e. going from the government to the households and private sector) in H2-23.
- But while in theory the government has nearly IDR 1,000 Tn (net) to spend, it may not be able to ramp up spending in time.
- Pre-election spending could also boost growth to a small extent (around 0.1% YoY) amid this compressed electoral cycle.
- Both the fiscal cycle and pre-election spending could yet push this year's GDP growth towards 5.0%, albeit narrowly, amidst growing global headwinds.

Another data dive, this time on consumers' outlook

- As we hinted in the intro to the first ***Collideascope***, this is a report that can go anywhere and everywhere, so long as it *(a)* is relevant to the Indonesian economy, and *(b)* presents an opportunity for us to explore, analyze, and visualize data in interesting ways.
- For this edition, we were inspired by recent discussions about excess savings in the US. This legacy of the pandemic is seen as one reason why the US has yet to enter recession – and also a culprit behind the persistence of inflation prior to the recent drop-off.
- For Indonesia, there are no equivalent dataset to calculate excess savings, but we have a decent proxy: individual deposits from BI's *Economic and Financial Statistics* (SEKI).
- The resulting estimates are similar enough to the US, with excess savings projected to run out at some point in H2-23 *(pg. 5)*, and the post-pandemic consumption boom partly being financed by a one-time drop in saving rates *(pg. 9)*. As these effects fade, consumption may slow accordingly, especially when coupled with a decline in consumer loan growth *(pg. 12-14)*.
- There is however one major difference between consumer excess savings in the US and Indonesia: the latter shows sharp seasonal fluctuations attributable to the annual fiscal cycle *(pg. 15)*. This is actually a long-running problem *(pg. 18-19)* – but it becomes a key issue this year as tax receipts exceed expectations *(pg. 16-17)*.
- As much as the fiscal cycle hinder consumption in the first half of the year, however, it should also boost it in the second half. The other politics-related cycle – the election cycle – can also add to growth, albeit more narrowly than some would prefer *(pg. 20-23)*. With global momentum clearly weakening, optimizing these two cycles is crucial if we are to achieve 5%-plus growth this year.
- Finally, we have a little Easter egg at the end of this report *(pg. 24-25)*, which is tangentially related to the two main topics here: consumer behavior and government/politics. It is by no means a rigorous or in-depth analysis, but it does give an interesting overview of the priorities of Indonesian voters.

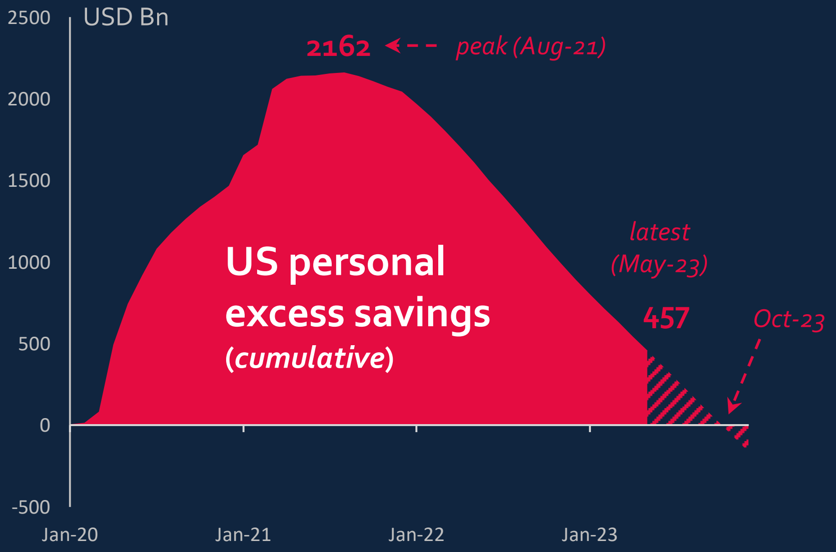
US consumers are still burning through their excess savings …

Massive pandemic-era savings gave way to dis-savings …



Source: *St. Louis Fed, calculations by BCA Economist*

… but the residuals could support demand into Q4-23

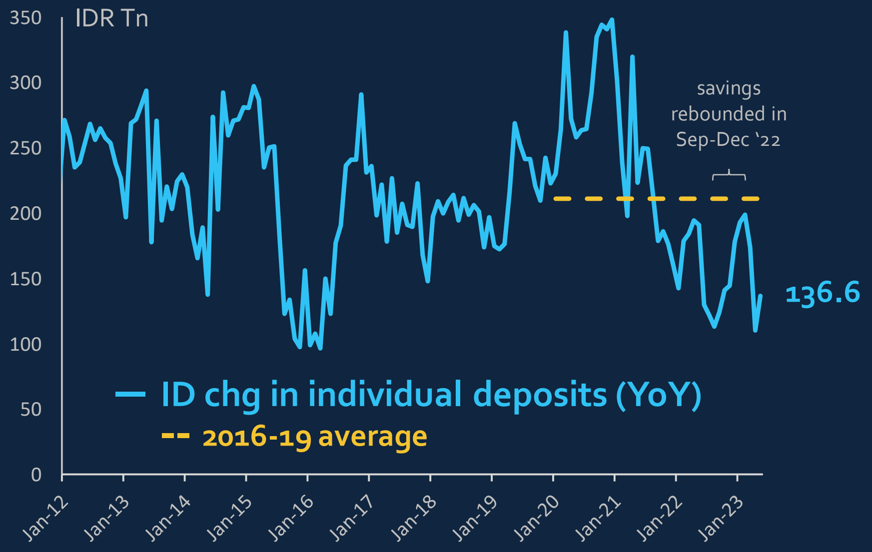


Source: *St. Louis Fed, calculations by BCA Economist*

- Much of the excess savings came from fiscal stimulus packages enacted under Pres. Trump (*CARES Act*, Mar-20) and Pres. Biden (*American Rescue Plan*, Mar-21).
- Consumer dis-saving since mid-21 is partly fueled by inflation, which US consumers have compensated for by ramping up nominal spending – whereas real spending growth are merely back to pre-pandemic trends.

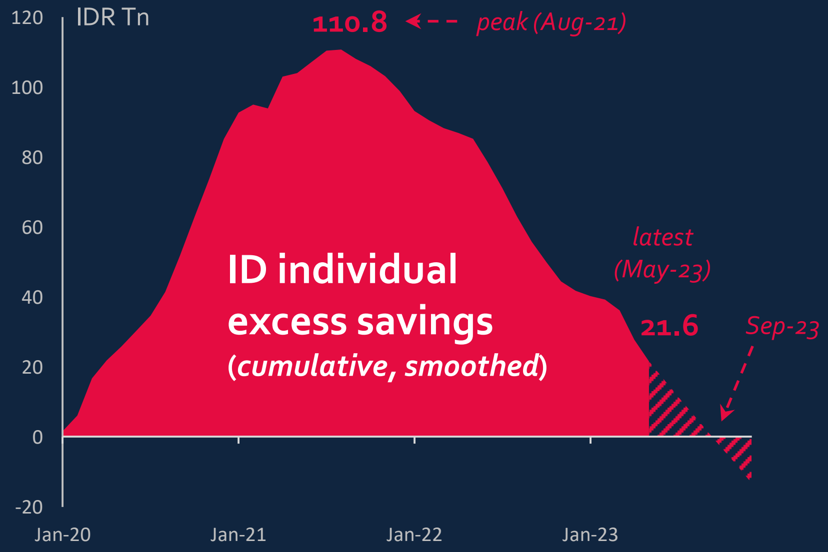
… as are Indonesian consumers, but possibly at faster rates (!)

Deposit growth by individuals are close to historic lows …



Source: *BI, calculations by BCA Economist*

… which implies rapid burn-through of excess savings

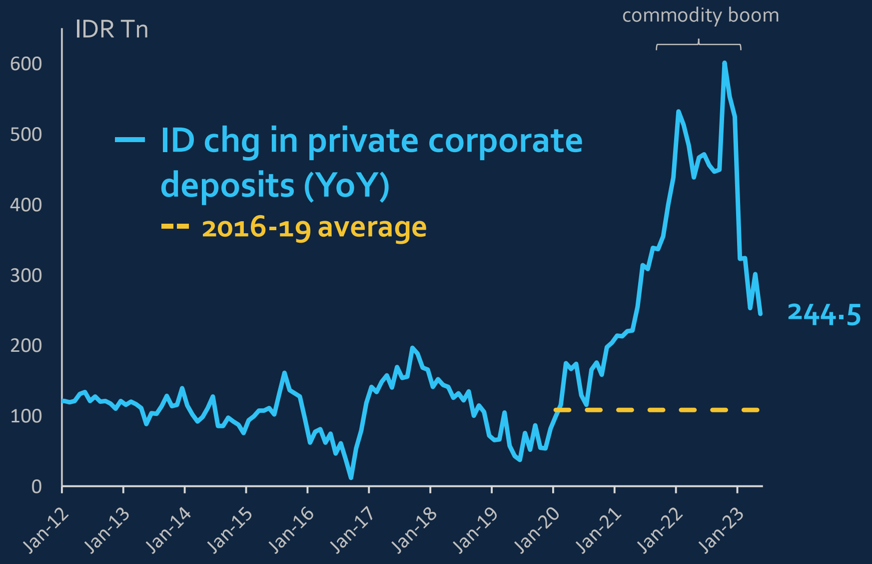


Source: *BI, calculations by BCA Economist*

- BI's bank deposit data by individuals provide a decent parallel to US personal savings – and indeed they show a similar pattern since 2020.
- Indonesia experiences lower inflation than the US recently, implying faster *real* consumption growth. But Indonesian households are also draining their savings at faster *nominal* rates, especially between May-Aug '22 and again between Feb-Apr '23. This trend was briefly halted during Q4-22, which crucially coincided with a massive burst of government spending *(more on this later)*.

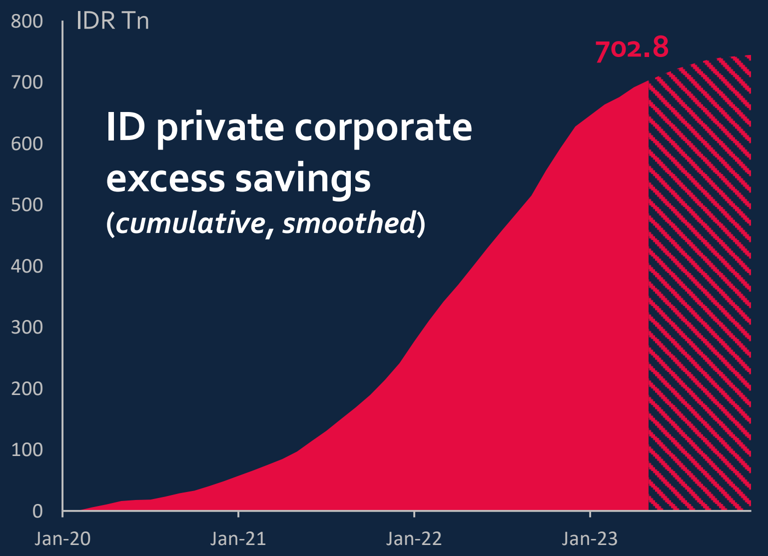
High corporate savings are not "trickling down" to consumers

Corporate savings were boosted by commodity windfall …



Source: *BI, calculations by BCA Economist*

… but they are still rising even after prices normalized

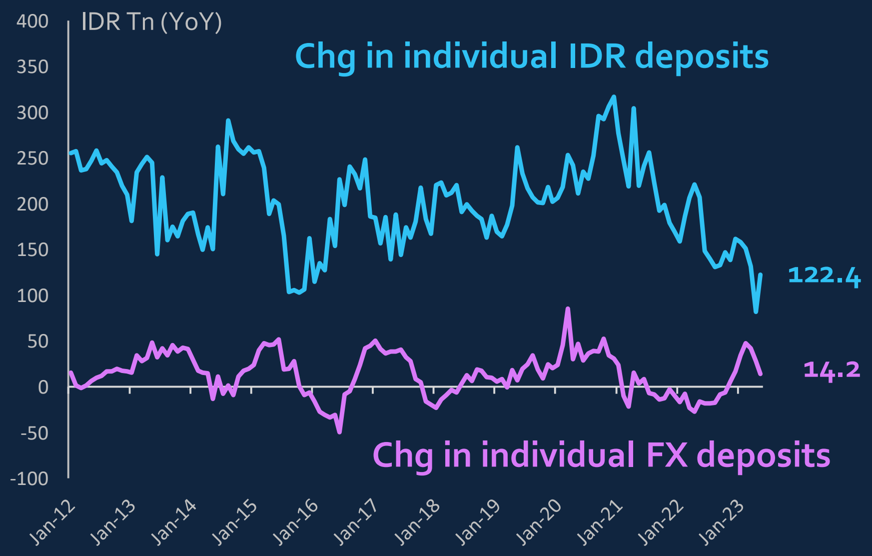


Source: *BI, calculations by BCA Economist*

- Corporates are not normally net savers in the banking system – but since the pandemic, their savings have exceeded their net borrowing.
- These savings were partly driven by the commodity boom, but they are also indicative of weak business spending – indeed, savings are still growing albeit more weakly in spite of recent decline in commodity prices. This implies limited appetite for expansion and new recruitment, which could limit how much of these corporate savings could trickle down to consumers.

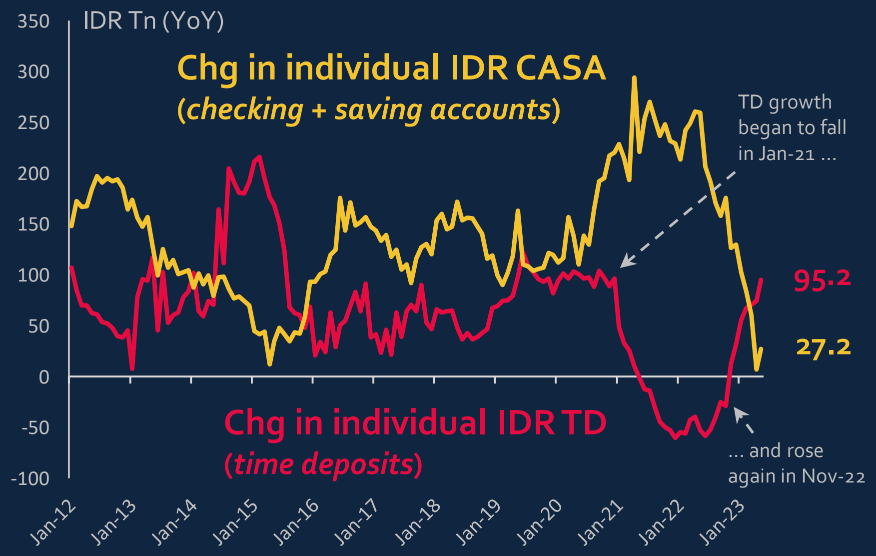
Dwindling consumer savings mostly go to FX and time deposits ...

Recent deposit growth has been concentrated in FX ...



Source: *BI, calculations by BCA Economist*

... while among IDR deposits, TD predominates vs. CASA

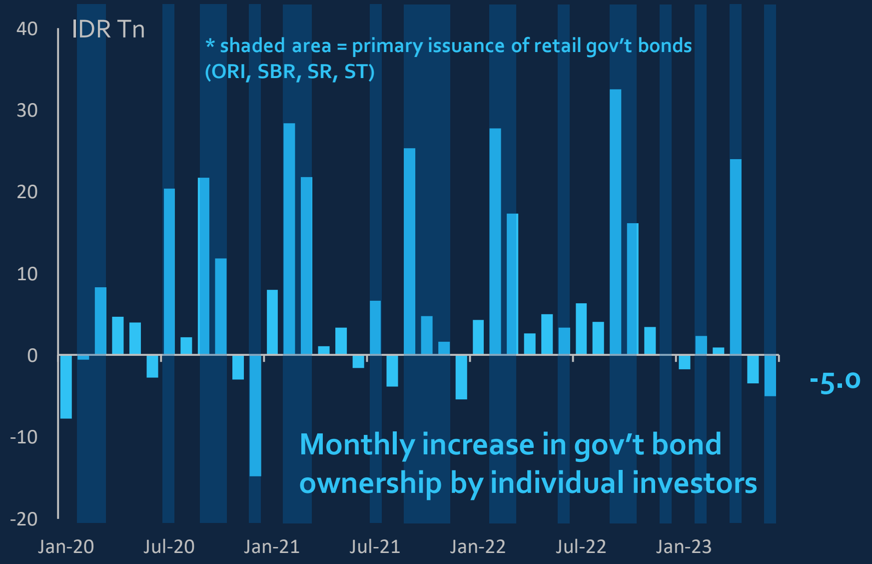


Source: *BI, calculations by BCA Economist*

- The shift towards FX and TD are can largely be explained by recent IDR appreciation and interest rate hikes, respectively.
- However, since FX and TD are less liquid than cash or savings account (SA), this could also indicate less appetite to spend in the near-term. Or, alternatively, those acquiring them may already have sufficient cash and SA at hand (i.e. upper- and middle-class households).

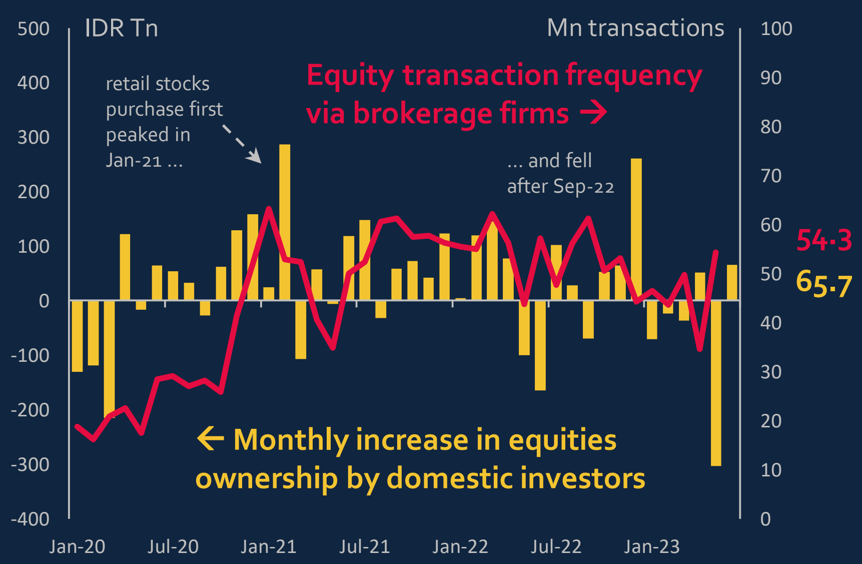
… but not so much into bonds and equities

Retail bond purchase slows outside of primary issuance …



Source: *MoF, calculations by BCA Economist*

… and the same can be seen for stocks since Q4-22

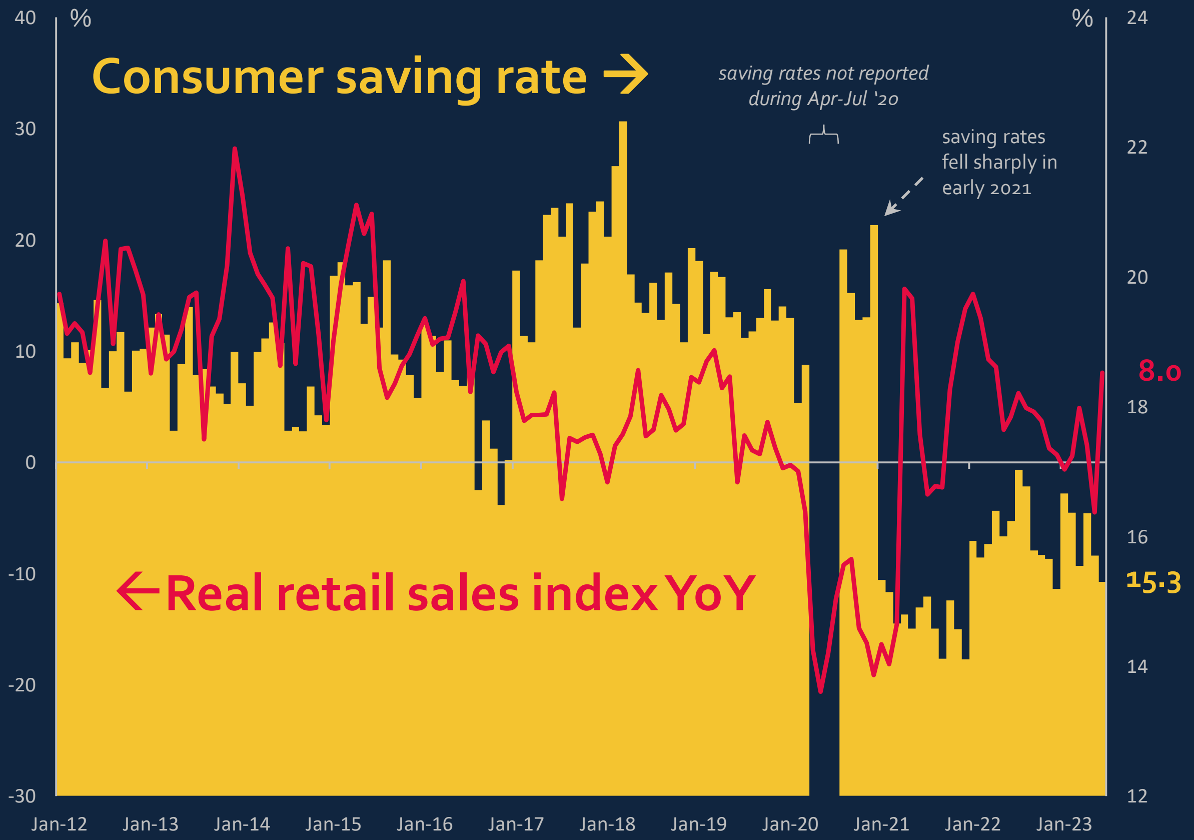


Source: *KSEI, IDX, calculations by BCA Economist*

- Interestingly, households are showing less appetite from bonds and stocks – not to mention more speculative assets like cryptos, etc.
- Note that the big influx towards equities happened between Q1-21 and Q3-22, precisely when savers withdrew from TD due to low yields *(see pg. 7)*. What we are seeing, then, is a "reflux" of that liquidity back towards TD – meaning that the apparent "savings" in recent months are partly the result of portfolio rebalancing among high-income households.

Consumption recovery was financed by a decline in saving rates

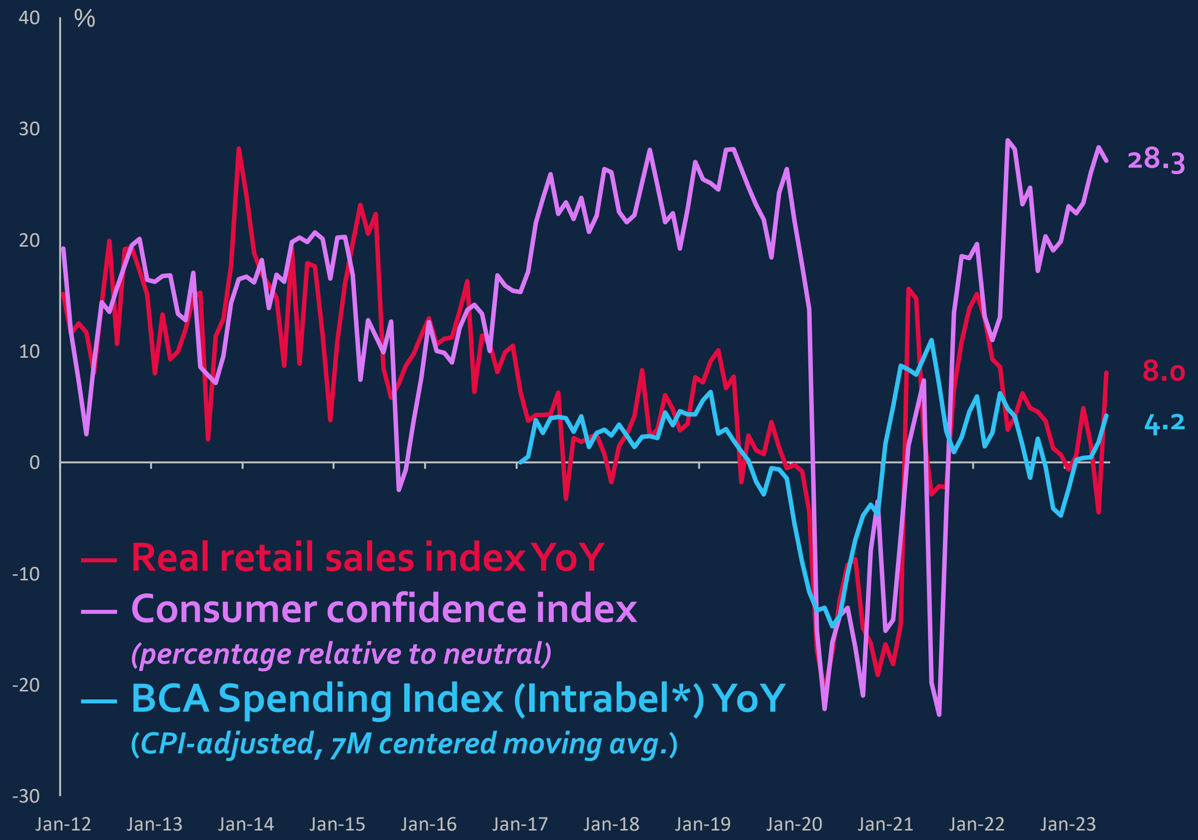
- The rapid depletion of consumer excess savings is a concern, as it has been a key driver of the post-pandemic recovery.
- At the start of the pandemic, saving rates increased as consumers were unable to spend – while government social assistance by the government accrued to poorer households.
- But then mobility restrictions were relaxed (albeit intermittently tightened), and saving rates fell. Not coincidentally, this initial decline was associated with the first rebound in retail sales.
- Saving rates have increased somewhat since then, but it is still far lower than the ~20% rates we saw prior to the pandemic.
- So it is as yet unclear if this "new normal" of low saving rates could be sustainable, or if things would revert to the old norm – which would necessitate a short-term decrease in consumption.



Source: *BI, calculations by BCA Economist*

Consumer confidence is decoupled from retail sales ...

- And indeed, there has been a decline in real retail sales growth more recently – although things seems to be improving in June, for a reason that we will discuss later *(pg. 15-19)*.
- These fluctuations in retail sales seem to be confirmed by our Intrabel, or BCA Spending Index – which tracks the aggregate volume of retail purchase by individual BCA customers.
- Consumer sentiment, meanwhile, seems to be far more optimistic. This may have some political import as we will see later *(pg. 24)*, but psychological factors might also be involved here.
- Specifically, recency bias may lead consumers to think that things are back to normal, even though a closer look at BI's retail data *(pg. 11)* would show this "new normal" are still some way off from the olden days, particularly for durable goods.

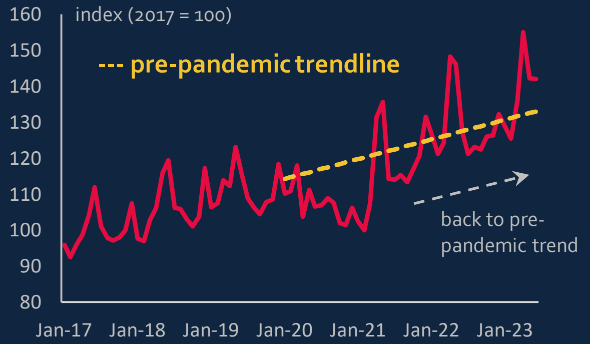


Source: *BI, BCA Big Data, calculations by BCA Economist*

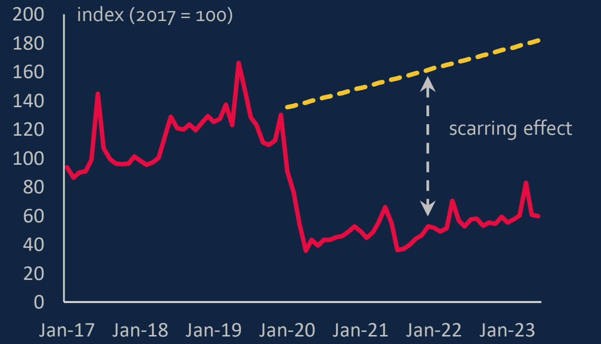
** in Indonesian, Indeks Transaksi Belanja*

... which may reflect "scarring effect" from the pandemic

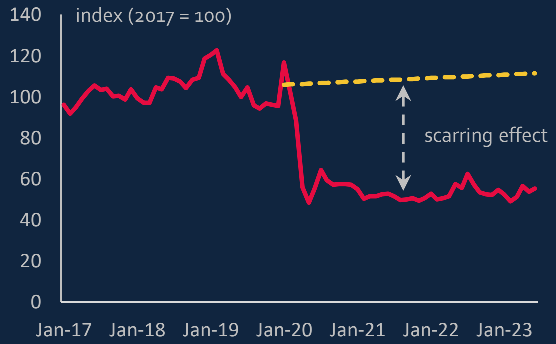
RSI: Food, Beverages, & Tobacco



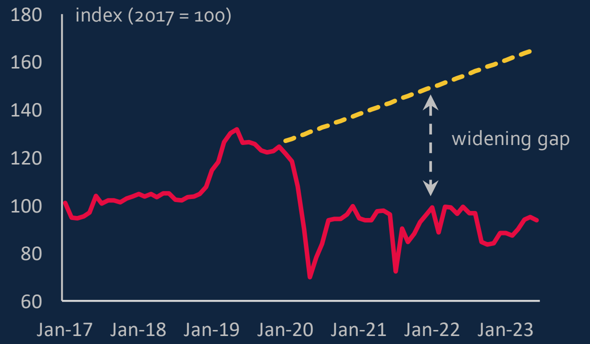
RSI: Clothing



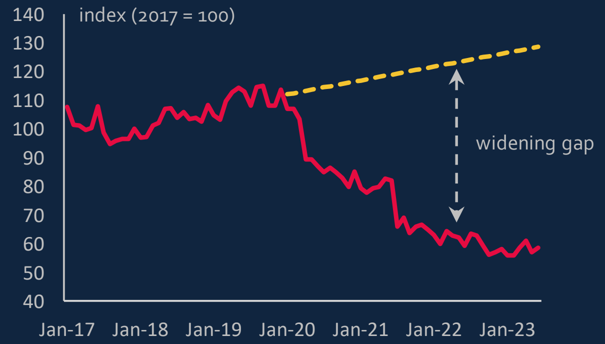
RSI: Cultural & Recreational



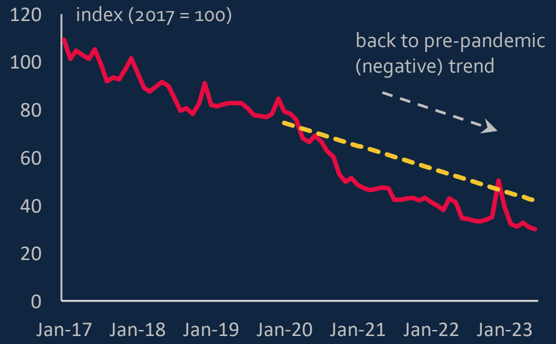
RSI: Vehicle Parts & Accessories



RSI: Household Equipments



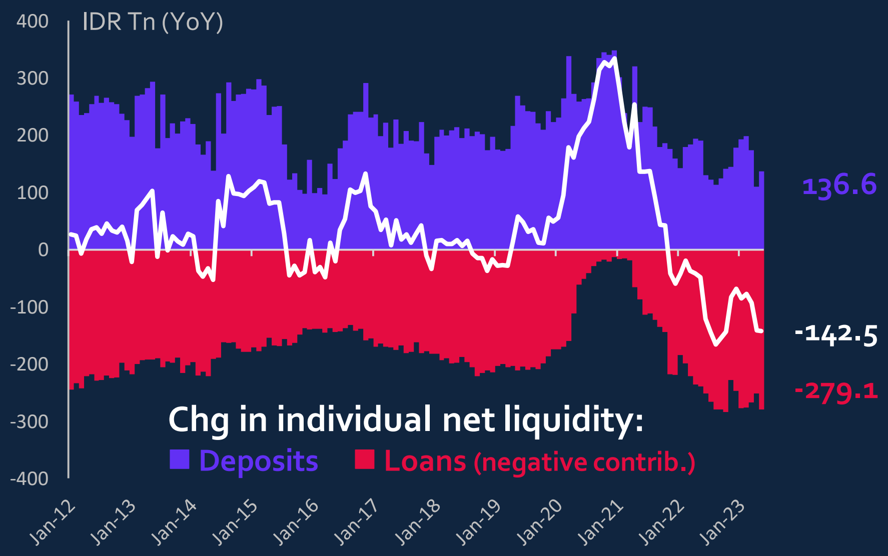
RSI: IT & Communication Eqs.



Source: *BI, calculations by BCA Economist*

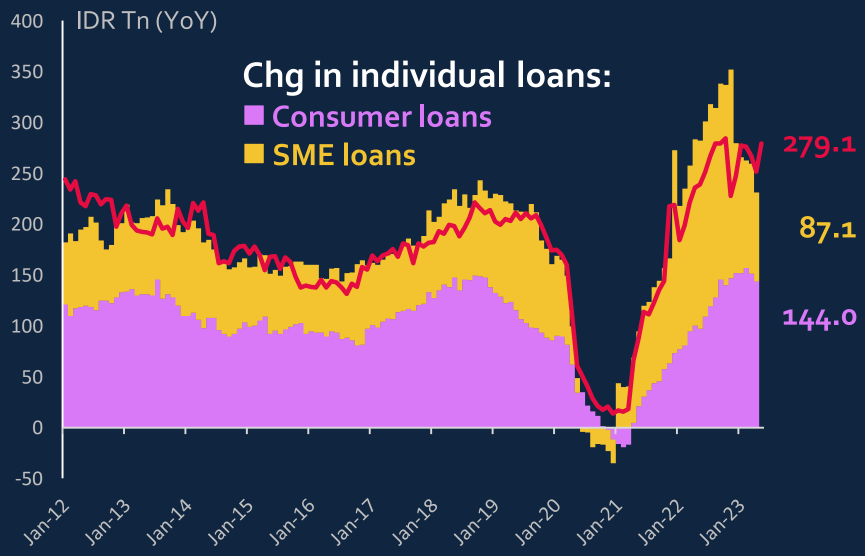
Consumer loans are beginning to plateau …

Individual net borrowing have slowed in 2023 …



Source: *BI, calculations by BCA Economist*

… even if we exclude SME loans which began to fall earlier

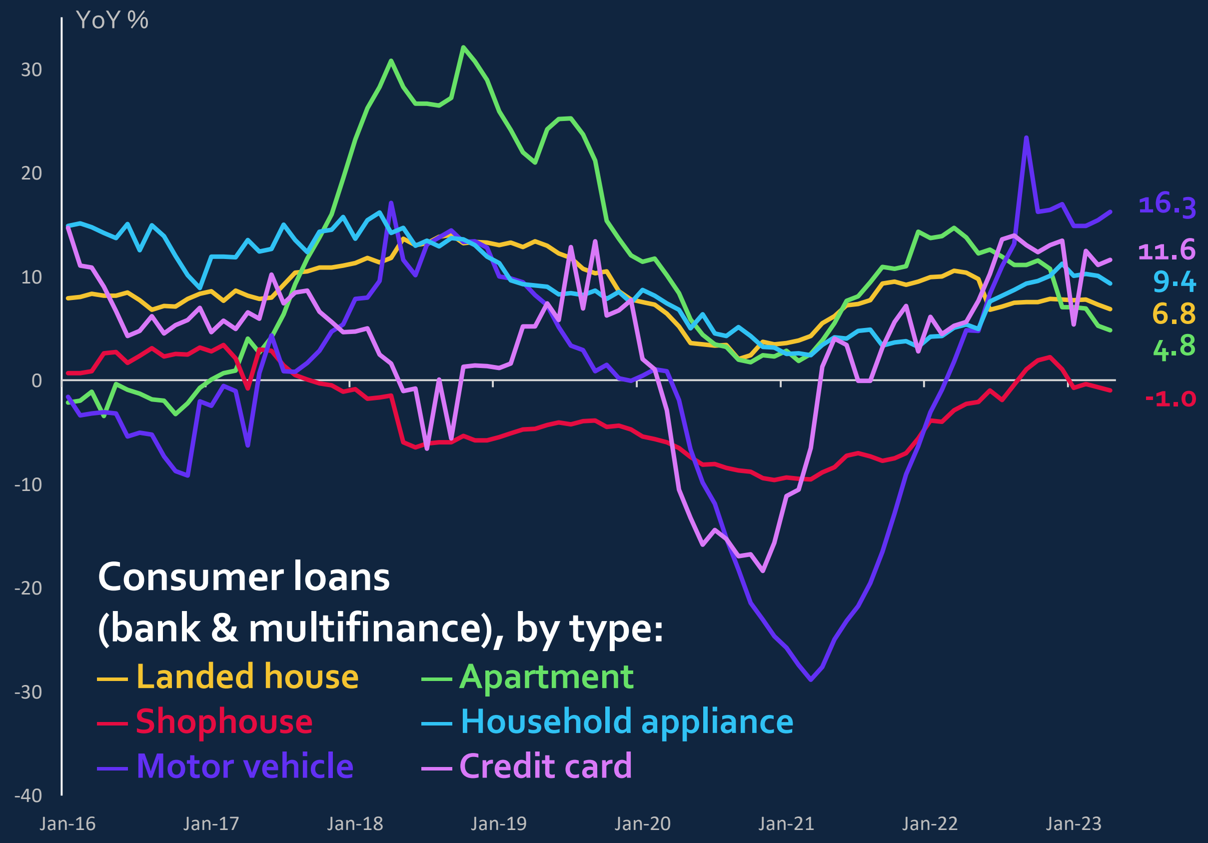


Source: *BI, OJK, calculations by BCA Economist*

- Even with low saving rates and declining excess savings, there is another way to finance consumption, i.e. by borrowing. We can track these bank loans by individuals using the same dataset from BI where we obtain individual and corporate deposits data *(pg. 5-6)*.
- As it turns out, this data series include consumer loans as well as SME loans – which is often made on behalf of an individual rather than a firm. Still, if we exclude these loans, we can see quite clearly that consumer loans have been slowing in recent months.

... although certain types of lending are still holding up

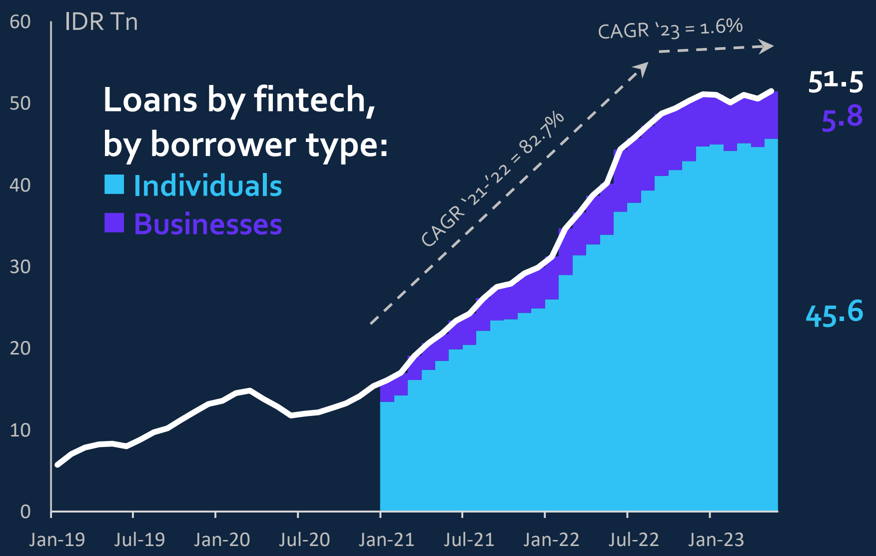
- If we divide these consumer loans by type – and add loans made via non-bank financing companies (also known as multifinance) – it is evident that this slowdown is not uniform.
- Motor vehicle and credit card loans are still growing at double-digit rates. Partly, this is a rebound from the pandemic, when both of these categories saw negative growth.
- The situation also varies for property loans. Demand for landed houses remains stable, but apartment – which boomed before the pandemic – seems to be headed for a bust.
- It is notable that consumer loans are still benefiting from regulatory support, especially BI's relaxation of loan-to-value (LTV) ratios.
- The average rate on consumer loans is also unchanged from mid-2022 – showing banks' reluctance to pass on BI rate hikes. All these means that the slowdown is probably driven by demand more than supply factors.



Source: *OJK, calculations by BCA Economist*

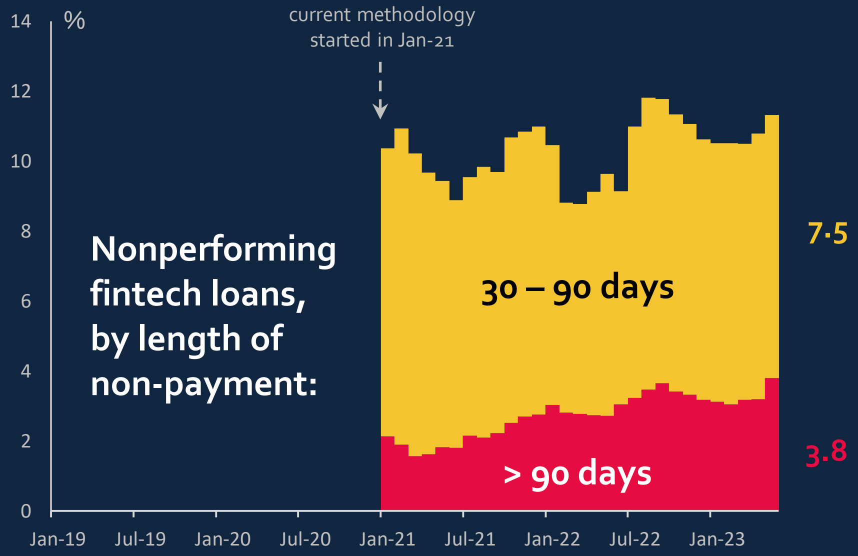
Even fintech loans have started to dry up

Fintech lending abruptly slowed at the turn of the year …



Source: *OJK, calculations by BCA Economist*

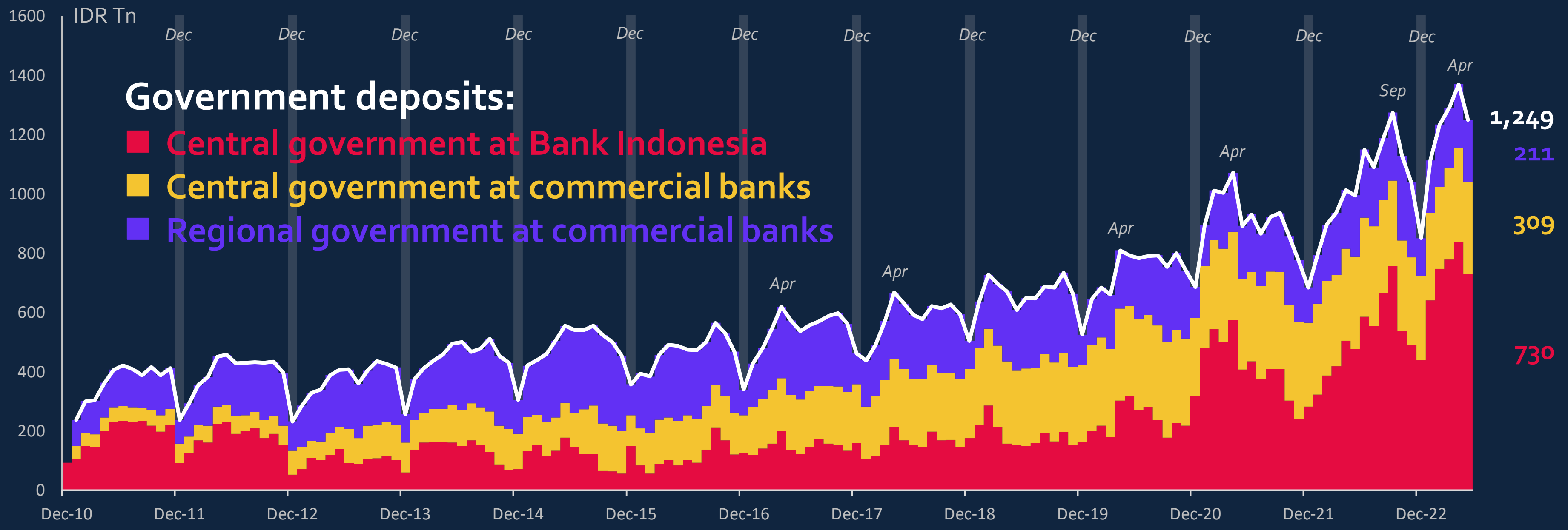
… as credit risk has gradually been creeping up



Source: *OJK, calculations by BCA Economist*

- But are borrowers just switching from the traditional lenders to a newer type of lenders, i.e. fintech? The answer is partly yes, in 2021-22, but certainly no, in 2023.
- Unlike banks, the slowdown in fintech might be attributed as much on the supply-side as on the demand. Relative decline in liquidity being injected/channeled to these companies may be forcing them to be more restrictive in issuing new loans.

Liquidity in government accounts is nearing all-time highs

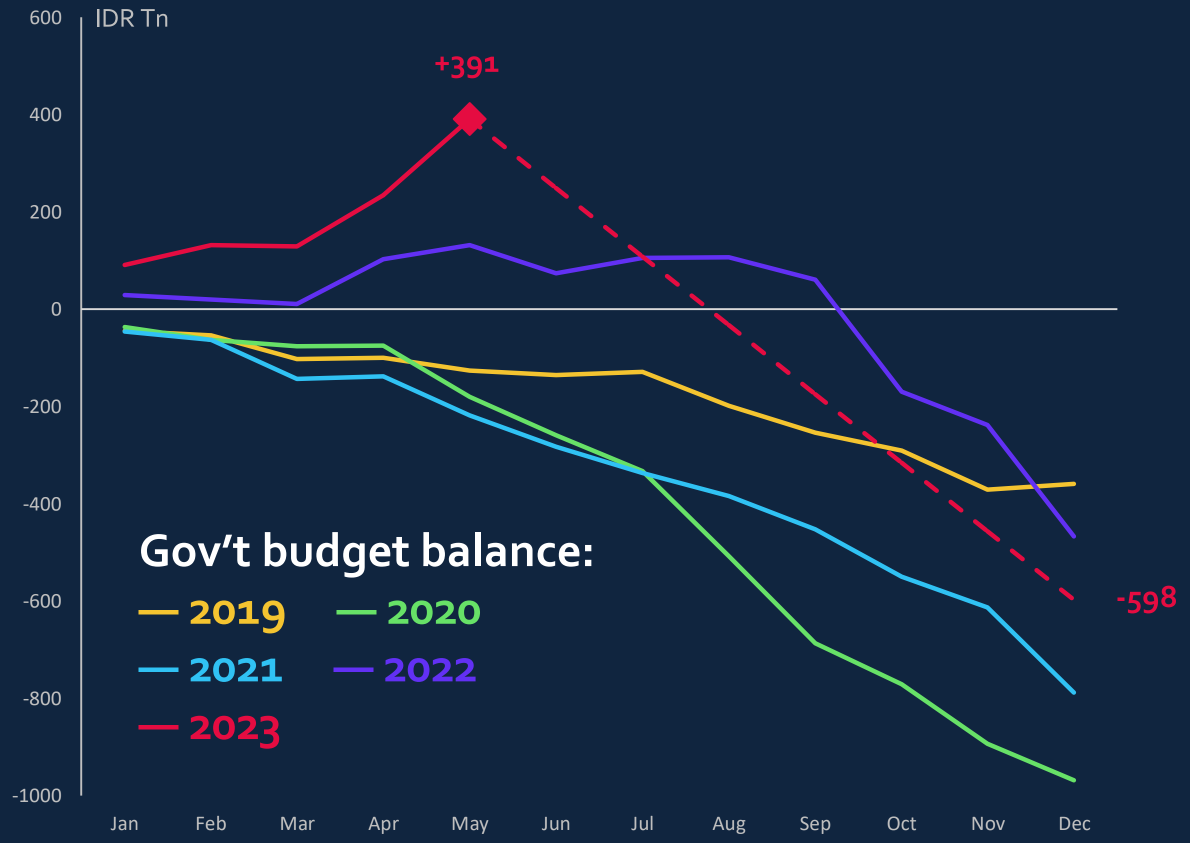


Source: *BI, calculations by BCA Economist*

- As mentioned *(pg. 5)*, fiscal spending in Q4-22 helped to "top up" consumer savings. The fact that the opposite happened in Jan-Apr '22 is likely related to the rapid decline in consumer savings at that time, while disbursement after April may account for the rebounds that we saw at the tail end of our dataset *(pg. 5-10)*.
- Note also that government deposit at BI are not loanable, nor are they part of the broad money stock (M2) – with interesting implications.

The government still has room for IDR 1,000 Tn of net spend ...

- The government's overflowing coffers mean that there is a clear way out of the potential consumption slowdown – provided that the government spends its funds on time.
- Per May, the budget balance was nearly IDR 1,000 Tn above target. This is far larger than usual – the closest year being 2020, when there was an obvious urgency to spend.
- The MoF's recent announcement – that the deficit could be about 20% smaller – seems like an acknowledgement of the difficulties in ramping up spending.
- There is also the question of timing. Excess savings might dry up by Q3, but the historical pattern *(pg. 15)* suggests that a belated rush in Q4 is the likelier outcome.
- To be fair to the government, however, this year's fiscal glut is not due to unusually slow spending, but rather a stronger-than-normal revenue, especially taxes *(pg. 17)*.



Source: *Ministry of Finance, calculations by BCA Economist*

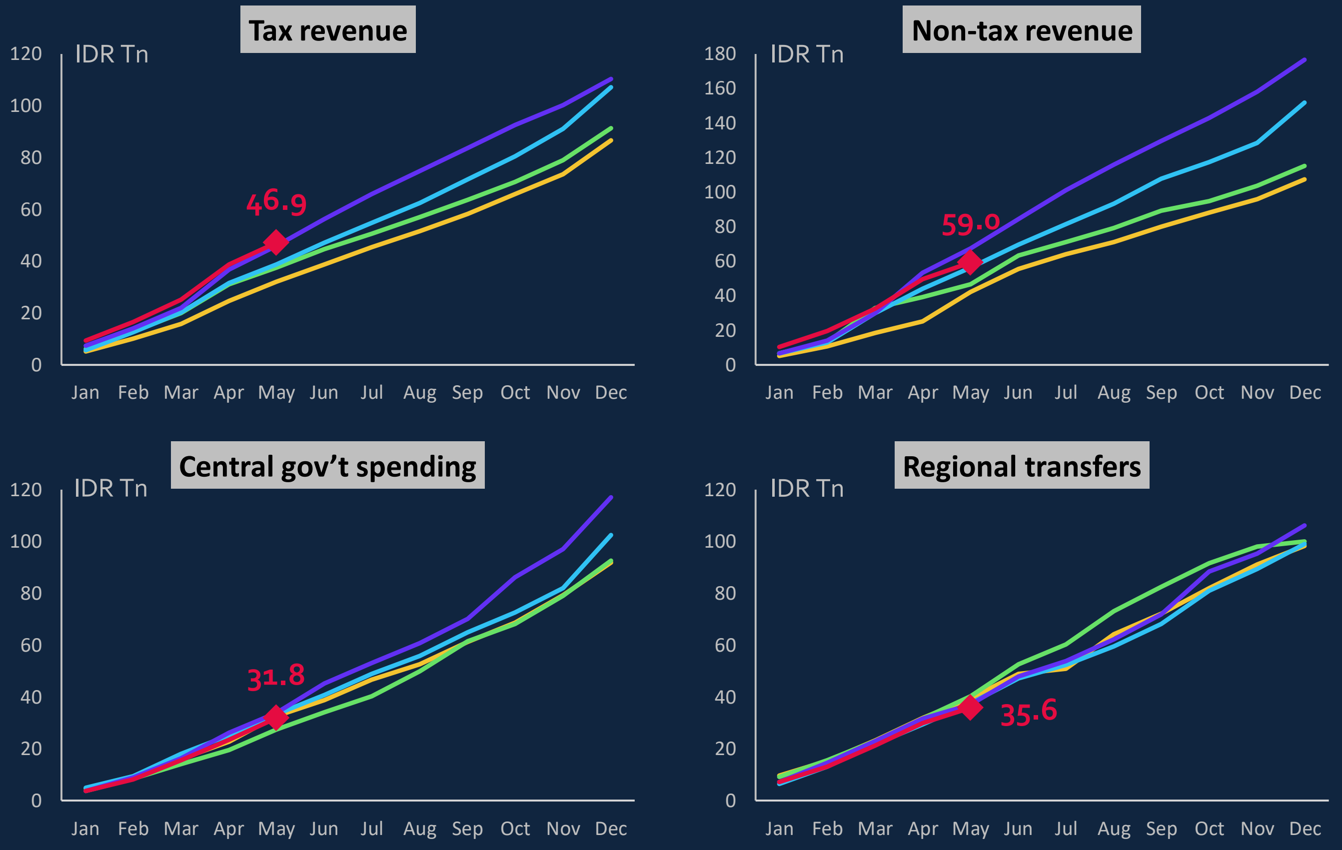
... partly due to this year's particularly strong tax receipts

Gov't budget realization (% of target):

— 2019 — 2020*
— 2021 — 2022
— 2023

Source: *MoF, calculations by BCA Economist*

** 2020 target is based on revised Budget after the Covid-19 emergency was declared*

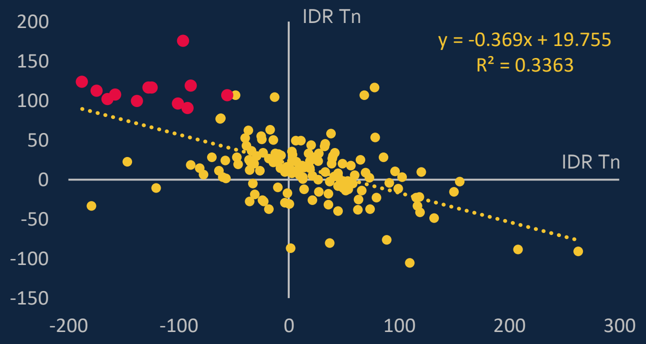


Source: *Ministry of Finance, calculations by BCA Economist*

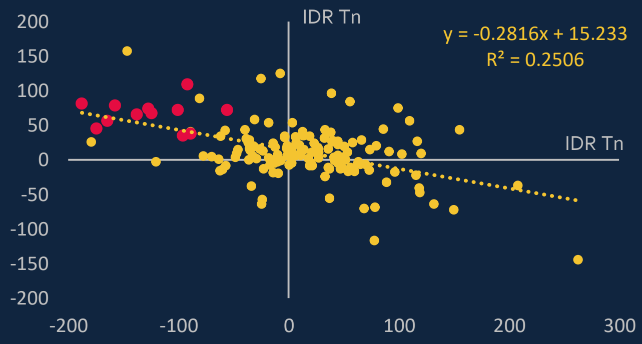
The fiscal cycle has a marked effect on other sectors' liquidity ...

- Unfortunately, the timing mis-match between fiscal revenue and spending – which we may call the "fiscal cycle" – has big impact on the rest of the economy.
- Deposits held by both individuals and private corporates has the opposite pattern – they fall early in the year before recovering in December.
- Interestingly, the negative correlation is far weaker for SOEs. This may be reflect direct, mid-year cash injection by the government, especially related to subsidies.

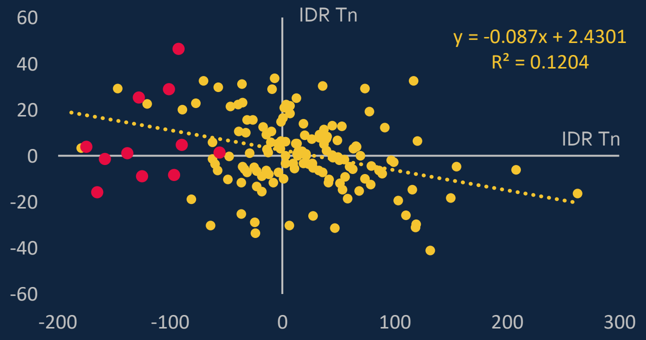
Gov't vs. individual deposits



Gov't vs. private corp deposits



Gov't vs. SOE deposits



(data from 2011-23)

X-axis: Chg in gov't deposits (YoY)

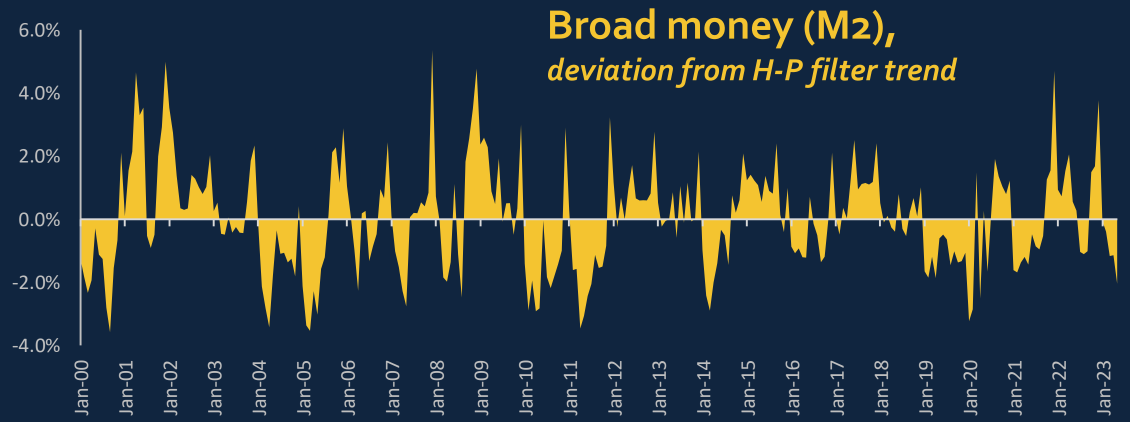
Y-axis: Chg in individual / SOE / private corp deposits (YoY)

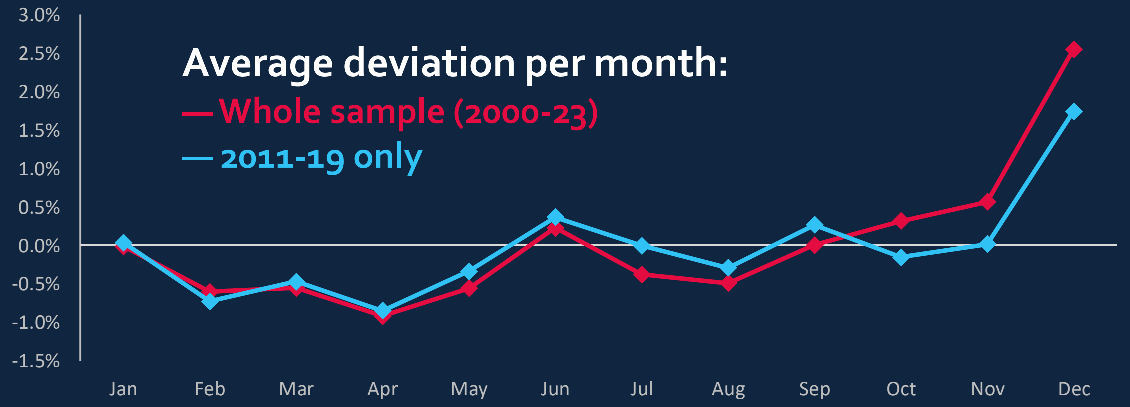
● Jan-Nov ● December

Source: *BI, calculations by BCA Economist*

… causing overall system liquidity to peak late in the year

- Recall also that funds sequestered at BI are not part of M2. As a result, the money stock is about 2% higher in December, but hit a low during Feb-May.
- In theory, the private sector – particularly those reliant on fiscal spending like government subcontractors – could borrow from banks to tide over their liquidity needs. Alas, the sharp M2 fluctuations suggests that this does not fully smooth out the fiscal cycle.
- It may also explain some, but not all, of the seasonal flux in nominal GDP, which usually peaks in Q3 *(pg. 21)*.
- Weirdly, the peak of M2 in Q4 tends to be overpowered by a big trough in money velocity. This suggests that the typical "belated rush" spending pattern may not be the most effective in supporting growth.





Source: *BI, calculations by BCA Economist*

Earlier, briefer election cycle = Earlier, briefer election effect?

	Q1	Q2	Q3	Q4
2000				
2001				
2002				
2003			*t-3*	*t-2*
2004	*t-1*	LE	PE 1/2	
2005				
2006				
2007				
2008			*t-3*	*t-2*
2009	*t-1*	LE	PE	

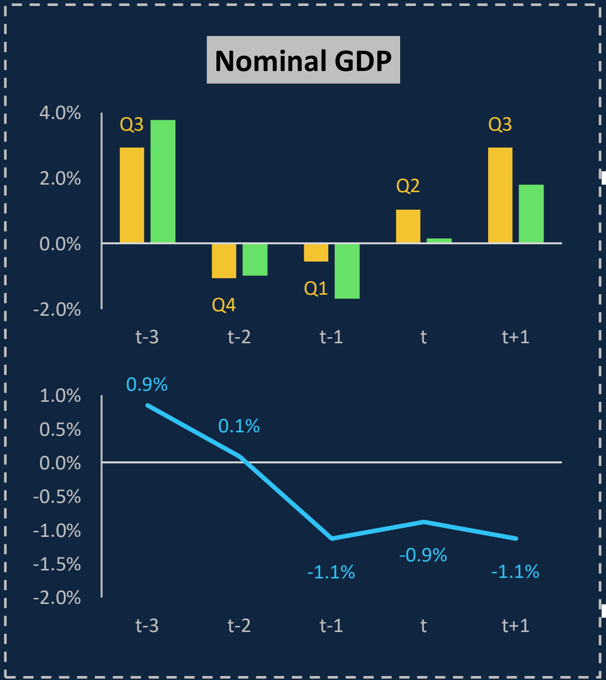
	Q1	Q2	Q3	Q4
2010				
2011				
2012				
2013			*t-3*	*t-2*
2014	*t-1*	LE	PE	
2015				
2016				
2017				
2018			*t-3*	*t-2*
2019	*t-1*	SLPE		

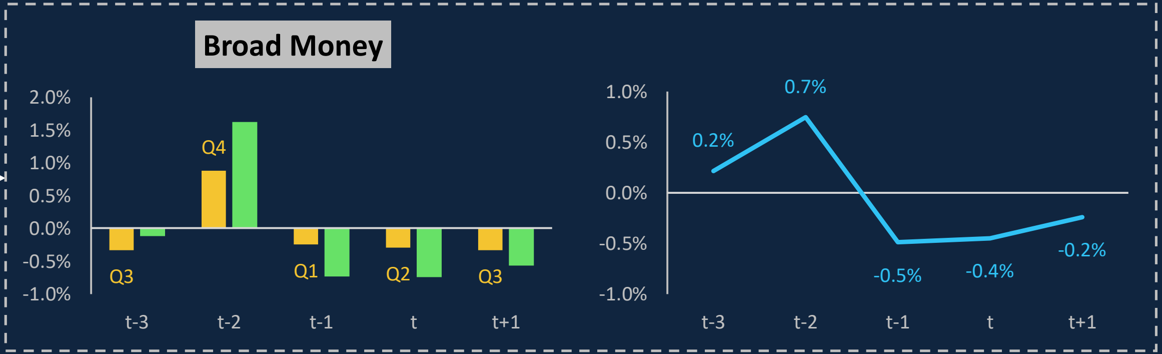
	Q1	Q2	Q3	Q4
2020				
2021				
2022				
2023		*t-3*	*t-2*	*t-1*
2024	SLPE			

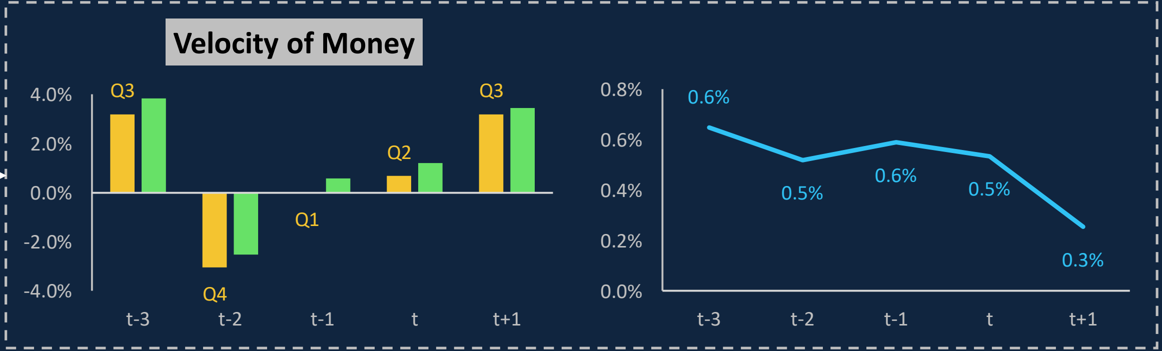
Note:
LE = Legislative Election
PE = Presidential Election (1 or 2 rounds)
SLPE = Simultaneous Legislative & Presidential Elections

- Another thing that is also touted as a savior of growth in the second half of the year is the so-called "election effect", whereby greater and/or faster money circulation is expected to spur growth.
- We extended our simple decomposition exercise to all four variables in the quantity theory of money *(pg. 21-22)*. It shows that the third quarter leading up to the Elections shows 0.4% increase in GDP growth, but this effect fades in subsequent quarters.
- The question, then, is if we are going to see this effect earlier, given the decision to conduct the Elections in February instead of April. We doubt this, as the political landscape is as yet still fluid – with coalition and President/VP candidates still not solidified – and the Elections Commission restricting campaigning until after Nov 28th. This could imply a more compressed, but rather belated, election effect.

Election periods are associated with greater money velocity …





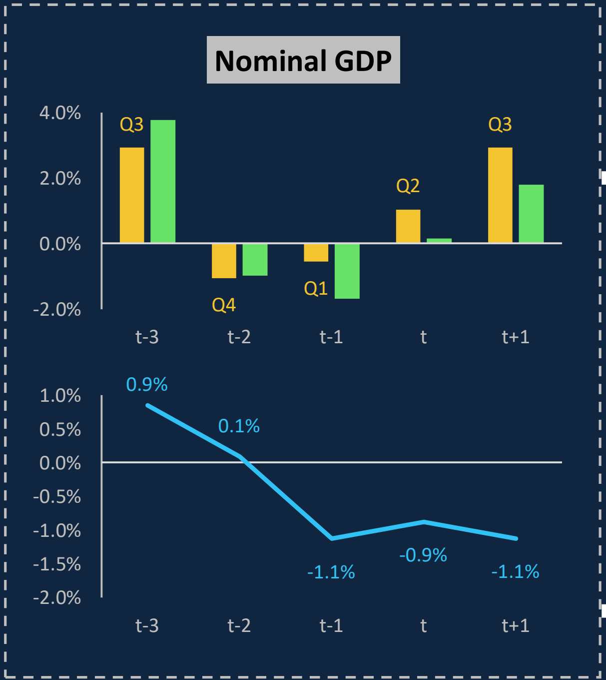


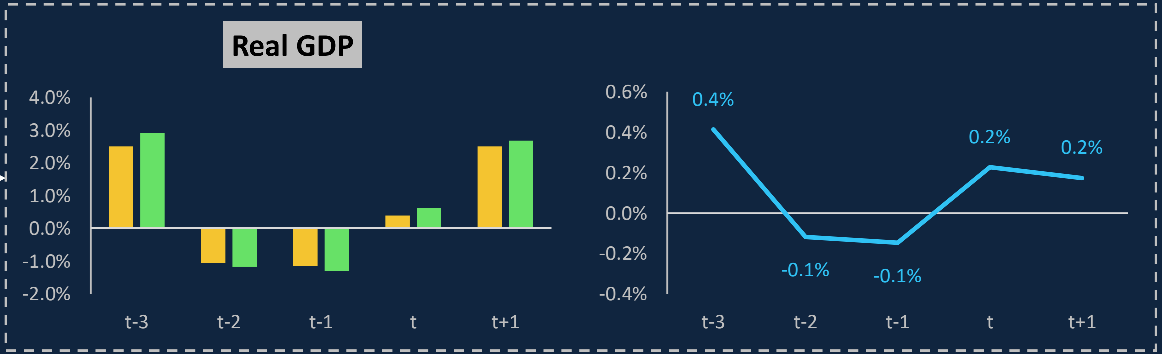
Source: *BPS, BI, calculations by BCA Economist*

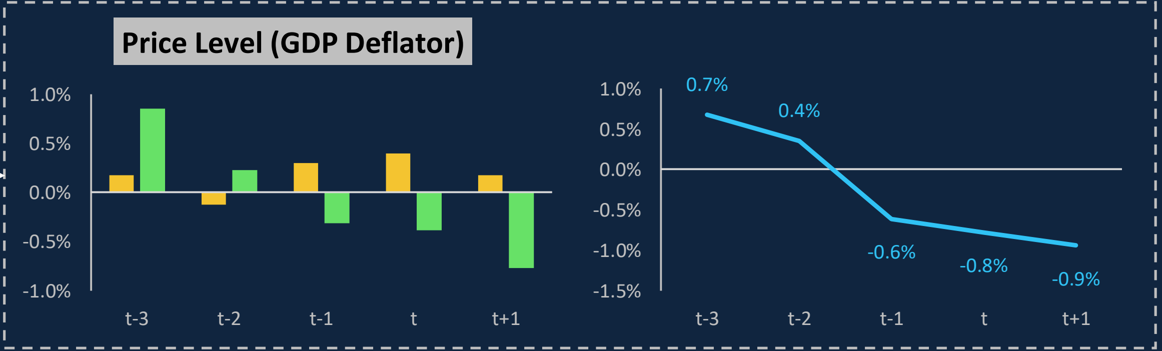
Average deviation from trend:

■ Non-election periods ■ Election periods — Gap ("election effect")

… which can have a small positive effect on growth





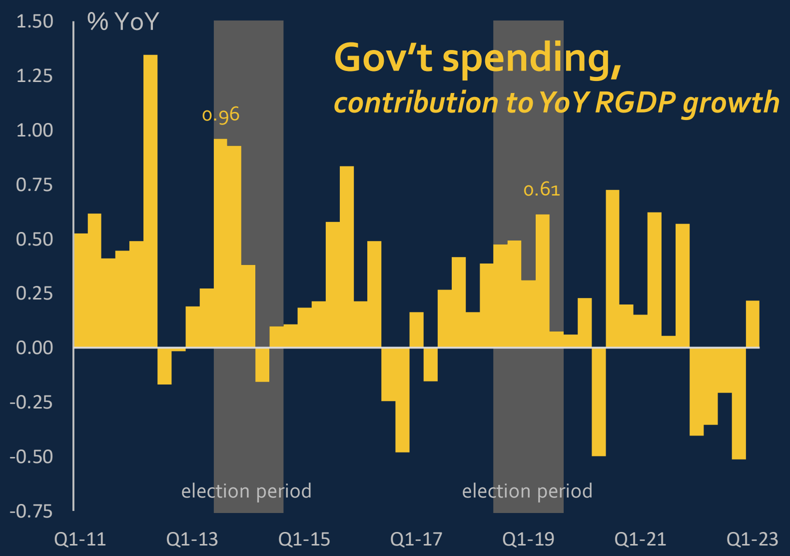


Source: *BPS, BI, calculations by BCA Economist*

Average deviation from trend: Non-election periods Election periods Gap ("election effect")

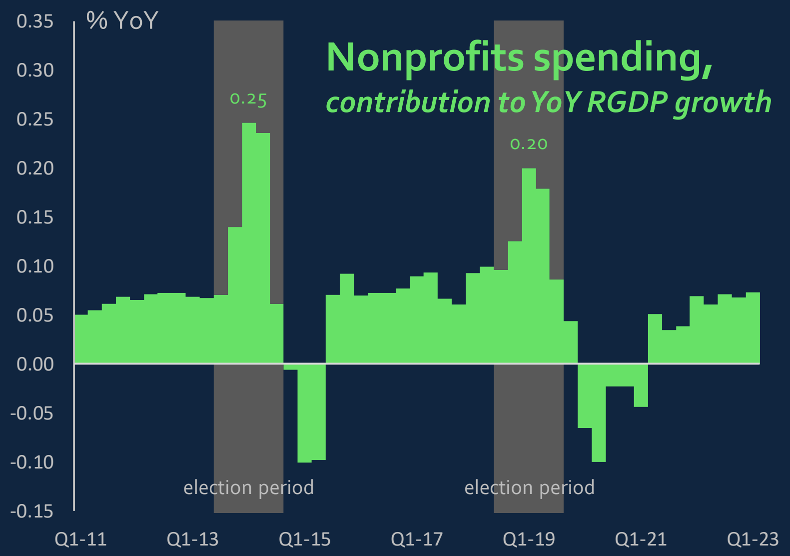
"Election effect" is mainly driven by fiscal and nonprofit spending

Pre-election boost is often propelled by gov't spending …



Source: *BPS, calculations by BCA Economist*

… while nonprofits spending peak at campaign season

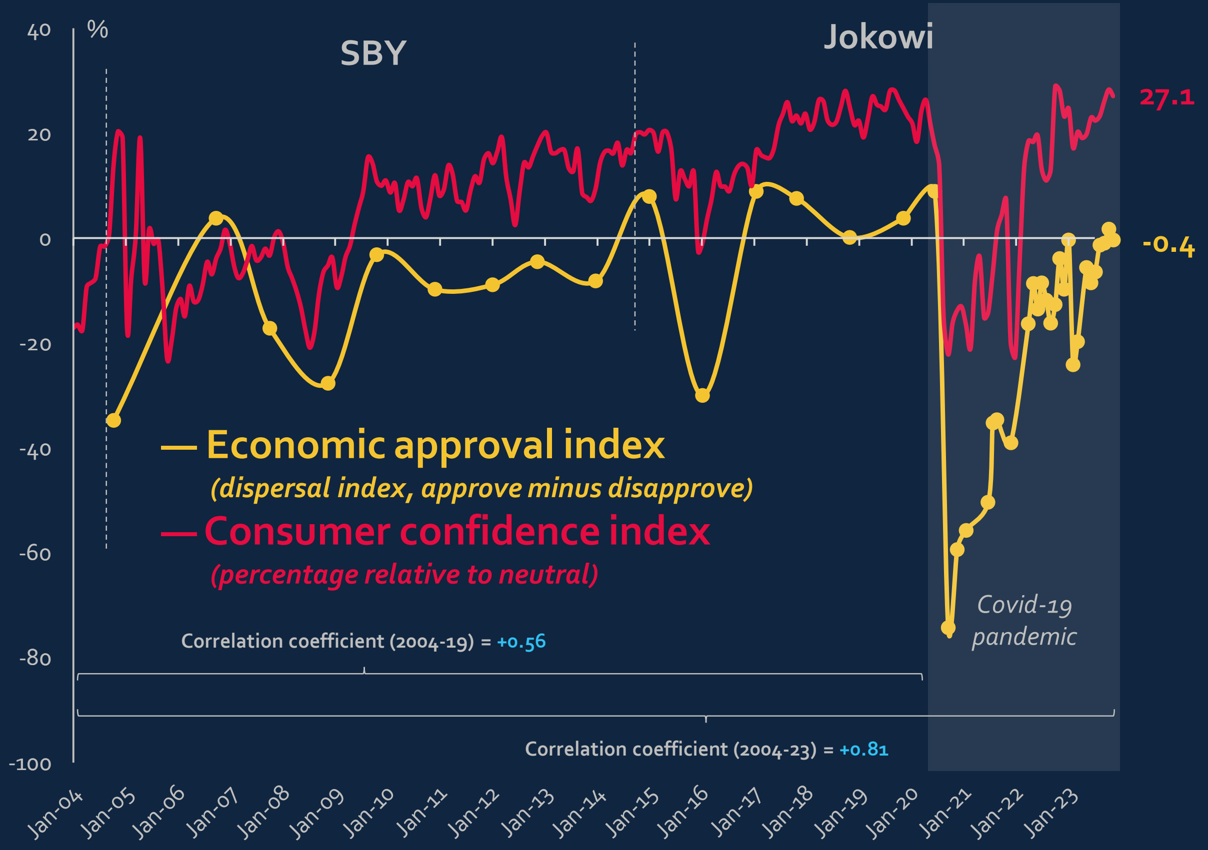


Source: *BPS, calculations by BCA Economist*

- Nonprofit orgs here include NGOs (of various religious, social, and ideological colorings) which are often affiliated with certain parties, and are involved in grassroots campaigning and "get out the vote" efforts.
- These boosts are partly offset by a slight decline in other items. But there is no clear, consistent pattern to this decline – it can come from investment, consumption, or inventories. The small sample size (four election cycles with sufficient data) does not help us in this regard.

Consumer confidence seems to shadow approval ratings

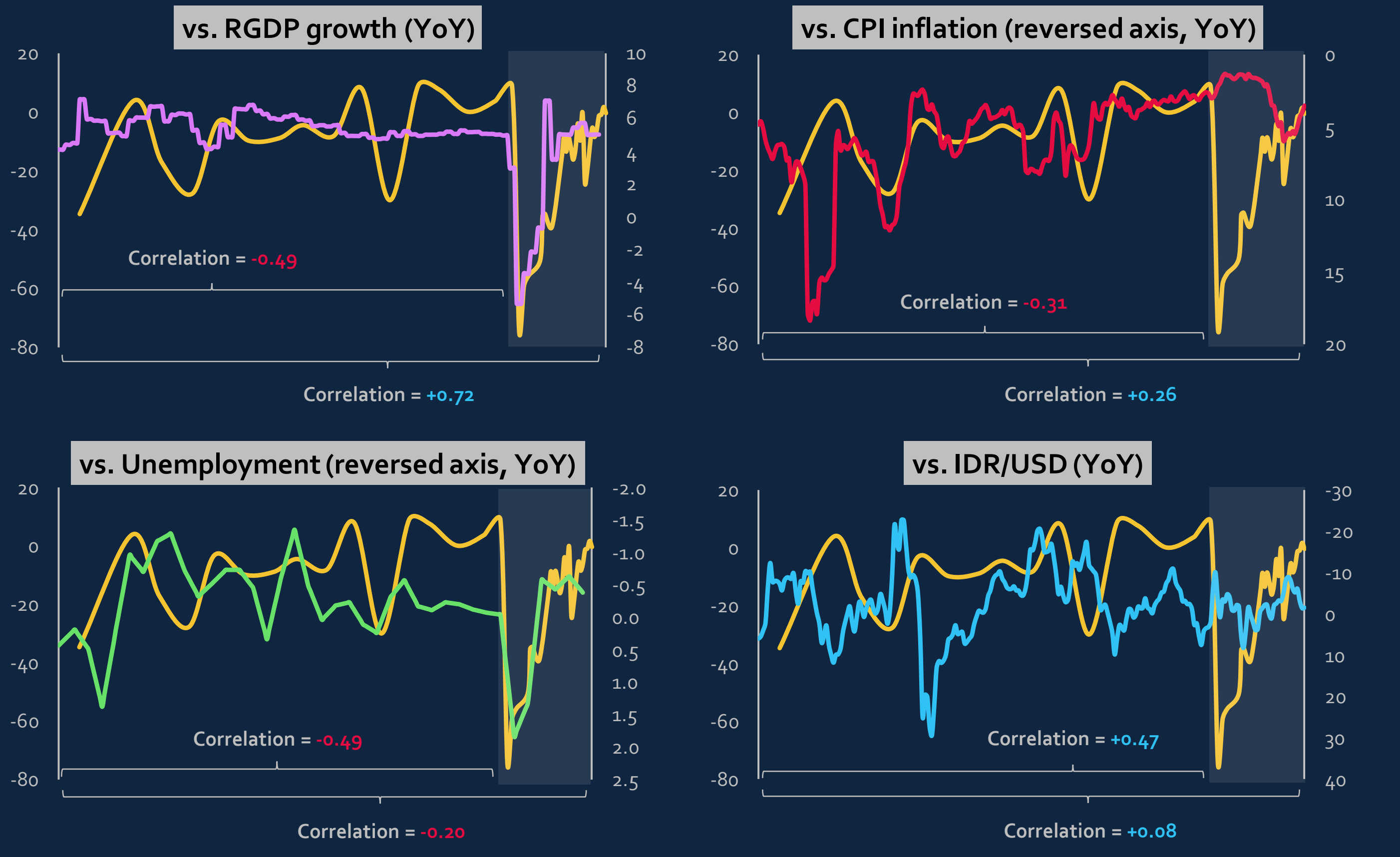
- We mentioned earlier that consumer confidence does not seem to track retail sales all that well (pg. 10). So what does it actually measure?
- One possible answer is that it measures the approval ratings of the incumbent government – at least on the economic aspect. In fact, it has tighter correlation to economic approval than the usual macro benchmarks (pg. 25).
- This may not be just a one-way relationship. CCI can affect approval, but people's perception of the government could also color their perception of the economy.
- This is a well-known phenomenon in the US, where supporters of the opposition party tend to see the economy as being in a much worse state compared to supporters of the governing party.



Source: *BI, LSI, Indikator Politik Indonesia, calculations by BCA Economist*

Voters respond to economic flux, but less clearly to GDP growth

- Approval ratings do respond to macro data in (mostly) the expected ways – at least prior to the pandemic.
- One exception is GDP growth, which showed negative (albeit weak) correlation with approval before 2020.
- This may be statistical artifact, given the rather flat trajectory of GDP growth. But it may also be symptomatic of the relative disconnect between GDP and the more "mundane" concerns over jobs and inflation.
- Indeed, the latter seems to be our eternal dilemma. Our GDP grows faster during commodity booms, but the same boom can also force the government to do an unpopular fuel hike.



Source: *BPS, Bloomberg, LSI, Indikator Politik Indonesia, calculations by BCA Economist*

Projections of macroeconomic indicators

	2018	2019	2020	2021	2022	2023E
GDP growth (% YoY)	5.2	5.0	-2.1	3.7	**5.3**	**5.0**
GDP per capita (USD)	3927	4175	3912	4350	**4784**	**5285**
CPI inflation (% YoY)	3.1	2.7	1.7	1.9	**5.5**	**2.3**
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	**5.50**	**5.75**
10Y government debt yield (%)	7.98	7.04	5.86	6.36	**6.92**	**6.60**
USD/IDR exchange rate	14,390	13,866	14,050	14,262	**15,568**	**15,173**
Trade balance (USD Billion)	-8.5	-3.2	+21.7	+35.3	**+54.5**	**+35.3**
Current account balance (% of GDP)	-3.0	-2.7	-0.4	+0.3	**+1.0**	**-0.7**

Source : *BPS, Bloomberg, BCA Economist calculations*

Notes:
- BI 7-day Repo Rate, 10Y yield, and USD/IDR exchange rate all refers to end of year position
- 10Y yield and USD/IDR exchange rate projections refer to fundamental values; actual market values may vary depending on current sentiment and technical factors

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