

February 2008

CONSUMER CONFIDENCE

Consumer Confidence Hits Lowest Level in More Than Two Years

- Rising food prices had a devastating impact on household budgets and at the same time concerns over the current economic conditions have diminished consumers' confidence on current job availability. Accordingly, the Present Situations Index (PSI) plunged 9.1% to a seven-month low of 60.1 in January. Persistent declines in the PSI indicate the economy is beginning to lose momentum. In fact, in assessing all the components of the PSI, pessimists now outnumber optimists.
- Looking ahead, the majority of consumers in January did not judge overall economic prospects favorably over the next six months. Expectations on higher overall prices over the next six months and problems of job scarcity have created a degree of uncertainty and concern about the short term future. As such, the Expectations Index (EI) fell by 4.3% from 96.3 to 92.1 in January.
- Although consumers anticipate gloomier economic prospects in the months ahead, consumers do not expect a significant reduction in buying intentions. The proportion of consumers who plan to buy durable goods sagged moderately to 25.1% from 28.6% in December. It appears that consumers have become more prudent and more interested in rebuilding their reserve funds as a precaution against any future adverse economic developments. As such, buying intentions declined in almost all categories tracked by the survey. Only the percentage of consumers who plan to buy house that remains the same as previous survey.
- Sentiment toward the government continues to weaken. The Consumer Confidence toward the Government Index (CCGI) fell 2.2% to 98.0 from 100.2 in December. Alike the previous month, the move lower was led by a worsening in consumers' sentiment about the government's ability to stabilize the price of goods. After plunging by 9.5% in December, confidence in the government's ability to stabilize the price of goods fell again in January, down substantially by 7.9% to 72.4, the lowest level since October 2005 when the government hiked fuel prices.

DAVID E. SUMUAL

Economist

(62-21) 3509777 ext 3604
davidsumual@danareksa.com

MARTIN JENKINS

Analyst

(62-21) 3509777 ext 3609
martin@danareksa.com

THE DECEMBER 2007 RESULTS

Consumer confidence sank in January to its weakest level since October 2005 as gloom over current economic conditions increased. The Consumer Confidence Index (CCI) fell 5.9% to 78.4 from 83.3 in December. It appears that the recent rise in basic foodstuffs prices hit consumers' feelings about the current environment. Besides, job scarcity and kerosene fuel shortages are also all to blame for a 9.1% plunge in the Present Situations Index (PSI), its lowest level in seven months.

At the same time, the Expectations Index (EI) also weakened in January, down 4.3% to 92.1. As has been the case for the past several months, the main drivers of consumers' increasingly pessimistic outlook is the continued expectations on rising prices, particularly basic foodstuffs prices, declining income prospects and worsening job outlook.

The latest survey shows that consumer confidence declined for rural households much more than for urban respondents. Note that consumers in rural areas have seen their incomes dry up as they wait for the next harvesting season. For rural respondents, the CCI slumped by 9.5% to 77.4, while for urban respondents, the CCI only fell by 4.4% to 78.8 in January.

Across the regions, sentiment strengthened only in East Java – the CCI rose 4.3% to 92.9 in East Java. In contrast, confidence deteriorated significantly by 8.9% in West Java and North Sumatra. Consumers in both provinces mentioned a lack of jobs as a top concern. At the same time, consumer confidence weakened 0.6% to 103.7 in Jakarta, 7.5% to 80.3 in Central Java and 2.7% to 103.1 in South Sulawesi.

The big declines in confidence in January were mostly among middle to low-income households. For middle-income consumers with income levels between Rp700,000 to Rp1,500,000/month, the CCI slipped the most by 8.7% to 76.0, while for lower income consumers with incomes between Rp500,000 to Rp700,000/month, the CCI only fell 6.9% to 72.9.

Middle to lower income households voiced relatively greater concerns about higher prices that reduced their purchasing power. In January, more than half of households with incomes below Rp1,000,000 reported that higher food prices and increasing prices in general had already devastated their family's budget. And the same families expected prices to increase faster than their incomes during the half-year ahead, as such reducing their living standards even more.

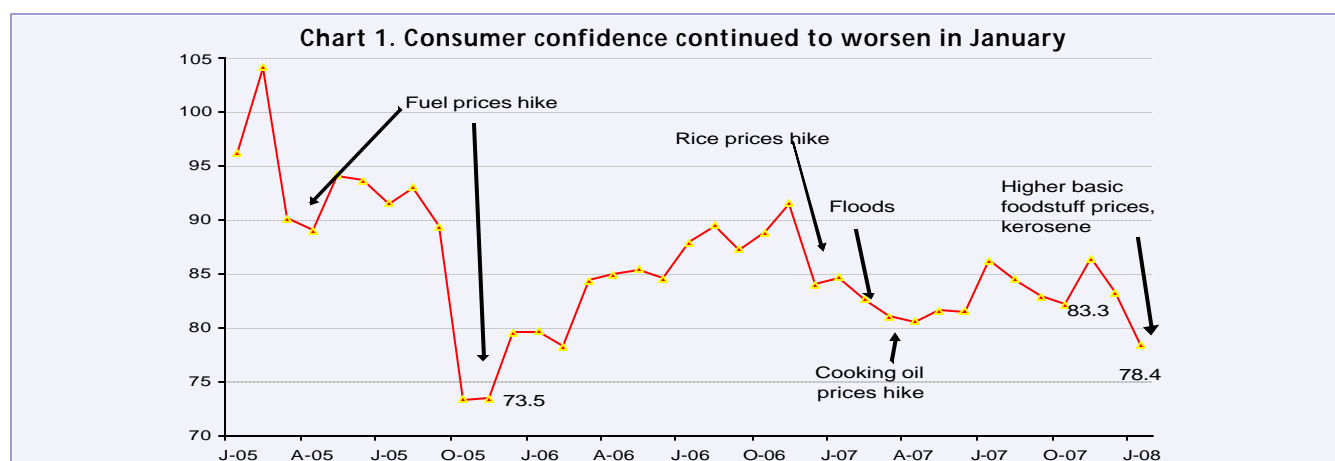
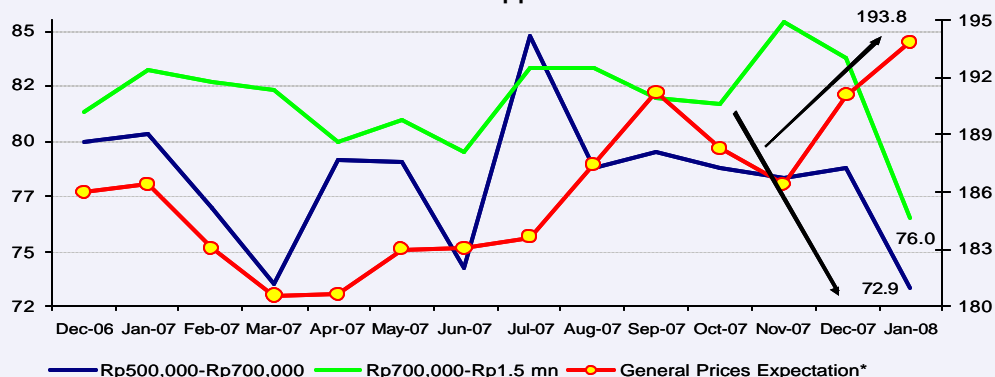


Chart 2. As basic foodstuffs prices picked up, confidence among middle to low-income households dropped the most



* Respondents in main cities

Table 1. Consumer Confidence Index

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	MoM % Change
Consumer Confidence	83.0	82.2	86.5	83.3	78.4	-5.9
Present Situation	63.8	62.5	68.3	66.1	60.1	-9.1
Expectations	97.4	97.0	100.2	96.3	92.1	-4.3

Appraisal of Current Situations: *Worsening national and local economic conditions*

Consumers were still feel downbeat on the state of economic conditions in January. Problems in December seem to be protracted to January as prices of some basic foodstuffs such as soy beans, flour, egg, rice, corn, cooking oil and many others continue to rise. Adding the problem is also the continued high crude oil prices in the international markets, which in turn forced the government to reduce the supply of kerosene to meet the budget for fuel subsidy.

Against this backdrop, the components of the PSI measuring the current national economic conditions and local economic conditions fell again in January. After plunging 10.9% in December, the component of the PSI measuring sentiment toward the national economy sank 12.2% to 50.4, while the component of the PSI measuring sentiment toward local economic conditions fell 8.5% to 82.7.

At the same time, after showing a strong gain in December, the component measuring sentiment toward the state of the current job market weakened 6.5% to a three-month low of 47.0 in January. In January, consumers saying jobs are “plentiful” fell to 14.8% from 16.0%, while the numbers claiming jobs were “hard to get” rose to 67.7% from 65.7% last month.

Table 2. Appraisal of Current Situations

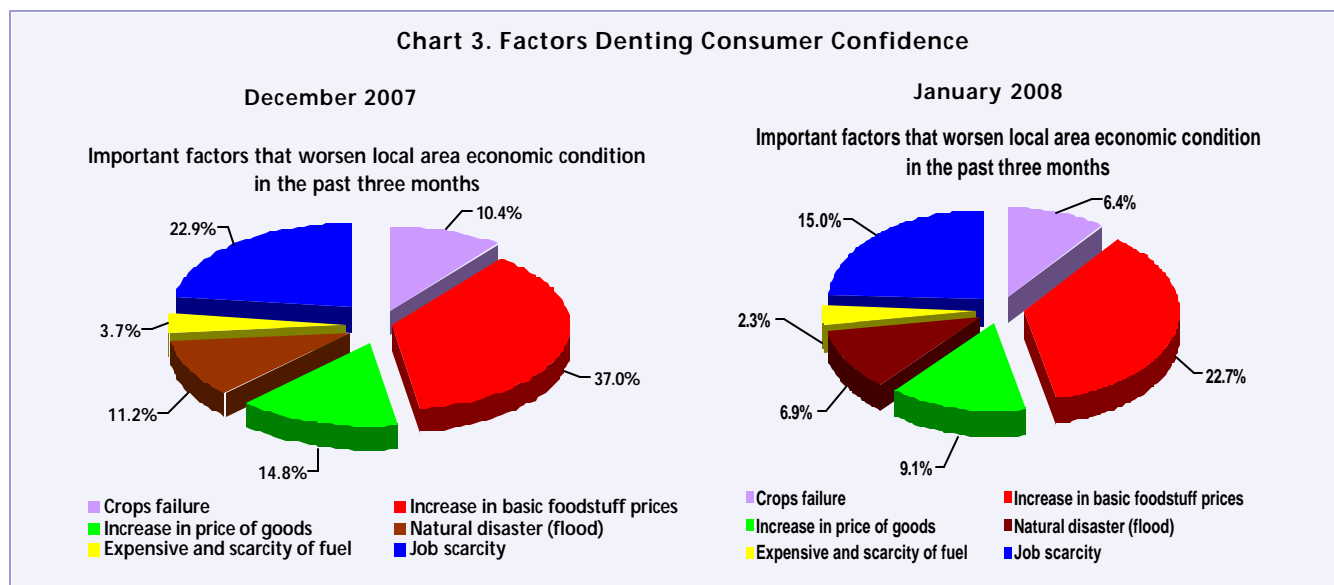
	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	MoM %Change
Economic Conditions	57.8	57.7	56.8	64.4	57.4	50.4	-12.2
Local Area Economic Conditions	91.8	85.0	85.0	92.9	90.4	82.7	-8.5
Employment Conditions	46.5	48.6	45.8	47.4	50.3	47.0	-6.5

In January, higher basic foodstuff prices and job scarcity were still the biggest concern for consumers (especially for those respondents who live in urban areas). However, compared to the December survey, the intensity of the problems seems to recede in January as the percentage of respondents complaining about all those problems has decreased.

About 22.7% of them said that the increases in basic foodstuff prices were the most important factor behind the weaker local area economic conditions in the past three months (down from 37% in December). Other problems that consumers are having to grapple with include more expensive fuel and scarcity of fuel (2.3% down from 3.7%), crops failure (6.4% down from 10.4%), natural disasters (6.9% down 11.2%), increases in the overall price of goods (9.1% down from 14.8%) and difficulties in finding a job (15.0% down from 22.9%).

Table 3. Expectations for the Six Months Ahead

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	MoM % Change
Economic Prospects	100.4	100.5	103.5	97.2	91.3	-6.0
Employment Prospects	92.5	91.2	94.4	92.5	89.5	-3.3
Family Income Prospects	94.1	94.5	98.7	93.3	90.8	-2.7
Local Area Economic Prospects	102.4	101.9	104.1	102.1	96.9	-5.1



Assessments of Near-Term Conditions: *Becoming more pessimistic*

Looking ahead, consumers are considerably less optimistic in regard to the short-term outlook. Most notably, sentiment toward the outlook for the national economy weakened significantly, with the index down by 6.0% from 97.2 to 91.3, the lowest level since November 2005. Consumers also harboured doubts over the prospects of the local economy. This index fell by 5.1% from 102.1 to 96.9 in January.

While higher foodstuffs prices have weighed on many consumers (especially the middle and lower income households), consumers have also become increasingly concerned during the past few months that a slowing pace of economic

growth would negatively affect job prospects and their incomes. The index measuring sentiment on job prospects fell 3.3% to the lowest level in more than two years of 89.5 in January.

At the same time, the combination of a weaker job outlook and higher prices have raised consumer doubts over family income prospects: the index measuring sentiment toward the prospects of family incomes dropped by 2.7% from 93.3 to 90.8 in January.

Table 4. Buying intentions

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	MoM % Change
Automobile	0.4	0.3	0.3	0.4	0.3	-17.1
Motorcycle	1.7	1.9	2.2	1.9	1.1	-42.7
Bicycle	0.2	0.1	0.2	0.4	0.2	-51.4
House	0.3	0.4	0.8	0.5	0.5	0.0
House Renovation	1.9	1.3	2.4	1.8	1.4	-22.8
Land	0.3	0.4	0.4	0.4	0.1	-70.7
Audio-Visual	3.9	3.7	4.6	3.6	3.0	-17.8
Home appliance	3.5	4.0	3.1	4.2	3.4	-19.4
Gold & Jewelry	0.8	0.3	0.4	0.4	0.2	-34.3
Livestock	0.4	0.3	0.2	0.8	0.2	-69.3

Purchasing Intentions for Durable Goods: *Spending plans down in all categories, but house*

Buying intentions continues to weaken in January. After falling to 28.6% in December, the proportion of consumers who plan to buy durable goods over the next six months dropped again in January to a one-year low of 25.1%. It appears that consumers have become more prudent and more interested in rebuilding their reserve funds as a precaution against any future adverse economic developments. As such, buying intentions declined in almost all categories tracked by the survey. Only the percentage of consumers who plan to buy house that remains the same as previous survey.

Meanwhile, motorcycle buying plans were at the lowest level in the history of the survey. Although some of the declines reflected uncertainty about future overall prices and the future course of the economy, most of the decline may be attributed to what consumers view as less attractive prices offered by manufacturers.

Expectations on Key Economic Variables: *Mounting inflationary pressures*

With the prices of some basic commodities such as cooking oil, corn, flour and soybeans skyrocketing, consumers still believe that mounting inflationary pressures will continue to the next six months (the relevant index rose a further 1.5% to the highest ever level of 193.8).

Expectations on higher inflation and seasonality factors were indeed still put upward pressures on prices in January, reflected in the higher than expected MoM inflation of xx% in January. However, the price pressures may start to diminish in the next couple of months as the government has announced some fiscal measures by cutting import duty and taxes to lessen the basic foodstuff prices.

In line with the higher general prices expectation index, consumers still foresee higher interest rates going forward (the relevant index rose 1.0% to the highest level in more than two years of 120.0). As such, for the first quarter of 2008,

Bank Indonesia may have to hold to cut the interest rates. A possible room for cutting the benchmark rate may return again starting the second quarter, as the inflationary pressures are more benign.

In regard to the rupiah, consumers were more bullish on its near-term prospects. More respondents than before (9.6% in January vs. 9.0% in December) expected the rupiah to appreciate. However, consumer sentiment toward stock prices weakened (the relevant index edged down 0.5% to 109.4) as bad news in regard to the possible slowdown of the U.S economy, hikes in international crude oil prices and higher inflationary pressures still dominated.

Table 5. Expectations on Prices

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08
General Prices Expectations	187.4	191.2	188.3	186.4	191.1	193.8
Interest Rates Expectations	111.9	108.0	109.3	112.6	118.8	120.0
Exchange Rates Expectations	88.7	80.1	85.3	77.2	75.7	80.3
Stock Prices Expectations	102.4	107.2	105.4	109.4	105.5	104.9

Confidence in the Government: *Dissatisfied in the Ability to Stabilize Prices*

The latest survey suggests that consumers may be losing patience with the central government in regard to its promises to control the basic foodstuff prices. Concerned by the surging foodstuffs prices, the component of the Consumer Confidence in the Government Index (CCGI) measuring sentiment on the government's ability to stabilize prices plunged 7.9% to a two-year low of 72.4 from 78.7 in December.

Also down was the component of the CCGI measuring sentiment in the government's ability to spur the economy (the index fell 2.1% to 93.3 in January). At the same time, the component measuring sentiment on the government's ability to provide public infrastructure decreased 1.0% to 108.1 from 109.2 in December as many of the government's infrastructure initiative remains off the ground. Obstacles remain in regard to the land clearance and the funding problems. A number of crucial reforms such as labor laws, tax laws and other efforts to improve the investment climate are also progressing at a snail pace.

Of note too was the 4.5% fall in the component of the index measuring confidence in the government's ability to enforce the rule of law (the index fell from 106.3 to 101.6). Consumers may have been perturbed by the government's apparent inability to provide legal certainty for the civic case of the former president Soeharto.

Nevertheless, despite these discouraging developments, the component gauging sentiment in the government's ability to provide security and order climbed 2.5% from 111.5 to 114.3 given the relatively controllable security situations in January.

Table 6. Confidence Toward The Current Government

	July-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	MoM %Change
Recovery National Economy	98.3	95.7	100.7	91.4	100.1	95.3	93.3	-2.1
Stabilize The Price Of Goods	80.2	80.7	78.7	76.9	86.9	78.7	72.4	-7.9
Maintain Public Infrastructure	101.7	107.6	112.7	110.1	110.0	109.2	108.1	-0.9
Provide A Sense Of Safety	111.9	110.9	111.1	109.7	112.9	111.5	114.3	2.5
Provide A Sense Of Certainty	98.4	95.1	97.8	98.5	100.3	106.3	101.6	-4.5
CCGI	98.1	98.0	100.2	97.3	102.0	100.2	98.0	-2.2

* Note: Starting in April 2007, the Consumer Confidence in the Government Index (CCGI) has been adjusted to the year of 2003 = 100

TABLE 7. CCI - COMPOSITE SERIES			
CCI by Regions	Dec-07	Jan-08	MoM %Change
National			
Consumer Confidence Index	83.3	78.4	-5.9
Present Situation	66.1	60.1	-9.1
Expectations	96.3	92.1	-4.3
Jakarta			
Consumer Confidence Index	90.1	88.1	-2.3
Present Situation	71.2	67.3	-5.4
Expectations	104.3	103.7	-0.6
West Java			
Consumer Confidence Index	84.6	73.5	-13.1
Present Situation	59.0	45.5	-22.9
Expectations	103.8	94.5	-8.9
Central Java			
Consumer Confidence Index	77.6	71.6	-7.7
Present Situation	65.2	60.0	-8.1
Expectations	86.9	80.3	-7.5
East Java			
Consumer Confidence Index	70.6	73.0	3.3
Present Situation	46.1	46.5	0.8
Expectations	89.0	92.9	4.3
North Sumatera			
Consumer Confidence Index	78.8	70.5	-10.5
Present Situation	63.6	55.1	-13.3
Expectations	90.2	82.1	-8.9
South Sulawesi			
Consumer Confidence Index	100.6	96.8	-3.7
Present Situation	93.3	88.3	-5.4
Expectations	106.0	103.1	-2.7

TABLE 8: NATIONAL FIGURES				
CCI by Classification Respondent Profile (%)	Dec-07	Jan-08	MoM %Change	
Age of Respondents				
20-29	23.3	86.6	83.0	-4.1
30-39	30.9	88.1	79.8	-9.5
40-49	26.1	79.0	75.0	-5.1
50-59	15.2	77.7	73.9	-4.9
60 and over	4.5	73.3	79.0	7.8
Educational Level				
Primary School or less	41.1	77.8	72.0	-7.4
High School	51.5	86.3	82.1	-4.9
Academy/University	7.4	98.6	88.2	-10.6
Household Income				
under Rp 500,000	8.3	73.2	77.0	5.2
Rp. 500,000 - 700,000	13.4	78.3	72.9	-6.9
Rp 700,000 - 1,500,000,-	49.7	83.3	76.0	-8.7
Rp 1,500,000,- and over	28.6	88.3	85.5	-3.2
Gender				
Male	50.0	83.6	84.0	0.5
Female	50.0	83.1	92.7	11.7
Occupation				
Worker	31.1	88.0	82.0	-6.8
Self employed	30.6	81.9	75.3	-8.1
Unemployed	37.6	83.7	78.9	-5.8
Type Area				
Urban	70.4	82.4	78.8	-4.4
Rural	29.6	85.4	77.4	-9.5

* An index reading above 100 indicates that positives responses outnumber negative responses

RESEARCH TEAM

Purbaya Yudhi Sadewa, Ph.D.

Head of Economic Research
yudhi@danareksa.com

David E. Sumual

Economist
davidsumual@danareksa.com

Asti Suwarni

Industry Analyst
asti@danareksa.com

Bramanian Surendro

Economist/Econometrician
bramanian@danareksa.com

Natalia Daisyana

Research Assistant
natalia@danareksa.com

Damhuri Nasution

Senior Econometrician
damhuri@danareksa.com

Darwin Sitorus

Economist / Database Officer
darwin@danareksa.com

Martin Jenkins

Editor
martin@danareksa.com

Handri Thiono

Junior Economist
handrit@danareksa.com

Rika P. Ismalestari

Secretary
rikap@danareksa.com

Danareksa Research Institute

Danareksa Building
Jl. Medan Merdeka Selatan 14
Jakarta, 10110
INDONESIA
Tel : (62-21) 350 9777 / 888 (hunting)
Fax : (62 21) 3501709

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