

March 2008

CONSUMER CONFIDENCE

Confidence Rebounds as Worries of Rising Food Prices Ease

- As fears of rising food prices subsided, consumer confidence rebounded in February. Optimism toward the economy's future outlook increased as the economy turned out to be not as bad as initially perceived. Against this backdrop, the Consumer Confidence Index (CCI) recovered in February, up 2.5% to 80.4 from a two-year low of 78.4 in January.
- Last month, consumers were burdened by rising food prices and kerosene fuel shortages. Job opportunities were also scarce. However, present conditions did improve somewhat, since the kerosene shortages were not so acute, while prices of rice eased even though the prices of some imported basic foodstuffs remained high. Against this backdrop, the Present Situations Index (PSI) edged up 0.2% to 60.2 in February. Yet despite the slight increase, the very low level of the PSI shows that consumers still have strong concerns over the state of the economy.
- The relatively lower inflation in February raises consumer hopes of better living standards over the next six months. Looking ahead, the majority of consumers expect busier economic activities in the months ahead. Against this backdrop, the Expectations Index (EI) climbed from 92.1 to 95.5 in February.
- As consumers are more upbeat on the nation's outlook, consumer appetite for the purchase of big-ticket items increased in February. The proportion of consumers who plan to buy durable goods rose to 26.6% from 25.1% in January. Notably, buying intentions for goods often purchased on credit – such as houses, land, motorcycles and home appliances – all rose thanks to the declining loan rates. Also encouraging consumers to spend are the huge discounts on luxury goods (including audiovisual products).
- The Consumer Confidence toward the Government Index (CCGI) fell 4.8% to a five-year low of 93.3 in February. Notably, consumers remain unconvinced in the government's ability to spur growth (the index fell 7.2% to its lowest ever level of 86.6). In fact, consumers remain doubtful that the economy can grow quickly enough to generate new job opportunities in the months ahead.

DAVID E. SUMUAL

Economist

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

MARTIN JENKINS

Analyst

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

THE FEBRUARY 2008 RESULTS

The Consumer Confidence Index (CCI) rose by 2.5% to 80.4 after declining 5.9% to a two-year low of 78.4 in the previous survey. Both components of the CCI increased: the Present Situations Index (PSI) added 0.2% to 60.2 while the Expectations Index (EI) climbed 3.6% to 95.5. Looking ahead, consumers are more bullish on the near-term prospects for the economy and less concerned that high inflation was weakening their household finances.

Across the regions, sentiment weakened in only two of them: Jakarta, where the CCI slumped 7.1% to a one-year low of 81.9, and in South Sulawesi, where the CCI dipped 0.5% to 96.3. Consumers in both provinces cited a lack of jobs as a major concern.

In contrast, confidence improved significantly in North Sumatra (where the CCI jumped 11.5% to 78.6) as well as in Central Java (where the CCI surged 7.0% to 76.6). Confidence in West Java also bounced back from a two year low of 73.5 to 75.1, while East Java’s CCI climbed 1.5% to 74.1.

The latest survey shows that the CCI in rural and urban areas recovered by 3.3% and 2.2%, respectively, to 79.9 and 80.5 in February. Note that consumers in rural areas were more confident than those in urban areas. Yet this is perhaps unsurprising given that rural respondents are looking forward to the harvesting period in the next couple of months.

Among the different age groups, the CCI rose the most for consumers less than 30 years old. This index jumped 7.1% from a low base of 83.0 to 89.0 in February.

The improvements in the confidence levels of middle-income households were particularly sharp. For middle-income consumers with incomes between Rp500,000 to Rp700,000/month, the CCI surged by 6.3% to 77.4, while for consumers with incomes between Rp700,000 to Rp1,500,000/month, the CCI rose 4.7% to 79.6.

The confidence of middle-income households recovered after the prices of some basic foodstuffs such as rice and cooking oil eased in February. However, families in this income group still expect overall prices to rise at a faster pace than their incomes over the next six months.

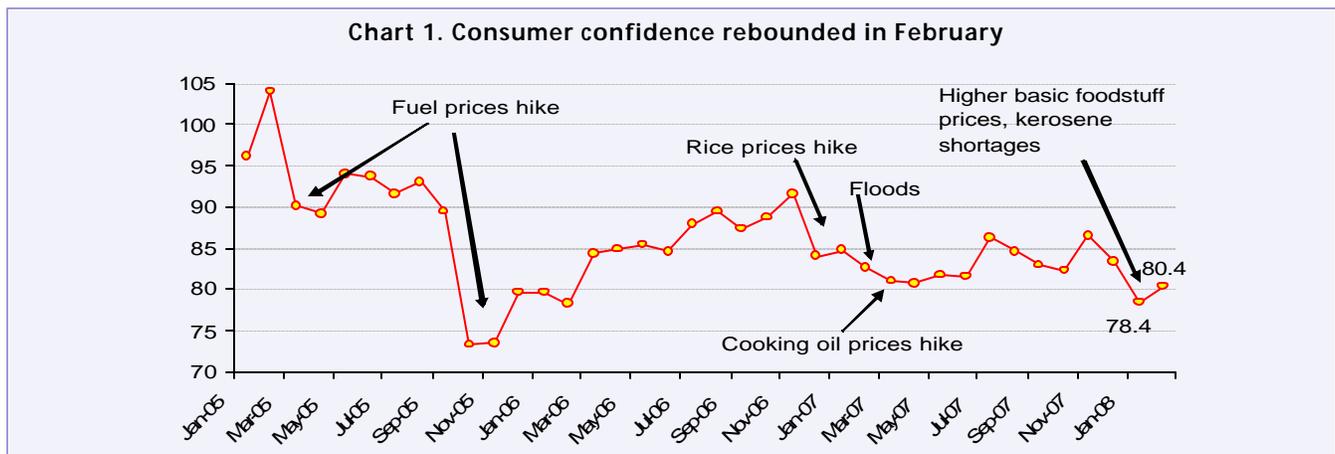
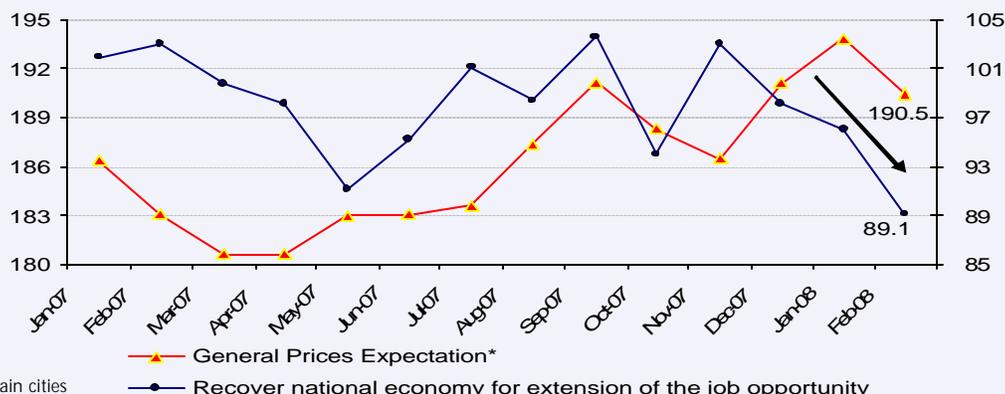


Chart 2. The general expectations index weakened, but confidence in the government's ability to bring about recovery in the economy continued to fall



* Respondents in main cities

Table 1. Consumer Confidence Index

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	MoM % Change
Consumer Confidence	82.2	86.5	83.3	78.4	80.4	2.5
Present Situation	62.5	68.3	66.1	60.1	60.2	0.2
Expectations	97.0	100.2	96.3	92.1	95.5	3.6

Appraisal of Current Situations: National economic conditions are still weakening

Consumers still felt that economic conditions were weak in February. Although the prices of some basic foodstuffs had eased, consumers remained unconvinced in the government's ability to spur economic growth. Against this backdrop, the component of the PSI measuring sentiment toward current national economic conditions fell again in February. After plunging 12.2% in January, this component of the PSI dived 18.2% to its lowest ever level of 41.2 in February.

Nonetheless, consumers gave more favorable assessments on current local economic conditions and the state of the job market. Indeed, the majority of consumers rated local economic conditions in February as favourable (the index increased from 82.7 in January to 84.5 in February), while the component of the PSI measuring sentiment toward the state of the current job market climbed 2.2% to 84.5 in February. Indeed, about 17.5% of consumers reported that jobs were "plentiful" compared to 14.8% in January, while 62.8% of consumers said that jobs remained "hard to get" vis-à-vis 67.7% in January.

In February, higher basic foodstuff prices and job scarcity remained the biggest concerns for consumers (especially for those respondents who live in East Java and Central Java). About 43.4% of respondents said that the increases in basic

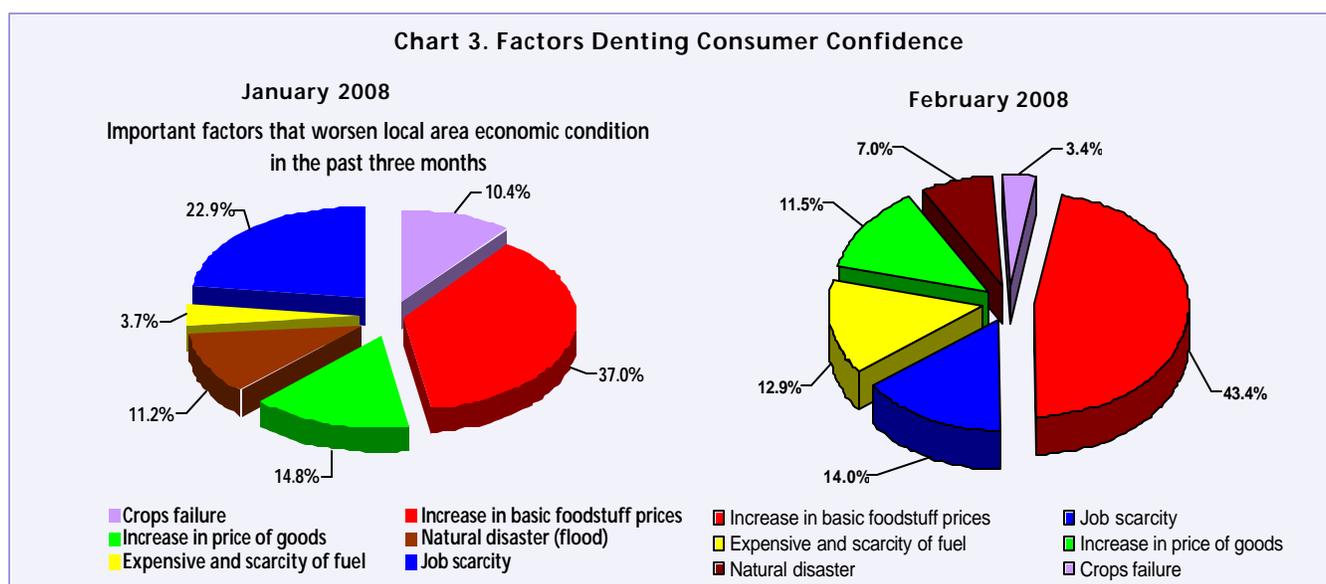
Table 2. Appraisal of Current Situations

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	MoM %Change
Economic Conditions	57.7	56.8	64.4	57.4	50.4	41.2	-18.2
Local Area Economic Conditions	85.0	85.0	92.9	90.4	82.7	84.5	2.2
Employment Conditions	48.6	45.8	47.4	50.3	47.0	54.8	16.4

foodstuff prices were the biggest factor behind the weaker local area economic conditions in the past three months (up from 22.7% in January), while 14.0% of consumers expressed concerns over difficulties in finding a job. Other problems that consumers are having to grapple with include more expensive fuel and fuel scarcity (12.9%), higher prices of goods (11.5%), natural disasters (7.0%), and crops failure (3.4%).

Table 3. Expectations for the Six Months Ahead

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	MoM % Change
Economic Prospects	100.5	103.5	97.2	91.3	94.4	3.4
Employment Prospects	91.2	94.4	92.5	89.5	94.3	5.4
Family Income Prospects	94.5	98.7	93.3	90.8	93.4	3.0
Local Area Economic Prospects	101.9	104.1	102.1	96.9	99.8	2.9



Assessments of Near-Term Conditions: *On the Rebound*

The large decline in the Expectations Index last month was quite disturbing. This is because this component of the CCI - unlike the Present Situations Index (PSI) - often takes time to regain upward momentum. However, all the components of the EI rose in February.

Most notably, consumers were less downbeat on the country's economic outlook. They also had greater confidence in the prospects for the job market. The index measuring sentiment on the prospects for the job market climbed by 5.4% to 94.3 from 89.5 (its lowest level in two years).

Along with the better job outlook, consumers also expect rosier national and local economic conditions. These two indices rebounded by 3.4% and 2.9%, respectively, to 94.4 and 99.8.

It also appears that the combination of higher income gains and easing inflationary pressures in the months ahead have brought about greater confidence among consumers in regard to their household finances. Indeed, consumers anticipate some gains in their living standards over the next six months with the index measuring family income expectations gaining 3.3% to 93.4 in February.

Table 4. Buying intentions

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	MoM % Change
Automobile	0.3	0.3	0.4	0.3	0.3	0.0
Motorcycle	1.9	2.2	1.9	1.1	1.5	31.8
Bicycle	0.1	0.2	0.4	0.2	0.1	-29.4
House	0.4	0.8	0.5	0.5	0.6	26.1
House Renovation	1.3	2.4	1.8	1.4	2.1	50.4
Land	0.4	0.4	0.4	0.1	0.4	191.7
Audio-Visual	3.7	4.6	3.6	3.0	3.9	31.4
Home appliance	4.0	3.1	4.2	3.4	3.4	1.5
Gold & Jewelry	0.3	0.4	0.4	0.2	0.4	52.2
Livestock	0.3	0.2	0.8	0.2	0.4	52.2

Purchasing Intentions for Durable Goods: *Increased Appetite for Durable Goods*

Appetite for durable goods increased slightly in February. With hopes of higher incomes in the months ahead, consumers indicated a greater desire to purchase durable goods over the next six months. Indeed, buying intentions rose in nearly all categories tracked by the survey (only the buying intentions for bicycles fell in the latest survey). All in all, the proportion of consumers who plan to buy durable goods edged up from 25.1% in January to 26.6% in February.

Buying plans for motorcycles were at their lowest level in the history of the survey. Although this may partly reflect concerns over rising prices in general (and the prospects for the economy as a whole), consumers may also be starting to take the view that motorcycles are no longer being sold at attractive prices.

Propelled by the declining credit rates, the proportion of respondents who plan to buy motorcycles, land or houses climbed from 1.1%, 0.1% and 0.5%, respectively to 1.5%, 0.4% and 0.6% in February. And following the government's decision to lower taxes on luxury goods – which includes electronic products - buying attitudes toward audiovisual equipment also increased. Indeed, the percentage of respondents intending to buy audiovisual equipment recovered from 3.0% to 3.9% in February.

Expectations on Key Economic Variables: *Inflationary pressures ease*

Inflationary expectations subsided somewhat in February. Note that during the month, the prices of some basic commodities started to decline. This helped to push down the consumer price index (CPI) from 1.77% in January to 0.65% in February. Against this backdrop, the index measuring consumer sentiment toward general price expectations dipped 1.7% to 190.5 from 193.8.

At the same time, the index measuring consumer sentiment on interest rates slid from 120.0 to 116.6 on the belief that the central bank will continue easing its monetary policy stance over the next six months. However, looking forward, there may be an opportunity for the central bank to cut rates since inflation should be more benign starting in the second quarter of the year.

At the same time, confidence toward the rupiah weakened. The component measuring sentiment toward the rupiah dipped 1.3% to 79.3 in February. Indeed, more respondents than before (29.7% in February vs. 29.3% in January) expect the rupiah to depreciate. Meanwhile, consumer sentiment toward stock prices weakened (the relevant index edged down 0.5% to 109.4) as concerns over a possible US economic recession and high crude oil prices dominated the news.

Table 5. Expectations on Prices

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
General Prices Expectations	191.2	188.3	186.4	191.1	193.8	190.5
Interest Rates Expectations	108.0	109.3	112.6	118.8	120.0	116.6
Exchange Rates Expectations	80.1	85.3	77.2	75.7	80.3	79.3
Stock Prices Expectations	107.2	105.4	109.4	105.5	104.9	108.3

Confidence in the Government: *Dissatisfied with its ability to spur growth*

Despite the rebound in consumer confidence in February, consumers are still unimpressed with how the present administration is tackling the myriad of problems that the country faces. Overall, the Consumer Confidence in the Government Index (CCGI) fell again in February, slipping 4.8% to a five-year low of 93.3 from 98.8 in January.

Of note too was the 7.2% fall in the component of the CCGI measuring confidence in the government's ability to spur growth (this index fell from 96.1 to its lowest ever level of 89.1). In fact, consumers remain doubtful that the economy can grow quickly enough to generate new job opportunities in the months ahead.

Like before, consumers are dissatisfied with government efforts in stabilizing the prices of goods. Many consumers, especially the poor, spend a significant proportion of their incomes on basic foodstuffs, and so it is little surprise that with high foodstuffs inflation that the component of the CCGI measuring sentiment in the government's ability to stabilize prices slumped 7.1% to its lowest ever level of 67.3 from 72.4 in January.

At the same time, the component of the CCGI measuring sentiment on law enforcement also continues to flounder. This index dived 6.1% to 95.4 since consumers remain dissatisfied with the slow progress of reform in the country's high judicial institutions. Also on a declining trend was the component of the CCGI gauging sentiment in the government's ability to provide security and order (this index fell 4.7% to 108.9).

Table 6. Confidence Toward The Current Government

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	MoM %Change
Recovery National Economy	95.7	100.7	91.4	100.1	95.3	93.3	86.6	-7.24
Stabilize The Price Of Goods	80.7	78.7	76.9	86.9	78.7	72.4	67.3	-7.08
Maintain Public Infrastructure	107.6	112.7	110.1	110.0	109.2	108.1	108.2	0.03
Provide A Sense Of Safety	110.9	111.1	109.7	112.9	111.5	114.3	108.9	-4.73
Provide A Sense Of Certainty	95.1	97.8	98.5	100.3	106.3	101.6	95.4	-6.06
CCGI	98.0	100.2	97.3	102.0	100.2	98.0	93.3	-4.78

* 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	Jan-08	Feb-08	MoM %Change
National			
Consumer Confidence Index	78.4	80.4	2.5
Present Situation	60.1	60.2	0.2
Expectations	92.1	95.5	3.6
Jakarta			
Consumer Confidence Index	88.1	81.9	-7.1
Present Situation	67.3	59.5	-11.7
Expectations	103.7	98.7	-4.8
West Java			
Consumer Confidence Index	73.5	75.1	2.2
Present Situation	45.5	44.9	-1.4
Expectations	94.5	97.8	3.5
Central Java			
Consumer Confidence Index	71.6	76.6	7.0
Present Situation	60.0	61.3	2.2
Expectations	80.3	88.2	9.7
East Java			
Consumer Confidence Index	73.0	74.1	1.5
Present Situation	46.5	53.9	16.1
Expectations	92.9	89.1	-4.0
North Sumatera			
Consumer Confidence Index	70.5	78.6	11.5
Present Situation	55.1	58.0	5.4
Expectations	82.1	94.1	14.6
South Sulawesi			
Consumer Confidence Index	96.8	96.3	-0.5
Present Situation	88.3	83.1	-5.9
Expectations	103.1	106.2	2.9

TABLE 8: NATIONAL FIGURES				
CCI by Classification Respondent Profile (%)	Jan-08	Feb-08	MoM %Change	
Age of Respondents				
20-29	25.6	83.0	89.0	7.1
30-39	31.1	79.8	80.8	1.3
40-49	23.4	75.0	76.4	1.8
50-59	15.1	73.9	73.4	-0.8
60 and over	4.8	79.0	72.6	-8.1
Educational Level				
Primary School or less	36.1	72.0	75.6	5.0
High School	55.5	82.1	81.5	-0.7
Academy/University	8.4	88.2	93.0	5.5
Household Income				
under Rp 500,000	5.7	77.0	78.1	1.4
Rp. 500,000 - 700,000	12.0	72.9	77.4	6.3
Rp 700,000 - 1,500,000,-	51.0	76.0	79.6	4.7
Rp 1,500,000,- and over	31.2	85.5	83.1	-2.7
Gender				
Male	50.0	84.0	94.5	12.4
Female	50.0	92.7	91.3	-1.6
Occupation				
Worker	30.0	82.0	83.7	2.0
Self employed	30.3	75.3	83.0	10.2
Unemployed	36.4	78.9	80.8	2.4
Type Area				
Urban	70.8	78.8	80.5	2.2
Rural	29.2	77.4	79.9	3.3

* 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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