

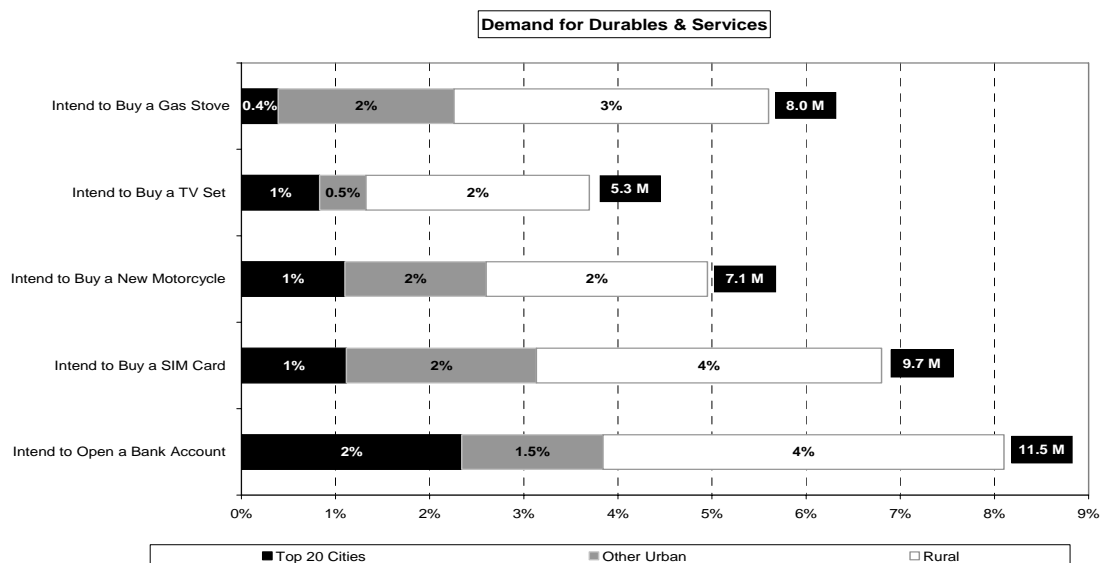
## Consumer sentiment remains strong but jobs need protection.

Last week's update reported the relative calm in Indonesia's fast moving consumer goods industries. The basket of five "essentials" reflecting all-weather products are still faring well, though there is strong evidence of downtrading in some categories, influenced by the overall rising cost of everyday shopping.

The news for the consumer durables market is similarly stable as at the end of the October-December quarter of 2008. An accompanying basket of five consumer goods and services reflects the same market sentiment influenced by the reduction in fuel prices. The Roy Morgan Consumer Confidence index is at a high of 116. This is of course in marked contrast with developed countries, almost all of whom are in or are on the verge of recession. Consumer confidence across the West is running well below the neutral 100 mark.

But a closer look at the composition of Indonesia's demand for these five indicators of goods and services, reveals some interesting differences. Across the board, rural Indonesia has more people hungry for these products and services than their cousins in the cities and towns of Indonesia. In reality, many of these rural aspirations may not be realised in the next 12 months due to limiting factors like credit facilities and credit qualifications, distribution or access. But the fact remains that the potential for new gas stoves, TV sets, motorcycles, cellular phone connections and bank accounts -the five indicators- are predominantly from the villages of Indonesia.

Of the five selected indicators, the demand for gas stoves has grown rapidly through till December 2007, at which point rising prices of food and fuel dampened enthusiasm. But even today, the country has 8 million people planning to buy one, from the most humble to the state-of-the art. Over 5 million of those are residents of rural homes, followed by small towns and only then, the top 20 cities. It's anybody's guess where the marketing attention is focussed, instead.



Similarly, 2 per cent of Indonesia's rural population aspire to buy a TV set in the next 12 months accounting for well over half the national demand of 5.3 million people. As with gas stoves, demand was at its peak in December of 2007 but is still over the 5 million mark today. That is dwarfed by the desire of just over 7 million people who would like to buy a new motorcycle in the next four years. 2 per cent of the rural population, 2 per cent of towns and only 1 per cent of the top 20 cities are planning to buy one in the medium term. But demand has in fact dropped by almost a million people in the last quarter alone, surprising many, as it comes in the face of reduced fuel prices.

The explanation lies in the continuing decline in the number of people intending to open a bank account. A motorcycle in the home is a good indicator of the middle-class, at least its lower end. A new car is a luxury only the affluent can afford. But a simple savings account is a middle-class essential and by that token, Indonesia is sliding backwards. Faced with rising prices, as well as banking fees and charges, the number of people with active bank accounts is steadily diminishing. No surprise then that the number of people planning to open a bank account is now down to 11.5 million people, shedding 2 million hopefuls in the second half of 2008 alone. The middle-class is clearly hurting, their aspirations dampened. But even today, over half the remaining intenders are rural residents.

The most positive sign of consumer sentiment is the continued interest in cellular communications. As more and more people join the cellular world, the number of intenders naturally diminishes but still remains strong. Almost 10 million intenders are planning to join this community in the next 12 months, from the student and the housewife to the humble blue collar worker. Today, 41 per cent of the population 14 years and older have a cellular connection, a universe that continues to grow in perhaps the most fiercely contested of service categories. The contrast in the performance of two service industries, banking and telecommunications, will be highlighted in this column next week.

For now, the obvious connection between job losses and consumer confidence deserves the utmost attention. As global demand for products and minerals diminishes, it will take its toll on Indonesian jobs. Yet, the need for infrastructure assets across the country are opportunities for job creation, if only to even out the impending retrenchments that faces much of the workforce in the year ahead. If the stimulus package focusses on creating jobs, it will go a long way to retaining the consumer confidence that drives much of the real economy. Businesses need to remember that hurting employees has a direct impact on the welfare of the employer as well.

The conclusions are based on Roy Morgan Single Source, a syndicated survey with over 25,000 Indonesians 14 years and older interviewed each year. Almost 90 per cent of the population is covered, in the top cities, other urban and rural as well. The national database is updated every 90 days.

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