


Asian Insights SparX

Indonesia Consumption Basket

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Dec 2022

High inflation to bring swift change in Indonesians' spending patterns

- With high inflation, we explored Indonesia's perception and spending via a survey
- Several interesting highlights, amongst which is a high propensity towards shifting behaviour
- Non-food basket to grow after COVID, but at slower pace
- Go for value, staples (ICBP IJ), or mid-high income (MAPI IJ)

Inflation raging high on consumers' minds and purse. Our proprietary consumer survey from over 700 respondents in November 2022 shows numerous noteworthy points, with inflation raging high. At the top, we expect to see a swift change in consumer spending behaviour with this bout of inflation. Majority (~7 in 10) also indicate a preference for "safe habour" to "save more, spend less" or opt for "cheaper alternatives". Not surprisingly, necessities are on high priority over discretionary items, though this varies with income levels. While COVID-19 restrictions have brought about certain stay-home behaviour (dining), the inflationary environment is likely to perpetuate it.

Macro consumption basket trends to normalise partially back to pre-COVID. Taking insights from our latest survey, study of consumption basket in the 2013-15 inflation, as well as COVID-19 behaviour changes, we expect non-food proportion to tick up to 51.2% in 2023F, up from 49.9% in 2022, buoyed by housing and household spending. Within the food segment, we expect dine-out to tick up from reopening, though not to the pre-COVID-19 level.

Go for staples, value and higher income segments. We are more cautious entering 2023 with the potential impact of inflation on demand and spending behaviour. We like consumer F&B staple plays (ICBP IJ) given the resilient demand for staple food products, while we pick MAPI IJ in the retail space with a focus on mid- to high-income consumers.

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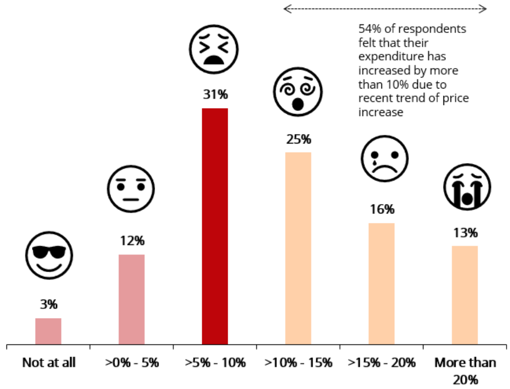
STOCKS

	Price Rp	Mkt Cap US$m	12-mth Target Price Rp	Performance (%) 3-mth	12-mth	Rating
Indofood CBP Sukses Makmur	10,350	7,728	11,900	19.7	19.0	BUY
Indofood Sukses Makmur	6,775	3,809	8,800	6.7	5.0	BUY
Mitra Adiperkasa	1,400	1,488	1,770	41.4	87.9	BUY
Matahari Department Store	5,050	765	6,300	34.7	22.6	BUY
Unilever Indonesia	4,740	11,578	4,850	5.1	12.3	HOLD
Kino Indonesia	1,550	142	1,400	(35.7)	(24.4)	HOLD

Source: DBS Bank, DBSVI, Bloomberg Finance L.P.
Closing price as of 6 Dec 2022

54% of respondents felt that price increases were more than 10%, higher than headline inflation figure in Nov'22



Source: DBS Bank

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Executive Summary

From infection to inflation: What's on Indonesian consumers' minds and effects consumption patterns? In a span of just over two years, we moved from a global pandemic not seen in a century to the highest global inflationary environment in the last four decades. Indonesia, the most populous country Southeast Asia and the fourth globally was not spared. According to WHO (World Health Organisation), COVID-19 infected 6.7m people from January 2020 to November 2022 in Indonesia, cumulatively claimed almost 160k lives and brought about changes in how Indonesia consumers live and respond to it.

Back in June 2020, three months after WHO declared **COVID-19** as a pandemic, we explored the **potential impact** this event had on **Indonesian consumers' behaviour, attitude, and potential spending** and noted the **five key trends** we saw that emerging then. We took this a step further and pencilled down our expectations on Indonesian's personal household consumption at a macro level and surveyed on companies' responses to the pandemic. These insights and findings were captured in our earlier [Asian Insights SparX: Insights on COVID-19 pandemic impact: Indonesian Consumer (28 Aug 2020)].

Inflation in key focus now. Fast forward to the present, even though there may be lingering infections, we believe the pandemic is largely behind us. With inflation having hit a four-decade high globally, we believe this is a key focus. Juxtaposing it with consumption behaviour brought about by COVID-19, we now look at the key concerns for consumers, how this current environment could change their spending patterns and what could be in store for companies and investors.

In this report, we address **three key areas**: (A) Indonesian consumers' current perception on inflation, and how spending behaviour could change; (B) expectations on Indonesian consumption basket on a macro level; and (C) implications for investors.

A) Indonesians' perception and behaviour changes from inflation: Survey findings and key trends observed

Swift change in consumer patterns expected. Our survey conducted with over 700 responses gave us good insights, and we note that inflation is high on consumers' radar along with several key observations.

We summarised our observations into **five key points** (for details, please see following section A). Chief among that is an expectation of a swift change in consumer spending behaviour as respondents seem to think inflation will persist for the next six months and beyond.

A high majority of respondents seem to indicate defensive behaviour (68%) with a high inclination to "save more, spend less" (50%) or "look for cheaper alternatives" (19%), though we note there are varying degrees for different income levels. Not surprisingly, necessities were placed at higher priority over discretionary items. Lastly, the inflationary environment is likely to perpetuate certain stay-at-home behaviour seen during COVID-19 restrictions.

B) Consumption basket outlook: Key changes to our macro view

Effects on consumer spending and consumption basket. We lay out our expectations and implications on Indonesian consumption basket for 2023F-2024F, interposing the survey insights, study of past inflation trends in 2013-2015, and effects of COVID-19 on consumption basket.

Non-food basket to grow after COVID, but at slower pace. In our report in [Aug 2020], we predicted that Indonesian food consumption basket would grow to above 50% with COVID behaviour. Looking back, we were right. With the interplay of inflation and reopening, we now expect non-food to proportionately to tick up to 51.2% in 2023F, up from 49.9% in 2022. Correspondingly, food basket proportion of consumption basket will drop.

C) Implication for companies and investors

Consumers play defensive, preference for staples and value. We are more cautious entering 2023 as we believe the impact of higher subsidised fuel prices and rising inflation on demand would be more evident, which will result in slowdown in household consumption. From the consumer survey and study on Indonesia's consumption basket, it seems consumers are resigned to a prolonged price uptrend and are ready to adjust their consumption and spending behaviour.

Our top picks are ICBP and MAPI given their more resilient performances in an inflationary environment and attractive valuation. In this inflationary environment, we prefer consumer F&B staple plays given that demand for staple food products is relatively resilient. Our top pick for this theme is ICBP.

In the retail sector, we opt for retailers targeting the middle- to upper-income consumers whose purchasing power would be less affected by rising inflation and higher subsidised fuel prices. According to our consumer survey, middle- and upper-income class consumers will most likely take their time to adapt or will not alter their spending habits at all despite rising inflation. Our top pick in this theme is MAPI.

In addition, both ICBP and MAPI's valuations are attractive. ICBP is trading at c.17x FY23F PE or -1SD of its five-year historical mean PE, while MAPI is trading at c.12x FY23F PE or below -2SD of its average PE valuation in 2016-2018.

A) What's on Indonesian consumers' minds now?: Survey and findings

Indonesians' perception on the current trend of rising inflation and their responses

What's on Indonesian consumers' minds now? A survey to understand the changes in consumers' spending patterns in response to rising inflation. In view of the rising inflation trend in Indonesia, we undertook a consumer survey to get an on-the-ground understanding of the interplay between consumers and inflation, their perception, and impact on their spending categories. This provides insights into consumer behaviour on the back of the current high price environment, and its impact on the various industries.

Striking while inflation is burning hot: Survey period of early November 2022. We launched the consumer survey on 8 November 2022, striking when inflation was burning high. We garnered 722 responses over a two-week period. The survey was voluntary, sent out anonymously with a list of questions.

It gave us many interesting insights, particularly in this current volatile environment with the Indonesia and most countries just reopening from COVID-19 and with easing travel and mobility restrictions after more than two years.

We summarised our key takeaways and prognosis as follows:

1) Infection to inflation. An overwhelming percentage of respondents (59% or almost 6 in 10) indicated that rising inflation is their top concern. This compares to only 12% of respondents or 12 in 100, who indicated the lingering effects of the pandemic as a top concern. In our view, inflation is so pervasive that 98% of respondents felt it in their daily lives.

2) Swift change in consumption pattern expected. We believe the change in consumption pattern because of inflation will be swift; and, companies, if not responding already, should do so. Our views are premised on: (a) A high percentage (54%) of respondents feeling that inflation has increased their family expenditure by more than 10%, comparatively higher than Indonesia's inflation statistics; (b) almost 9 in 10 respondents (89%) feeling that this rising inflation environment will persist for the next six months and beyond, and; (c) more than 6 in 10 (62%) of respondents changing their spending habits quickly, within six months or less. But, within income segments, it is not surprising to note that the responsiveness to change declines as we move up income brackets.

3) Defence to offense as income bracket moves higher. In confronting the inflation giant, majority (68% of respondents) opt for a more defensive stance of "save more, spend less" (50%) and "look for cheaper alternatives" (19%). But there is a distinct trend with higher income groups looking towards more active options such as investing, higher/ additional employment/ business income to counter the effects of rising prices.

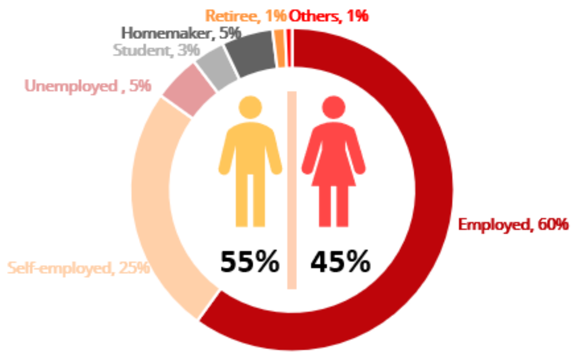
4) Inflationary environment perpetuates certain stay-at-home behaviour seen during COVID-19 restrictions. With the current inflationary environment, the shift towards necessities ranks high over discretionary items. This is similar to the spending pattern brought about by COVID-19, with movement restrictions, i.e., eating at home (groceries) vs. dining out. However, non-staple foods or snacks take lower priority, moving towards discretionary spectrum.

5) Discretionary vs. Necessities; Quality vs. Quantity. There is a distinct difference in respondents' preference for discretionary spending compared to that for necessities. For discretionary items (dining out, recreation or travel, clothing), we note that respondents prefer to consume less, rather than opt for cheaper alternatives. The converse is true for necessities, where there is high preference for cheaper alternatives.

Backdrop: Demographic profile of survey respondents. Respondents were mixed gender-wise (55%:45% Male:Female). The majority were of the working-age population (95% between 20-55 years old), majority were either employed (60%) or self-employed (25%), and majority were located in either Greater Jakarta (66%) and Java outside Greater Jakarta (21%).

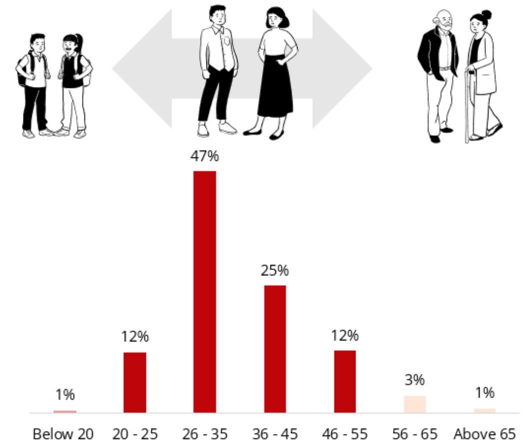
Given the implications of income on spending, we also sought responses on income levels. We classified the income levels into three broad monthly income categories: (i) 29% were in the **lower-income** group with a monthly household income between **Rp0-Rp5,000,000**, (ii) 52% were in **middle-income** group with monthly household income between **Rp5,100,000-Rp30,000,000**, (iii) 14% were in **upper-income** group with a monthly household income between **Rp30,100,000 to above Rp100,000,000**, and (iv) 5% of the respondents preferred to not disclose their income.

Gender was mixed; 85% employed & self-employed



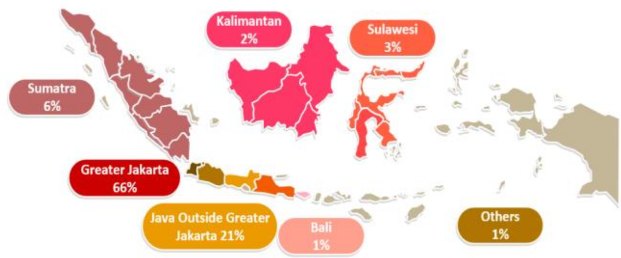
Source: DBS Bank

Age groups largely within the economically active



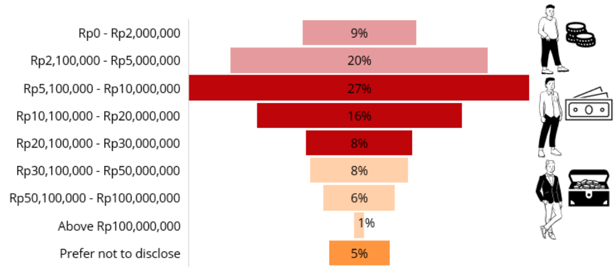
Source: DBS Bank

Respondents mainly from Greater Jakarta and Java



Source: DBS Bank

Half of respondents were in middle-income group



Source: DBS Bank

Key highlights

Expanding our points summarised earlier, the consumer survey we conducted gave us several insights and implications from our perspective, as follows:

1) Inflation is the biggest concern now, and consumers are well aware about it.

   a. **Inflation is in the top of people's mind, more than the pandemic now**. Based on our survey, it seems that the COVID-19 pandemic is almost behind us, and people are now more concerned about inflation or recession. **59% of the respondents chose rising inflation as their current biggest concern**, while 27% chose economic slowdown or recession as their biggest concern. Only 12% of the respondents chose the lingering impact of the COVID-19 pandemic as their biggest concern.

   b. **98% of respondents noticed the rising price trend.** Based on our survey, it seems that price increases are being keenly felt – or at least well-known – by Indonesians. **55% of respondents** attributed the cause of inflation to **two main factors** – the **fuel price hike** (27% of respondents) and the **geo-political unrest** between Ukraine-Russia (27% of respondents). Other perceivable causes were supply chain disruptions from the COVID-19 pandemic (19% of respondents) and the US Federal Reserve raise of interest rate (16% of respondents).

2) Price increases were more than Indonesia's inflation statistics and more obvious in groceries and fuel categories.

   a. **Substantial consumers felt that price increases were more than the reported headline inflation rate.** In November, headline inflation stood at 5.42% y-o-y. 31% of respondents were relatively spot on (>5-10% range), but **more than half (54% of respondents)** indicated that **price increases had raised their expenses by above 10% and more** (>10%-15% increase - 25% of respondents; >15%-20% increase – 16% of respondents; more than 20% increase - 13% of respondents).

   b. **Consumers chose fuel and groceries as two main expenditures with the highest price increase.** Amongst the spending categories, price increases on fuel or transport costs and groceries or basic foods were the most obvious to the respondents given their roles as daily necessities.

3) Price increases were expected to persist for quite some time, and respondents indicated a high possibility of a quick shift in spending pattern.

   a. **Consumers expected this trend of rising inflation to drag on for longer.** An overwhelming high percentage **(89%) of respondents** expected the high inflation trend to **persist over the next six months and beyond** (in the next six months – 30% of respondents; in the next 12 months – 31% of respondents; more than 12 months – 28% of respondents). This means **consumers anticipate the high inflation environment will stay at least until 1H23 or, in the worst-case scenario, until 2024.**

   b. **Wider consumer population will shift their spending habits relatively quickly in the current high inflation environment.** 62% of respondents indicated that their spending behaviour will change within three months, and three to six months. This is given that substantial number of respondents believe this trend of rising inflation is not temporal and will persist over the next six months and beyond (referencing from the previous point). Hence, **we should expect a shift in consumers' spending habit to happen sometime soon**.

4) Lower-income group will alter their spending pattern faster than middle- and upper-income group.

   a. **Majority of lower-income consumers will change their spending habits immediately in response to rising inflation.** Based on our survey, 71% of respondents in lower-income group stated that they will quickly adjust their spending behaviour if inflation and prices stay high within three months, and three to six months.

b. **About 40% of the middle- and upper-income consumers will take their time to adapt; few in upper income group will not change their spending habits despite rising inflation.** Under the middle-income group, only 58% of respondents will change their spending habits within three months and three to six months. Meanwhile, 38% of respondents in this income group will adjust their spending pattern only if inflation and prices stay at the current high rate for more than six months. Moreover, 4% of respondents in this income group indicated that they will not change their spending habits despite rising inflation.

   Similarly, only 56% of respondents under the upper-income group will alter their spending habits within three months, and three to six months. Meanwhile, **37% of respondents in this income group will shift their spending pattern only if inflation and prices stay at the current high rate for more than six months**. Furthermore, 7% of respondents in this income group indicated that they will not adjust their spending habits at all despite rising inflation.

5) Consumers – especially those in the lower- and middle-income group – are taking a defensive stance with spending to counter the effects of rising inflation and prices.

a. **Respondents highlighted a preference towards taking a defensive stance, by saving more/ spending less, and looking for cheaper alternatives, vs. looking towards higher income.** 50% of respondents highlighted that they will "save more, spend less", and 19% of respondents will "look for cheaper alternatives" in response to inflation. Meanwhile, 20% of respondents will "invest for higher returns", and 10% of respondents will "look for higher employment income and additional income".

b. **Majority of lower- and middle-income group will take a defensive stance amid rising inflation.** Under the lower-income group, 76% of respondents will take a defensive stance by "save more, spend less" (55% of respondents) and "look for cheaper alternatives" (21% of respondents) in response to inflation. Only 24% of respondents in this income group will look for higher income ("invest for higher returns" – 16% of respondents; "look for higher employment income and additional income"– 8% of respondents).

   Similarly, 69% of respondents under the middle-income group will take a defensive stance by "save more, spend less" (51% of respondents) and "look for cheaper alternatives" (18% of respondents) in response to inflation. Only **30% of respondents in this income group will look for higher income** ("invest for higher returns" – 19% of respondents; "look for higher employment income and additional income" – 11% of respondents).

c. **Almost half the people in the upper-income group will look towards higher income in view of rising inflation.** Under the upper-income group, **45% of respondents will look for higher income** ("invest for higher returns" – 30% of respondents; "look for higher employment income and additional income" – 15% of respondents). Furthermore, 2% of respondents in this income group will not do anything despite rising inflation.

   Only 52% of respondents in this income group will take a defensive stance due to inflation by "save more, spend less" (34% of respondents) and "look for cheaper alternatives" (18% of respondents).

   In our view, consumers in the **upper-income group** will have higher **disposable income to counter inflation as well as to invest for additional income.** Hence, the wider population in this income group might not need to change their spending habits amid rising inflation. Meanwhile, lower- and middle-income group people have limited disposable income; thus, they will have to adapt with the high inflationary environment by saving and adjusting their spending.

6) In adjusting their spending behaviour, necessities' spending, not surprisingly, ranks high in consumers'

spending priorities (groceries, fuel), while discretionary spending categories (recreation, dining out, clothing) ranks low.

a. **Although both groceries and fuel recorded the highest price increases, respondents will still prioritise them over other things.** Based on our survey, groceries or basic foods and fuel or transport costs are the top consumers' spending priorities although both categories reported the highest price increases. The other two categories which rank among the highest on spending priority are housing and household expenses (e.g., house rent, mortgage payment, utilities) as well as home and personal care products.

   The trends are similar across all income group. Under the lower- and middle-income group, consumers chose groceries or basic foods (#1), fuel or transport costs (#2), and housing and household expenses (#3) as their top three spending priorities in the current trend of rising inflation and prices. Meanwhile, under the upper-income group, consumers picked groceries or basic foods (#1), fuel or transport costs (#2), and home and personal care products (#3) as their top three spending priorities. In addition, we noticed more people in the upper-income group prioritised investment compared to lower- and middle-income group.

b. **Recreation, shopping, and dining out rank among the lowest on spending priority**. Lowest spending priorities are on discretionary items, such as (i) recreation or travel, (ii) dining out, (iii) clothing, shoes, bags, accessories, (iv) durable goods, and (v) non-staple foods or snacks.

   The trends are similar across all income groups, only with different orders. Under lower-income group, consumers chose dining out (#1), recreation or travel (#2), and clothing, shoes, bags, accessories (#3) as their lowest spending priorities in the current trend of rising inflation and prices.
   Under middle-income group, consumers chose recreation or travel (#1), dining out (#2), clothing, shoes, bags, accessories (#2), and durable goods (#3) as their lowest spending priorities.

   Under the upper-income group, consumers picked clothing, shoes, bags, accessories (#1), recreation or travel (#2), dining out (#3), and durable goods (#3) as their lowest spending priorities.

7) Consumers would opt for cheaper alternatives for necessities categories (groceries, home and personal care products), while consumers prefer to reduce consumption frequency for discretionary categories (dining out, recreation, clothing).

a. **Consumers would opt for cheaper alternatives for necessities**. Our survey shows that respondents are clearly in favour of cheaper alternatives for groceries or basic foods as well as home and personal care products compared to reduce consumption frequency. We also see a tendency over preferring cheaper alternatives than reducing consumption frequency in housing and household expenses as well as fuel or transport costs.

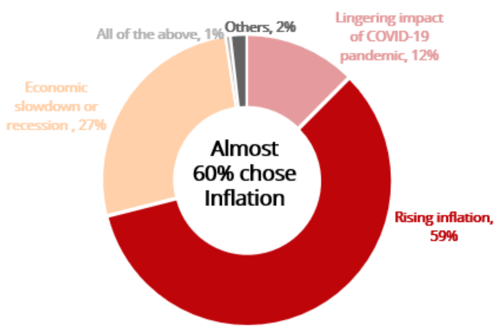
b. **Consumers more prefer to reduce consumption frequency for discretionary categories.** Spending categories deemed as discretionary such as dining out, recreation or travel and clothing, shoes, bags, accessories rank high in terms of reducing consumption and cheaper alternatives. However, it seems respondents have a stronger preference to reduce frequency rather than opt for cheaper alternatives in these categories. This might suggest that consumers go for quality over quantity for these discretionary categories. Meanwhile, non-staple foods or snacks and durable goods have an even mix between reducing consumption and cheaper alternatives.

c. **Slightly different trends in the upper-income group.** The trends mentioned above are true for the lower- and middle-income group. However, the trends are quite different for the upper-income group. Respondents under this income group have a stronger preference to reduce frequency rather than opt for cheaper alternatives in housing and household expenses as well as non-staple foods or snacks, in addition to recreation or travel and dining out. It seems that upper-income people already have their standard of living, which cannot be compromised in terms of quality.

Meanwhile, clothing, shoes, bags, accessories, durable goods, and fuel or transport costs have an even mix between reducing consumption and cheaper alternatives under this income group. But like other income group, respondents in the upper-income group are also in favour of cheaper alternatives for groceries or basic foods as well as home and personal care products compared to reduce consumption frequency.

Results of survey

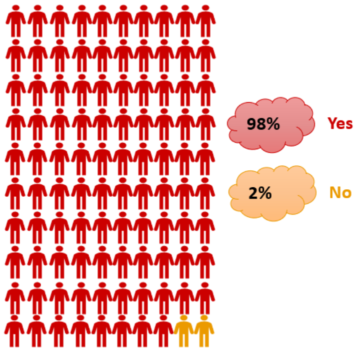
Question: What is your biggest concern at present?



Source: DBS Bank

59% of the respondents chose rising inflation as their biggest current concern, suggesting that inflation is at the top of people's mind, as opposed to the pandemic.

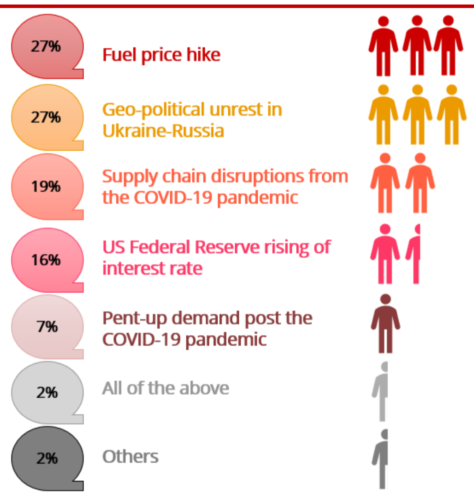
Question: Have you noticed the rising price trend that consumers/ you are facing now?



Source: DBS Bank

Almost all respondents are highly aware of the rising price trend. This suggests that the inflation theme is relatively pervasive among Indonesians.

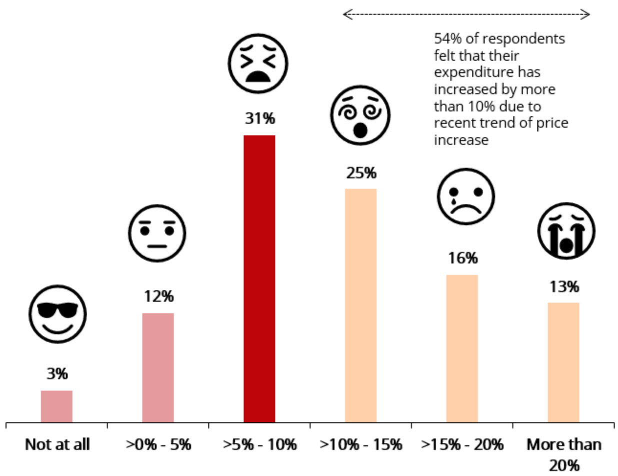
Question: In your opinion, what do you think was the main cause of the inflation we are facing now?



Source: DBS Bank

The two main causes of inflation were the fuel price hike and geo-political unrest in Ukraine-Russia.

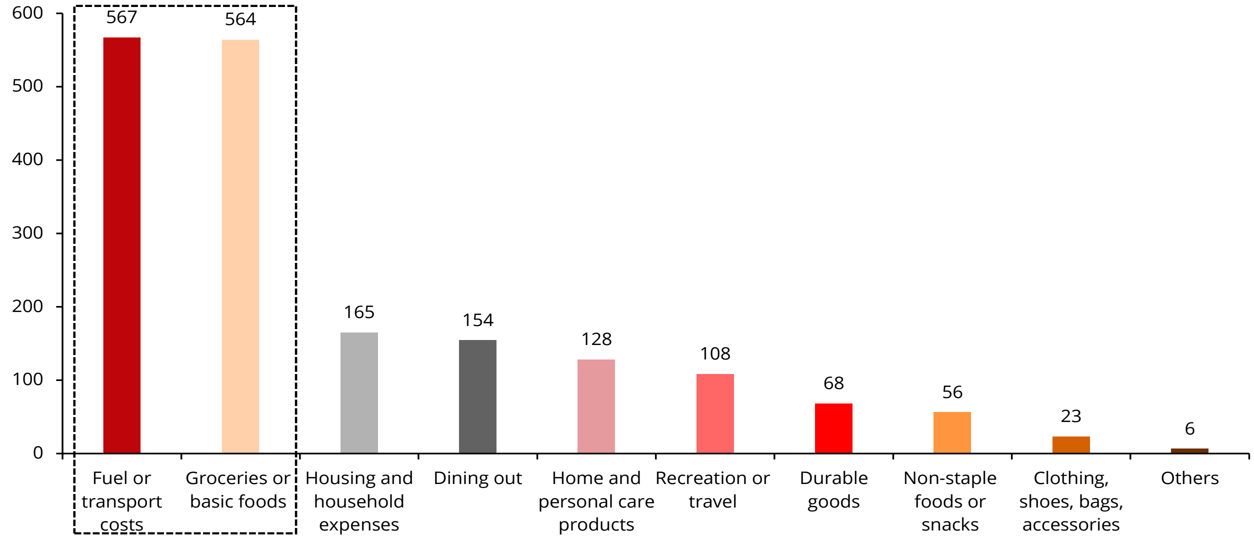
Question: With the recent trend of rising prices, what is the level of increase on your family expenditure on the same basket of goods and services?



Source: DBS Bank

More than half of the respondents felt that price increases were more than 10%, higher than official headline inflation figure in November 2022.

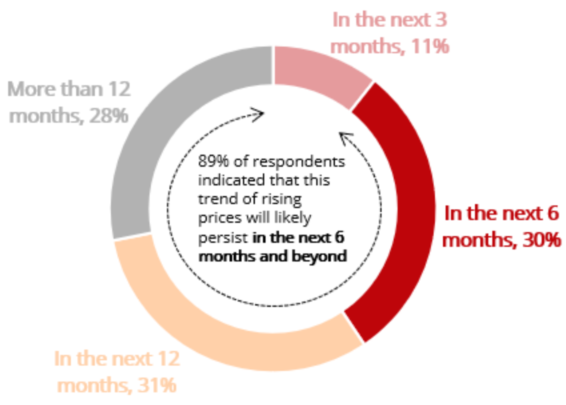
Question: Currently, which aspect of the price increase is most obvious to you? (Participants were asked to choose up to three only)*



Source: DBS Bank

Majority of respondents selected fuel and groceries as two expenditures with the highest price increase.

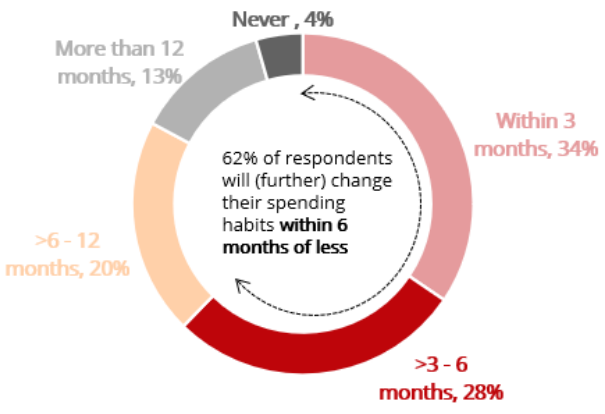
Question: How long do you expect this trend of rising inflation/ prices to persist?



Source: DBS Bank

89% of respondents indicated that this current inflation trend will likely persist for the next six months and beyond. This suggests that most believe this is not temporal.

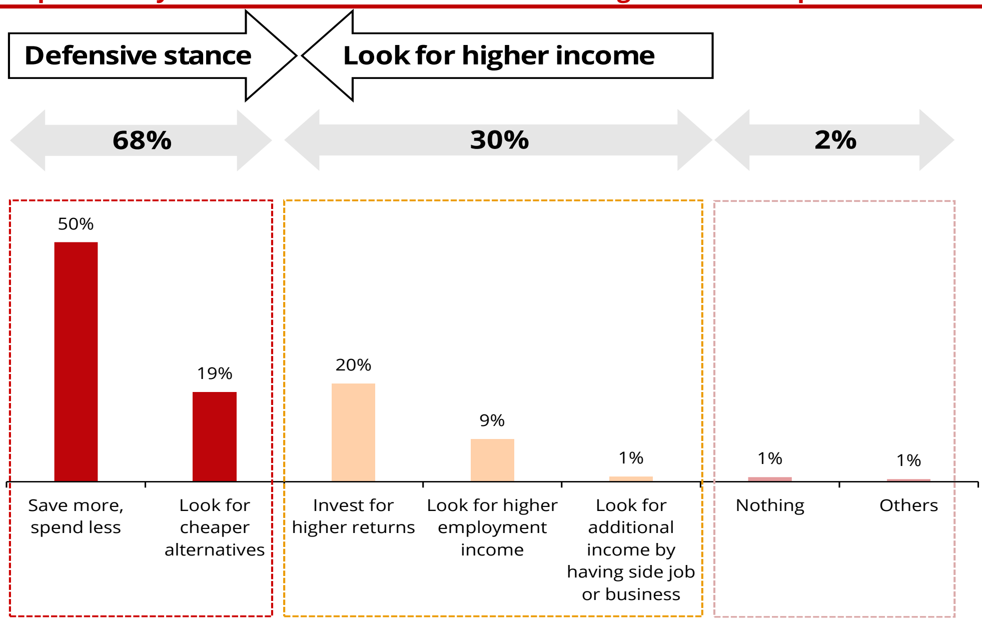
Question: If this trend of rising inflation persists, and prices stay high, how long would it need to persist before you are likely to (further) change your spending habits?



Source: DBS Bank

62% of respondents indicated that their spending behaviour will change within three months, or three to six months, suggesting that the wider consumer population will shift their spending habits relatively quickly in the current situation.

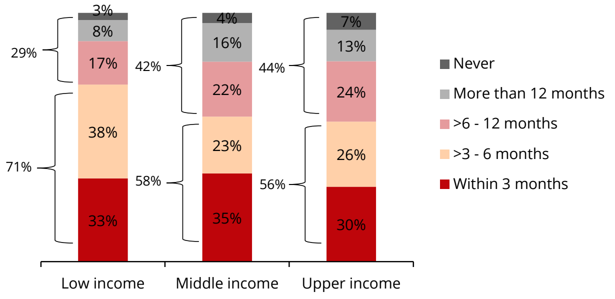
Question: What option will you take to counter the effects of rising inflation and prices?



Source: DBS Bank

Respondents highlighted a preference towards taking a defensive stance by saving more/ spending less and looking for cheaper alternatives vs. looking towards higher income.

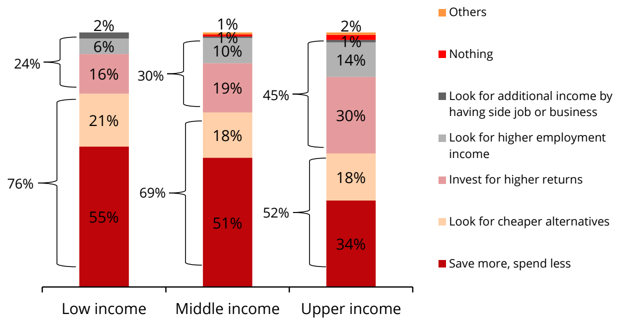
71% of lower-income consumers indicated that they will change their spending habits within 6 months or less



Source: DBS Bank

Most lower-income consumers will change their spending habits immediately in response to rising inflation, while about 40% of middle- and upper-income consumers will take their time to adapt and never alter their spending habits.

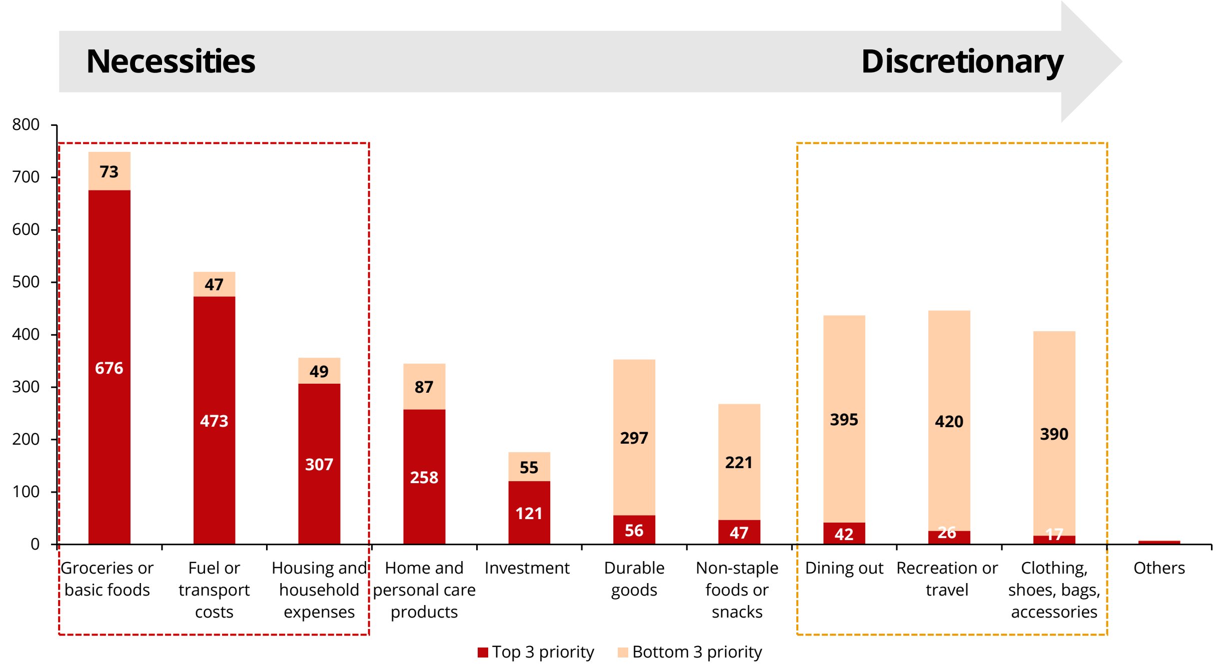
Upper-income group is evenly split in taking a defensive stance vs. securing a higher income to fight inflation, compared to 76%/69% in the lower/ middle income groups



Source: DBS Bank

The majority of the lower- and middle-income group will take a defensive stance amid rising inflation, while almost half people in the upper-income group will look towards securing a higher income.

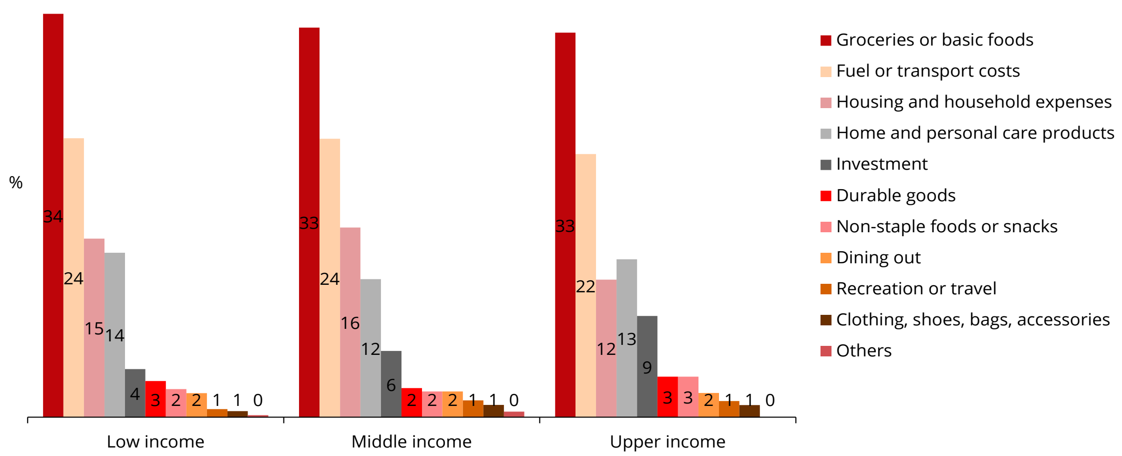
Question: Considering the current trend of rising inflation and prices, which three categories of spending would you most likely prioritise on / have lowest priority on? (Participants were asked to choose up to three only)*



Source: DBS Bank

Necessities' spending, not surprisingly, ranks high in spending priorities (including groceries, fuel, housing and household expenses), while discretionary spending categories (aka recreation, dining out, and clothing) ranks low.

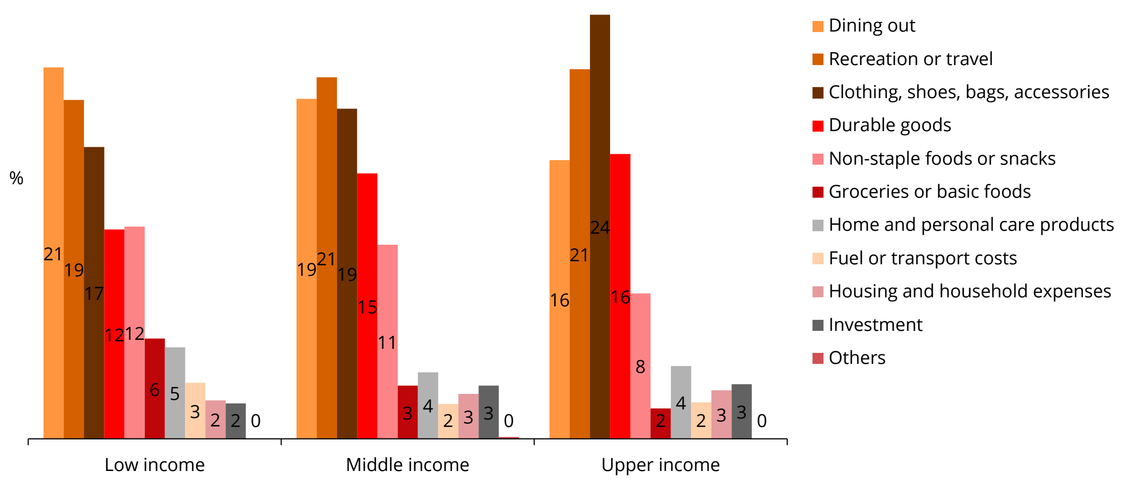
Top categories of spending prioritisation by respondents: Preference towards necessities, and similar across income groups**



Source: DBS Bank

Lower- and middle-income respondents' group chose groceries, fuel, and housing and household expenses; upper-income group chose groceries, fuel, and home and personal care products

Lowest categories of spending prioritisation by respondents: Bottom priorities across income groups similar, though ranking differs**

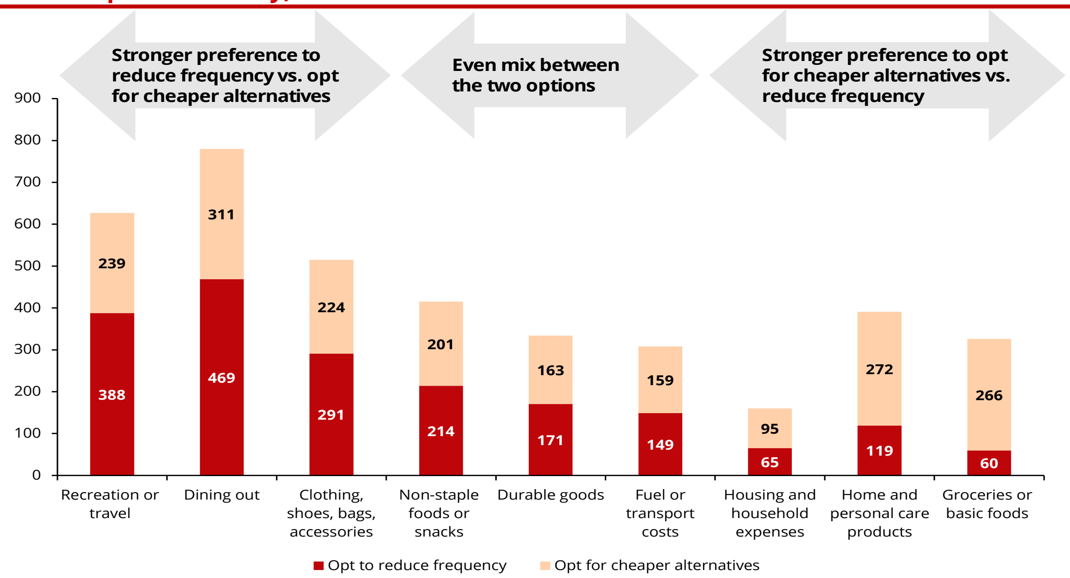


Source: DBS Bank

Lower-income group chose dining out, recreation, and clothing; middle-income group chose recreation, dining out, clothing, and durable goods; upper-income group chose clothing, recreation, dining out, and durable goods.

***Note: The various spending categories sum up to 100% within each income groups, and those do not are due to rounding errors*

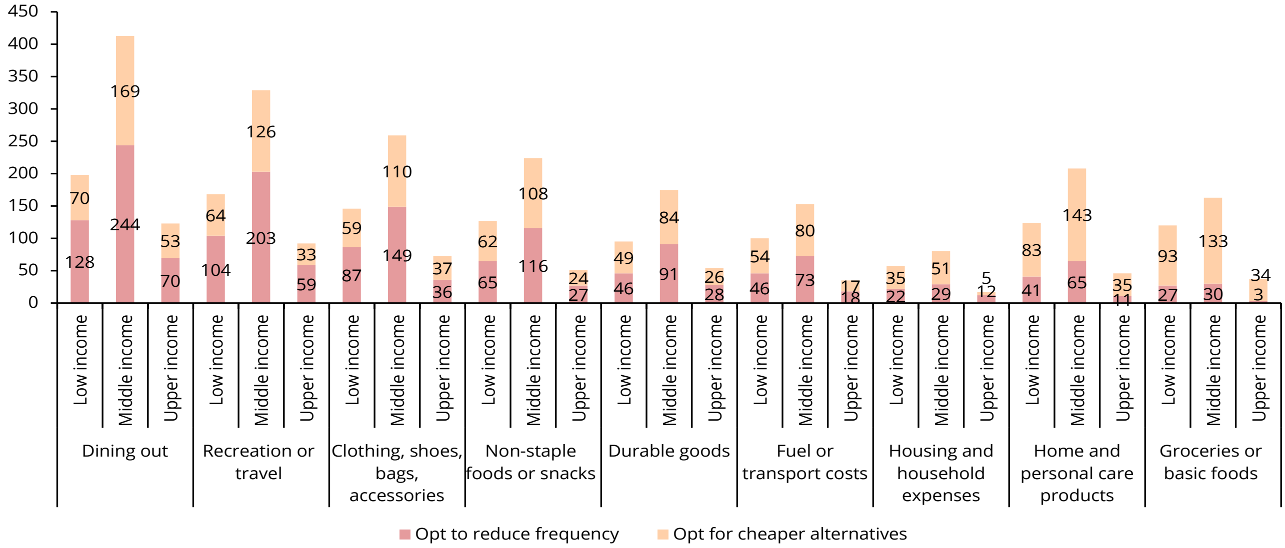
Question: Considering the current trend of rising inflation and prices, which categories of spending would you most likely opt to reduce consumption frequency / find cheaper alternatives? (Participants were asked to choose up to three only)*



Source: DBS Bank

Consumers would opt for cheaper alternatives for the necessities categories (groceries, home, and personal care products), while consumers prefer to reduce consumption frequency for discretionary categories (such as dining out, recreation, and clothing).

Upper-income consumers have higher preference for quality over quantity, compared to lower- and middle-income consumers (Participants were asked to choose up to three only)*



Source: DBS Bank

Lower- and middle-income consumers followed the general trends. Meanwhile, upper-income consumers have slightly different trends, given that they have a stronger preference to reduce frequency rather than opt for cheaper alternatives in housing and household expenses as well as non-staple foods or snacks. Moreover, clothing, shoes, bags, accessories and fuel or transport costs have an even mix between reducing consumption and cheaper alternatives.

**Note:*
- figure within bar chart depicts # of responses opting for the categories; each respondent to choose up to 3 options only, hence the numbers do not add up to total responses.

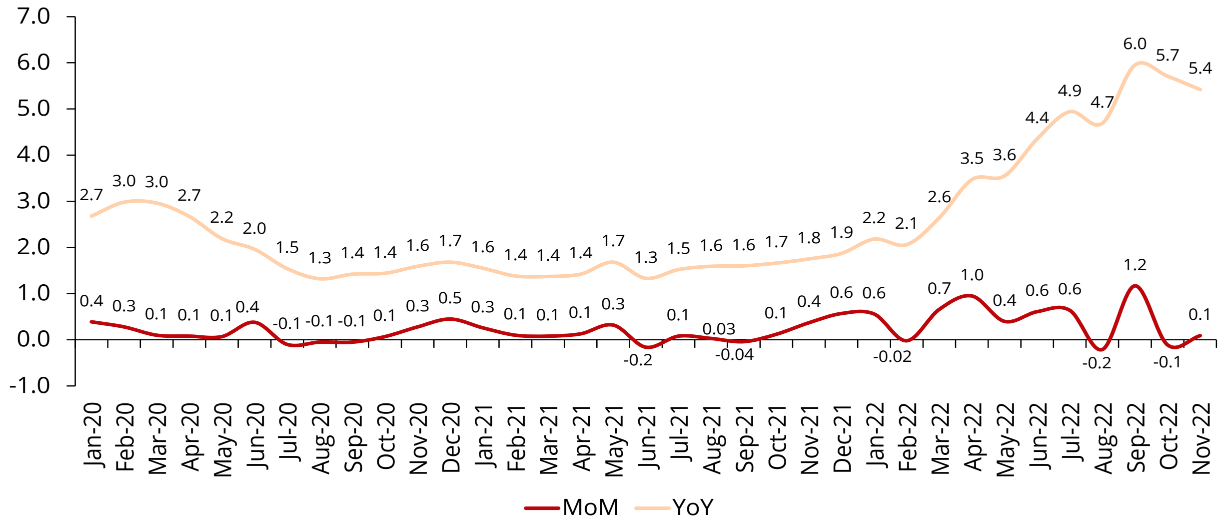
- Category explanation:
Groceries or basic foods (e.g. vegetables, fruits, spices, meat, seafood, eggs, rice, cooking oil, instant noodles)
Non-staple foods or snacks (e.g. cake, cookies, chocolate, chips, ice cream)
Dining out (e.g. at restaurants or café)
Home and personal care products (e.g. soap, shampoo, skincare, makeup, dishwashing, detergent)
Clothing, shoes, bags, accessories
Fuel or transport costs (e.g. public transportation, taxi, ride hailing)
Housing and household expenses (e.g. House rent, mortgage payment, utilities, electricity, gasoline, water, internet)
Durable goods (e.g. car, motorbike, electronics, smartphone, furniture)
Recreation or travel (e.g. cinemas, fitness, airline tickets, accommodation)
Investment
Others

Why is inflation a focus now?

Inflation on the rise. Indonesia's headline inflation has risen since July 2022 due to i) price adjustments in non-subsidised energy variants, ii) pressure to pass on elevated input prices, iii) tax reforms, and iv) demand restoration. We saw that headline inflation jumped further in September 2022 to 5.95% y-o-y (from 4.94% y-o-y in July and 4.69% y-o-y in August, respectively), mainly due to the subsidised fuel price hike in early September. The figure was much higher than the average inflation in 1H22 (of 3% y-o-y) and FY21 (of 1.6% y-o-y).

In October and November, Indonesia's headline inflation slowed to 5.71% y-o-y and 5.42% y-o-y respectively, from the high of 5.95% y-o-y in September, as food inflation slowed, helped by easing supply-side constraints. That said, the rise in transportation and energy segments remained sticky. Although we might have seen the peak of inflation, we still expect inflation numbers to remain relatively elevated in December 2022 and 1H23 due to the second-round inflationary impact from the fuel price increase. Our economist's full-year average forecasts stand at 4.2%/ 4% y-o-y for FY22/23F.

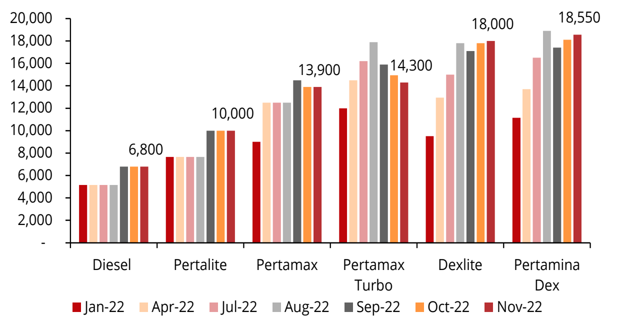
Inflation (%) surged from September 2022 due to the subsidised fuel price hike



Source: BPS

Subsidised fuel price has increased since early September. On 3 September 2022, the government raised the prices of subsidised fuel variants by c.30%. Petalite price was raised to Rp10,000/litre (from Rp7,650/litre previously), while diesel price was raised to Rp6,800/litre (from Rp5,150/litre previously). Moreover, the government tried to limit the recipients of subsidised fuel by requiring people to register in the *Mypertamina* app. Price increase in subsidised fuel products had a material impact on inflation figures in September to November 2022. This might continue in the next couple of months as fuel price hike spread through other subsegments – including food, transportation charges, and other related segments.

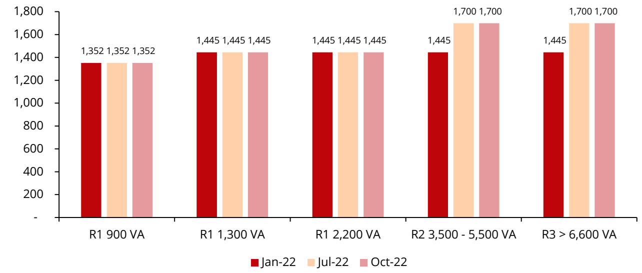
Increase in fuel prices or BBM (Rp/litre)



Source: Pertamina, DBS Bank

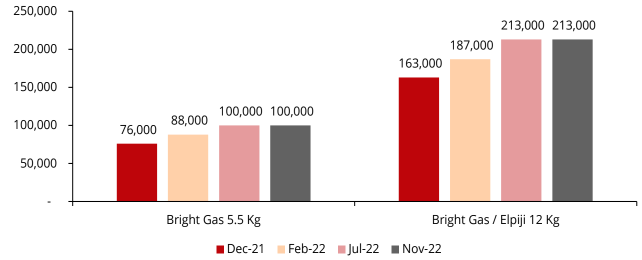
Higher prices in non-subsidised energy variants. Price adjustments in the non-subsidised energy variants such as fuel prices, electricity tariff, and LPG prices were done earlier due to rising global energy prices. Having said that, we saw that prices of selected non-subsidised fuel have recently moderated. State-owned Pertamina raised the prices of non-subsidised fuel variants cumulatively by 19 to 89% YTD. Meanwhile, the electricity tariff for non-subsidised household customers of 3,500 VA and above rose by 18% in July 2022. Prices of non-subsidised LPG variants also rose cumulatively by 31-32% YTD. These price increases in non-subsidised energy variants also contributed to the recent hike in inflation figure.

Electricity tariff for households (Rp/kWh)



Source: PLN, Kompas, DBS Bank

Price increase in non-subsidised LPG (Rp/tube)



Source: Pertamina, Detik, DBS Bank

B) How we expect Indonesia consumption basket to change with effects of COVID-19 and current high inflation: Our views

Consumption trend and macro consumption basket outlook: Balance between inflation and reopening.

Interposing our survey insights, our study of past inflation trends in 2013 - 2015, and effects of COVID-19 on consumption basket, we lay out our expectations and implications on Indonesian consumption basket for 2023F – 2024F. In this section, we looked back at (i) 2013 to 2015 for historical clues where inflation could have had an impact on consumption, followed by (ii) assessing the effects of COVID-19 on Indonesians' consumption basket, along with the results of our survey done, to arrive at the following summarised views:

- Expect consumer spending to slow in 2023F, even though macro suggests strong consumer confidence, with a lag time of around six months before the effects show
- Proportion of food vs. non-food to skew back in favour of non-food to 51.2% of total consumption basket spend in 2023F (from 49.9% in 2022, which declined due to COVID), as per the trend seen previously with rising income. Mix within non-food basket projected to be focused on housing and household facilities
- Consumer spending to focus on grocery, fuel, and housing and household facilities, being deemed as high on priority and as necessities
- Within food basket, we expect prepared food & beverages (dine out) to increase in 2023F, from 2022, given the easing restrictions and a low base due to COVID, but the proportion is lower than that compared to pre-COVID arising from inflation
- With higher inflation and behavioural change from COVID, we project food items (other than prepared food and beverage) to increase in 2023F to 32.6%, from 32.3% in 2020, although is lower than in 2022 due to reopening

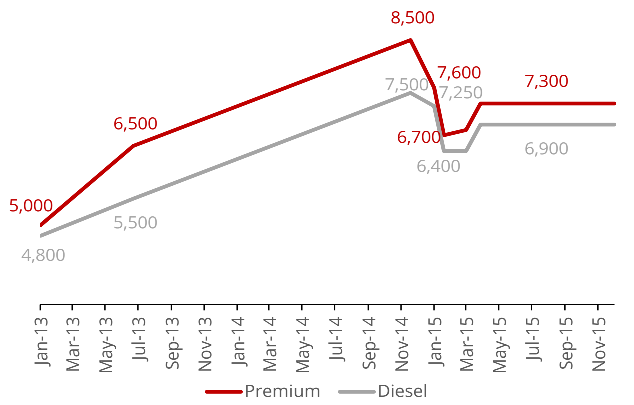
Look back at history: inflation vs. consumption in 2013-2015

Learning from 2013-2015, consumption may slow down in 2023F from higher fuel prices and inflation. The potential effects of higher fuel prices and inflation on demand is a lingering concern and we are monitoring this closely. To understand the impact of rising inflation and fuel price hike on the economy and consumption, we benchmark our analysis to the 2013-2015 period given its similarity to the current environment.

We have used 2013 -2015 data given that (i) inflation rose to above 8% in July 2013 and December 2014 following the increase in Premium and Diesel fuel prices by 30%/15% in June 2013 and 31%/36% in November 2014, and (ii) Bank Indonesia (BI) raising the interest rate from 5.75% in January 2013 to 7.5% in December 2015.

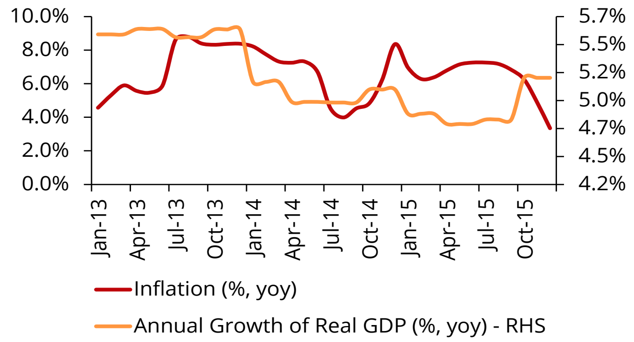
From our study – discussed in the following paragraphs – we found that there was a slowdown in consumption arising from steep hikes in fuel prices and inflation, with a lag of about six months, which saw consumer confidence index (CCI) also slipping thereafter. In this current environment, if history is any guide and ignoring the potential demand bounce-back from COVID-19, we should also see a slowdown in 2023F. Based on our analysis, we note that sales of staples were more resilient compared to more discretionary segments.

2013 – 2014 saw fuel price hikes of up to Rp8,500/litre



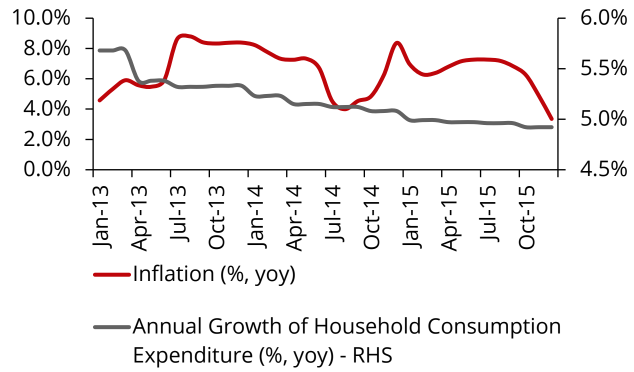
Source: Pertamina, DBS Bank

Inflation vs. real GDP growth



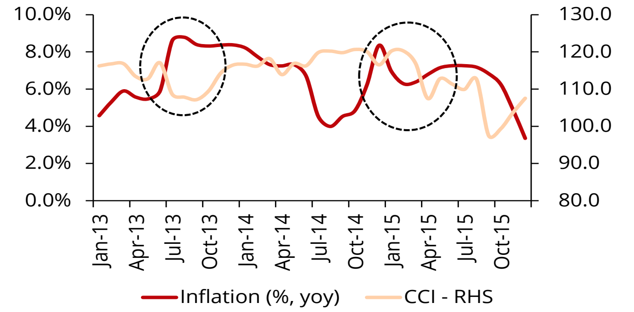
Source: BI, BPS, DBS Bank

Inflation vs. household consumption expenditure



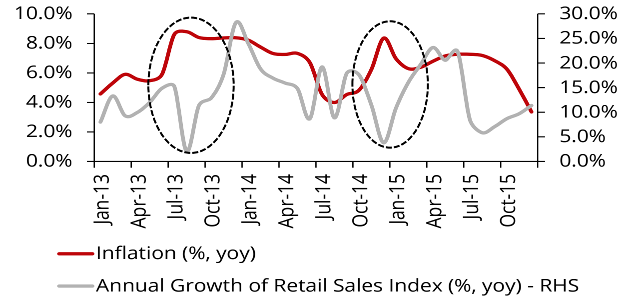
Source: BI, BPS, DBS Bank

Inflation vs. CCI – negative correlation



Source: BI, DBS Bank

Inflation vs. retail sales index



Source: BI, DBS Bank

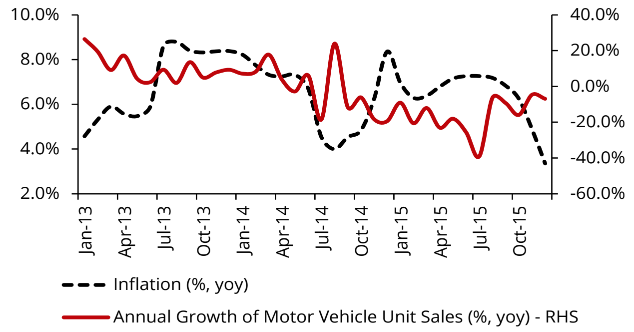
We saw a slowdown in GDP and household consumption during high inflation in 2013-15. Analysing data, we learnt that although there was some lag, rising inflation during 2013 to 2015 led to a slower growth for both the economy and household consumption. GDP growth softened starting in January 2014, which represented a lag of about six months from a jump in inflation data in July 2013.

Growth of household consumption expenditure also weakened from 5.7% at the beginning of 2013 to 4.9% by the end of 2015. Based on categories of household consumption, F&B was the most defensive and booked resilient growth during 2013-2015. Meanwhile, most of the other categories saw slower growth, with transportation & communication, restaurant & hotel and others categories substantially affected by rising inflation (please refer to Appendix for the study on the breakdown). Furthermore, a slowdown in growth was more evident during 2014-2015 than in 2013 for most categories, indicating that there was a time lag between higher inflation and its impact on consumption.

Inflation had negatively affected consumer sentiment and retail sales growth. From the data, we also saw a negative correlation between inflation vs. CCI and annual growth of retail sales index during 2013-2015. Surging inflation during mid-2013 and end-2014 led to a drop in consumer sentiment and slower retail sales growth in all categories. Under retail sales, only food, beverages, and tobacco as well as information & communication equipment segments performed relatively more resiliently than other segments (please refer to Appendix for the study on the breakdown).

Unit sales of motor vehicle also declined amid rising inflation. Although growth of motor vehicle unit sales was still positive in 2013, we could see it decelerating as inflation started to rise. Moreover, the growth turned into negative by the end-2014 and all through 2015 as inflation remained in the high levels.

Inflation vs. Motor Vehicle Unit Sales

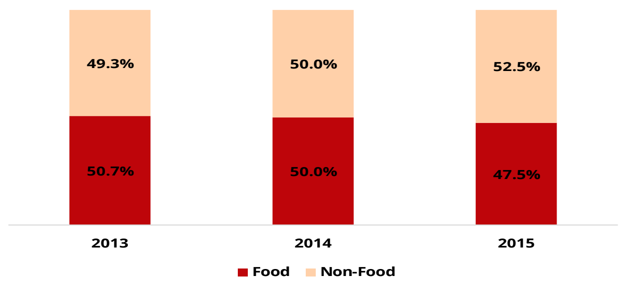


Source: BI, CEIC, DBS Bank

How consumption basket of Indonesians changed during 2013-2015 amid rising inflation

Lower contribution from food consumption. Food consumption accounted for 50.7% of Indonesians' monthly average expenditure in 2013. With rising inflation, that figure dropped to 50% in 2014 and 47.5% in 2015. In 2014, proportionate spending on vegetables, cereals, and beverages fell by 0.6ppt/0.5ppt/0.2ppt respectively compared to 2013. Meanwhile, proportionate spending on prepared food and beverages, vegetables, fish/shrimp/squid/shell, as well as cigarette and tobacco dropped the most in 2015 by 0.7ppt/0.7ppt/0.4ppt/0.4ppt respectively compared to 2014. On the other hand, monthly average expenditures on tubers, meat, eggs and milk, oil and coconut, spices, and other food items as percentages of personal consumption were relatively stable during 2013-2015.

Food vs. non-food as a % of consumption basket



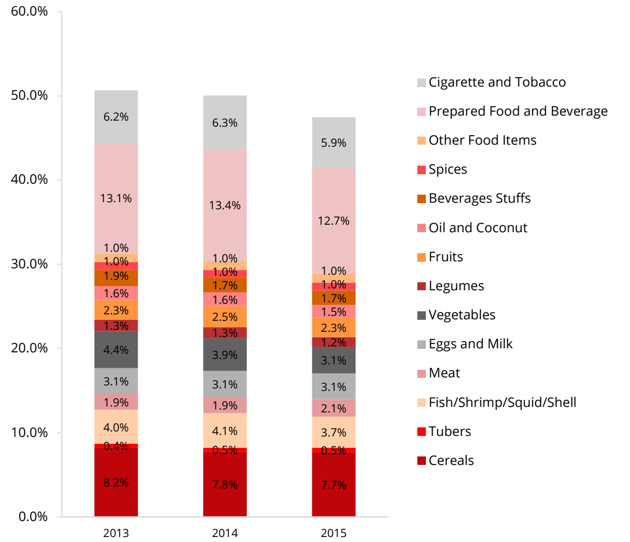
Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

Consumption basket shifted towards non-food items. Non-food consumption as a percentage of Indonesians' monthly average expenditure increased to 50% and 52.5% in 2014 and 2015 respectively, from 49.3% in 2013, mainly due to higher spending contribution on housing and household facilities. Given the increase in fuel price along with the interest rate hike, monthly average expenditure on housing and household facilities as a percentage of personal consumption increased to 26.3% in 2014 and 27% in 2015 from 24.8% in 2013. This was driven by higher contribution of gasoline as well as house rent and maintenance.

In 2014, we noted that categories of clothing/ footwear/ headgear and durable goods accounted for smaller percentages of Indonesians' monthly average expenditure at 1.9% and 4.5% respectively, compared to 2.1% and 5.4% in 2013. However, the figures increased in 2015 to 2.9% and 5.5% for clothing/footwear/headgear and durable goods respectively. Movement in durable goods was caused by expenditure on vehicles.

Meanwhile, monthly average expenditures on taxes and insurances as well as parties and ceremonies as percentages of personal consumption were relatively unchanged in 2014 vs. 2013, but slightly increased by 0.4ppt and 0.3ppt, respectively, in 2015. On the other hand, proportionate spending on goods and services was relatively unchanged in 2014 vs. 2013, but dropped by 0.9ppt in 2015 due to lower spending contribution on services such as transport expenses, health and health preventive costs, school and education costs, as well as recreation.

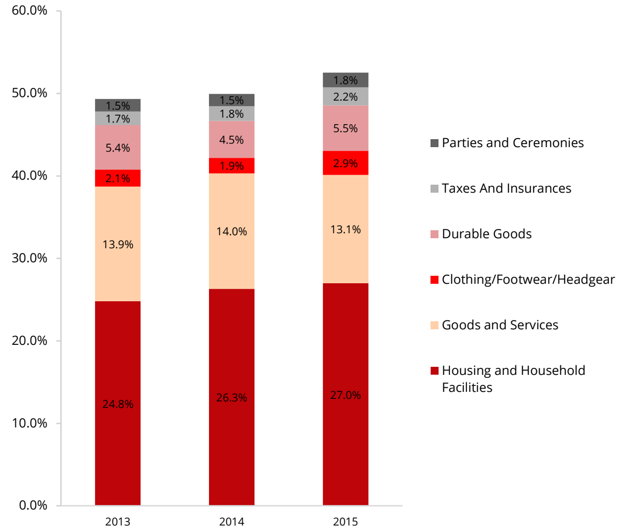
Food expenditure breakdown: Changes in 2013-2015



Source: BPS, DBS Bank

****Based on Indonesia's monthly average expenditure per capita*

Non-food expenditure breakdown: Changes in 2013-2015



Source: BPS, DBS Bank

The effects of COVID-19 on Indonesians' consumption basket in 2020-2022

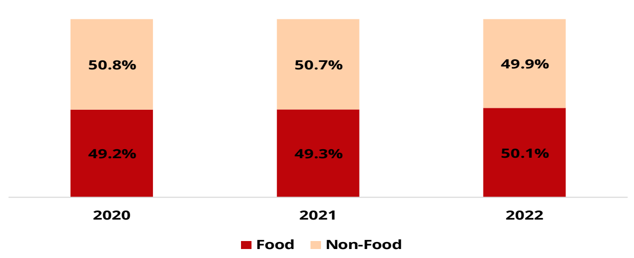
To understand the shift in Indonesians' spending pattern in response to the COVID-19 pandemic, we compared Indonesia's consumption basket data in March 2022 to March 2020 (right before the COVID-19 pandemic hit). Please note that Indonesia was still facing the Omicron wave during February-March 2022.

Consumption basket shifted towards food items, excluding prepared food and beverage. The proportion of Indonesians' monthly average expenditure allocated to food items rose to 50.1% in 2022 from 49.2% in 2020. This, in our view, is not surprising as Indonesians had to stay at home most of the time during 2020-2022 due to COVID-19 movement restrictions. The food items of which the proportionate spend increased materially from 2020-2022 were oil and coconut (+0.5ppt), meat (+0.5ppt), fish/shrimp/squid/shell (+0.4ppt), and vegetables (+0.4ppt).

Higher spending contribution on oil and coconut was only notable in 2022, driven by higher expenditure on frying oil which we believe was due to higher palm oil prices in 1H22. Under meat and fish/shrimp/squid/shell categories, we saw higher spending contribution on chicken and fish as more people cooked at home. Moreover, chicken prices at the consumer level were higher during 2021 until 1H22 given the increase in poultry feed costs and the government's intervention though the culling programme.

On the other hand, proportionate spend on prepared food and beverages fell sharply by 1.2ppt during 2020-2022, with the biggest drop happening in 2021. This is mainly due to lower spending contribution on prepared food as people rarely ate out amid the COVID-19 pandemic. Meanwhile, monthly average expenditures on other food items as percentages of personal consumption were relatively steady during 2020-2022.

Food vs. non-food as a % of consumption basket



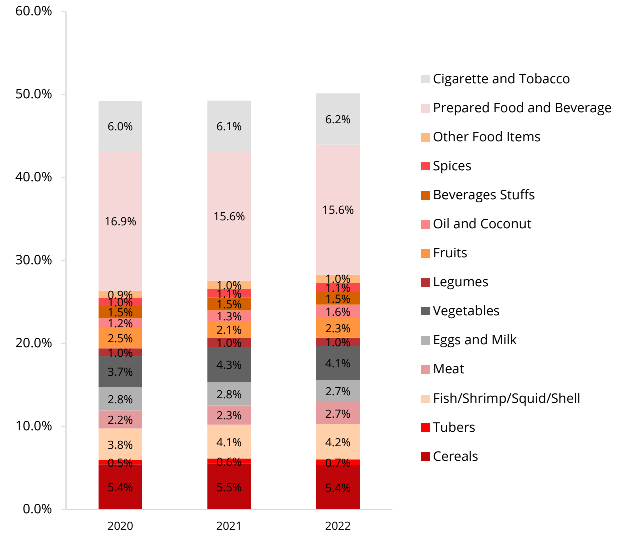
Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

Drop in proportionate expenditure on non-food items, other than housing and household facilities as well as taxes and insurances. During 2020-2022, the proportion of Indonesians' monthly average expenditure allocated to non-food items declined to 49.9% in 2022 from 50.8% in 2020. Proportionate spend on most of non-food items decreased, with durable goods dropping the most, by 1.3ppt during 2020-2022, mainly due to lower spending contribution from vehicles.

Other non-food items of which the proportionate spend dropped from 2020-2022 were parties and ceremonies (-0.7ppt), goods and services (-0.6ppt), and clothing/footwear/headgear (-0.5ppt). Under the goods and services basket, we noted lower spending contribution on services, especially transport expenses, amid movement restrictions.

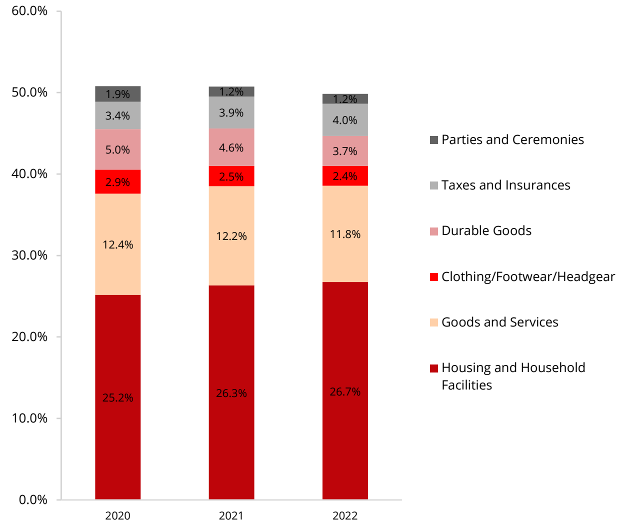
On the other hand, the monthly average expenditure on housing and household facilities as a percentage of personal consumption rose by 1.6ppt during 2020-2022, driven by higher spending contribution on house rent and maintenance as well as internet, which negated the lower spending contribution on gasoline. This, in our view, is not surprising as Indonesians spent more time at their home during 2020-2022 due to the COVID-19 pandemic. Proportionate spend on taxes and insurances also increased during 2020-2022 by 0.6ppt, boosted by higher spending contribution on health insurance, as more Indonesians became more concerned about their health amid the COVID-19 pandemic.

Food expenditure breakdown: Changes in 2020-2022



Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

Non-food expenditure breakdown: Changes in 2020-2022



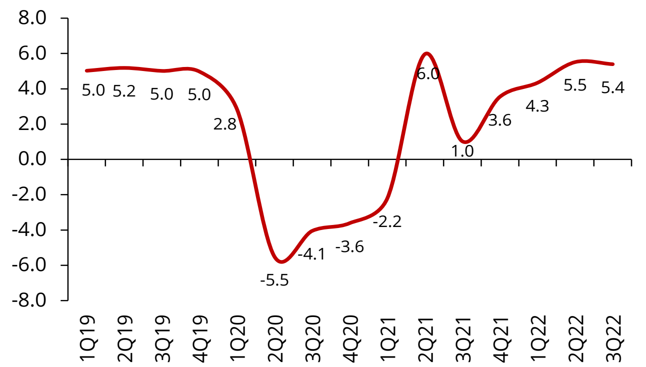
Source: BPS, DBS Bank

Indonesia's consumption basket outlook in 2023F-2024F: Balancing inflation and reopening

Macroeconomic data remained strong thus far despite higher inflation, helped by reopening. Despite higher inflation numbers since July 2022, most of the macroeconomic data remained solid, which we believe was driven by broader economic reopening amid improving COVID-19 situation. Indonesia's economy expanded 5.7% y-o-y in 3Q22 (vs. 5.4% y-o-y in 2Q22), supported by a cyclical boost from high commodity prices (partly negated by higher imports), rise in investments, restocking demand and resumption in service sector activity.

This helped offset the dampening impact on real incomes from the hike in subsidised fuel prices. The government also provided directed fiscal support to lower-income households besides extending regional public transport subsidies to cushion the fallout of higher fuel prices on purchasing power. Meanwhile, household consumption grew 5.4% y-o-y in 3Q22, slightly lower than 5.5% y-o-y in 2Q22, with transportation & communication and restaurant & hotel categories booking the strongest growth.

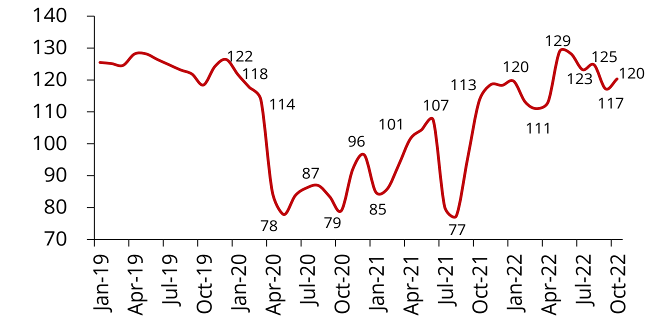
Quarterly household consumption expenditure (y-o-y growth, %)



Source: BPS

Furthermore, despite the higher inflation rate, consumer optimism was maintained in July and August 2022, as reflected in the CCI of 123 and 125 respectively. Although the CCI dropped to 117 in September, which we think was due to the subsidised fuel price hike, it improved slightly to 120 in October 2022.

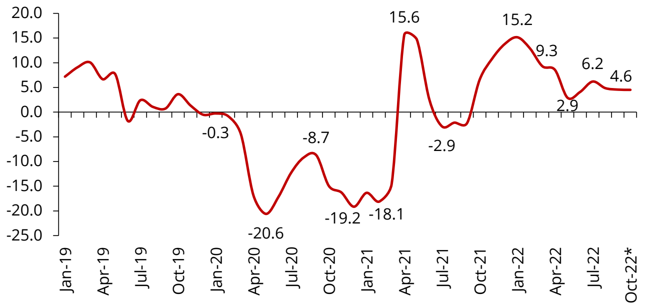
Indonesia CCI



Source: Bank Indonesia

In September 2022, the retail sales index still reported a decent annual growth of 4.6% y-o-y (from 6.2% y-o-y in July and 4.9% y-o-y in August, respectively), driven by strong growth in clothing. Food, beverages, and tobacco, automotive fuels, as well as cultural and recreation goods segments also booked positive annual growth in September. The growth momentum is expected to persist in October as the annual growth of the retail sales index is projected to be at 4.5% y-o-y.

Retail sales index growth (%, y-o-y)



Source: Bank Indonesia
**projection*

Expect consumption to slow in 2023F due to rising inflation, based on 2013-15 trends and our consumer survey results. Although the recent macroeconomic data has remained strong thus far, we expect to see a time lag between higher inflation and its impact on consumption based on past trends between 2013-2015. Referring to that period – which saw steep hikes in fuel prices and inflation – there was a **resultant slowdown in consumption** with a **lag of about six months**. Hence, we expect a slowdown in 2023F growth as the effects of the higher fuel price and inflation will be more evident on demand and consumption. Our economist expects GDP growth in 2023F to stand at 5%, slower from 5.4% in 2022F.

Survey shows that consumers are still concerned about inflation even though headline inflation number has started to come down. Looking at the results of our consumer survey, which we did in the second to third week of November 2022, it seems that consumers are still very much concerned about inflation and price increases of products/services, particularly fuel and groceries. Although headline inflation slowed a little bit in November to 5.42% y-o-y (from 5.71% y-o-y in October and 5.95% y-o-y in September), more than half of the respondents indicated that price increases had raised their expenses by more than 10%.

Majority of respondents expect inflationary trend to last in the next six months and beyond. Furthermore, majority of respondents expected this trend of rising inflation to last over the next six months and beyond; hence, they will be most likely to adjust their spending habits. To counter the effects of rising inflation, most respondents are taking a defensive stance in their spending by saving more/ spending less and looking for cheaper alternatives. If this is true, we should see a slowdown in household consumption in 2023F.

Project a shift in Indonesians' consumption basket for 2023F and 2024F. In adjusting their spending behaviour in the view of higher inflation, the majority of respondents in our consumer survey will prioritise their spending on necessities such as groceries and fuel, as well as housing and household expenses compared to discretionary spending categories such as recreation, dining out, and clothing. Furthermore, most respondents would opt for cheaper alternatives for necessities categories like groceries as well as home and personal care products, and more prefer to reduce consumption frequency for discretionary categories like dining out, recreation, and clothing.

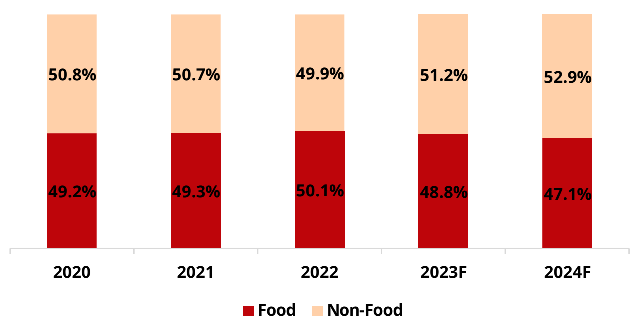
Meanwhile, based on Indonesia's consumption basket data during 2013-2015, we saw higher spending contributions on housing and household facilities (including fuel and house rent), which compensated by lower proportionate spend on food items (like cereals and vegetables) whose ticket value was usually low, in our view.

For the categories of clothing/footwear/headgear and durable goods, we saw a lower spending contribution in 2014 vs. 2013, before improving in 2015. On the other hand, proportionate spending on goods and services, prepared foods and beverages, as well as cigarette and tobacco, was slightly higher in 2014 vs. 2013 before dropping in 2015, indicating that there was a time lag between higher inflation and its impact on spending in the aforementioned categories.

Based on our observation from the consumer survey results and past trends between 2013-2015, we forecast the breakdown of Indonesians' consumption basket for 2023F and 2024F as the results of the current trend of rising inflation and prices. We expect the impact of higher inflation on demand to not be as severe as between 2013-2015, as there may still be a boost from the reopening in 2023F. Furthermore, we also need to consider the changes in consumer behaviour during the COVID-19 pandemic, which might linger post-pandemic.

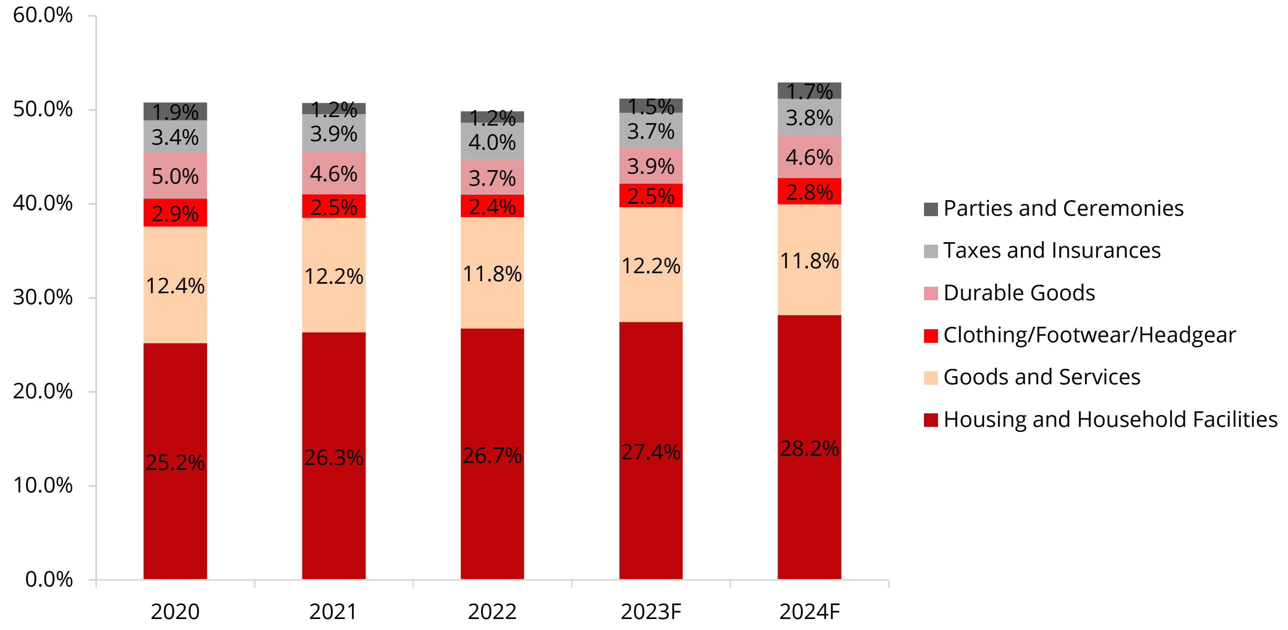
Our methodology. To incorporate the impact of inflation, we used 2020 data as the base of our forecasts for 2023F and 2024F to have the same comparison as 2013-2015 past data. We refrain from using 2022 number as the base given the once-in-a-lifetime COVID-19 pandemic, which altered consumers' spending pattern. That said, we take into consideration the structural behaviour changes which may stay post-pandemic, such as working from home or cooking at home.

Food vs. non-food as % of consumption basket



Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

Housing & household facilities to drive non-food proportion to 51.2% of total in 2023F



Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

Proportion of non-food items to reverse trend seen during pandemic, to above 51.2% of consumption basket spending. Taking into account impact of rising inflation and reopening, we foresee non-food consumption as a percentage of Indonesians' monthly average expenditure to increase to 51.2% and 52.9% in 2023F and 2024F respectively, up from 49.9% in 2022.

The percentages of non-food items in 2023F and 2024F are also higher compared to 50.8% in 2020, mainly due to higher spending contribution on housing and household facilities. We forecast the monthly average expenditure on **housing and household facilities** as a percentage of personal consumption to rise to 27.4% in 2023F and 28.2% in 2024F from 25.2% in 2020. This is driven by a higher contribution of fuel (gasoline), house rent and maintenance, as well as internet. Furthermore, we expect consumers to continue working from home, increasing spending in these categories.

We also forecast the monthly average expenditure on **taxes and insurances** as a percentage of personal consumption to increase to 3.7% and 3.8% respectively in 2023F and 2024F – from 3.4% in 2020 – given the higher spending proportion on health insurances as people are now more concerned about their health post-COVID-19.

Meanwhile, we expect the categories of **clothing/ footwear/ headgear, durable goods (vehicles)**, as well as **parties and ceremonies** to account for smaller percentages of Indonesians' monthly average expenditure at 2.5%/3.9%/1.5% respectively in 2023F, compared to 2.9%/5%/1.9% in 2020 given their roles as discretionary spending, which would be deprioritized in the high inflationary environment. However, we forecast the figures to improve in 2024F to 2.8%/4.6%/1.7% for clothing/footwear/headgear, durable goods, as well as parties and ceremonies respectively as inflation gradually recedes.

In addition, we project proportionate spending on **goods and services** to drop to 12.2% and 11.8% in 2023F and 2024F, respectively, from 12.4% in 2020, driven by lower spending contribution on services like transport expenses and recreation, as people may deem these discretionary spending.

That said, if we compared our 2023F forecasts with 2022 numbers, we expect **reopening to still boost spending in most categories in non-food items**, despite rising inflation. This is because these categories were very much affected by movement restrictions during the COVID-19 pandemic. We project higher proportionate spend on housing and household facilities, goods and services, clothing/footwear/headgear, and durable goods, as well as parties and ceremonies in 2023F vs. 2022, helped by broader reopening. That said, we foresee lower proportionate spend on taxes and insurances in 2023F vs. 2022 as we expect some normalisation in spending on health insurance post-COVID-19.

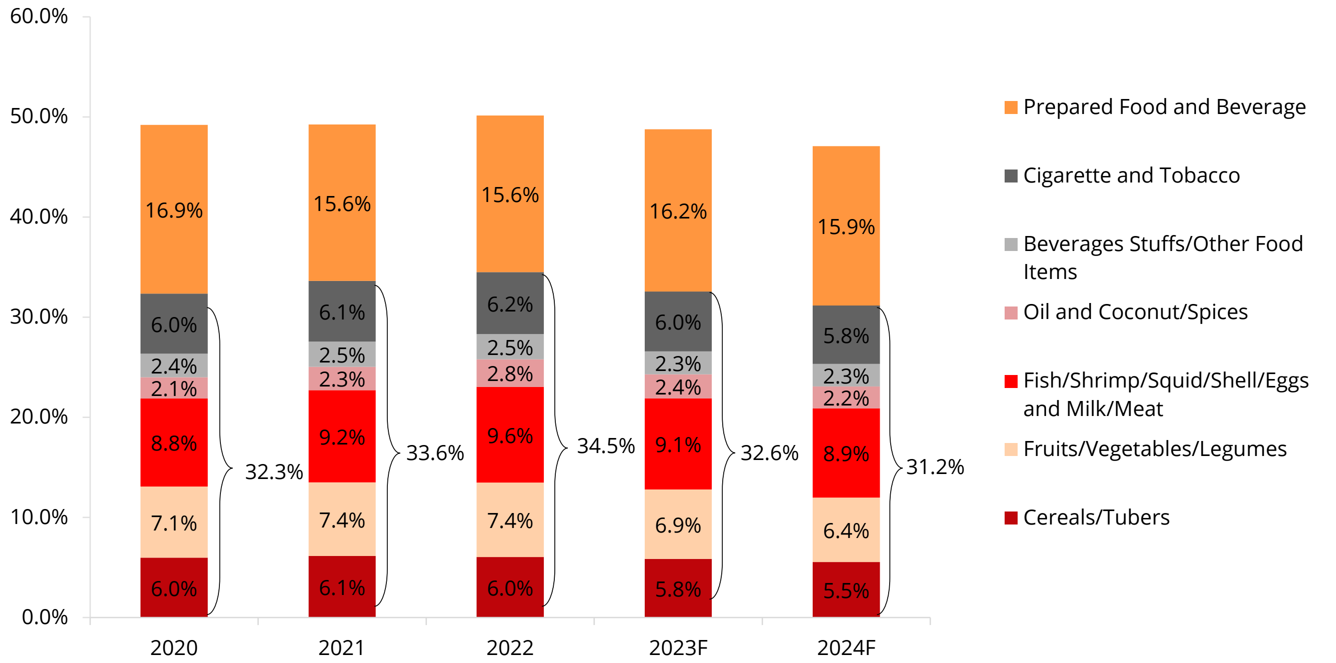
Lower contribution from food consumption amid rising inflation and reopening. Considering the impact of higher inflation and reopening, we forecast **food consumption** to account for 48.8% and 47.1% of Indonesians' monthly average expenditure in 2023F and 2024F respectively, declining from 50.1% in 2022 and 49.2% in 2020.

Despite the inflationary environment and the effects on spending patterns, we foresee proportionate spending on **prepared food and beverages** to rise to 16.2% and 15.9% respectively in 2023F and 2024F (from 15.6% in 2022) as the former could be mitigated by reopening and pent-up demand. That said, the proportions are lower compared to 2020's 16.9% premised on inflation concerns and expectations of behaviour changes due to COVID – cooking at home post-COVID-19 due to hygiene concerns, for example.

Meanwhile, we project a slight increase in spending contribution on **food items** (other than prepared food and beverages) in 2023F to **32.6% (from 32.3% in 2020)**, supported by higher proportionate spending on meat, fish/ shrimp/ squid/ shell, oil and coconut, as well as tubers given their roles as necessities. We project higher spending contribution on oil and coconut due to higher palm oil prices compared to 2020. That said, the proportionate spending on food items (other than prepared food and beverages) in 2023F is lower compared to 2022's 34.5% as we anticipate people cooking less at home as they return to the office or school amid reopening.

In 2024F, we forecast lower spending contribution in almost all categories of food items (other than prepared food and beverages) compared to 2023F, excluding meat, spices, and other food items (instant noodles). This is because we expect the impact of rising inflation to gradually subside; hence, people will slowly shift their spending into discretionary items from essentials.

Food expenditure breakdown: potential shifts in 2023F-2024F



Source: BPS, DBS Bank
****Based on Indonesia's monthly average expenditure per capita*

DBS Live more, Bank less

C) Implications on companies and investment

Sector views and top picks

Consumers play defensive, preference for staples and value. We are more cautious entering 2023 as we think the impact of higher subsidised fuel prices and rising inflation on demand would be more evident, which will result in a slowdown in household consumption. From the consumer survey and study on Indonesia's consumption basket, it seems consumers are resigned to a prolonged price uptrend but are ready to adjust their consumption and spending behaviour.

In the view of rising inflation, consumers are taking a defensive stance in their spending by saving more/ spending less, looking for cheaper alternatives – especially on necessities categories like groceries as well as home and personal care products – and reducing the consumption frequency for discretionary categories like dining out, recreation, and clothing. Furthermore, consumers will prioritise their spending on necessities compared to discretionary spending categories. That said, we expect the broader reopening to still provide a boost to some discretionary spending categories such as clothing and dining out in 2023, although it might not be as huge as in 2022.

Our top picks are ICBP and MAPI given their more resilient performances in an inflationary environment alongside their attractive valuations. In this inflationary environment, we prefer consumer F&B staple plays given that demand for staple food products is relatively resilient as consumers would tend to prioritise their spending on necessities. Our top pick for this theme is ICBP.

In the retail sector, we opt for retailers targeting the middle- to upper-income consumers whose purchasing power would be less affected by rising inflation and higher subsidised fuel prices. According to our consumer survey, middle- and upper-income consumers will be most likely to take their time to adapt or will not alter their spending habits at all despite the rising inflation. We believe this is because consumers in the middle- and upper-income group have more disposable income that can be used to fight inflation as well as to invest for additional income. Our top pick in this theme is MAPI.

In addition, both ICBP and MAPI's valuations are attractive. ICBP is trading at c.17x FY23F PE or -1SD of its five-year historical mean PE, while MAPI is trading at c.12x FY23F PE or below -2SD of its average PE valuation in 2016-2018.

Our views of the respective sectors are detailed below:

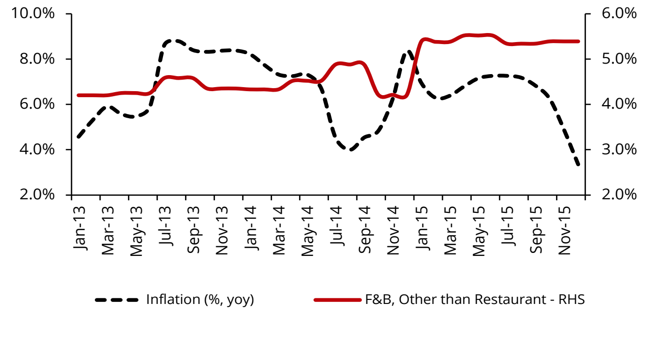
Sector	Our Views	Stock picks
Food & Beverage (F&B) Staple	Demand for F&B staple products tends to sustain in a rising inflation environment as consumers will prioritise spending on necessities and staple food products. Moreover, as prices of most food and grocery products rise, we expect consumers to prefer those with more affordable prices such as instant noodles. We prefer ICBP as we foresee demand for instant noodles to remain resilient in 2023 given its affordable price point relative to other general food items in an inflationary environment and its role as a preferred substitute for rice or other staple foods for many Indonesians.	ICBP
Home & Personal Care	We expect demand for home and personal care (HPC) products to be somewhat affected by rising inflation. Although the usage of HPC products might relatively stay given its nature as essentials, we think consumers would tend to find cheaper product alternatives or "downtrade" in a rising inflation environment as they increasingly look for value of money or affordability. In addition, UNVR and KINO are still facing tighter competition in the HPC segment, which also weakens their pricing power and brand loyalty in an inflationary environment.	N/A
Retail	Broader reopening and festive seasons to still boost retail sales in 2023, but we watch out for the shift in consumer spending patterns to necessities as inflation bites. In this inflationary environment, we opt for retailers targeting the middle- to upper-income consumers whose purchasing power would be less affected by rising inflation and higher subsidised fuel prices. We like MAPI given its more resilient performance in an inflationary environment, and it targets middle- to upper-income consumers. MAPI also offers a more diversified portfolio than other retailers, which includes its active, F&B, and Digimap divisions, where demand might be less impacted by higher inflation compared to the fashion or department store segments.	MAPI

Source: DBS Bank

Appendix

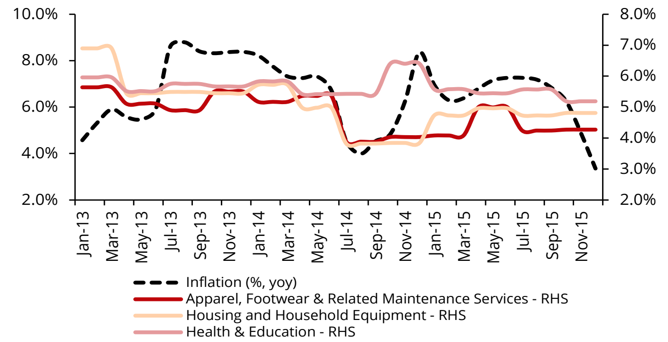
1) Breakdown of household consumption growth by categories during 2013-2015 vs. inflation

Inflation vs. annual spending growth of F&B



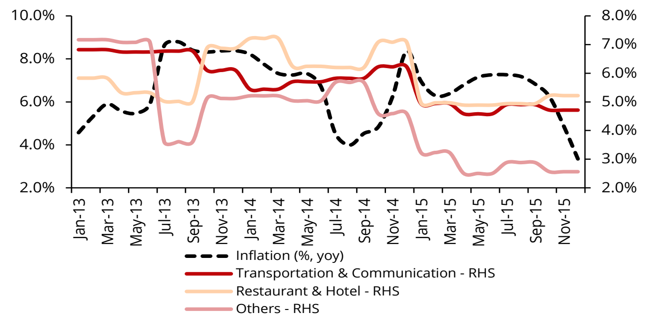
Source: BI, BPS, DBS Bank

Inflation vs. annual spending growth of apparel, housing, health & education



Source: BI, BPS, DBS Bank

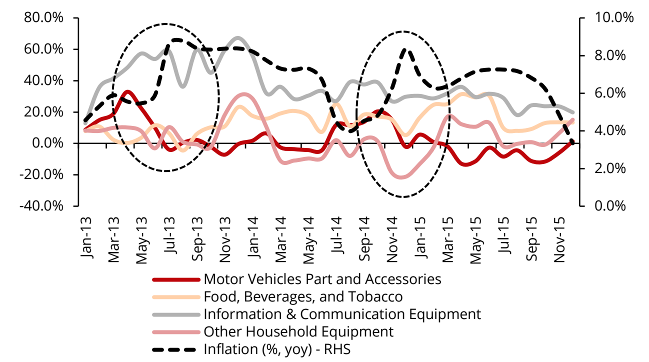
Inflation vs. annual spending growth of transportation & communication, restaurant & hotel, others



Source: BI, BPS, DBS Bank

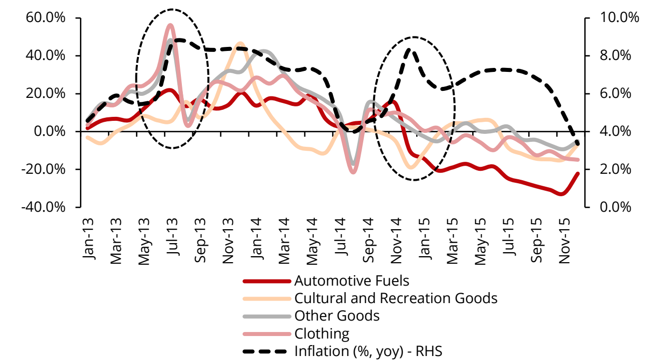
2) Breakdown of retail sales index growth by segments during 2013-2015 vs. inflation

Inflation vs. retail sales index growth by segment (y-o-y)



Source: BI, DBS Bank

Inflation vs. retail sales index growth by segment (y-o-y)



Source: BI, DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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