Indonesian household spending makes way for growth of non-food sector

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The proportion of consumer expenditure devoted to food in Indonesia has declined significantly. Supported by economic growth, Indonesian household incomes have increased and people are able to spend more on non-food items. This provides opportunities for businesses in the non-food segment. Additionally, spending patterns differ notably between various household groups.

Issue

The proportion of consumer expenditure devoted to food in Indonesia has declined significantly since 2001. Meanwhile, consumer spending on non-food items such as housing, education, telecommunications, household goods and services is growing. This reflects the fact that household incomes in Indonesia have improved and people are able to spend more on non-food items. The spending patterns, however, vary across different household groups.Importance

In 2006, Indonesia's real GDP grew 5.5% over a year earlier, slightly faster than the average 4.7% per year during 2001-2005. While this growth is moderate in comparison to other Asian countries, it has helped improve disposable incomes and accelerate consumer spending. Consumer expenditure reached US$225.9 billion in 2006, up from US$100.5 billion in 2001. This represents real growth of 26.8%.

There has been a shift in consumer spending patterns in Indonesia:

The proportion of consumer expenditure on food and non-alcoholic beverages has declined significantly. It decreased from 62.9% of consumer expenditure in 1995 to 47.0% in 2006. The decline reflects the fact that disposable income has improved in Indonesia and people are able to spend more on non-food items;Consumer expenditure on non-food items has increased. During 2001-2006, for example, expenditure on communications grew at a real average annual rate of 11.9%. Expenditure on education is also growing rapidly, as more people understand the importance of a good education when competition for jobs is fierce. Expenditure on housing is going up, reflecting rising property prices and easier access to mortgage loans. Similar growth can also be seen in expenditure on other non-food categories.

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Indonesiaâ€™s consumer expenditure by categories: 2001 and 2006Source: Euromonitor International from national statisticsNote: A: food and non-alcoholic beverages; B: alcoholic beverages and tobacco; C: clothing and footwear; D: housing; E: household goods and services; F: health goods and medical services; G: transport; H: communications; I: leisure and recreation; J education: K: hotels and catering; L: miscellaneous goods and services.

The share of spending on non-food items to total expenditure, however, varies across different household groups:

Couples with children and single parent families spend proportionally more on food and non-alcoholic drinks, more than 40% of their total expenditure in 2005. Single person households spend proportionally more on non-food items such as housing, leisure and recreation, alcoholic beverages and tobacco and communications;Spending on food also increases as the number of household members increase. While households with one member spent only 29.1% of their expenditure on food in 2005, households with 5 members spent 51.1%;Unemployed households still spend a large share of their expenditure on food. Meanwhile, employed and self-employed households spend proportionally more on education, transport, clothing and footwear as well as leisure and recreation.

The spending patterns of Indonesian households depend on their household structure, economic status and income. Businesses could select their target markets based on the spending patterns of different household groups.

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Indonesiaâ€™s consumer expenditure by household type: 2005Source: Euromonitor International from national statisticsNote: A: food and non-alcoholic beverages; B: alcoholic beverages and tobacco; C: clothing and footwear; D: housing; E: household goods and services; F: health goods and medical services; G: transport; H: communications; I: leisure and recreation; J education: K: hotels and catering; L: miscellaneous goods and services.Implications

Although unemployment rates are high in Indonesia (10.6% in 2006), economic growth has helped improve the living

standards of most Indonesian people. In 2006, GDP per capita reached US$1,592 per year, up from US$765 in 2001.

Businesses in non-food segments will benefit from the shift in consumer expenditure patterns:

Businesses in a wide range of non-food sectors including communications and household goods and services will see an increase in business. The education sector will also grow as more people are taking post-graduate degrees in order to advance their careers and more parents are sending their children to good schools. Indonesian people will also spend more on transport, leisure and recreation and hotels and catering.

Marketers/planners can base the differences in spending patterns across household groups to select their target consumers:

Businesses in the food sector can focus on households with children, unemployed people and low income earners as they still spend a large share of their income on food and non-alcoholic beverages;Households without children and high income earners are important market segments for businesses in the non-food sector.Future Scenarios

Consumer spending will continue benefiting from strong economic growth:

Real GDP growth is forecast to reach 6.2% in 2007 up from 5.5% in 2006, driven mainly by private consumption and exports;Annual inflation is expected to be 6.3% in 2007 and 6.2% in 2008 down from 13.1% in 2006. This will help raise disposable incomes of consumers, which in turn accelerates consumer spending. Inflation has been high in Indonesia mainly as a result of a sharp lift in administered fuel prices in late 2005;Economic growth will also be supported by increased government expenditure. In August 2006 the government announced new poverty initiatives including grants to every village by 2009 and cash transfers to poor people.

Indonesian consumer confidence is improving. In October 2007, Indonesia's consumer confidence index rose to 100.2 points from 96.7 points in the preceding month. The index shows the degree of optimism that consumers have for the economy. An index level below 100 indicates pessimism while a number above 100 suggests optimism.Print this page E-mail a friend

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