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The Perfect Storm and Indonesia

A dark cloud is hanging over the world economy and it may mean disaster for Indonesia next year. Or maybe not? Conditions in the U.S., the Eurozone and China point to a strong possibility of a hard time ahead in 2013. The U.S. recovery has been slower than expected, with a possibility for another dip. With only 1.9% growth in the first quarter and unemployment rate at 8.2% in June, combined with an increase in taxes, we can only expect very limited, if not nonexistent, disposable income.

The ongoing mortgage crisis is expected to result in the foreclosure of approximately two million homes in 2013, making housing inventory skyrocket. Prices are likely to be forced to fall further or, at least, stagnate for the next two years. With property values being dragged down by foreclosures or firesales of properties, negative equity on homes is likely to remain.

In Europe, the dark clouds are even more apparent and hanging low. The ongoing Eurozone crisis, volatile oil prices and credit crunch are making things worse. The recent Libor scandal involving London-based Barclays traders indicated the corrupt financial system may also have other hidden flaws not yet revealed. The system that regulates Libor itself requires utmost ethical conduct to properly work. Otherwise, one of the key components of the the global credit system could be jeopardized.

The emerging markets, including China, are experiencing slowing growth. And the Iran nuclear threat isn't making investors confident either. We can expect to see a slowing Asia with lower-than-expected growth. For instance, economists predicted Indonesia's growth next year is likely around 6%. However, the World Bank warned us that it could be as low as 4%. Another scenario would be moderate growth of 6% growth. In the first quarter of 2012, we experienced growth of only 6.1%, which was lower than expected.

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HOWEVER, INDONESIA has a unique economy and demographics, with exports only 12% of GDP, a debt-to-GDP ratio of only 25%, and 66% of the population between the ages 15 to 64. All that should allow Indonesia to enjoy relative economic stability during what economist Nouriel Roubini predicts will be a "perfect storm" in 2013. Indonesia's 2011 GDP per capita of $3,500 is another strength that should allow economic growth to be maintained.

Thus, we can expect to see a bear market for 9 to 15 months. Some areas for investment might be fast-moving consumer goods, property, financial services and healthcare. While the property industry is currently being regulated more tightly by Bank Indonesia with at least 30% down payment for home mortgages, the bubbling process of property values should be closely monitored.

Indonesia's exports have weakened due to declining global demand. As I have mentioned in my previous column, it is time to focus on more comparative advantages other than export commodities. With the large African market comprising of one billion people, it would be a logical decision to focus on exporting to markets other than the U.S. and Europe, as well as to South America and other parts of Asia.

While the level of damage from the perfect storm of 2013 remains to be seen, Indonesia needs to find alternatives for survival while maintaining a healthy level of production that would create a positive impact to its overall economy. F

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