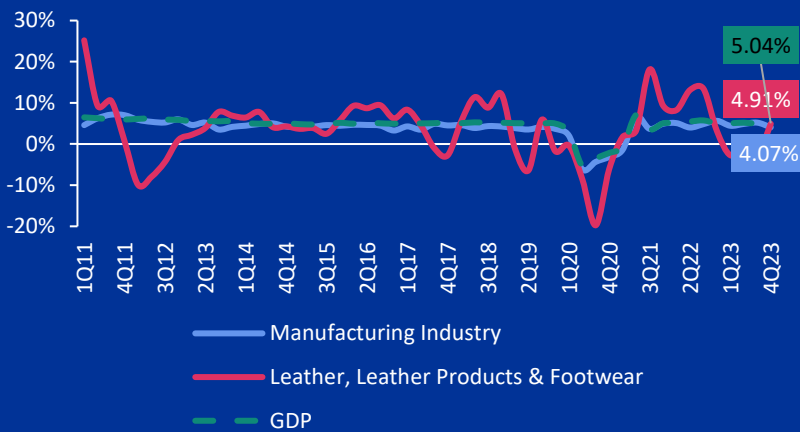


Indonesia Footwear Industry

Permata Institute for Economic Research
February 2024

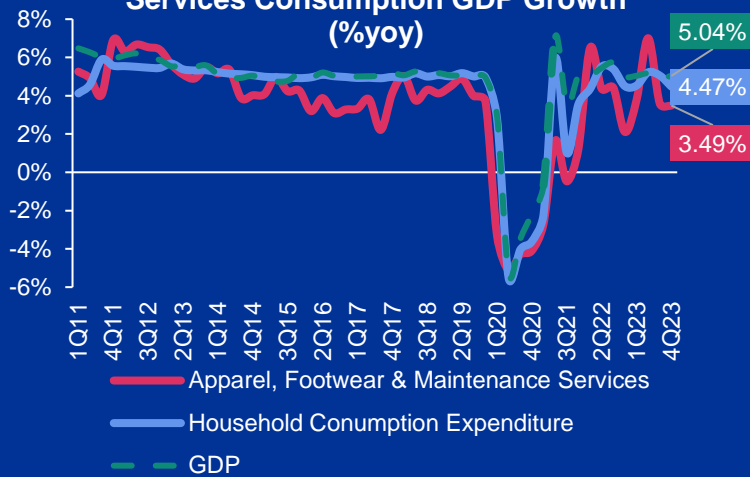


Leather, Leather Products & Footwear GDP Growth (%yoy)



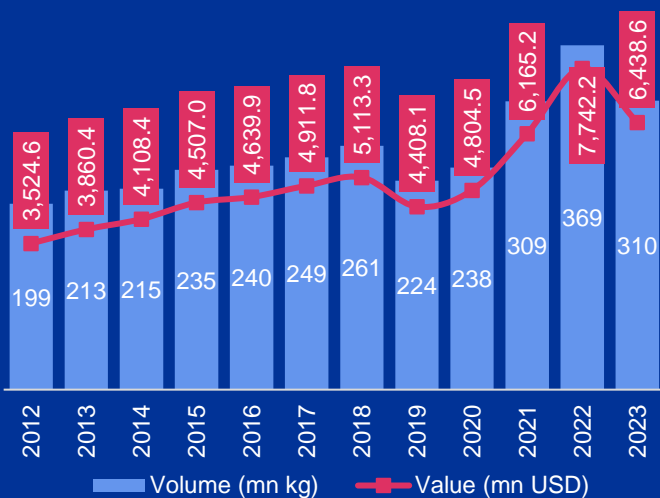
Source: Statistics Indonesia, Permata Institute for Economic Research

Apparel, Footwear, & Maintenance Services Consumption GDP Growth (%yoy)



Source: Statistics Indonesia, Permata Institute for Economic Research

Footwear Products Export (HS Code: 64)

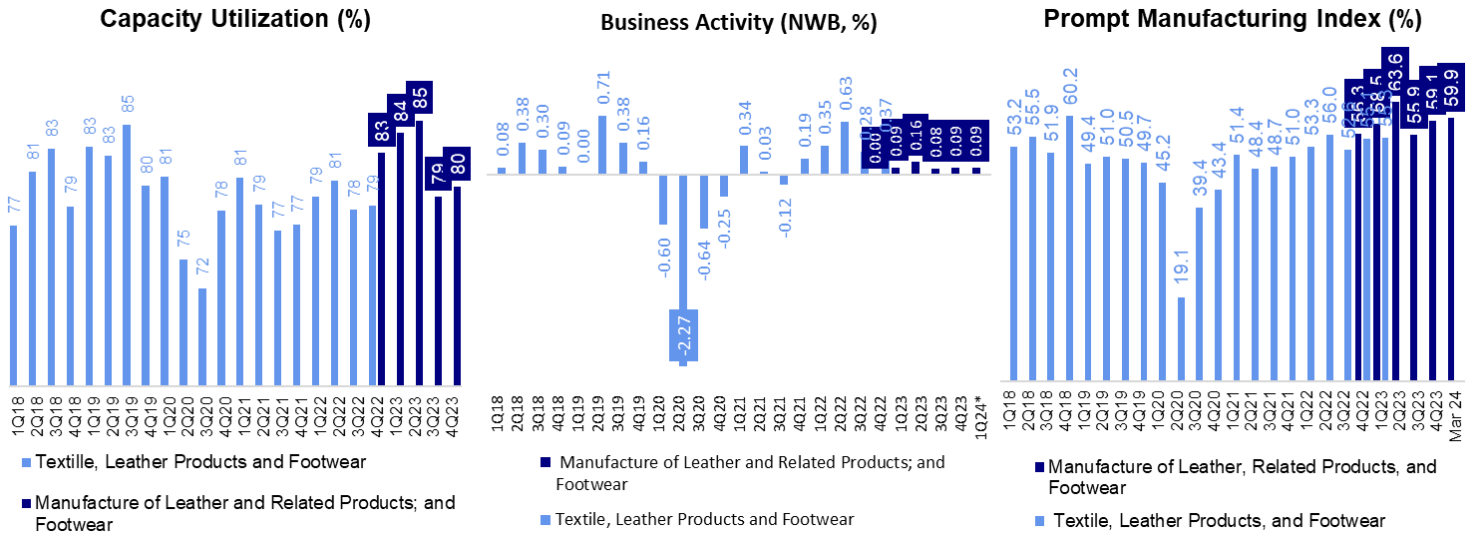


Source: Statistics Indonesia, Permata Institute for Economic Research

Latest Performance

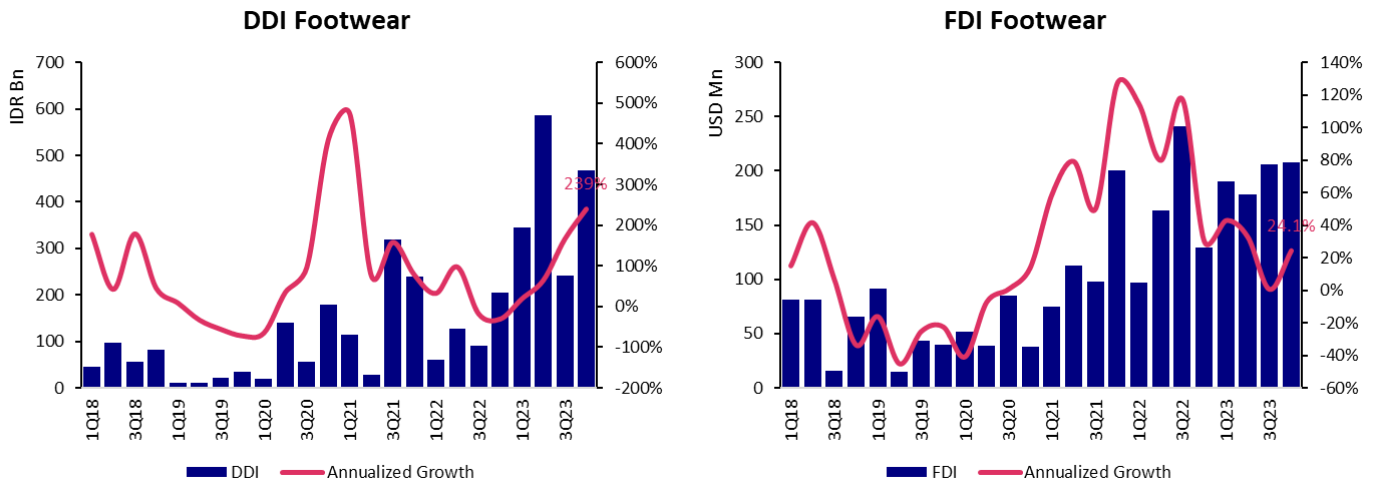
The footwear industry improved in the 4Q23. The Gross Domestic Product (GDP) Indonesia's Footwear Industry in 4Q23 recorded a growth of 4.91%yoy, accelerated from -2.96%yoy in 3Q23. However, the footwear industry recorded a contraction of -0.34% in FY23, following the export demand drop since 2H22. From the expenditure side, after the pandemic, the growth of footwear product consumption has already returned to its pre-pandemic level. In 4Q23, the apparel, footwear, and maintenance services consumption GDP rose by 3.5%yoy, marginally slowing down from 3.6% and 7.0% in 3Q23 and 2Q23, respectively. The consumption of footwear and apparel in 2023 grew 4.5%yoy, which accelerated from 4.3%yoy in 2022. This could indicate that the domestic market performed better than the export market, indicating robust domestic demand.

After achieving its highest level in 2022, footwear export value and volume contracted in 2023, following diminished demand from main destination countries since 2H22. Statistics Indonesia reported that Indonesia footwear products export value amounted to USD6.44 billion (bn) or contracted by -16.8%yoy. Furthermore, the export volume for footwear products in 2023 also declined by -19.4%yoy or reached 310 million (mn) kg from 369 mn kg in 2022. Weaker demand from the primary export destinations, such as the United States of America (USA), China, and Belgium, become the main factors of the declining footwear export in 2023.



Source: Bank Indonesia, Permata Institute for Economic Research

Despite the decline in the export market, capacity utilization and business activity continued to increase in 1H23 due to robust domestic demand. Based on Bank Indonesia’s Business Survey, the capacity utilization for manufacturing leather and related products and footwear in 2Q23 amounted to 85, the highest level after the pandemic. This increase was driven by strong domestic demand during Ramadhan and Eid-Fitr, even amidst the slowdown in the export market. However, post-Eid Fitr, there was a decline in capacity utilization and business activity, attributed to persistently lower export demand that has been ongoing since the end of 2022. Moreover, the Net Weighted Balance (NWB) of leather and footwear manufacturing products was 0.16%, increasing from 0.09% in 1Q23. The Prompt Manufacturing Index (PMI) of footwear products also confirmed the increase in footwear production in 2Q23. In 1Q24, footwear manufacturers expect their business activity to be stable or even slightly accelerated – as indicated by the PMI level; it is expected to reach 59.9. Solid domestic demand during Eid-Fitr is one of the main reasons behind this optimism.



Source: Ministry of Investment, Permata Institute for Economic Research

FDI by Region	Last 4Q (USD Mn)	DDI by Region	Last 4Q (IDR Bn)
Central Java	362.3	West Java	638.2
Tegal Regency	65.8	Sukabumi Regency	337.9
Pekalongan Regency	63.1	Garut Regency	130.8
Jepara Regency	52.0	Cianjur Regency	77.8
West Java	330.4	Central Java	442.3
Sukabumi Regency	155.4	Brebes Regency	426.9
Cianjur Regency	62.0	Demak Regency	9.1
Majalengka Regency	52.8	Sragen Regency	2.6
Banten	50.5	East Java	418.0
Serang Regency	28.7	Pasuruan Regency	255.5
Tangerang Regency	14.6	Nganjuk Regency	75.8
Lebak Regency	7.1	Sidoarjo Regency	30.9
East Java	35.5	Banten	134.5
Sidoarjo Regency	15.8	Tangerang City	53.9
Lamongan Regency	6.0	Tangerang Selatan City	40.9
Jombang Regency	4.7	Tangerang Regency	39.7
Yogyakarta	2.0	Yogyakarta	6.9
Kulon Progo Regency	1.5	Bantul Regency	6.5
Bantul Regency	0.3	Sleman Regency	0.4
Gunung Kidul Regency	0.2		

Source: Ministry of Investment, Permata Institute for Economic Research

Despite the decline in exports, domestic and foreign footwear manufacturing investments accelerated after the pandemic. In 4Q23, the domestic direct investment (DDI) for footwear manufacturing amounted to IDR467.9 billion (bn) or accelerated by 239%yoy (annualized) after 166%yoy growth in 3Q23. Furthermore, the footwear industry's foreign direct investment (FDI) also recorded a positive growth of 24%yoy or reaching USD208.2 mn in 4Q23. Looking at the spatial aspect, provinces in Java still become the most preferred investment destinations for the footwear industry. In 2023, or the last four quarters, around 88.5% of FDI in the footwear industry concentrated in Central Java (46.3% of total FDI) and West Java (42.2%). For domestic investment, West Java became the leading destination (38.9% of total DDI), followed by Central Java (26.9%) and East Java (25.5%).

Industry Landscape

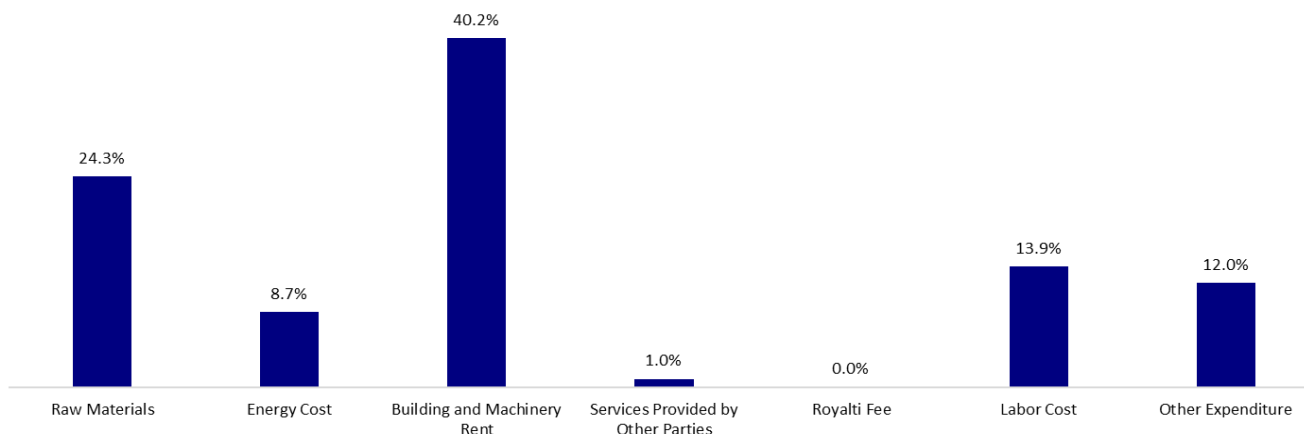
Most Indonesian footwear industry input comes from domestic resources; however, some crucial materials still rely on imports. Based on the 2016 Input and Output table, leather was the primary input for footwear manufacturing in Indonesia, signaling that leather footwear products still dominate the landscape. Moreover, most of the leather (75%) comes from the domestic market, while 25% comes from imports. Following leather, basic chemicals except fertilizer and synthetic damars, plastic materials, and synthetic fibres were the highest input materials for the footwear industry. Around 21% of the basic chemical materials were fulfilled from the import market, while most synthetic fiber materials (60%) were imported. Another material that relied on imported products was footwear, which indicated that Indonesia's footwear industry was part of the global supply chain. However, it also implies that global economic volatility, including its slowdown, could heavily impact Indonesia's footwear industry.

Input Origin by Industry	Input Origin Mapping of Footwear Industry					
	Footwear Industry			Results of Preserving and Tanning Leather		
	Proportion of Total Raw Material Input (%)	%Domestic	%Import	Proportion of Total Raw Material Input (%)	%Domestic	%Import
Results of Preserving and Tanning Leather	34.8%	75%	25%	4.3%	75%	25%
Trade other than Cars and Motorbikes	8.6%	100%	0%	18.2%	100%	0%
Basic Chemistry Except Fertilizer	7.7%	79%	21%	1.5%	69%	31%
Synthetic Damar, Plastic Materials and Synthetic Fibers	5.6%	40%	60%	0.4%	60%	40%
Crumb Rubber and Fume Rubber	4.3%	100%	0%	1.8%	100%	0%
Footwear	4.2%	40%	60%	0.1%	96%	4%
Other chemical items	3.0%	70%	30%	0.7%	50%	50%
Electricity	2.6%	100%	0%	1.0%	100%	0%
Banking Financial Services	2.4%	97%	3%	1.0%	97%	3%
Knitted Items	2.1%	48%	52%	0.0%	37%	63%
Starting Engine	2.1%	12%	88%	0.6%	12%	88%
Land Transport Services Apart from Rail Transport	1.9%	100%	0%	2.5%	100%	0%
Air Transport Services	1.5%	92%	8%	0.5%	97%	3%
Tire	1.5%	65%	35%	0.5%	65%	35%
Broadcasting and programming services, Films and Sound Recording Results	1.2%	100%	0%	0.1%	100%	0%
Animal Slaughter Results	0.0%	95%	5%	43.9%	97%	3%
Plastic Items	0.0%	36%	64%	3.7%	81%	19%
Apparel	0.1%	53%	47%	3.4%	91%	9%
Textile Goods Other Than Cloth and Apparel	0.7%	52%	48%	2.3%	53%	47%
Rubber	0.0%	99%	1%	2.0%	99%	1%
Others	15.7%	NA	NA	11.5%	NA	NA
Total	100%	76.5%	23.5%	100%	92.4%	7.6%

Source: Statistics Indonesia, Permata Institute for Economic Research

Building and machinery rent is the most considerable proportion of the Indonesian footwear industry production cost. According to the 2019 Indonesian Manufacturing Statistics, the building and machinery rent accounted for 40.2% of the total cost of the footwear industry. It was followed by raw materials cost (24.3%) and labor cost (13.9%). The high proportion of building and machinery rent out of the production cost also signifies that technology plays a vital role in the development of the footwear industry.

Manufacture of Footwear Cost Structure (%)



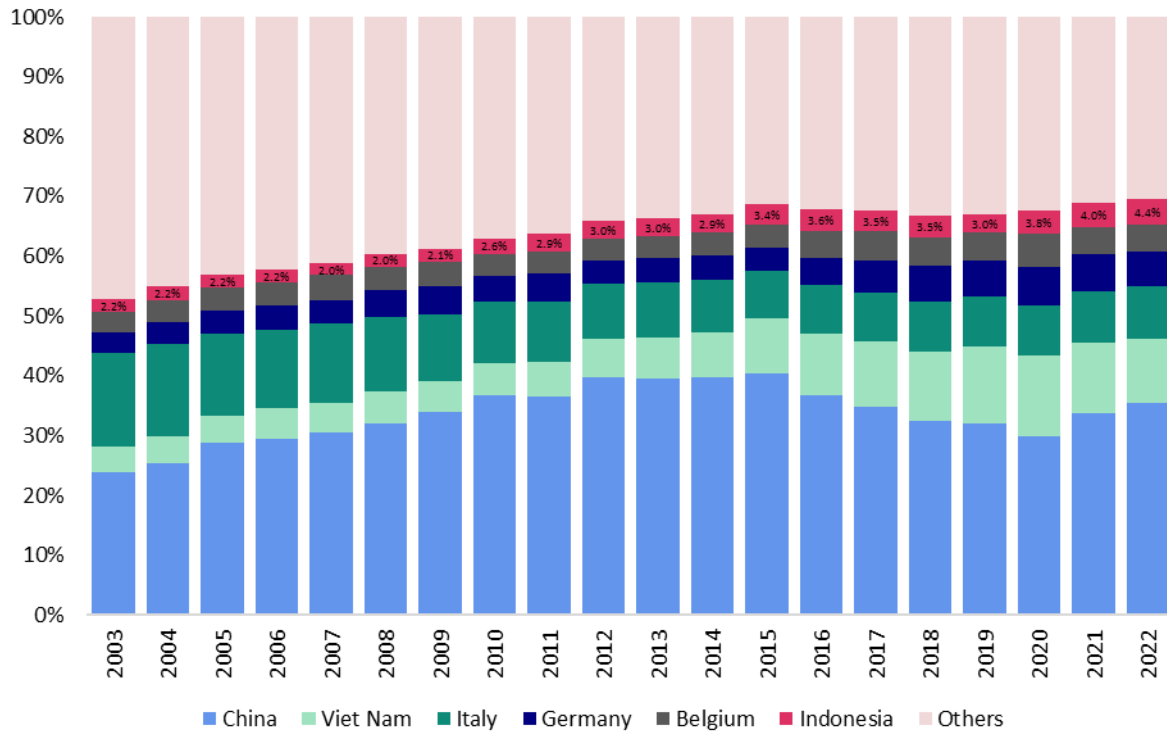
Source: Statistics Indonesia, Permata Institute for Economic Research

Almost all the output of Indonesian footwear products goes directly to the consumers, while a portion of them is used as input in other industries. The footwear industry, especially in the foreign market, was one of the leading industries that used the Indonesian footwear output – signifying its place as a part of the global supply chain. As for the direct consumption, around 54.4% of Indonesian footwear output is exported as a final product. Thus, the fluctuation in demand from the export markets would significantly impact the footwear industry more than domestic demand. However, as displayed above, solid domestic demand – especially during special occasions, could also boost the industry’s revenue, as 35% of its output was consumed within the domestic market.

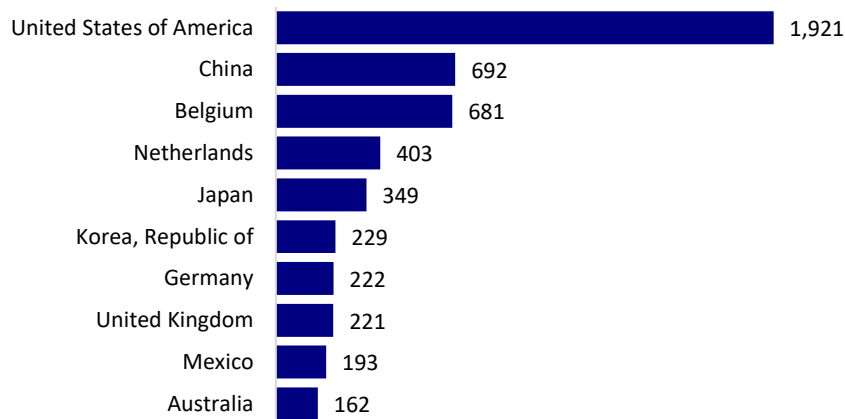
Output Users by Industry	Footwear			Results of Preserving and Tanning Leather		
	Share (%)	Domestic Industry Origin Output (%)	Output of Foreign Industry Origin (%)	Share (%)	Domestic Industry Origin Output (%)	Output of Foreign Industry Origin (%)
Intermediate Consumption	7.9%	65%	35.2%	91.4%	75%	24.9%
Footwear	2.1%	40%	59.7%	62.3%	75%	24.9%
Rental Services and Business Support Services	1.4%	77%	22.6%	0.0%	NA	NA
Trade other than Cars and Motorbikes	0.9%	85%	15.0%	0.0%	NA	NA
Land Transport Services Apart from Rail Transport	0.5%	85%	15.1%	0.0%	NA	NA
Other machines and equipment	0.5%	69%	31.2%	0.0%	NA	NA
Air Transport Services	0.4%	85%	15.0%	0.0%	NA	NA
Sea Freight Services	0.3%	85%	15.0%	0.0%	NA	NA
Apparel	0.2%	3%	96.9%	3.2%	75%	24.9%
Plastic Items	0.2%	5%	94.7%	0.0%	NA	NA
Household and Office Furniture Other than Metal	0.2%	84%	15.8%	12.0%	75%	25.0%
Motorized Vehicles Except Motorcycles	0.1%	64%	35.6%	0.1%	75%	24.9%
Starting Engine	0.1%	85%	15.2%	0.0%	NA	NA
Health Services & Private Social Activities	0.1%	94%	5.8%	0.0%	NA	NA
Batteries And Batteries	0.1%	2%	98.5%	0.0%	NA	NA
Metal Building Materials	0.1%	85%	15.0%	0.0%	NA	NA
Leather Goods	0.1%	26%	74.4%	10.6%	75%	24.9%
Other Services	0.0%	98%	1.6%	0.0%	NA	NA
Items Made of Paper and Cardboard	0.0%	12%	87.8%	0.0%	75%	25.0%
Others	0.6%	NA	NA	3.2%	NA	NA
Final Consumption	92.1%	94%	6.0%	8.6%	86%	14.0%
Household Consumption	35.5%	85%	14.7%	0.0%	NA	NA
LNPRT Consumption	0.0%	NA	NA	0.0%	NA	NA
Government Consumption	0.0%	NA	NA	0.0%	NA	NA
Gross Fixed Capital Formation	0.0%	NA	NA	0.0%	NA	NA
Inventory Change	2.1%	85%	14.7%	4.8%	75%	24.9%
Exports of Goods (F.o.b)	54.4%	100%	0.0%	3.8%	100%	0.0%
Services Exports	0.2%	100%	0.0%	0.0%	NA	NA

Source: Statistics Indonesia, Permata Institute for Economic Research

World Footwear Market Share (%)



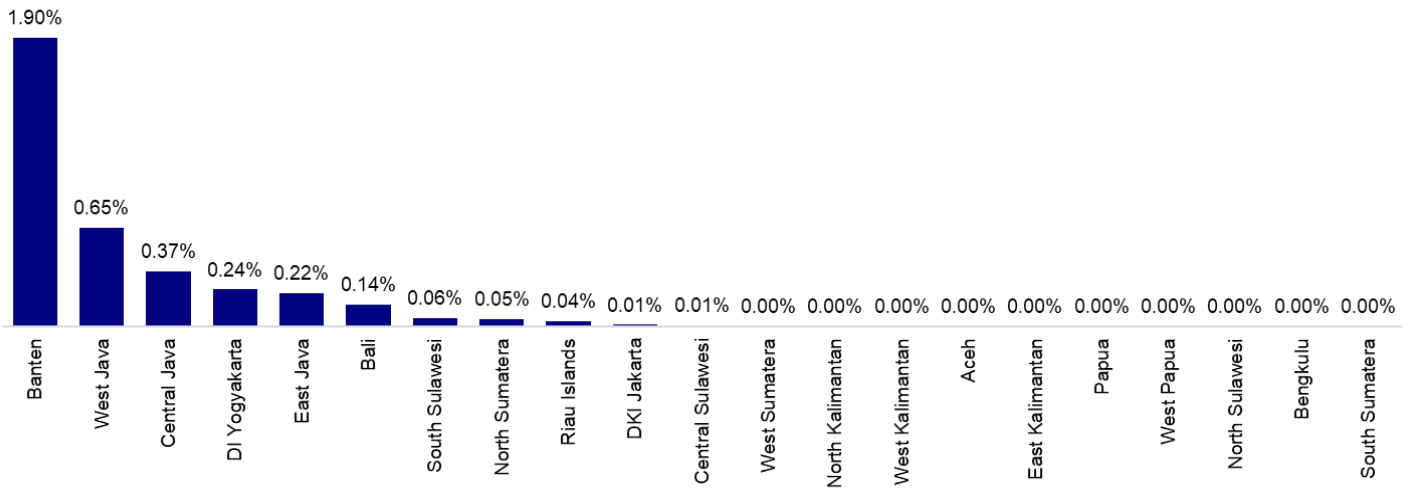
Indonesia Footwear Export in 2023 by Country (USD Mn)



Source: TradeMap, Statistics Indonesia, Permata Institute for Economic Research

Over 20 years, Indonesia could capture the global market share of footwear products. Indonesia's footwear exports in 2003 accounted for around 2.2% of the world's total footwear exports. It has steadily increased over the years, and Indonesia's footwear export in 2022 reached 4.4% of the world's footwear export. However, Indonesia's footwear product share is still below that of China, Vietnam, Italy, Germany, and Belgium. Looking at the export destinations, the USA still become the primary destination for Indonesia's footwear products, followed by China, Belgium, Netherlands, and Japan. Thus, economic fluctuations in those countries, especially the USA, would affect Indonesia's footwear industry.

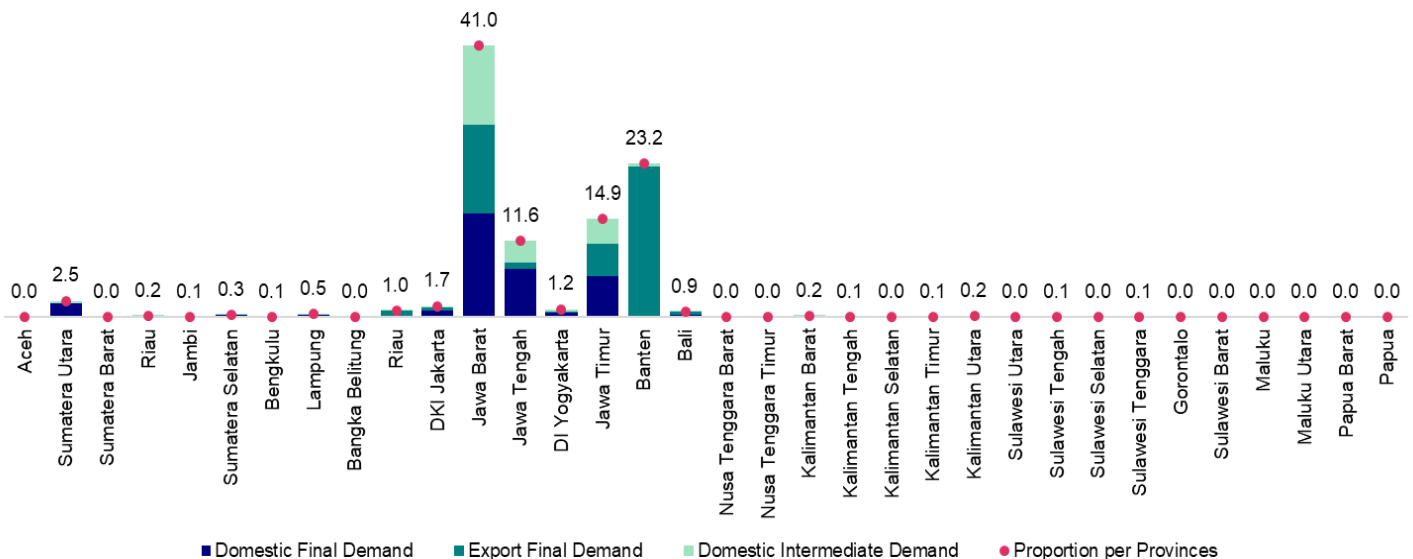
GDP Share from Leather and Related Products; and Footwear by Province in 2022 (%)



Source: Statistics Indonesia, Permata Institute for Economic Research

Provinces in Java Island are still the main production centres for footwear products. Banten currently is the main center for footwear production as indicated by its footwear manufacturing GDP shares of 1.90%. It was then followed by West Java and Central Java with 0.65% and 0.37% of their GDP, respectively. Based on its output allocation, most of – if not all – the output of the footwear industry in Banten was designated for the export market. On the other hand, the footwear industry located in West Java, Central Java, and East Java is also marketed to domestic consumers, sheltering them from the impact of global volatility compared to their peers in Banten.

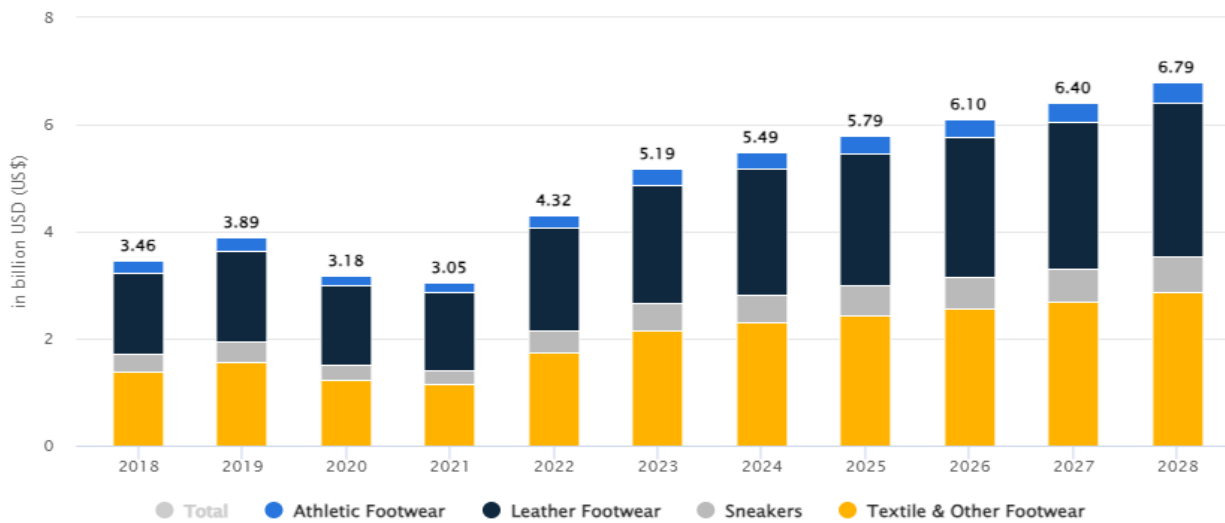
Leather and Footwear Industry Output Allocation by Segment and Province (%)



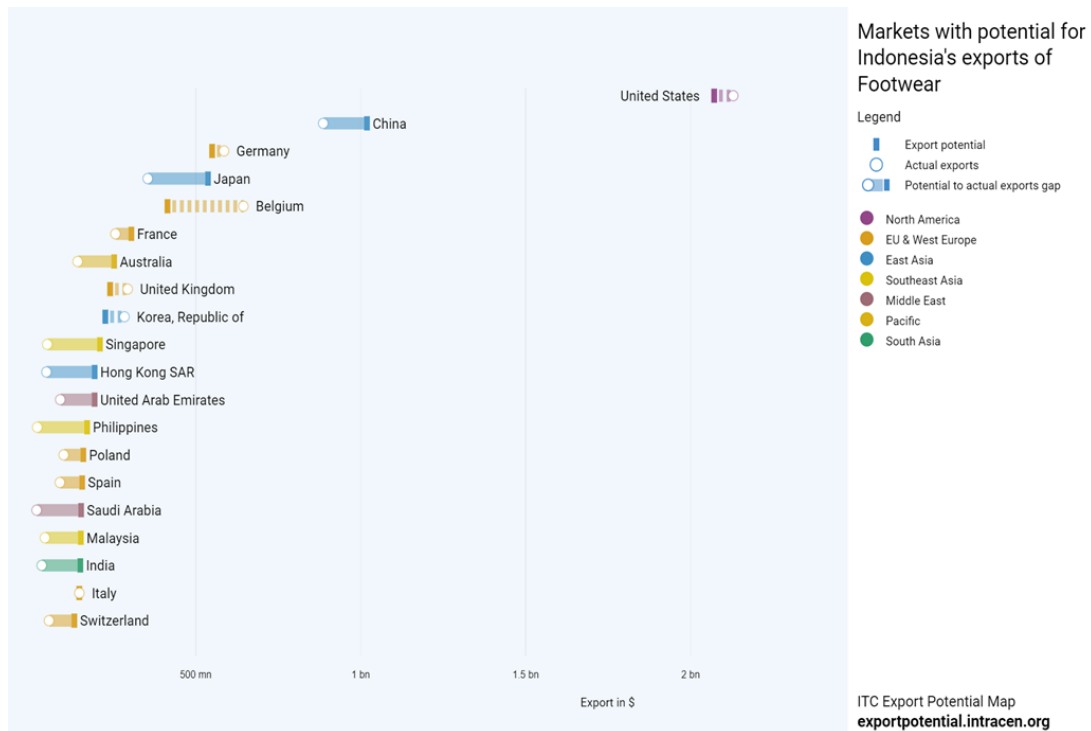
Source: Statistics Indonesia, Permata Institute for Economic Research

Outlook

Looking ahead, the footwear market in Indonesia is predicted to have continuous growth. Currently, Statista estimated that the revenue of the footwear industry in Indonesia amounted to USD5.19 bn and is expected to reach USD6.79 bn in 2028 as all segments of products (athletic footwear, leather footwear, sneakers, and textile & other footwear) grow. According to the same report, Indonesian consumers are shifting to more sustainable, locally-made footwear products. This trend could provide an opportunity for footwear manufacturers to expand their market to not only depend on the export market but also the domestic market. Furthermore, it also presents a chance for the manufacturers to become not only producers – but also the brand owners.



Source: Statista



Source: Trademap

Export markets also provide further opportunities for Indonesia's footwear products to grow, as Indonesia's footwear exports to several countries are still below their potential level. According to Intracen, Indonesian footwear product exports still have the potential to increase in many countries, including China, Japan, Australia, Singapore, Hong Kong, and other Asian countries. This market would also allow Indonesia to diversify its export market as it exports to some main destinations, such as the USA, Belgium, the UK, and South Korea, already above the optimum level as displayed above. Nevertheless, as Indonesia's export value is still below its potential level, the opportunity for Indonesian paper products export to increase remains open.

Countries	2019	2020	2021	2022	IMF		World Bank		ADB		OECD	
					2023e	2024F	2023e	2024F	2023F	2024F	2023e	2024F
World	2.8	-2.8	6.3	3.5	3.1	3.1	2.6	2.4			3.1	2.9
US	2.3	-2.8	5.9	2.1	2.5	2.1	2.5	1.6			2.5	2.1
Euro Zone	1.6	-6.1	5.3	3.5	0.5	0.9	0.4	0.7			0.5	0.6
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.0	5.0	4.9	5.0	5.0	4.9	5.1
Japan	-0.4	-4.3	2.2	1.0	1.9	0.9	1.8	0.9			1.9	1.0
China	6.0	2.2	8.4	3.0	5.2	4.6	5.2	4.5	4.9	4.5	5.2	4.7
India	3.9	-5.8	9.1	7.2	6.7	6.5	6.3	6.4	6.3	6.7	6.7	6.2
Russia	2.2	-2.7	5.6	-2.1	3.0	2.6	2.6	1.3			3.1	1.8
Brazil	1.2	-3.3	5.0	2.9	3.1	1.7	3.1	1.5			3.1	1.8
ASEAN	4.3	-4.4	4.0	5.5	4.2	4.7	-	-	4.6	4.8	-	-

Source: IMF, Jan-24 World Economic Outlook; World Bank, Jan-24 Global Economic Prospect, Update; ADB, Sep-23 Asian Development Outlook; & OECD, Sep-23 Economic Outlook

However, despite the opportunities, major global institutions estimated that many of Indonesia's primary footwear export destinations will experience economic slowed down in 2024 – thus potentially lowering the demand for footwear products. According to the World Bank, the US GDP growth in 2024 is forecasted to reach 2.1% - lower than the estimated 2023 growth level of 2.5%. China, the second largest market for Indonesian footwear products, is also predicted to experience a slowed down in 2024. This slowdown in the global economy could bring some challenges to the Indonesian footwear industry, especially in the near term.

Thank you!

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