

## CONSECUTIVE DEFLATION AND PURCHASING POWER OF THE MIDDLE-CLASS IN GORONTALO PROVINCE, INDONESIA

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### ABSTRACT

This paper aims to explain the phenomenon of consecutive deflation in Gorontalo Province and its impact on the purchasing power of the middle class. This literature review uses data from the Central Bureau of Statistics and Bank Indonesia, which are then analyzed qualitatively to obtain a general picture of the phenomenon of deflation and the purchasing power of the middle-class. This paper concludes that consecutive deflation in Gorontalo Province doesn't directly reflect a decline in the purchasing power of the middle-class. This condition is more driven by falling food prices due to the bumper harvest and the shift in middle-class consumption patterns from primary to secondary and tertiary spending. The combination of fiscal and monetary policies in the form of lowering bank interest rates and increasing spending on infrastructure, education and health is expected to boost aggregate demand. Subsidies to the manufacturing, hospitality and tourism, energy and construction sectors as well as retail trade are needed to prevent sluggishness due to deflation. Low-interest capital facilities, the creation of local superior export-oriented products as well as land access and tax incentives to attract foreign investment.

**Keyword:** deflation; price, purchasing-power; middle-class, Gorontalo

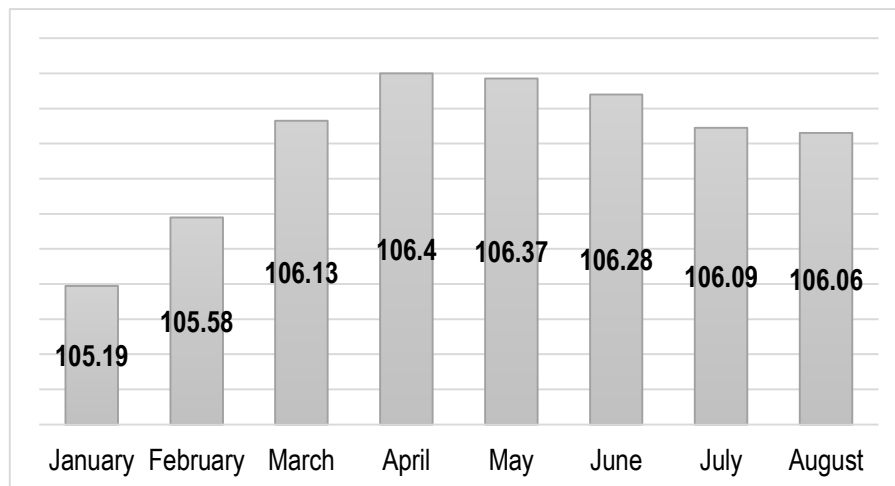
JEL Classification: E310, E320, E520, E700

### 1.0 INTRODUCTION

Inflation is one of the main indicators often used to measure the economic stability of a country or region (Negm, 2023:383). Moderate inflation rates are generally considered a sign of economic health because they reflect sufficient demand for goods and services, as well as active economic activity. However, when inflation is too low or even deflation occurs, this situation can be a cause for concern. Deflation—a general decline in the prices of goods and services over a period of time—can indicate deeper economic problems, such as falling demand or an increase in production that is not matched by consumption (Ryska, 2014:2). In the long term, deflation has the potential to slow economic growth because consumers tend to postpone purchases in the hope that prices will continue to fall (Eichengreen, 2017;287).

In the last four months, Indonesia has experienced deflation, drawing attention from various sectors. The Central Statistics Agency (BPS) reported that in August 2024, the Consumer Price

Index (CPI) decreased from 106.09 in July 2024 to 106.06, as shown in Figure 1. BPS announced that there was a 0.03 percent deflation on a monthly basis (mtm) in August 2024. This is consecutive deflation since May (0.03), June (0.08) and July (0.18). A decline in the prices of several food commodities and abundant supplies are suspected to be the main causes of this consecutive deflation.



Source: BPS, 2024 (processed)

**Figure 1. Indonesian Consumer Price Index in 2024**

Deflation or negative inflation is a general decline in the prices of goods and services in an economy over a certain period of time. Unlike inflation which indicates an increase in prices, deflation refers to a sustained decline in the price level, so that the purchasing power of money increases (Banerjee and Mehrotra, 2023). Deflation refers to a general decline in the prices of goods and services, which benefits consumers. However, in the context of the Indonesian economy, deflation reflects a decline in aggregate demand, which indicates weakening economic activity and people's purchasing power. This phenomenon has raised concerns that the Indonesian economy could become trapped in a deflationary spiral that is difficult to overcome. If this continues, it could risk hampering Indonesia's economic growth in the long term (Masitoh, 2024).

Deflation in Indonesia is not a new phenomenon; there have been periods of significant deflation over the past few decades. In 1999, following the Asian financial crisis, Indonesia experienced deflation of 2.01 percent, driven by exchange rate depreciation and falling prices of several goods (Bank Indonesia, 1999). Another period of deflation occurred in 2008–2009 during the global financial crisis, with negative inflation recorded for several months due to falling world oil prices and weak domestic demand (BPS, 2009).

Food commodity prices play a significant role in affecting inflation and purchasing power, particularly because food is a basic necessity and often a major component of household expenditures. Changes in the price of food commodities—whether they are grains, vegetables, meat, or other essentials—can have both direct and indirect effects on inflation and consumers' ability to maintain their standard of living (Misdawita et al, 2019).

Gorontalo Province, located in the northern part of Sulawesi has an economy that is largely driven by agriculture, fisheries, and an emerging mining sector. Gorontalo has shown moderate economic growth in recent years, with agriculture being the primary contributor to the province's GDP (Aminda et al, 2024:2; Mopangga et al, 2024:1127). Corn is the dominant crop, earning the province the nickname of "Corn Province" due to its significant contribution to both local and national food production. The province has also expanded its economy through the development of fisheries, aquaculture, and small-scale mining. While not as significant as agriculture or fisheries, Gorontalo's forestry sector contributes timber and non-timber forest products, supporting local industries and rural livelihoods. The focus is mainly on sustainable practices to balance economic needs with environmental conservation.

Tourism is increasingly tied to the local economy, particularly in the context of eco-tourism. The sale of handicrafts, local agricultural products, and the promotion of sustainable agricultural tourism is helping to diversify Gorontalo's economic base. The combination of agriculture and tourism sectors offers new avenues for value-added products and services, including organic farming and agrotourism (Mopangga et al, 2021:88).

Inflation in Gorontalo has been volatile. In early 2024, the region experienced an inflation rate of around 4.13% year-on-year (yoy), primarily driven by rising prices in food and energy sectors. However, there were also signs of deflation in specific sectors, such as transportation and household goods, with a deflationary pressure of 1.26% year-to-date (ytd) in March 2024.

In Gorontalo, the middle-class is primarily impacted by fluctuations in food prices and essential commodities, particularly agricultural products like corn, rice, vegetables, and fish. These staples have experienced price volatility, influenced by both local and national factors such as production levels, supply chain issues, and inflationary pressures. As a staple, rice is crucial for households in Gorontalo, including the middle-class. Price fluctuations in rice are driven by domestic production, import policies, and external factors like climate change. In recent months, rice prices have risen due to global supply chain disruptions and domestic production shortfalls.

The middle-class is particularly sensitive to inflation, especially in the context of food prices and transportation costs. In Gorontalo, inflation in food commodities has been a significant driver of the cost of living, particularly in 2023 and early 2024. Rising prices for key commodities directly impact the purchasing power of the middle-income class, affecting their ability to save or invest in non-essential goods and services. Shortly, the middle-class in Gorontalo is heavily affected by the prices of staple food commodities, fuel, and transportation. Inflation in these sectors has a significant impact on their cost of living, with food prices often being the most critical driver.

The middle class, often considered the backbone of a region's economy, is also a focus of this discussion. In Gorontalo, the middle-class comprises 66.6 percent of the total population, with expenditure reaching more than 81 percent of total consumption. They play an important role in maintaining domestic demand through high consumption, so changes in middle-class purchasing power due to low inflation or deflation need to be taken seriously. In the context of deflation, the middle-class can respond by holding back spending or shifting their consumption to different goods and services, such as secondary and tertiary needs.

However, the deflation that occurred in Gorontalo also gave rise to various interpretations. On the one hand, deflation caused by an increase in the supply of goods, especially agricultural commodities, can be considered a positive momentum. The decline in the prices of basic necessities such as tomatoes and shallots—due to an abundant harvest—has caused deflation in the food sector. However, on the other hand, this price decline can be a signal of declining purchasing power if accompanied by stagnation of middle-class income, which ultimately makes them more vulnerable to economic pressures.

In this article, we will discuss further the impact of low inflation and deflation on the middle class in Gorontalo, as well as how their consumption patterns change along with the existing economic conditions. This understanding is important for formulating economic policies that can maintain people's purchasing power while encouraging sustainable economic growth at the regional level.

## 2.0 LITERATURE REVIEW

### 2.1 Inflation versus Deflation

Inflation refers to a general increase in prices – not just in specific goods and services but an all-round increase that is spread across different sectors. It matters to ordinary people particularly when their money incomes do not go up as fast as prices do, which then results in the loss of their purchasing power. This is described as a decline in real income or real wages, which can happen even when money incomes are increasing (Ghosh, 2023;204). The difference in perspective between producers and consumers in viewing price changes reflects a fundamental conflict of interest in the economy. This is in line with the utility theory in microeconomics. Consumers focus on how individuals make choices to maximize utility from consuming goods and services with the available budget. Meanwhile, producers focus on how to maximize profits by managing production costs and optimal selling prices.

Inflation is one of the main indicators often used to measure the economic stability of a country or region. Moderate inflation rates are generally considered a sign of economic health because they reflect sufficient demand for goods and services, as well as active economic activity. However, if inflation is too low or even deflation occurs, this situation can be a cause for concern.

Bank for International Settlements (BIS, 2020) states that although low inflation is generally desired by governments to maintain people's purchasing power, prolonged deflation can lead to a deflationary spiral. A deflationary spiral occurs when falling prices lead to reduced producer income, which in turn reduces investment and employment, thereby further reducing people's purchasing power and worsening price declines. In this case, the phenomenon seen in Gorontalo needs to be studied more deeply whether it shows a deflationary spiral or merely a temporary fluctuation driven by supply factors.

Deflation is often considered an evil. Central banks have a mandate to maintain positive price growth rates and by all means prevent the general price level (usually measured by the Consumer Price Index) in the economy from falling. The fear of deflation, or Apoplithorismophobia, as Mark Thornton (2002:5) calls it, is a common phenomenon and is also widely shared in the news media (Santos, 2016:19). Deflation is often defined as the fear

that the economy will “suffer” from falling prices, or a general decline in the prices of goods and services. This fear has gripped some economists, journalists, and policymakers with as much force as belief (Bordo & Filardo, 2005:1; End et al, 2015:6)).

Deflation is a general decline in prices for goods and services, can have significant and complex effects on middle-class households (Brooks and Quising, 2002:3). While lower prices might seem beneficial, the broader economic context of deflation often creates challenges, particularly in terms of income, debt, and employment stability. A deflationary period is dangerous for a country's economy because the overall environment may be one where businesses are closing, individuals are losing their jobs, and overall debt is increasing (Bordo & Redish, 2003). Deflation is a decrease in the price level of goods and services and the opposite of inflation when prices rise. Deflation can initially increase a consumer's purchasing power, but prolonged deflation can lead to events like the Great Depression. Extended deflation creates higher unemployment rates and leads to default on debt obligations.

Increase in commodity prices will contribute to the rise in living cost and eventually poverty level, so, the analysis of the impacts of food price issues in developing countries can be found in many pieces of literature. Food and energy costs enter into all other prices and therefore directly and indirectly affect consumer prices – and this effect tends to be even stronger in LMICs where food in particular is a larger proportion of average household budgets and where governments typically lack the fiscal space to provide adequate counter measures to alleviate hunger (Ghosh, 2023;208).

Food commodity prices have a profound impact on both inflation and purchasing power. Rising food prices contribute directly to inflation, particularly in countries where food is a large component of household spending. Indirectly, they can lead to higher wages, increased production costs, and reduced economic activity in non-food sectors. For consumers, especially low- and middle-income households, rising food prices erode purchasing power, force spending adjustments, and may increase inequality. The global and interconnected nature of food markets means that price changes can have wide-reaching effects, influencing not only local economies but also global inflation dynamics.

Khan (2022) and Jeraj (2024) argue that the cost-of-living crisis exacerbates the challenges faced by families living on the brink of poverty, leading to widening inequalities. Orjiakor et al (2023) and Ibukun and Adebayo (2021) that the COVID-19 pandemic has increased household food insecurity and poverty in Nigeria.

## 2.2 Middle-class

OECD (2019) stated that a middle-class lifestyle is typically associated with certain goods, services and living conditions, such as decent housing, good education, and sound health and a wholesome environment. The following findings emerge:

1. Middle-class households contribute more than any other income group to aggregate consumption in the economy. With almost two-thirds of total consumption, middle-class households are by far the income group that accounts for the highest share of consumption.

2. Core goods and services make up the bulk of middle-class spending. Middle-class households spend more than half of their budget on core items such as housing, food, clothing, health and education. Leisure spending (including recreation, culture, hotels, restaurants and alcohol) accounts, on average, for 12% of middle-class budget.
3. Almost one-third of the budget of the average middle-class household goes to housing. Housing has been the main driver of rising middle-class expenditure.
4. Middle-class households assign an increasing share of their budget to private health-related expenses as they spend more on out-of-pocket and private health insurance.
5. In some countries, the rising costs of higher education threaten the ability of the middle-class to send their children to university, as they have increased faster than inflation and median incomes.
6. In addition to rising prices, changes in consumption preferences can explain some of the shifts in middle-income budget expenditures. In fact, some middle-class households seek to match the spending patterns of high-income households. So, as the rich get richer, the middle classes spend more and more.
7. As living costs have increased and expenses grown faster than incomes, many middle-income households find themselves struggling to make ends meet, grappling with financial vulnerability, and even dissaving (i.e. spending more than they earn).

In summary, while deflation might offer short-term benefits through lower prices, its broader economic consequences—such as declining wages, job losses, and increased debt burdens—disproportionately impact middle-class households, making them more economically vulnerable.

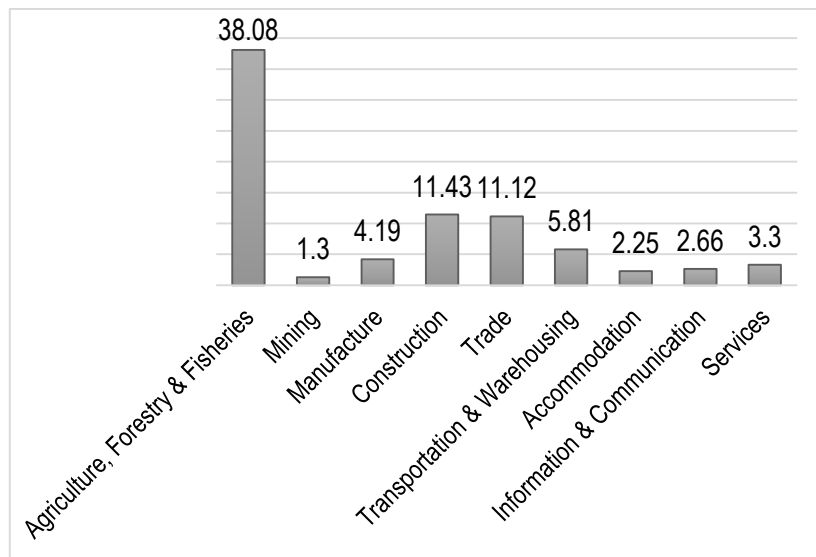
### 3.0 METHOD

This paper is a literature review, utilizing secondary data published by the Central Statistics Agency, which is then analyzed and described to obtain a general overview of the deflation phenomena, changes in commodity prices and the purchasing power of the middle-class in Gorontalo Province.

### 4.0 RESULT AND DISCUSSION

According to Regional Development Planning Agency of Gorontalo Province (Bappeda, 2024), the economic structure of Gorontalo Province is mostly derived from the primary sector of agriculture, forestry and fisheries, followed by construction, trade in goods and services and then transportation and warehousing. Meanwhile, the manufacturing, information and communication and accommodation sectors contribute less than 5 percent to the total GRDP of the business sector, as shown as figure #2.

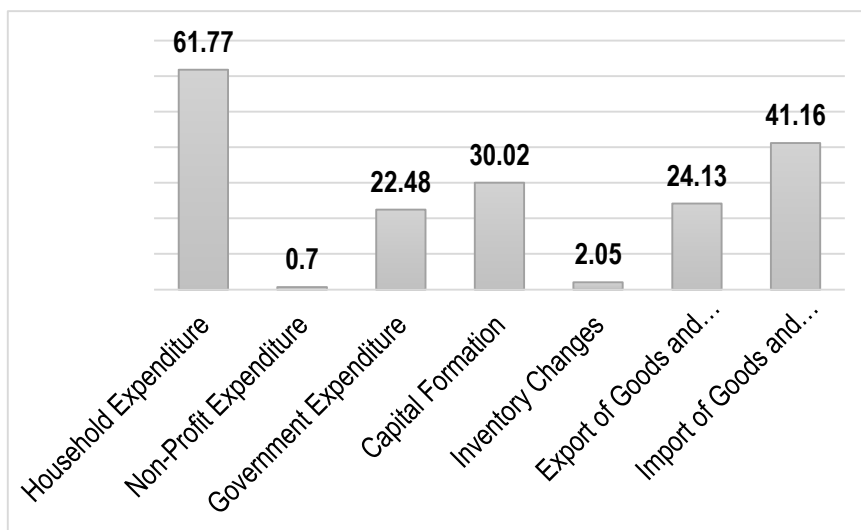




Source: BPS & Bappeda Gorontalo Province (2024)

Figure 2. Average Distribution of GRDP of Gorontalo Province, 2010-2022

From the expenditure side, the highest contribution comes from household expenditure followed by gross fixed capital formation, government expenditure then imports and exports as shown in figure #3.



Source: BPS & Bappeda Gorontalo Province (2024)

Figure 3: Average Distribution of GRDP from the Expenditure Side, 2010-2022

Overall review, the economic structure from the business sector side in Gorontalo Province and Regency/City still depends on the primary sector in this case agriculture, plantations, livestock and fisheries. While from other strategic sectors such as the processing industry, the contribution of the sector is still very small.

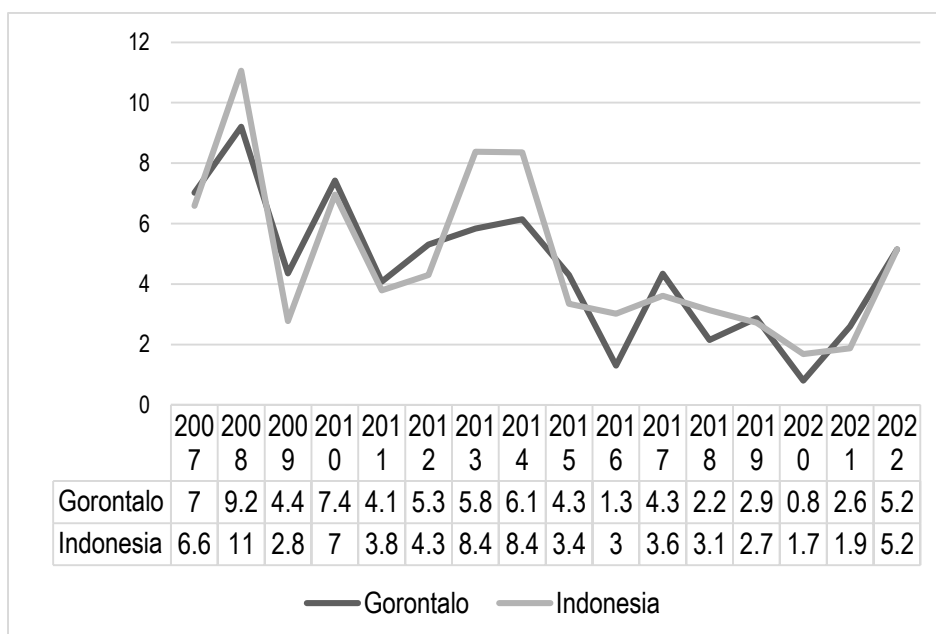
This is because more human resources work in the agricultural sector. Meanwhile, from the expenditure side, it is still dominated by household consumption, while the contribution of capital formation and exports is still very small and fluctuating. Therefore, efforts to transform the economy need to be encouraged more, by making primary sectors a catalyst in encouraging industrial and MSME sectors, through strengthening the value chain of each sector and integrating in strengthening trade in goods and services and exports.

**Table 1. Economic Growth Rate and Average Growth Rate of the Province and Regencies/City in Gorontalo, 2010-2022**

No	Regency/City	2010	2022	Growth Average 2010-2022
1	Boalemo Regency	6,25	3,05	5,60
2	Gorontalo Regency	7,69	3,93	5,93
3	Pohuwato Regency	7,30	3,10	5,71
4	Bone Bolango Regency	6,70	4,01	5,83
5	North Gorontalo Regency	6,93	3,30	5,90
6	Gorontalo City	7,60	4,10	6,31
	Gorontalo Province	7,56	4,04	5,92

Source: BPS & Bappeda Gorontalo Province (2024)

Inflation is one of the economic indicators that can show the good or bad economy of a region. High inflation rates, illustrate the slowdown in economic growth, but deflation does not always describe something positive. Stable inflation figures indicate that economic indicators are getting better.



Source: BPS & Bappeda Gorontalo Province (2024)



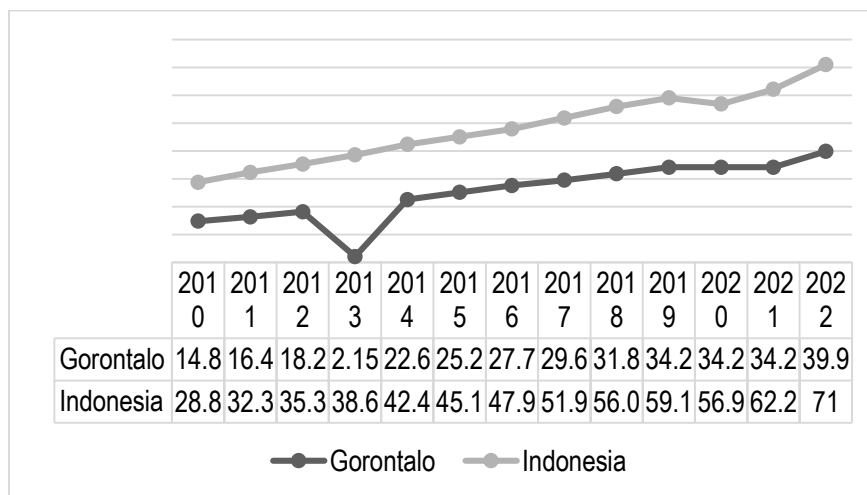
**Figure 4. Comparison of Gorontalo Province and National Inflation (yoy), 2007-2022**

The last fifteen years (2007-2022), the lowest annual inflation occurred in 2020 at 0.81 percent, this was due to the COVID-19 which has been going on since February 2020 and the highest annual inflation occurred in 2013 at 5.84 percent. The inflation trend from 2014 to 2020 tends to decrease, then in 2022 it will increase due to fuel and LPG prices.

A number of policy programs have been implemented by the Gorontalo Provincial government to control the rate of inflation, such as the construction and repair of road infrastructure, dams and irrigation channels, sea and land transportation to open access to goods traffic, providing cheap markets program, Sustainable Food Patterns and Germas Batari (Community Movement to Plant Rica/Chili). However, volatile food prices still very dominantly affect the stability of inflation. Scarcity or disruption of the distribution of cooking oil, various spices and herbs, rice and chicken eggs often drive inflation.

The GRDP per capita of Gorontalo Province in 2022 reached 39.9 million Rupiah, an increase of 0.16 percent compared to 2021 and 169.41 percent compared to 2010. The average GRDP per capita of Gorontalo Province between 2010-2022 was 25.45 million Rupiah. The increase in GRDP per capita shows that the level of welfare in Gorontalo Province has relatively increased but does not actually indicate the welfare of the people in the region.

The trend of GRDP per capita has increased by an average of 0.08 percent annually. This indicates that the Economic Growth Rate of Gorontalo Province is still in line with the population growth rate. However, the GRDP per capita of Gorontalo is still below the National average, in the 6th lowest position nationally, and in the 2nd lowest position regionally in Sulawesi after West Sulawesi.



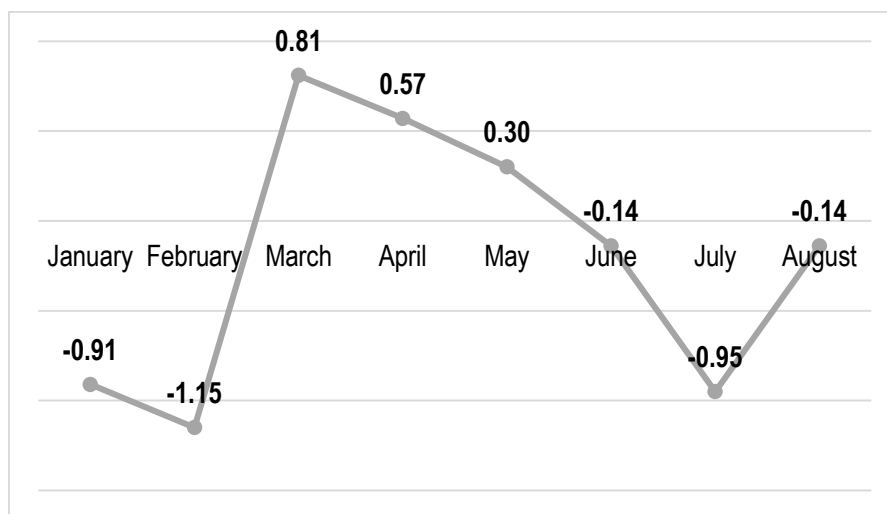
Source: BPS & Bappeda Gorontalo Province (2024)

**Figure 5. Indonesia and Gorontalo Province GRDP per capita, 2010 to 2022 (Million Rupiah)**

Gorontalo Province, recorded a consecutive deflation phenomenon from May to August 2024, with a consistent decline in the consumer price index (CPI). In August 2024, BPS reported monthly deflation of 0.14 percent with the CPI decreasing from 106.09 in July to 106.06. This phenomenon has raised speculation about whether the deflation that occurred was a sign of

economic recovery or an early symptom of a deeper economic crisis. Nationally, the inflation rate also continued to decline, showing a trend that was in line with developments in Gorontalo.

BPS announced that there was a deflation of 0.03 percent (mtm) in August 2024. The deflation was in line with the decline in the consumer price index or CPI from 106.09 in July 2024 to 106.06 in August 2024. This is consecutive deflation since May (0.03), June (0.08) and July (0.18). In line with national conditions, annual inflation rate (yoy) in August was 2.65 percent, continuing to decline from 4.91 (May), 3.93 (June) and 3.07 (July). On an annual basis (ytd), inflation was at -1.62 percent. While on a monthly basis, inflation touched -0.14 percent, and became the fifth month of deflation, as shown in the graph in Figure 6.



Source: BPS, 2024

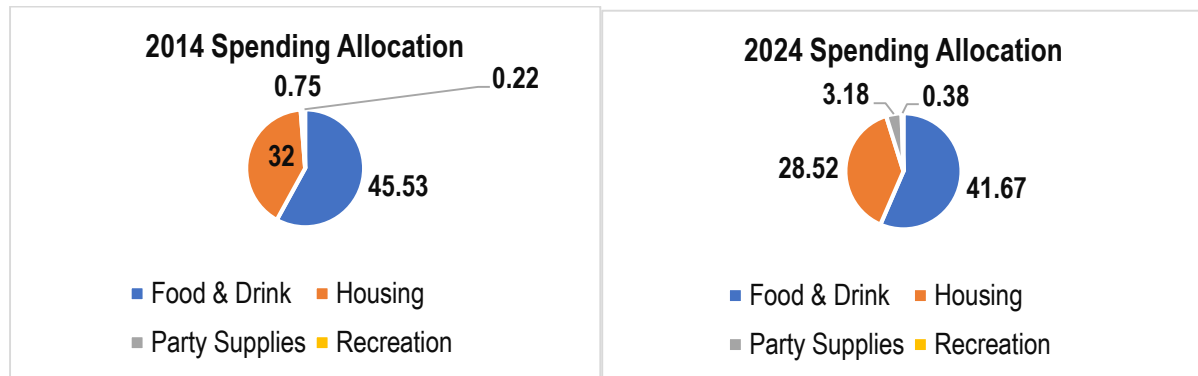
**Figure 6. Percentage of Monthly Inflation (MtM) of Gorontalo Province in 2024**

By the eleven expenditure groups, five experienced inflation and six groups deflation. Monthly inflation occurred in the recreation, sports and culture group (0.68); transportation (0.45); water, electricity and fuel (0.43); personal care (0.12) and clothing and footwear (0.02). Meanwhile, deflation occurred in food, beverages and tobacco (-0.64); household equipment and maintenance supplies; and information, communication and financial services, each at -0.53 percent. Based on region, Gorontalo City contributed monthly inflation of -0.06 percent while Gorontalo Regency -0.22 percent.

Based on commodities, the highest inflation contributors were rice (1.40) and cayenne pepper (0.55). The highest deflationary was tomatoes (-0.54) and shallots (-0.22). The abundant stock availability caused by the bumper harvest in the production center districts caused the prices of tomatoes and shallots to falls.

The middle class is those whose expenditure ranges from 3.5 to 17 times the poverty line set by the World Bank or around Rp2,040,262 to Rp9,909,844 per capita per month. Meanwhile, the criteria for middle class expenditure ranges from 1.5 to 3.3 times the poverty line or around Rp874,398 to Rp2,040,262 per capita per month. The value of the middle-class expenditure mode is Rp2,056,494, meaning that middle class residents tend to be closer to the lower limit of the middle class grouping of Rp2,040,262. This indicates that the middle-class group will find it more difficult to jump to the upper class and is vulnerable to falling into the poor group.

The middle class and towards the middle class often become an economic buffer because their number covers 66.6 percent of the total population and their expenditure value reaches 81.49 percent of the total public consumption.



Source: BPS, 2024

Figure 7: Middle Class Spending Allocation in 2014 (left) and 2024 (right)

In the last decade, there has been a significant change in the spending patterns of the middle class. Allocation of spending on food and beverages and housing has decreased, while entertainment has increased. In 2014, the middle class allocated 45.53 percent of their spending on food and beverages and more than 32 percent on housing. However, in 2024, the proportion for food and beverages drops to 41.67 percent, for housing it shrinks to 28.52 percent. On the other hand, there is an increase in spending on entertainment and party needs, and other goods and services. Spending on entertainment increases from 0.22 percent in 2014 to 0.38 percent in 2024. While spending on parties increases significantly from 0.75 percent to 3.18 percent in 2024.

#### 4.1 Criteria and Profile of the Middle Class in Gorontalo Province

The middle class is a group of people who are considered capable and have high consumption expenditures "fast spender, big spender". They have diverse consumption patterns with the largest expenditures for food, followed by housing, vehicles, health, education, and entertainment. The majority work in the formal sector and/or running productive businesses. One of the big signs of the role of middle-class consumption in Gorontalo is the bustling shopping activity in shopping centers, malls and traditional markets at the beginning of the month. The disbursement of ASN salaries or installments to contractors for government infrastructure projects usually causes congestion in and around shopping areas.

According to the BPS of Gorontalo Province, the middle class consisting of state civil servants and employees aged 35 to 50 years in Gorontalo has a salary/wage of around Rp2,000,000 to Rp3,500,000 per capita per month. Some of them are still paying off their house or mortgage, private vehicles and electronic equipment. With this composition of income and expenditure, it reflects a relatively stable lifestyle, where they are able to meet primary to luxury needs, pay taxes and save the rest of their salary. Although in reality with a stagnant salary and increasing cost of living, the middle class in Gorontalo is also not free from the phenomenon of eating savings (or makan tabungan / mantab).

Upper middle-class spending starts from IDR 6,000,000 per capita per month, while the poverty line of Gorontalo Province is IDR 475,000. The meaning is clear that with the nominal salary or income, the middle class in Gorontalo is relatively difficult to move up to the high-income group. On the contrary, the phenomenon of eating into savings or having to sell assets to meet unexpected needs makes the middle class very vulnerable to falling into the poor group.

A number of studies have been conducted on the impact of low inflation and deflation on the economy. Mishkin (2019) emphasizes that moderate inflation often supports economic growth, but inflation that is too low can depress business profits and slow wage growth. In the context of Gorontalo, with three consecutive months of deflation in 2024, it is important to consider whether this is the impact of stagnant income and declining production costs, or the result of seasonal fluctuations, such as a bumper harvest that increases the supply of commodities.

Changes in people's consumption patterns during periods of low inflation or deflation are an important aspect of economic analysis (Nyamekye et al, 2017; Luhan and Scharler, 2014; Solomon, 2020; Burke and Ozdagli, 2021). Low inflation is often followed by changes in people's consumption behavior to be more selective and careful. Consumers will tend to reduce purchases of durable goods and focus more on basic needs. However, in the case of Gorontalo, data shows that middle-class spending on secondary and tertiary needs, such as entertainment, has increased in recent years. This shows that despite deflation, the purchasing power of the middle class has not been completely suppressed, and their consumption patterns still reflect room for lifestyle spending.

This shift in consumption patterns is in line with the findings of Webster and Neal (2022; and Chamon and Prasad, 2010) which show that in periods of low inflation, the middle-class in developing countries tends to allocate more of their spending on goods and services that improve the quality of life, such as education, health, and entertainment. The middle-class in Gorontalo, which includes most civil servants and professionals in the formal sector, continues to have relatively stable incomes. This supports spending on recreation, entertainment, and personal care services even though the prices of basic necessities experience deflation.

Krugman (2013) emphasized that prolonged deflation can be a serious problem for the economy if not handled with appropriate fiscal and monetary policies. One of the main risks of deflation is the decline in overall purchasing power which can lead to a decline in consumption. However, in the context of Gorontalo, data shows that deflation is mainly caused by an increase in the abundant supply of agricultural commodities. Thus, the decline in the price of basic necessities does not fully reflect a decline in purchasing power, but rather the result of supply dynamics in the local market.

Rogoff (2003) also highlights the importance of flexible monetary policy in dealing with deflationary situations. Although low inflation is often desired by the government, prolonged deflation must be avoided by providing appropriate monetary stimulus. Bank Indonesia, in this case, can play an important role by adjusting interest rate policy so that it is not too tight and inhibits money circulation in areas such as Gorontalo, whose local economy is highly dependent on middle-class consumption.

Despite recording deflation, Gorontalo did not show a significant increase in open unemployment. The condition of early deindustrialization in the last 3 years has an impact on increasing disguised unemployment and underemployment. Deflation is relatively not directly

related to the local labor market. Local labor wages are relatively constant. the minimum wage for Gorontalo province in 2024 will be Rp3,025,100 or an increase of 1.19%. this figure is the smallest percentage increase nationally. This condition is relevant to Fischer (1993) and Akerlof, Dickens, and Perry (1996) that when inflation is too low, nominal wage adjustments become more difficult, which ultimately affects the ability of firms to retain workers.

Low inflation followed by tight monetary policy can worsen the deflationary situation (Haan and Sturm, 2000). In the context of Gorontalo, the Central Bank's interest rate hike in 2024 to curb inflation at the national level may have played a role in reducing the money supply in the region. However, banking activities in Gorontalo, including cash withdrawals and deposits in banking hall and automatic teller machine remained stable, indicating that the effect of interest rates on middle-class behavior may not be as strong as expected.

## 5.0 CONCLUSION

Deflation for three consecutive months in 2024 is not a sign of declining middle-class purchasing power. This is more triggered by the weakening of staple food prices due to the bumper harvest and the shift in spending from basic necessities (food and drink) to secondary and tertiary (recreation, party needs and personal care). When combined with data on low open unemployment rates, declining poverty rates, strengthening farmer exchange rates, increasing exports and positive per capita GRDP and economic growth, it further emphasizes that the domestic economy is not in a crisis phase (depression). In contrast to the Gorontalo region, the four months deflation in a row at the national level is closely related to the weakening purchasing power of the middle class. This is caused by unemployment rates and layoffs by companies. On the other hand, the middle class, who are generally employees and workers, receive stagnant salaries/wages that are unable to keep up with the rising prices of basic necessities, various burdensome deductions such as taxes, contributions, insurance, withdrawal of subsidies to installments for housing, vehicles or loans at banks that are getting heavier when interest rates increase. The pressure of the cost-of-living causes the middle class to be more frugal, financially alert and postpone spending or even have to add loans to meet sudden and urgent needs.

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