

CPI:

The stars aligned yet again

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Executive Summary

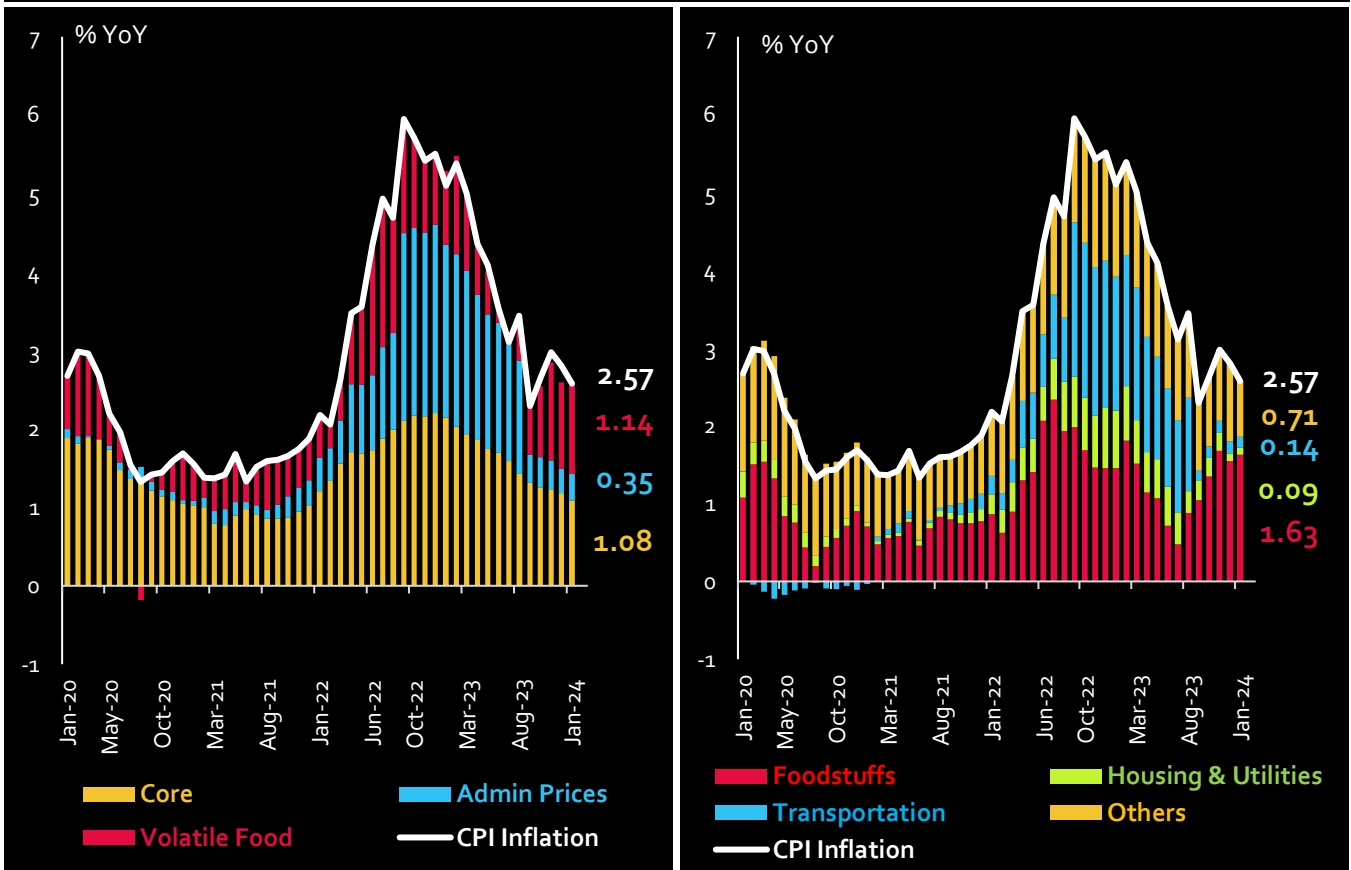
- Indonesia inflation decreases to 2.57% YoY in Jan-24 (0.04% MoM), down from the previously revised up 2.81% YoY. The decline comes from the lower non-subsidized fuel price, controlled food inflation due to the election effect, and the ongoing disinflationary trend in core inflation.
- The weak core inflation may help purchasing power and may not be a sign of slower demand.
- However, several risks, including the rise of oil prices, El Nino, and a slower global disinflation, may affect all categories (admin prices, volatile food, and core inflation).

- Indonesia's inflation has experienced a significant decrease, recording 2.57% YoY in Jan-24, down from the previously revised up 2.81% YoY, with a shy monthly change of just 0.04% MoM. This adjustment is attributed to changes in the base year (from 2018 to 2022) and the weight of the inflation basket. Due to the new base year lacking comparisons with previous months (except for the headline number), we will primarily present the figure in MoM terms.
- Administered prices and volatile food are the factors dragging inflation down. Administered price entered the deflation zone at -0.48% MoM due to lower prices on non-subsidized fuel (Pertamax, Pertamax Turbo, Dexlite). The easing of oil prices around the year-end may have contributed to the decline in fuel prices. This, combined with normalization after a high-demand season, also results in cheaper airline prices.
- In the foodstuffs category, red chili prices eased after peaking last month, following the usual seasonal trend. Rice prices are more under control, gaining only 2% MoM. The overall 0.01% MoM increase in the volatile food category is still closely related to the election effect and government programs such as social assistance, SPHP, rice imports, and Bapanas' rice distribution.
- Core inflation remains slower than the previous month 1.68% YoY in Jan-24 (1.80% YoY in Dec-23 with the older base year). Another disinflation in core inflation is not surprising, as many countries are also still in a disinflationary trend. In addition, a relatively strong rupiah in November – December may help further disinflation.
- Slower core inflation may point in two directions: either a worrying sign due to slower demand, or a good sign to help purchasing power. Our transactions data (BCA Intrabel) indicate the latter, showing solid growth of spending transactions volume, even higher than the transactions value growth.
- There is the possibility that global inflation will remain muted due to weak growth and low commodity prices, hence translating to lower Indonesia inflation. However, we maintain our

view of a possibility of inflation exceeding 3% YoY due to several risks, some of which could arise relatively early in the year.

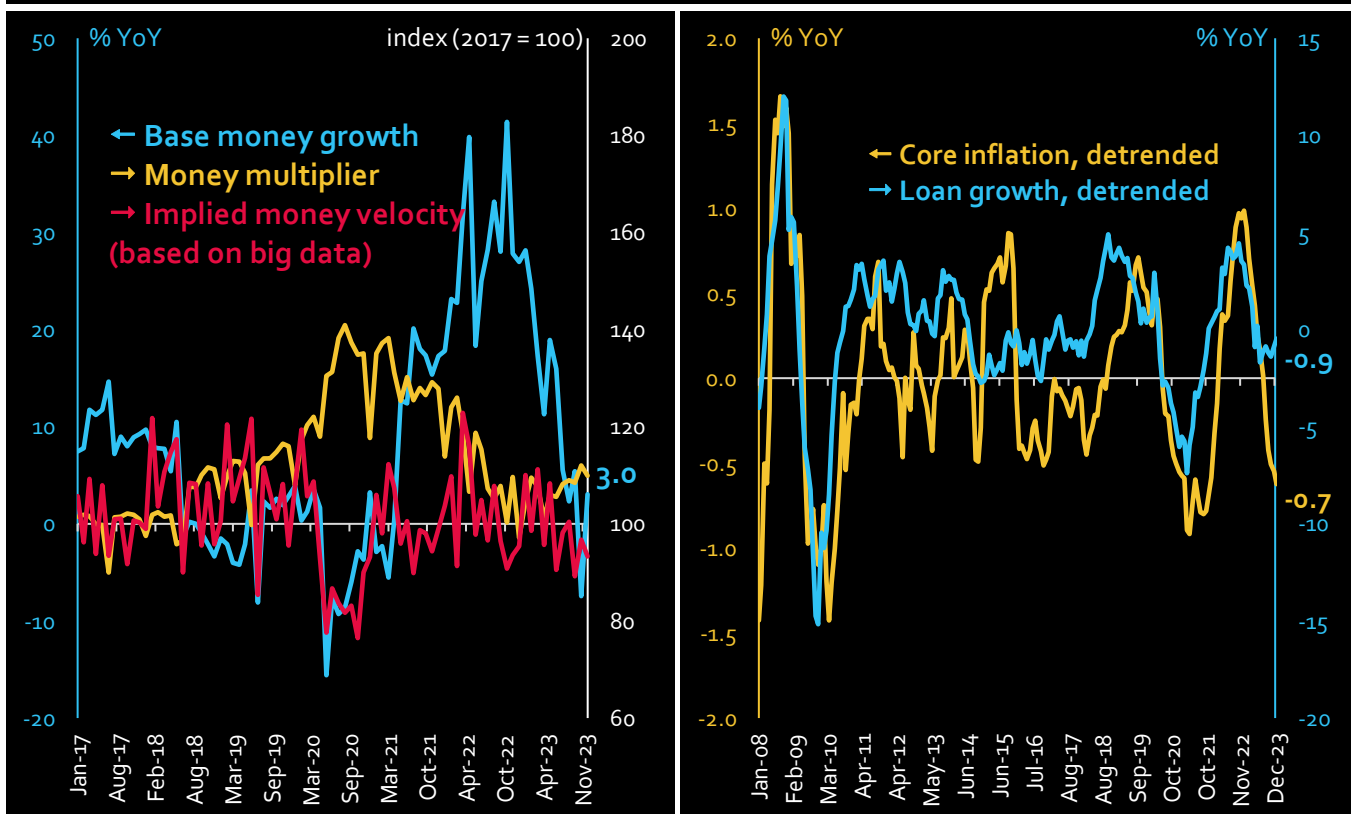
- The earliest risk may come from the administered price, considering the oil price rose in January and already exceeded 80 USD/bbl. The tension in the Red Sea and the Middle East continues to escalate, pushing shipping costs and oil prices upward. This may retract the lower price of non-subsidized fuel. Then, volatile food comes next, as El Nino will affect crops that should be harvested in around March, coinciding with Ramadan.
- A more structural risk affects core inflation. There are already signs of slower global disinflation, especially in the US. In addition, Indonesia's imported WPI has been on an upward trend for the last 5 months (-1.93% YoY as of Nov-23), which may be attributed to a slower China's disinflationary effect. While China continues to stimulate its businesses, concerns about its property sector may impact the overall economy.
- Furthermore, the rapid depreciation of the rupiah this year will likely lead to delayed inflation effects due to higher import prices. The Fed also is likely to hold its interest rate for some time this year, adding more pressure to the rupiah. The last factor is the solid growth in loan numbers, as it will also push inflation.

Panel 1. Inflation declined due to easing in most categories



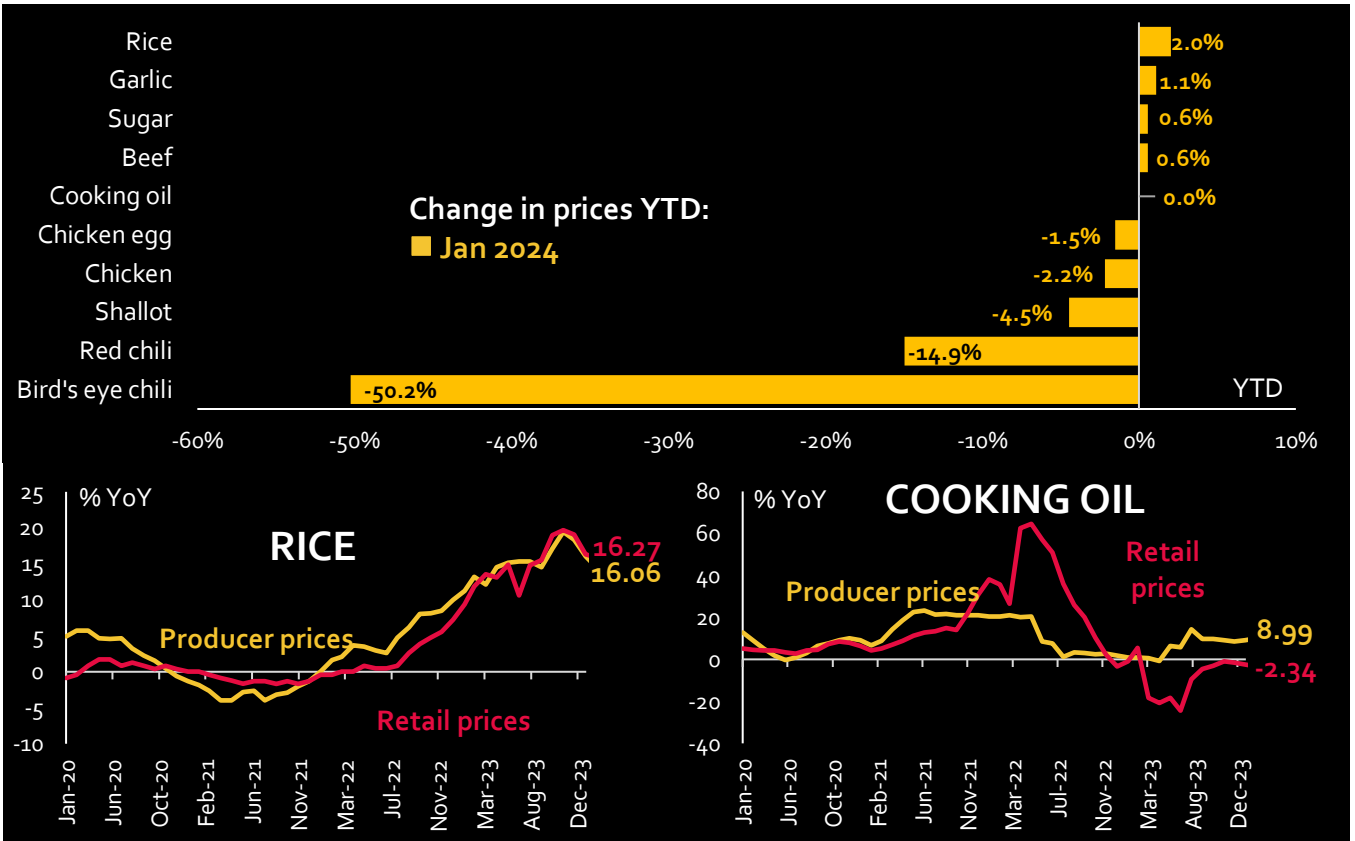
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation continues to slow down, but further downside might be limited



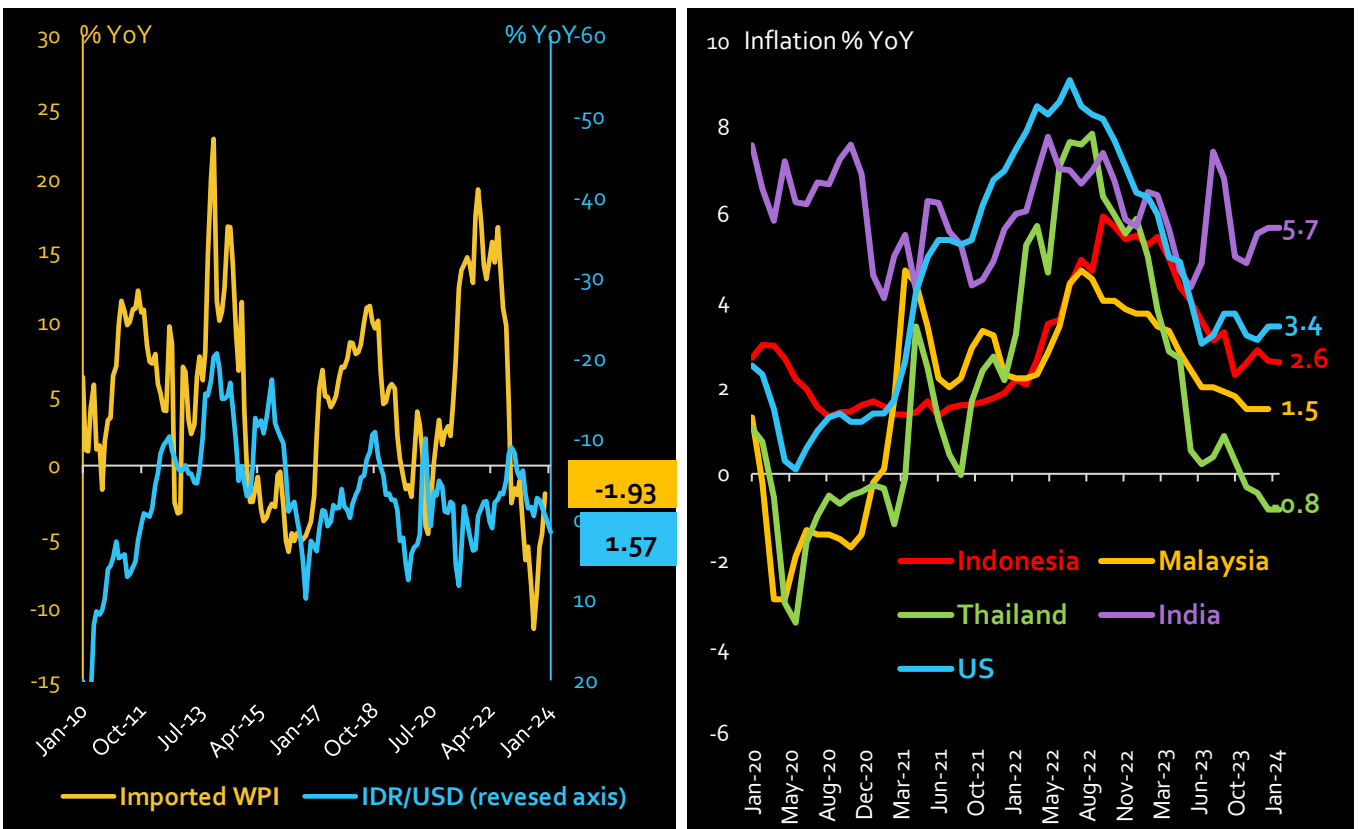
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Many food prices are declining, especially bird's eye chili and red chili



Source: Ministry of Trade, BPS

Panel 4. Core inflation continue to be suppressed by Indonesia's still negative imported inflation (as of Nov-23)



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Jan	-1 mth	Chg (%)
US	5.50	Dec-23	2.10	Baltic Dry Index	1,398.0	2,094.0	-33.2
UK	5.25	Dec-23	1.25	S&P GSCI Index	555.1	535.6	3.6
EU	4.50	Dec-23	1.70	Oil (Brent, \$/brl)	81.7	77.0	6.1
Japan	-0.10	Jan-16	-2.70	Coal (\$/MT)	118.1	132.0	-10.5
China (lending)	2.50	Dec-23	4.65	Gas (\$/MMBtu)	2.19	2.58	-15.1
Korea	3.50	Nov-23	0.30	Gold (\$/oz.)	2,039.5	2,063.0	-1.1
India	6.50	Dec-23	0.81	Copper (\$/MT)	8,500.5	8,463.9	0.4
Indonesia	6.00	Nov-23	3.43	Nickel (\$/MT)	16,013.0	16,375.0	-2.2
Money Mkt Rates	31-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	810.6	802.7	1.0
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.52	1.53	-0.7
SUN (10Y)	6.57	6.45	11.8	External Sector	Dec	Nov	Chg (%)
INDONIA (O/N, Rp)	5.81	5.88	-7.7	Export (\$ bn)	22.41	22.00	1.89
JIBOR 1M (Rp)	6.64	6.65	-1.1	Import (\$ bn)	19.11	19.59	-2.45
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Trade bal. (\$ bn)	3.31	2.41	37.13
Lending (WC)	8.91	9.05	-13.89	Central bank reserves (\$ bn)*	146.4	138.1	6.01
Deposit 1M	4.52	4.43	8.25	Prompt Indicators	Dec	Nov	Oct
Savings	0.67	0.67	0.34	Consumer confidence index (CCI)	123.8	123.6	124.3
Currency/USD	31-Jan	-1 mth	Chg (%)	Car sales (%YoY)	-19.1	-7.5	-13.8
UK Pound	0.788	0.785	-0.34	Motorcycle sales (%YoY)	-11.6	-2.8	-4.0
Euro	0.924	0.906	-2.00	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	146.9	141.0	-4.00	USA	47.4	46.7	70
Chinese RMB	7.169	7.100	-0.96	Eurozone	44.4	44.2	20
Indonesia Rupiah	15,780	15,397	-2.43	Japan	47.9	48.3	-40
Capital Mkt	31-Jan	-1 mth	Chg (%)	China	50.8	50.7	10
JCI	7,207.9	7,272.8	-0.89	Korea	49.9	50.0	-10
DJIA	38,150.3	37,689.5	1.22	Indonesia	52.2	51.7	50
FTSE	7,630.6	7,733.2	-1.33	Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)
Nikkei 225	36,286.7	33,464.2	8.43	Stock	3,226.3	3,136.1	90.27
Hang Seng	15,485.1	17,047.4	-9.16	Govt. Bond	841.0	833.9	7.17
				Corp. Bond	10.6	11.2	-0.59

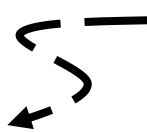
Source: Bloomberg, BI, BPS

Notes:

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.1	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4982	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6*	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00*	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397*	16.037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0*	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1	-0.5

* Actual Number

** Estimation of Rupiah's fundamental exchange rate

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