

CPI:

An inflection point for disinflation?

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Executive Summary

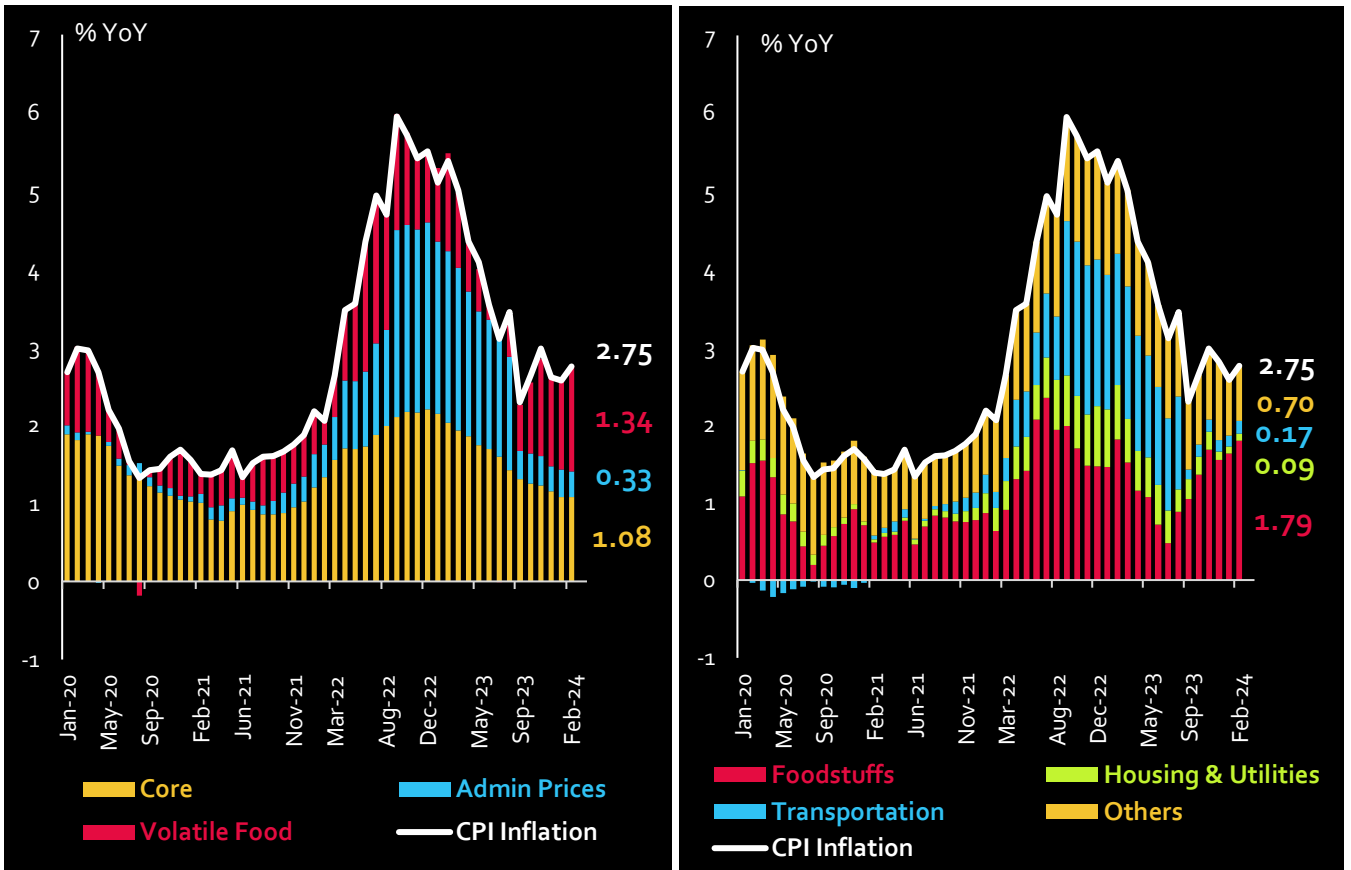
- Indonesia inflation increased to 2.75% YoY in (0.37% MoM) in Feb-24, largely driven by rising rice prices.
- Food prices is expected to increase further in the near-term due to the heightened demand during Ramadan/Lebaran and the potential delay in the harvest season.
- Core inflation posted a limited gain, but will likely increase further in the near-term.
- BI will likely refrain from cutting interest rates until the latter half of the year, when the Fed begins to ease its policy rate.

- Indonesia's inflation increased to 2.75% YoY (0.37% MoM) in Feb-24, very closely in line with our forecast of 2.74% YoY. The lion's share of the monthly increase is once again attributed to the foodstuffs category (over 78%) after rising more mildly over the past two months.
- Soaring rice prices was the main source of food inflation last month, which was likely driven by the temporary pause in the government rice distribution program prior to the elections (8 – 14 Feb 2024). While government social assistance has resumed, prices of foodstuffs is poised to increase further in the short-term, due to heightened demand during the Ramadan/Lebaran season (Mar – Apr) and the potential delay in the harvest season.
- Core inflation, on the other hand, stabilized at 1.68% YoY (0.14% MoM), which is more or less the same compared to the previous month. Despite the limited increase in core inflation, domestic consumption remained resilient, evident from our transactions data (BCA intrabel) which show strong transaction volume growth, even though transactions value growth has remained subdued. This suggests that consumers are still spending even though they may have opted for cheaper alternatives (downtrading). Additionally, the rise in the government's cash disbursement (bantuan langsung tunai / BLT) right around the elections and extending into the Lebaran period is expected to help boost transaction activities, particularly from the low-income segment.
- Globally, there are signs that disinflation is stalling, or even reversing, especially in the US. This is seen in Indonesia's imported WPI which continued to be on an upward trend (-1.36% YoY as of Dec-23), possibly due to China's reduced pace of dumping. While China continues to stimulate its manufacturing industries, there has been a rising trend toward consolidation in certain industries.
- There is also the risk from the potential increase in non-subsidized fuel prices due to rising global oil prices, which has reached more than USD 80/barrel in February, and could be

followed by the adjustment of subsidized fuel prices. The potential rise in fuel prices along with the upcoming Lebaran festivities could serve as a synchronized signal for businesses to increase the prices of their goods, which could place upward pressures on core inflation.

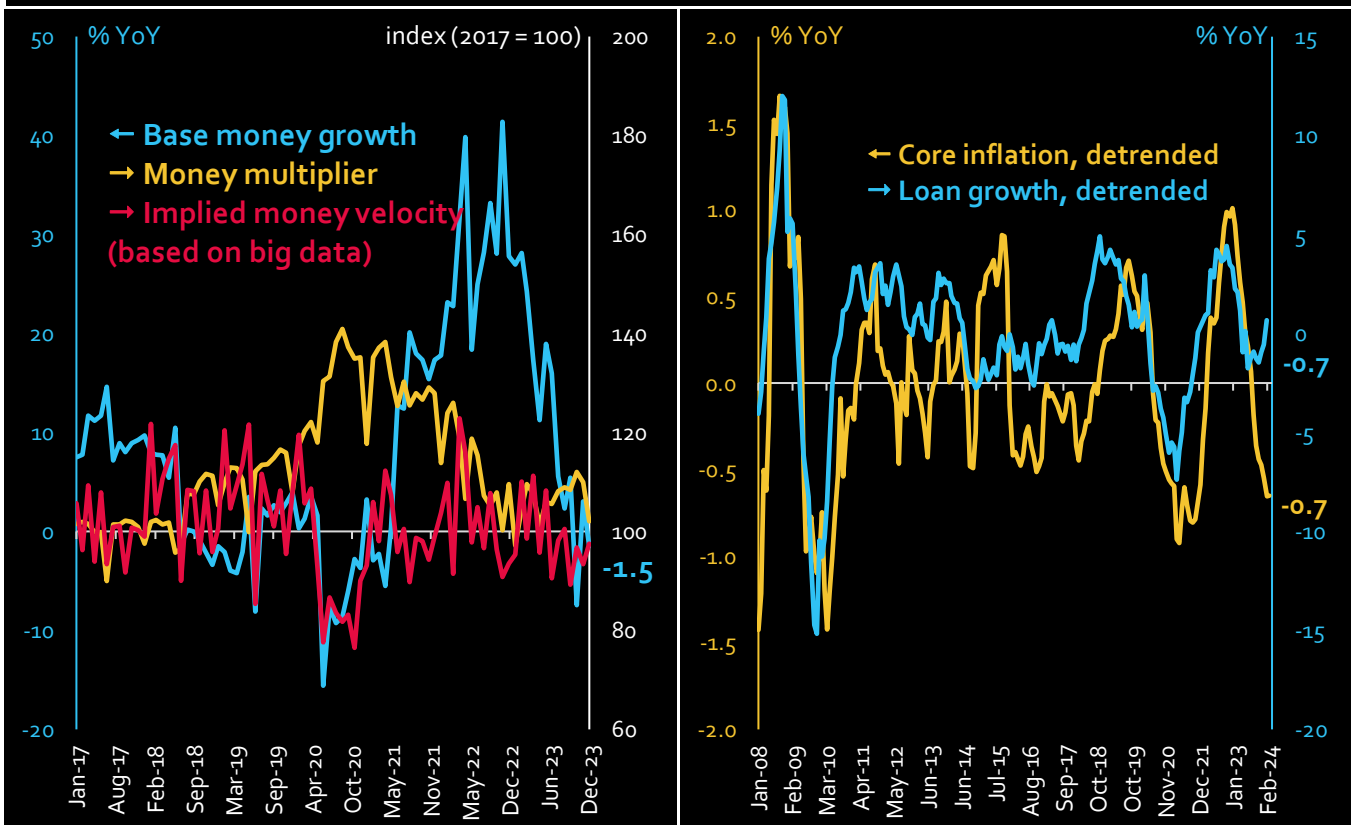
- Furthermore, the sharp Rupiah depreciation in the beginning of the year could lead to higher core inflation in the next few months, as businesses begin selling the imported inventory bought at the higher prices.
- Overall, we expect that inflation could climb up to the 3% YoY range again in the short-term. And with the Rupiah experiencing a modest depreciation throughout February, we expect that BI will refrain from cutting interest rates until the latter half of the year, when it is expected that the Fed will start easing rates.

Panel 1. Inflation increased mainly due to the foodstuffs category



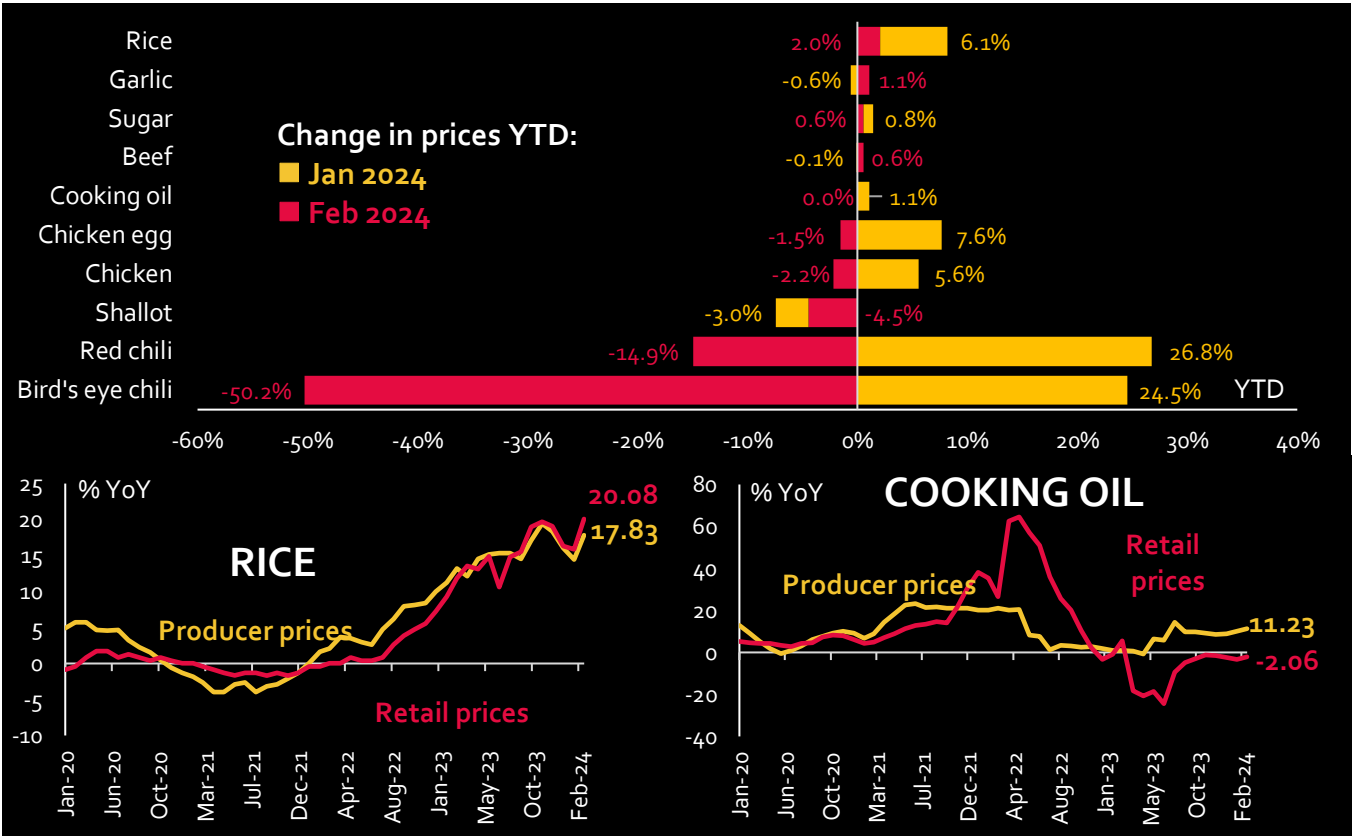
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation posted a limited gain, and is expected to increase further



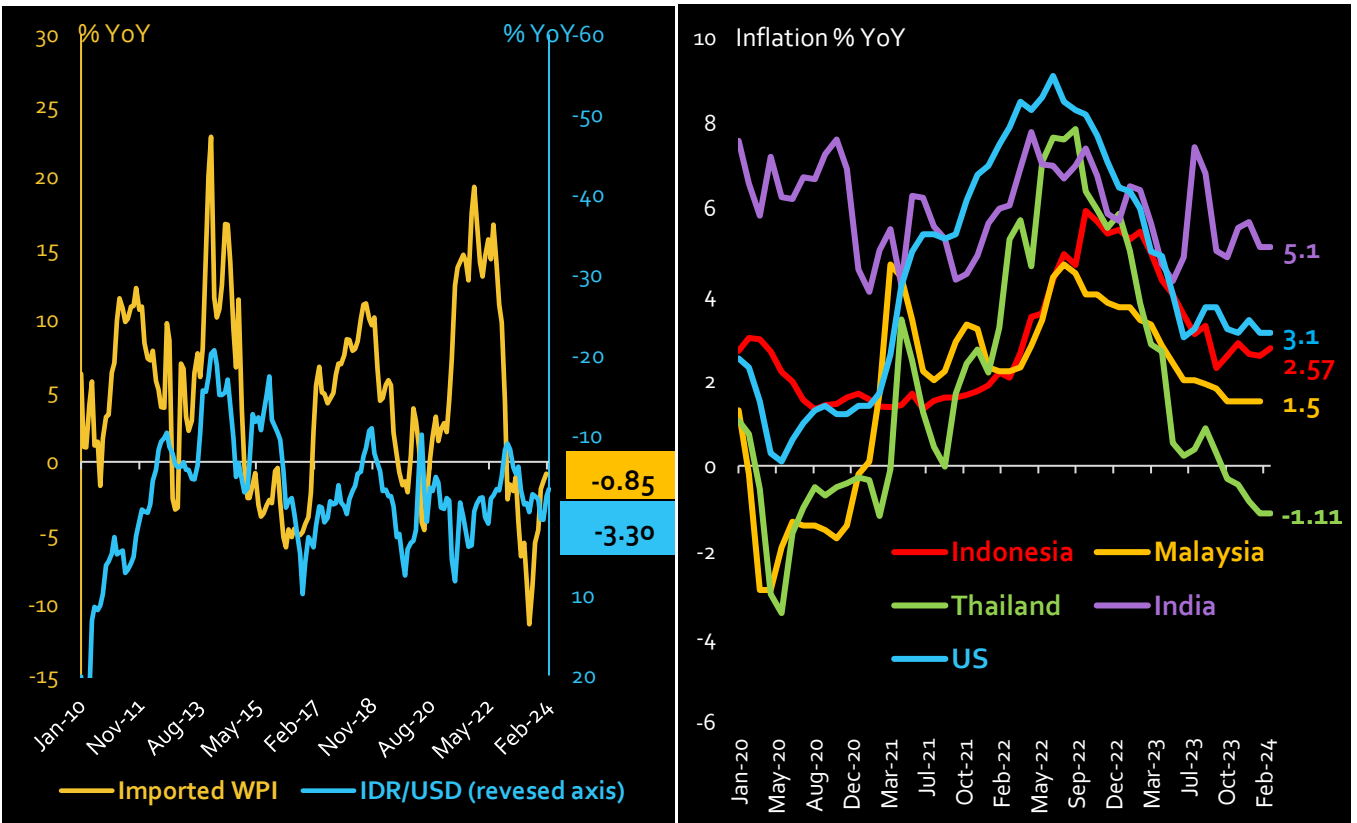
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Among the foodstuffs category, rice prices increased the most



Source: Ministry of Trade, BPS

Panel 4. Slower global disinflation is evident in the rising trend of Indonesia's imported WPI inflation



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	29-Feb	-1 mth	Chg (%)
US	5.50	Dec-23	2.40	Baltic Dry Index	2,111.0	1,460.0	44.6
UK	5.25	Dec-23	1.25	S&P GSCI Index	557.9	556.2	0.3
EU	4.50	Dec-23	1.90	Oil (Brent, \$/bbl)	83.6	82.4	1.5
Japan	-0.10	Jan-16	-2.30	Coal (\$/MT)	132.3	115.9	14.1
China (lending)	2.50	Dec-23	5.15	Gas (\$/MMBtu)	1.67	2.41	-30.7
Korea	3.50	Nov-23	0.70	Gold (\$/oz.)	2,044.3	2,033.2	0.5
India	6.50	Dec-23	1.40	Copper (\$/MT)	8,401.5	8,455.0	-0.6
Indonesia	6.00	Nov-23	3.25	Nickel (\$/MT)	17,669.5	16,177.0	9.2
Money Mkt Rates	29-Feb	-1 mth	Chg (bps)	CPO (\$/MT)	839.1	838.7	0.1
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.60	1.52	5.3
SUN (10Y)	6.59	6.62	-3.1	External Sector	Jan	Dec	Chg (%)
INDONIA (O/N, Rp)	5.79	5.85	-6.4	Export (\$ bn)	20.52	22.39	-8.34
JIBOR 1M (Rp)	6.64	6.63	0.5	Import (\$ bn)	18.51	19.11	-3.13
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Trade bal. (\$ bn)	2.02	3.29	-38.67
Lending (WC)	8.86	8.91	-4.93	Central bank reserves (\$ bn)*	145.1	146.4	-0.88
Deposit 1M	4.76	4.52	24.61	Prompt Indicators	Jan	Dec	Nov
Savings	0.69	0.67	1.94	Consumer confidence index (CCI)	125.0	123.8	123.6
Currency/USD	29-Feb	-1 mth	Chg (%)	Car sales (%YoY)	-26.1	-19.1	-7.5
UK Pound	0.792	0.787	-0.66	Motorcycle sales (%YoY)	-3.7	-11.6	-2.8
Euro	0.925	0.923	-0.26	Manufacturing PMI	Jan	Dec	Chg (bps)
Japanese Yen	150.0	147.5	-1.65	USA	50.7	47.9	280
Chinese RMB	7.189	7.180	-0.11	Eurozone	46.6	44.4	220
Indonesia Rupiah	15,715	15,810	0.60	Japan	48.0	47.9	10
Capital Mkt	29-Feb	-1 mth	Chg (%)	China	50.8	50.8	0
JCI	7,316.1	7,157.2	2.22	Korea	51.2	49.9	130
DJIA	38,996.4	38,333.5	1.73	Indonesia	52.9	52.2	70
FTSE	7,630.0	7,632.7	-0.04	Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Nikkei 225	39,166.2	36,026.9	8.71	Stock	3,115.8	3,226.3	-110.54
Hang Seng	16,511.4	16,077.2	2.70	Govt. Bond	841.9	842.1	-0.17
				Corp. Bond	10.4	10.6	-0.19

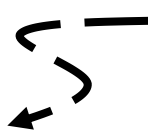
Source: Bloomberg, BI, BPS

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	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	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

* Estimated Number

** Estimation of Rupiah's fundamental exchange rate

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