CPI:
The storm awaits at the shore

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1 April 2022

Executive Summary

- The consumer price index increased by 2.64% YoY (0.66% MoM) in March 2022, driven largely by food prices as Ramadan spending begins to ramp up.
- Loosened price control mechanisms by the government will accelerate the increase in food prices. However, upward pressure on food inflation could recede after Ramadan as stable rice prices continue to shield Indonesia from the full brunt of global food inflation.
- Alas, several factors remain that can still push inflation up in the near-term, such as rising VAT rates and petrol prices. The slowdown in China's manufacturing activity could also push retail prices higher up as recovering demand provides producers with leverage to shift the extra cost onto consumers.
- Despite these inflationary risks however, Bank Indonesia still has ample room to execute monetary normalization in a gradual manner, as continued government subsidies would still help keep inflation under control. This however, may be more difficult to pull off in 2023, as the need to keep the budget deficit below 3% would likely push the government to slash its current subsidies.

- Indonesia's CPI rose by 2.64% YoY (0.66% MoM) in March 2022. The lion's share of last month's inflation came from the influx of food prices, which made a U-turn after a temporary decline in February 2022. Fluctuations in food prices have hitherto been key in determining inflation ***(Chart 1)***, especially since energy prices were still relatively quiescent (at least up to March) thanks to the government's plethora of price control mechanisms.
- The price control regime for foodstuffs, however, has been greatly loosened last month as the government raised prices for cooking oil in order to alleviate supplies scarcity. Cooking oil prices have increased by 29.1% since last month, accompanied by a surge in the prices of poultry, spices, and soybean products, which are partly driven by global factors – namely, the war in Ukraine and challenging weather conditions in South America. Unfortunately, such increases may exacerbate the seasonal inflation that will soon come amid Ramadan and Eid al-fitr. Such seasonal inflation may in fact have showed up, as evident by the increase in clothes (2.04% YoY) and passenger transportation services (1.38% YoY) indexes that are corollary to Ramadan.
- Compared to most other world economies, however, Indonesia may be spared from the worst excesses of food inflation. This is a function of the stability of global rice prices so far – in contrast to other staple grains like wheat and corn – as well as the typically idiosyncratic and

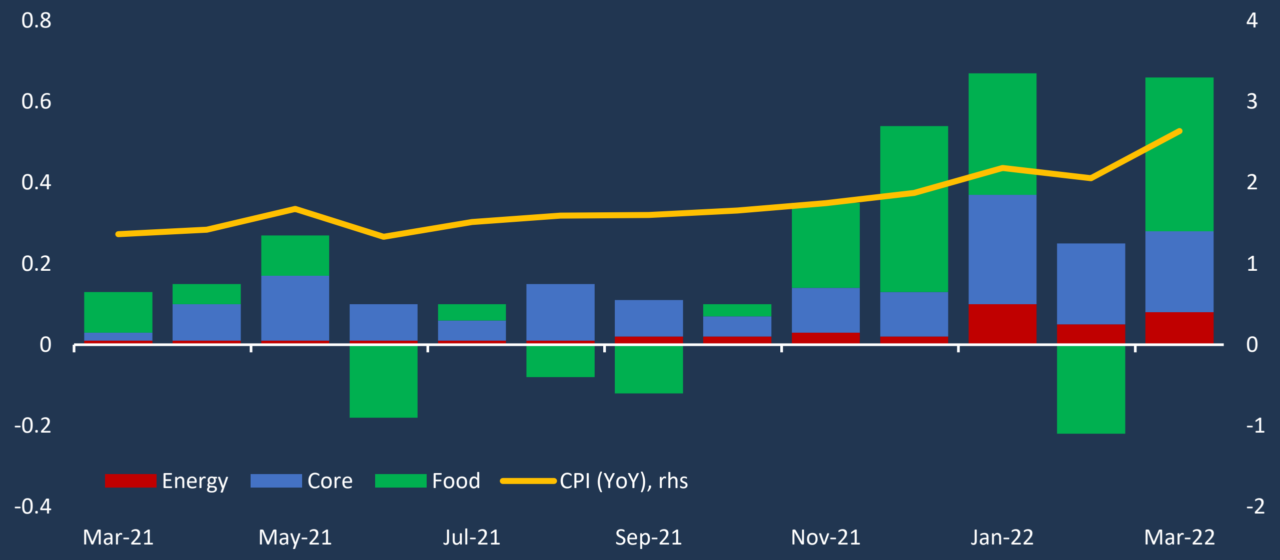
temporary (seasonal) nature of spice price inflation. Hence, significant food inflation may be limited to items such as wheat, sugar, vegetable oil, and poultry (due to rising prices of feed).

- Nonetheless, we do expect inflation to continue marching towards the upper bound of BI's target range (2 – 4% YoY) in the next few months. Consumer demand has remained resilient, which will allow producers/sellers to pass on their rising input costs on consumers, after having suppressed their margins in previous months. We have also previously described inflation outlook as dependent on a sort of "waiting game", with sellers waiting for a "starting gun" that would allow them to raise prices in a relatively coordinated manner.
- The start of Ramadan, coinciding with the aforementioned food inflation and now the increase in VAT (PPN) rates and gasoline (Pertamax) prices, may be precisely the signal those sellers have been waiting for. Mathematically speaking, VAT and Pertamax hikes might only add 0.3 – 0.4% to the inflation outlook, and the impact of Pertamax in particular will be cushioned by its relatively low consumption share and the potential switch towards lower-grade gasoline (Pertalite). However, the compounding "coordination game" may lead to an increase in inflation beyond those theoretical numbers, and therefore we should see some kind of market intervention by the government, especially for key foodstuffs.
- Beyond that, we would also expect core inflation to rise further alongside credit growth, while imported inflation due to supply-chain disruptions – which had begun to ease at the start of the year – seems to be picking up as a consequence of renewed lockdown in China. Indeed, manufacturing activities in China has contracted once more ***(Chart 2)***, while shipping costs are soaring at the same time.
- All in all, we maintain our view that Indonesia will see lower inflation for the year, as compared to other emerging economies or even advanced economies such as the US and Europe. Aside from the aforementioned rice/spice factor, we have not seen much signs that the government will bring local energy prices in line with global prices, beyond several (mostly high-end) items such as Pertamax. On the contrary, it has now moved to explicitly subsidise Pertalite – a measure that is made possible by the emergency relaxation of fiscal deficit which still applies this year.

"Indonesia may be spared from the worst excesses of food inflation, thanks to stable rice prices and temporary nature of spice price inflation".

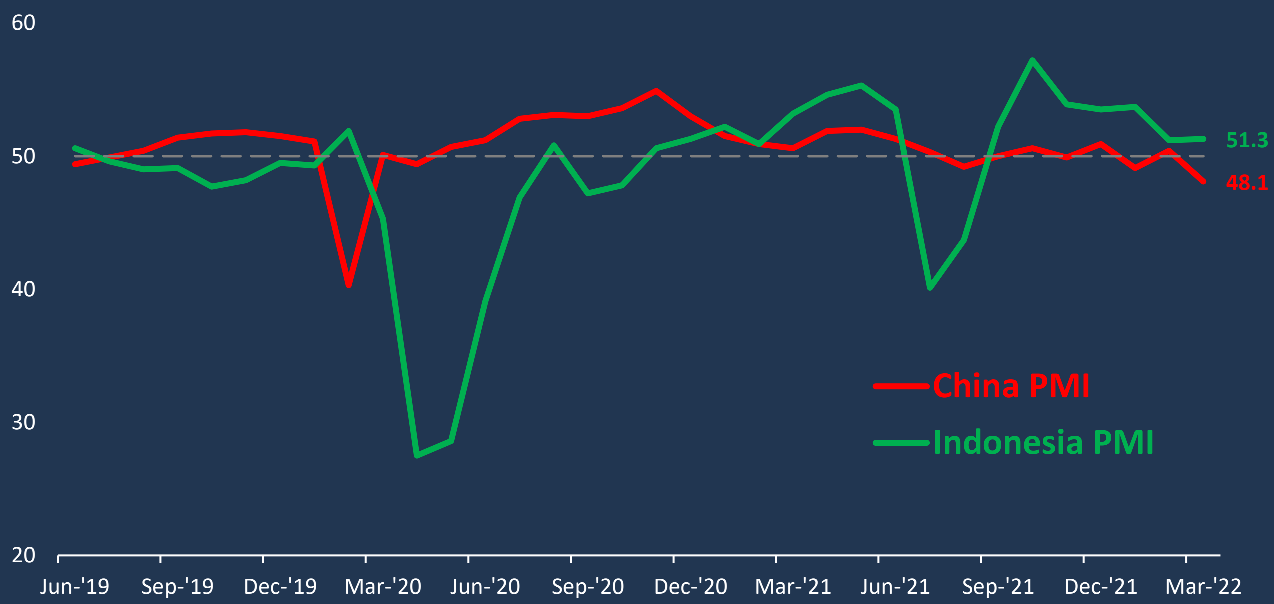
- This would allow Bank Indonesia to execute their normalisation plan in a more gradual manner, a policy stance that is also supported by the current account surplus that makes it less dependent on the global liquidity tightening set forward by the Fed. Thus, a 50 bps hike in BI 7D-RR is still the likeliest scenario for 2022 despite the mounting global risks.
- However, should oil prices to remain around 90 – 120 USD/bbl or above beyond 2022, the government would need to rethink their position regarding domestic petrol prices, considering that the budget deficit needs to be kept below 3% come 2023. Hence, some measures to curb demand level might be needed to combat the inflation risk, which could force BI to take a more hawkish stance next year.

Chart 1. Inflation in 2022 have largely been driven by foodstuffs, while recovering demand also help to push up core inflation



Source: Bloomberg, PIHPS
Last Update: 1 April 2022

Chart 2. On the other hand, downturn in manufacturing activity in China Could exacerbates the cost-push inflation



Source: IHS Markit
Last Update: 1 April 2022

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	0.50	Mar-22	-7.40
UK	0.75	Mar-22	-5.45
EU	0.00	Mar-16	-5.90
Japan	-0.10	Jan-16	-1.00
China (lending)	4.35	Oct-15	3.45
Korea	1.25	Jan-22	-2.45
India	4.00	May-20	-2.07
Indonesia	3.50	Feb-21	0.86
Money Mkt Rates	**31-Mar**	**-1 mth**	**Chg (bps)**
SPN (1M)	1.71	2.41	-69.6
SUN (10Y)	6.73	6.50	22.3
INDONIA (O/N, Rp)	2.79	2.79	-0.4
JIBOR 1M (Rp)	3.55	3.55	-0.1
Bank Rates (Rp)	**Dec**	**Nov**	**Chg (bps)**
Lending (WC)	8.63	8.76	-13.02
Deposit 1M	2.92	3.02	-9.83
Savings	0.69	0.71	-2.65
Currency/USD	**31-Mar**	**-1 mth**	**Chg (%)**
UK Pound	0.761	0.745	-2.10
Euro	0.904	0.891	-1.35
Japanese Yen	121.7	115.0	-5.51
Chinese RMB	6.340	6.309	-0.48
Indonesia Rupiah	14,363	14,382	0.13
Capital Mkt	**31-Mar**	**-1 mth**	**Chg (%)**
JCI	7,071.4	6,888.2	2.66
DJIA	34,678.4	33,892.6	2.32
FTSE	7,515.7	7,458.3	0.77
Nikkei 225	27,821.4	26,526.8	4.88
Hang Seng	21,996.9	22,713.0	-3.15
Foreign portfolio ownership (Rp Tn)	**Mar**	**Feb**	**Chg (Rp Tn)**
Stock	2,463.5	2,405.8	57.69
Govt. Bond	852.4	896.6	-44.22
Corp. Bond	19.4	20.3	-0.87

Trade & Commodities	31-Mar	-1 mth	Chg (%)
Baltic Dry Index	2,358.0	2,040.0	15.6
S&P GSCI Index	724.2	673.0	7.6
Oil (Brent, $/brl)	107.9	101.0	6.9
Coal ($/MT)	251.4	233.5	7.6
Gas ($/MMBtu)	5.49	4.29	28.0
Gold ($/oz.)	1,937.4	1,909.0	1.5
Copper ($/MT)	10,367.5	9,919.0	4.5
Nickel ($/MT)	32,093.0	24,661.0	30.1
CPO ($/MT)	1,532.4	1,615.8	-5.2
Rubber ($/kg)	1.72	1.80	-4.4
External Sector	**Feb**	**Jan**	**Chg (%)**
Export ($ bn)	20.46	19.17	6.7
Import ($ bn)	16.64	18.21	-8.6
Trade bal. ($ bn)	3.83	0.96	
Central bank reserves ($ bn)*	141.4	141.4	0.00
Prompt Indicators	**Feb**	**Jan**	**Dec**
Consumer confidence index (CCI)	113.1	119.6	118.3
Car sales (%YoY)	65.1	58.9	68.1
Motorcycle sales (%YoY)	-2.6	12.5	67.4
Cement sales (%YoY)	13.6	7.8	-0.9
Manufacturing PMI	**Mar**	**Feb**	**Chg (bps)**
USA	#N/A	58.6	0
Eurozone	57.0	58.2	-120
Japan	54.1	52.7	140
China	48.1	50.4	-230
Korea	51.2	53.8	-260
Indonesia	51.3	51.2	10

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

*Data from earlier period

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

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

Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.2
GDP per Capita (US$)	3877	3927	4175	3912	4350	4640
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	3.7
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US$ billion)	11.8	-8.5	-3.2	21.7	35.3	35,7
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.5

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

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