

CPI:

The calm before the storm of rising fuel prices

Keely Julia Hasim
Economist/Analyst

Barra Kuku Mamia
Senior Economist

1 September 2022

Executive Summary

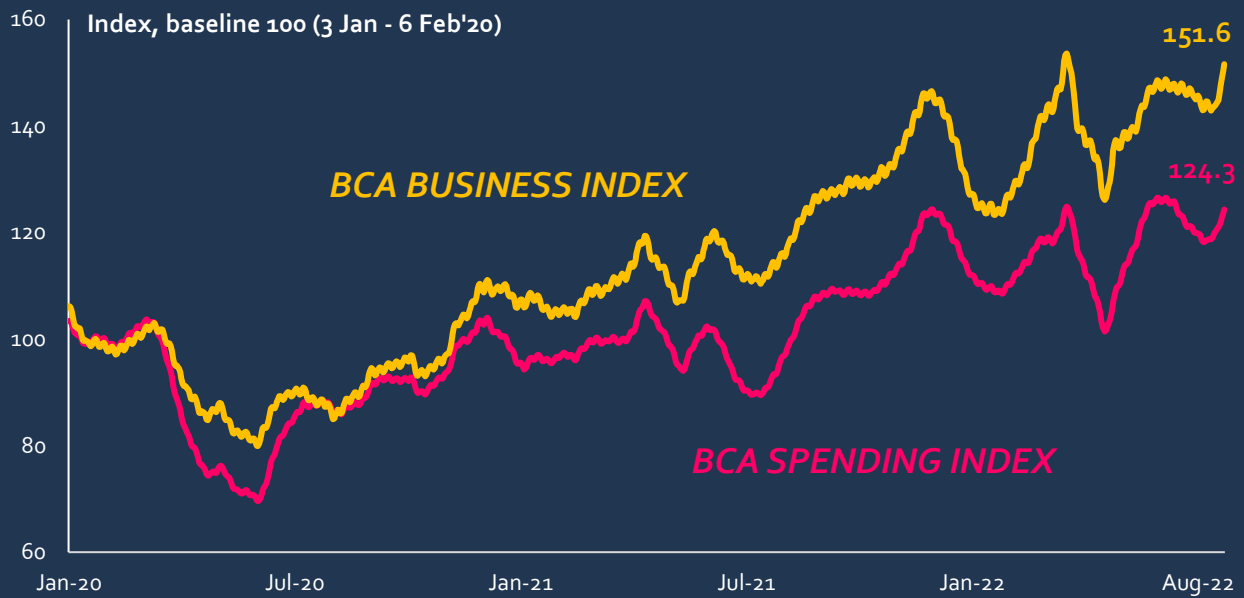
- The consumer price index increased by 4.69% YoY (-0.21% MoM) in August 2022, lower than analysts' median expectations of 4.87% YoY, driven largely by a decline in prices for foodstuffs.
 - The upcoming increase in fuel prices would likely leak into core inflation, albeit to a lesser degree compared to the headline inflation. While the recent disbursement of social assistance might reduce the negative income effects (particularly for lower income households) this year, consumption growth will likely weaken next year.
 - With the increase in core inflation to 3.8 – 4.2% in the horizon, we expect BI to further hike the BI7DRR by 75 – 125 bps, i.e. bring it up to around 4.5 – 5.0% by the year-end.
- Indonesia's consumer price index (CPI) increased by 4.69% YoY (-0.21% MoM) in August 2022, lower than analysts' median expectations of 4.87% YoY. Despite the decline in headline inflation, core inflation continued to trend upward to 3.04% YoY (0.38% MoM).
 - The mild deflation in August was largely food-driven, with items such as shallots and chili peppers experiencing significant price declines due to improved supply nearing the harvest season. Prices for other staple food items such as rice and eggs, however, continued to post slight gains last month. Food inflation clouds may continue to hang over the horizon in the medium-term, especially due to the impact of La Nina weather anomaly, but it is eased somewhat by falling global fertilizer prices plus the government's ability to procure, distribute, and subsidize those fertilizers.
 - The decline in prices for foodstuffs was cold comfort, however, given the challenges in the months ahead. Core inflation has continued to increase amid Indonesia's robust domestic demand. For instance, our Spending Index (Intrabel BCA) shows that domestic consumer transactions seem to be trending upwards again, despite the slight drop in the beginning of August (**Chart 1**). Strong domestic demand and consumer confidence might in turn lead to greater loan demand, providing further impetus to private money creation and therefore prices.
 - Another challenge for domestic inflation is the upcoming increase in the prices of price-fixed fuel (Pertalite, Solar, Pertamina). And so despite the decline for non-price-fixed fuels (Pertamax Turbo, Dexlite, and Pertamina Dex) per September 1, 2022, following the normalization of global oil prices, energy inflation would likely increase in the near-term,

considering that price-fixed fuels makes up around the lion's share of domestic oil consumption. Furthermore, the fall in non-price-fixed fuel prices may only be a temporary affair, given the rapid fluctuations in oil prices in recent weeks.

- Unfortunately, rising oil prices would likely lead to a host of other price hikes as well, as producers would use the government's price adjustment as a clear signal that it is okay to pass on some of their cost burdens to consumers. And with the latest imported wholesale price index showing no signs of abating, it is likely that the pass-through effects of imported inputs could be quite drastic.
- Indeed, historically, we have seen that the increase in administered prices during fuel hikes tends to leak into core inflation, albeit to a smaller degree compared to the headline inflation **(Chart 2)**. The disbursement of additional social assistance, totaling Rp 9.6 Tn over the next four months, also reduces the negative income effect due to the fuel hike, particularly for low-income households. As such, we expect this hike to have limited impact on GDP this year, although consumption growth is still likely to weaken next year.
- Of course, we have seen BI raising the benchmark rate (BI7DRR) by 25 bps in anticipation of the fuel hike – so should we expect more? BI's goalposts in recent months have shifted from headline to core inflation, so we expect its future decision to mirror the "leakage" to core rather than the increase in headline inflation per se. An increase in core inflation to 3.8 – 4.2%, as we expect at the moment, implies that the BI7DRR would need to increase by a further 75 – 125 bps, i.e. towards 4.5 – 5.0% by the end of the year.

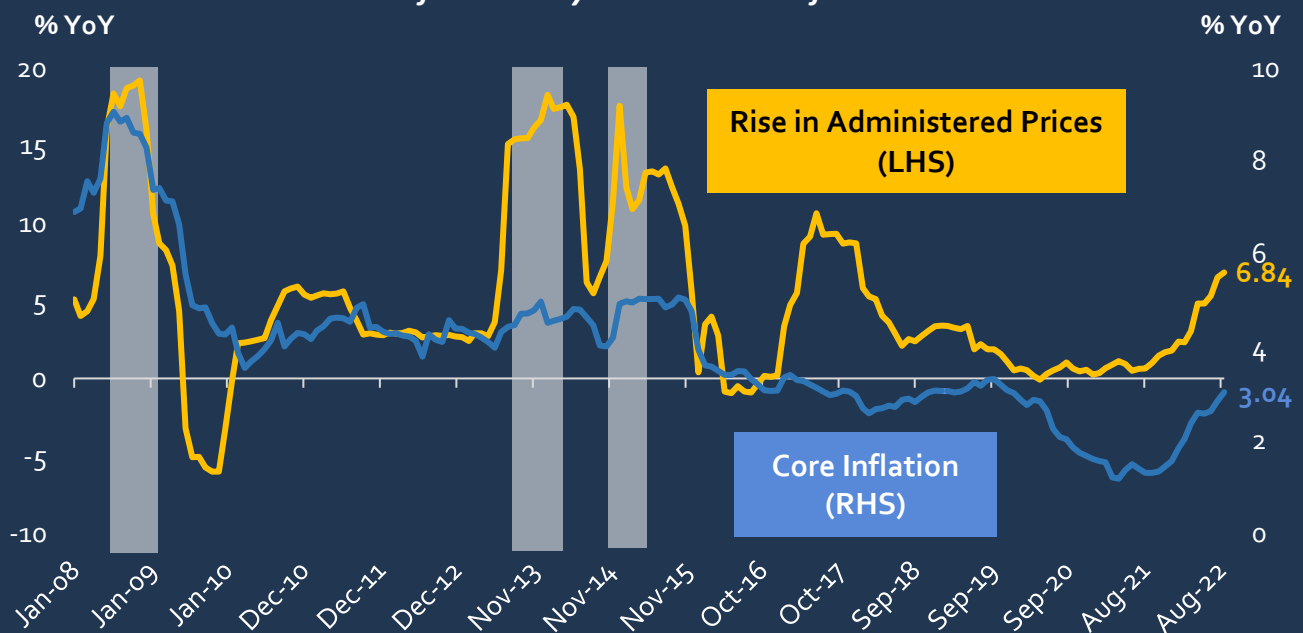
"We have seen that the increase in administered prices during fuel hikes tends to leak into core inflation."

Chart 1. Our Spending Index shows that domestic consumer transactions seem to be trending upwards again, despite the slight drop in the beginning of August



Source: Big Data BCA, Calculations by BCA Economist
Last Update: 25 Aug 2022

Chart 2. Historically, an increase in administered prices tend to be followed by a rise in core inflation



Source: BPS
Last Update: August 2022

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Aug	-1 mth	Chg (%)
US	2.50	Jul-22	-6.00	Baltic Dry Index	965.0	1,895.0	-49.1
UK	1.75	Aug-22	-8.35	S&P GSCI Index	665.9	692.6	-3.9
EU	0.50	Jul-22	-8.60	Oil (Brent, \$/bbl)	96.5	110.0	-12.3
Japan	-0.10	Jan-16	-2.70	Coal (\$/MT)	415.5	384.8	8.0
China (lending)	4.35	Oct-15	1.65	Gas (\$/MMBtu)	8.93	8.33	7.2
Korea	2.50	Aug-22	-3.80	Gold (\$/oz.)	1,711.0	1,765.9	-3.1
India	5.40	Aug-22	-1.31	Copper (\$/MT)	7,845.5	7,931.3	-1.1
Indonesia	3.75	Aug-22	-0.94	Nickel (\$/MT)	21,323.0	23,579.0	-9.6
Money Mkt Rates	31-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	900.0	966.2	-6.9
				Rubber (\$/kg)	1.37	1.52	-9.9
SPN (1M)	2.19	2.71	-52.8	External Sector	Jul	Jun	Chg (%)
SUN (10Y)	7.11	7.11	0.6	Export (\$ bn)	25.57	26.15	-2.2
INDONIA (O/N, Rp)	3.13	2.80	33.5	Import (\$ bn)	21.35	21.00	1.6
JIBOR 1M (Rp)	4.08	3.69	38.8	Trade bal. (\$ bn)	4.23	5.15	
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Central bank reserves (\$ bn)*	132.2	136.4	-3.06
Lending (WC)	8.49	8.59	-10.53	Prompt Indicators	Jul	Jun	May
Deposit 1M	2.84	2.85	-1.17	Consumer confidence index (CCI)	123.2	128.2	128.9
Savings	0.62	0.63	-0.57	Car sales (%YoY)	29.4	8.5	-9.3
Currency/USD	31-Aug	-1 mth	Chg (%)	Motorcycle sales (%YoY)	-13.3	-30.9	-2.5
UK Pound	0.860	0.822	-4.51	Cement sales (%YoY)	#N/A	-41.1	7.6
Euro	0.995	0.978	-1.62				
Japanese Yen	139.0	133.3	-4.09				
Chinese RMB	6.890	6.745	-2.12				
Indonesia Rupiah	14,843	14,833	-0.07				
Capital Mkt	31-Aug	-1 mth	Chg (%)				
JCI	7,178.6	6,951.1	3.27	Manufacturing PMI	Aug	Jul	Chg (bps)
DJIA	31,510.4	32,845.1	-4.06	USA	#N/A	52.8	0
FTSE	7,284.2	7,423.4	-1.88	Eurozone	49.6	49.8	-20
Nikkei 225	28,091.5	27,801.6	1.04	Japan	51.5	52.1	-60
Hang Seng	19,954.4	20,156.5	-1.00	China	49.5	50.4	-90
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)	Korea	47.6	49.8	-220
Stock	2,541.6	2,442.4	99.11	Indonesia	51.7	51.3	40
Govt. Bond	761.8	751.2	10.51				
Corp. Bond	15.2	16.7	-1.50				

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



Scan for the link to our report depository or click:

<https://www.bca.co.id/en/tentang-bca/media-riset/laporan-riset->

Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	5.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.50
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,070
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	36.9
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.5

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Livia Angelica Thamsir

Economist / Analyst

livia_thamsir@bca.co.id

+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki

Research Assistant

ahmad_rizki@bca.co.id

+6221 2358 8000 Ext: 20378

Agus Salim Hardjodinoto

Senior Industry Analyst

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: -

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Suryaputra Wijaksana

Economist / Analyst

suryaputra_wijaksana@bca.co.id

+6221 2358 8000 Ext: 1065752

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: -

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: ahmad_rizki@bca.co.id