

CPI:

Disinflation comes early

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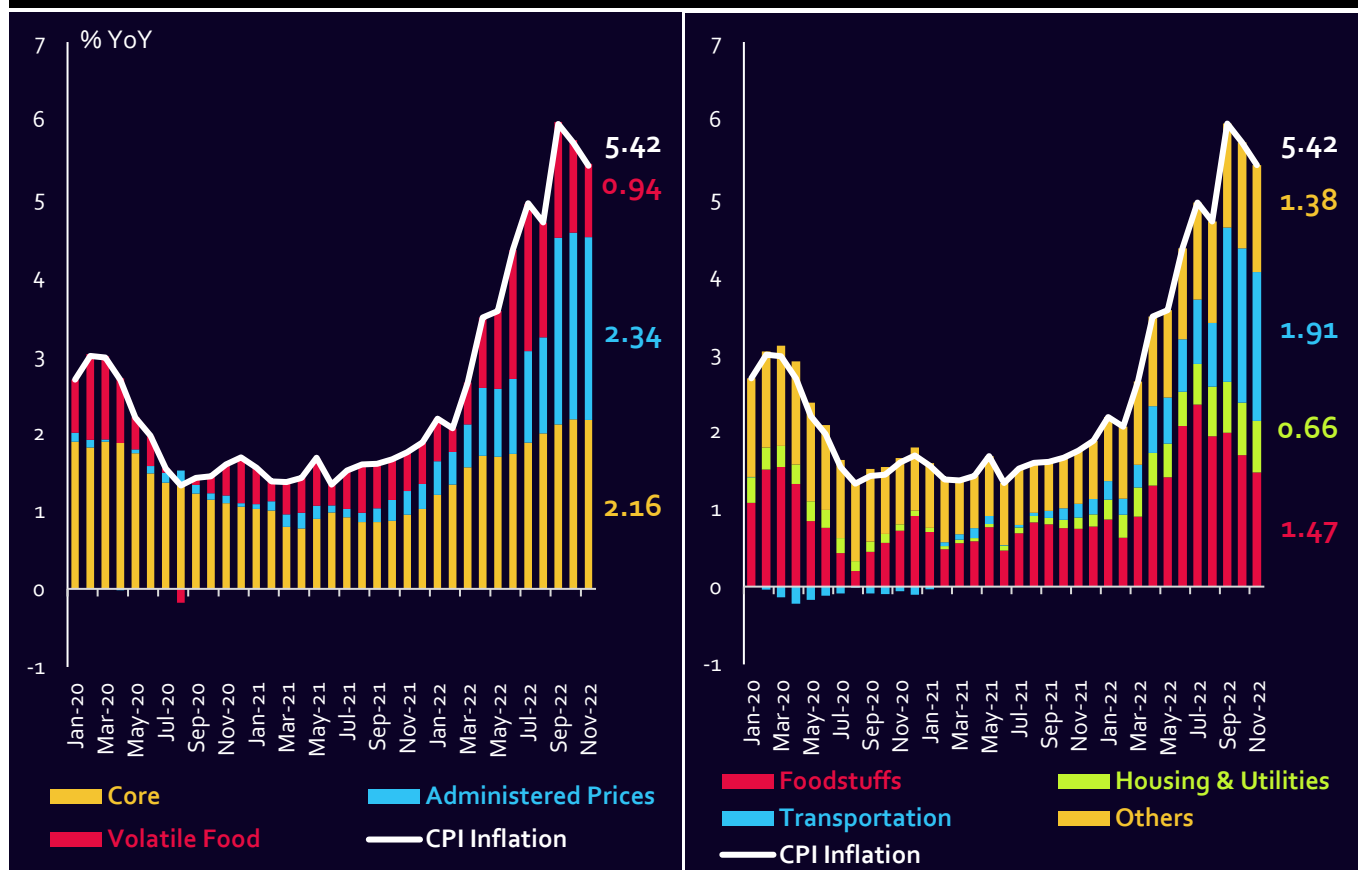
01 December 2022

Executive Summary

- Inflation continues to surprise on the downside at 5.42% YoY (0.09% MoM), with flat core inflation an indication of softening domestic demand.
 - Despite short-term concerns about rice prices in particular, the signs of disinflationary recession is now plainly evident across much of the world, paving the way for slower rate hikes at home and abroad.
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- Inflation continued to track lower than expectations, with November's print of 5.42% YoY (0.09% MoM) falling a shade lower than consensus (5.50%). As in October, food deflation was a major part of the story, with chili and garlic prices in particular continuing their decline. But unlike then, the deflation in spices was matched by inflation in some other foodstuffs, most notably chicken and rice.
 - At the same time, disinflation is starting to take hold in non-food categories, even transport which has been greatly affected by September's fuel price hike. Core inflation is also flat at 3.30% YoY, suggesting no further broadening of inflationary pressures. This is a rather unusual development compared to previous fuel hikes, and as such it merits significant reassessment of our near-term inflation outlook, which now stands at 5.6% for the year and towards 3.7-4.0% for next year.
 - Such disinflation seems odd given the Rupiah's depreciation and the growth of base money, both of which picked up pace in October. However, it is clear from our big data that consumption growth has slowed significantly in recent month. Furthermore, the base money growth – driven, mostly, by government spending disbursement – does not translate to broader monetary measures nor faster money velocity, which would indeed be the case if private-sector activities are softening.
 - This is also in line with the trend in most other countries (except for Europe), which is seeing slower inflation at last. Monetary tightening by the Fed and other central banks have made clear dent on global demand, as evidenced by weaker PMI and especially new orders. While supply-side flare-ups remain a concern in the medium-term, the short-term trend towards disinflationary recession is plainly evident.

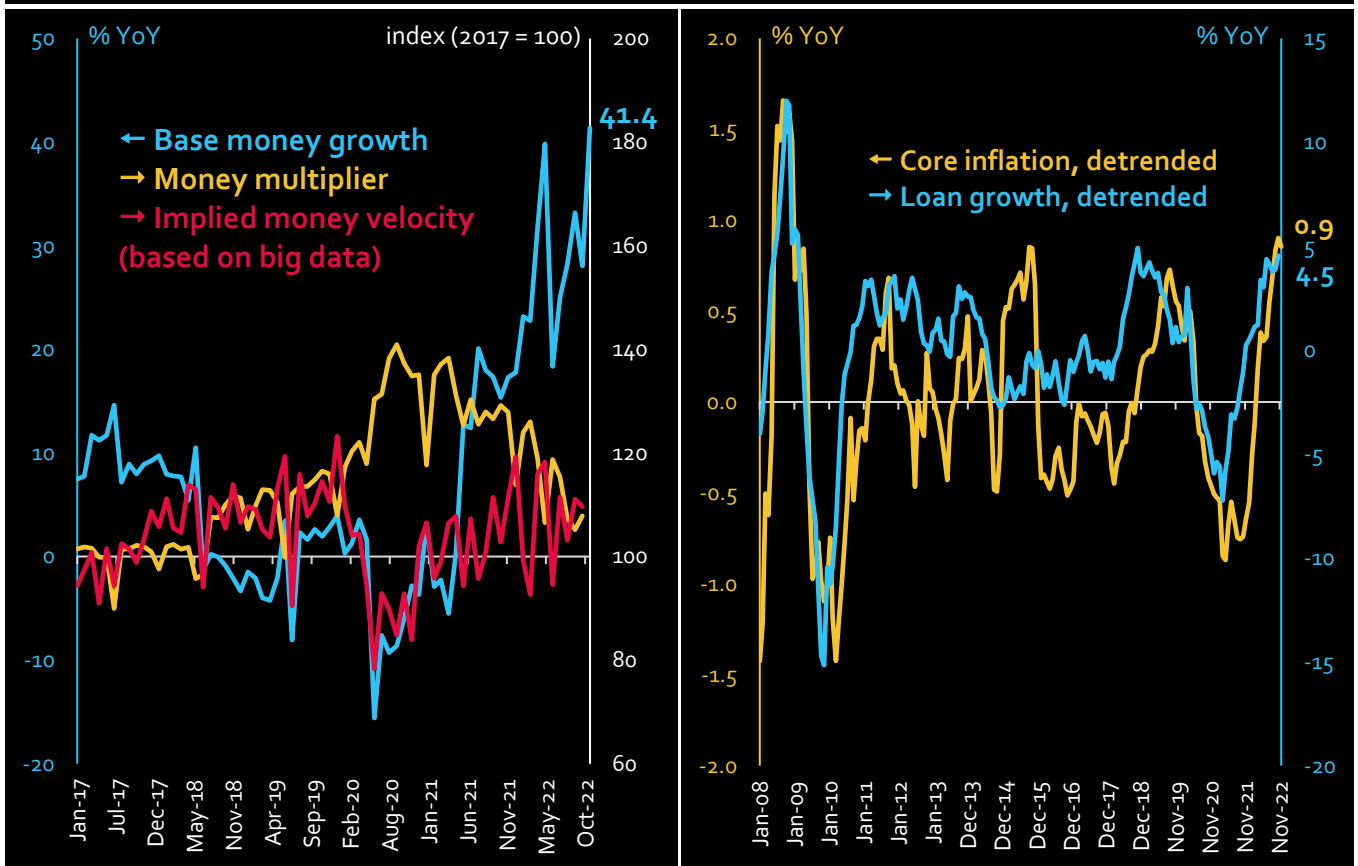
- There are some concern spots for Indonesia in the short-run, namely rice prices and year-end seasonal effects. The latter is likely to be muted by weaker demand, while rising rice prices should be alleviated – if not by imports in the near-term, then by the harvest season in March-April.
- Low inflation at home and abroad should come as a signal for BI to consider slowing its rate hikes, after three consecutive 50 bps hikes. The Fed's willingness to ponder slower hikes should also figure into this equation, especially as the market increasingly prices in a weaker USD. It is thus becoming likelier that the BI 7-Day Repo Rate would end up at 5.50% by year-end, with a terminal rate of around 6.00% early next year.

Panel 1. Food deflation continues, while fuel price hike footprint is starting to fade



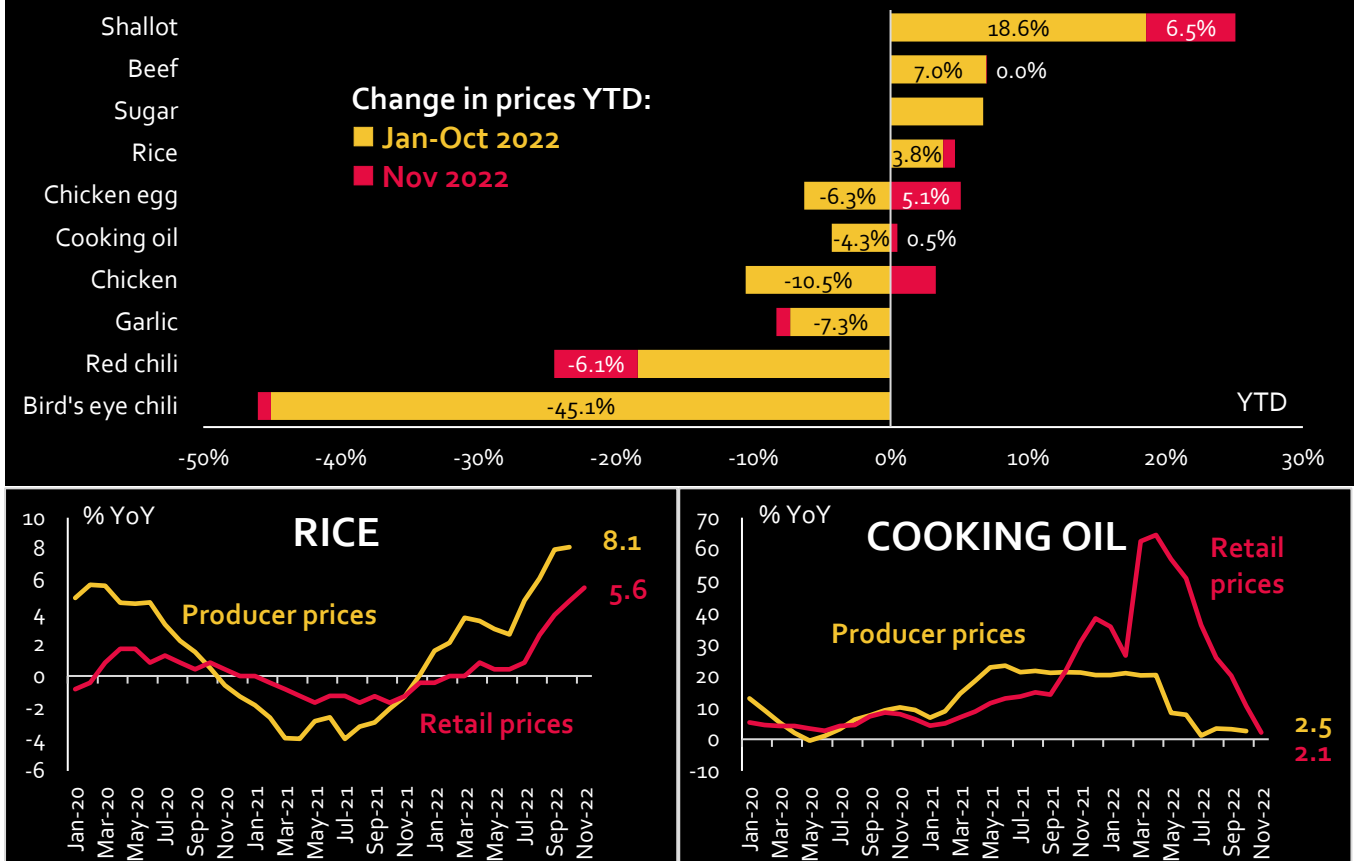
Source: BPS, calculation by BCA Economic Research

Panel 2. While government spending spurs base money, loan growth has begun to plateau



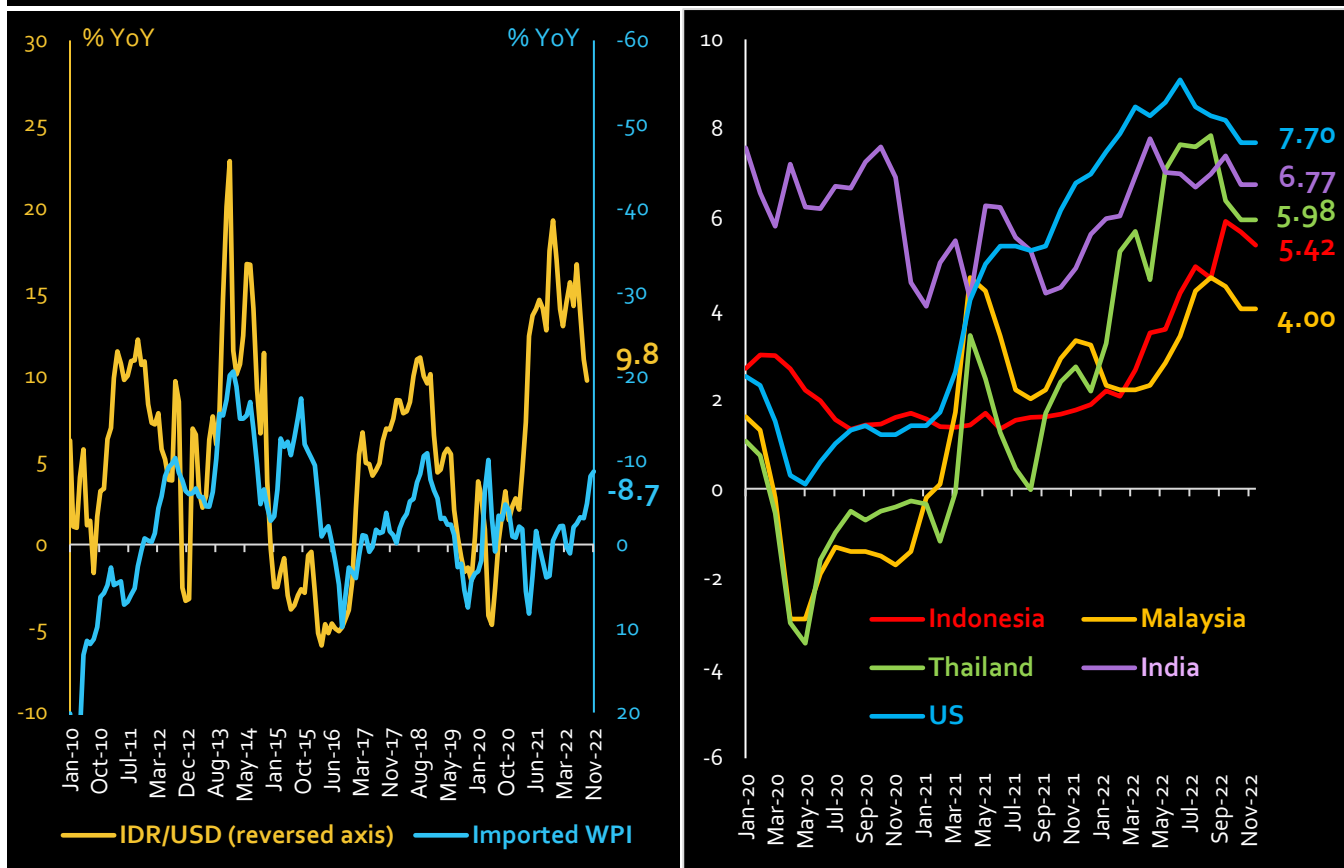
Source: BI, OJK, BCA big data, calculation by BCA Economic research

Panel 3. A more mixed signal for food prices, rising producer prices for rice the main concern



Source: Ministry of Trade and BPS

Panel 4. Global inflationary pressures are easing, especially as USD starts to weaken



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Nov	-1 mth	Chg (%)
US	4.00	Nov-22	-3.70	Baltic Dry Index	1,355.0	1,534.0	-11.7
UK	3.00	Nov-22	-8.10	S&P GSCI Index	621.1	636.5	-2.4
EU	2.00	Oct-22	-8.00	Oil (Brent, \$/bbl)	85.4	95.8	-10.8
Japan	-0.10	Jan-16	-3.80	Coal (\$/MT)	389.0	372.9	4.3
China (lending)	4.35	Oct-22	2.25	Gas (\$/MMBtu)	5.99	4.85	23.5
Korea	3.25	Nov-22	-2.45	Gold (\$/oz.)	1,768.5	1,644.9	7.5
India	5.90	Sep-22	-0.87	Copper (\$/MT)	8,226.8	7,619.0	8.0
Indonesia	5.25	Nov-22	-0.17	Nickel (\$/MT)	26,892.0	22,020.5	22.1
Money Mkt Rates	30-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	922.2	840.6	9.7
SPN (1M)	4.94	4.45	49.8	Rubber (\$/kg)	1.30	1.17	11.1
SUN (10Y)	6.91	7.51	-59.6	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	4.81	4.22	58.5	Export (\$ bn)	24.81	24.78	0.1
JIBOR 1M (Rp)	5.95	5.45	50.0	Import (\$ bn)	19.14	19.81	-3.4
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	5.67	4.97	14.2
Lending (WC)	8.42	8.42	-0.03	Central bank reserves (\$ bn)*	130.2	130.8	-0.45
Deposit 1M	2.87	2.83	3.57	Prompt Indicators	Oct	Sep	Aug
Savings	0.65	0.64	0.98	Consumer confidence index (CCI)	120.3	117.2	124.7
Currency/USD	30-Nov	-1 mth	Chg (%)	Car sales (%YoY)	23.3	18.9	16.4
UK Pound	0.829	0.861	3.81	Motorcycle sales (%YoY)	20.9	10.7	11.6
Euro	0.961	1.004	4.43	Manufacturing PMI	Nov	Oct	Chg (bps)
Japanese Yen	138.1	147.6	6.90	USA	#N/A	50.2	0
Chinese RMB	7.092	7.252	2.26	Eurozone	47.1	46.4	70
Indonesia Rupiah	15,732	15,552	-1.14	Japan	49.0	50.7	-170
Capital Mkt	30-Nov	-1 mth	Chg (%)	China	49.4	49.2	20
JCI	7,081.3	7,056.0	0.36	Korea	49.0	48.2	80
DJIA	34,589.8	32,861.8	5.26	Indonesia	50.3	51.8	-150
FTSE	7,573.1	7,047.7	7.45				
Nikkei 225	27,969.0	27,105.2	3.19				
Hang Seng	18,597.2	14,863.1	25.12				
Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)				
Stock	2,656.0	2,630.5	25.56				
Govt. Bond	736.4	713.2	23.20				
Corp. Bond	14.5	15.4	-0.86				

Source: Bloomberg, BI, BPS

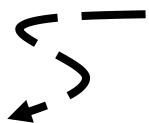
Notes:

^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



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Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.3
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	5.6
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	52.8
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.9

** Estimation of Rupiah's fundamental exchange rate

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