

CPI:

Can Our Luck with Food Prices Continue?

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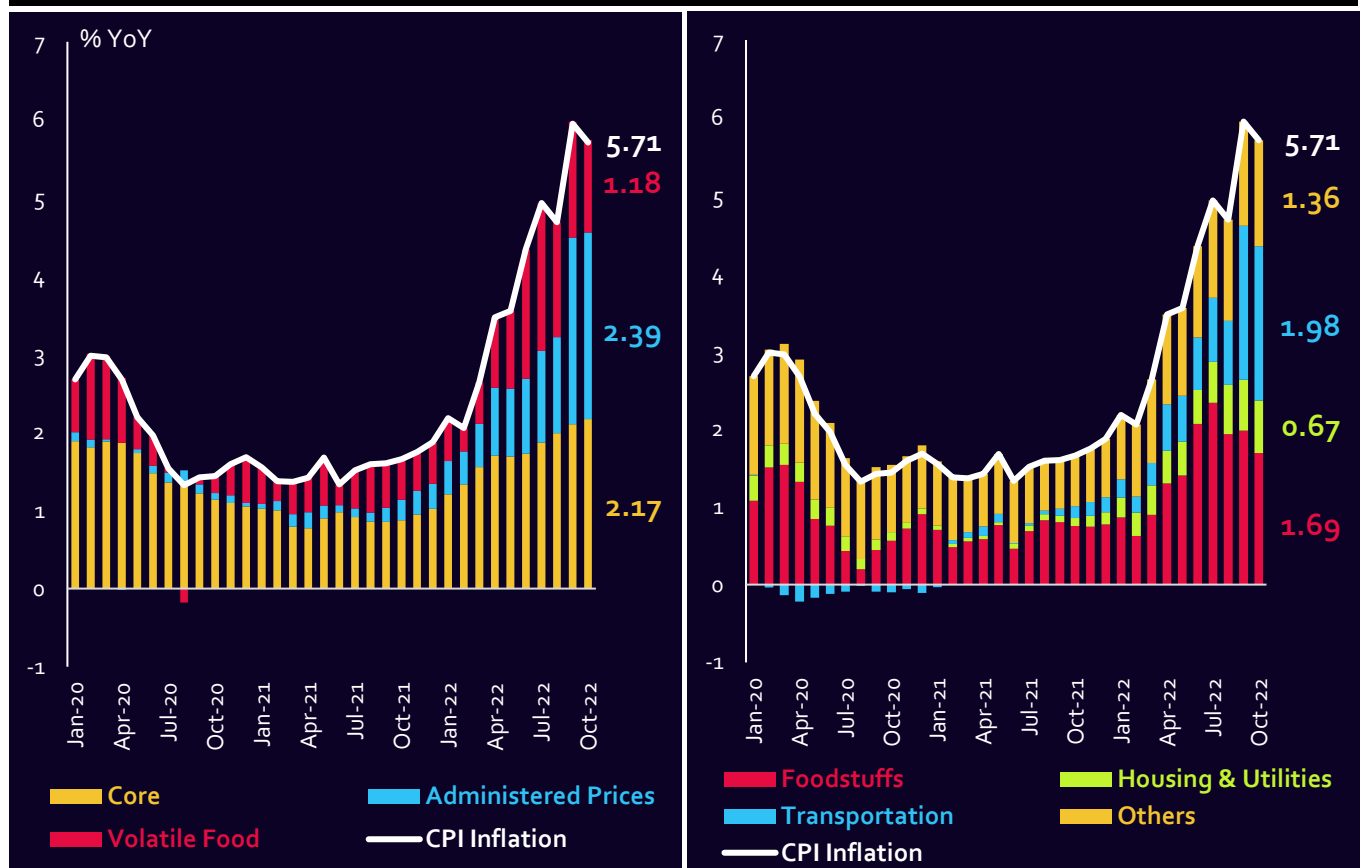
Executive Summary

- The CPI slowed to 5.71% YoY (-0.11% MoM), as declining food prices offset the rather anemic first- and second-round effects of September's fuel price hikes.
- Food availability and subdued money multiplier (courtesy of reserve requirement hike) have helped control inflation despite challenging backdrop.
- Falling rice inventory and high producer prices could still spell trouble later in the year, so active roles by the government (supply management) and BI (further rate hikes by ~75 bps) are still needed.

- Consumer price inflation slowed to 5.71% YoY, following a deflationary October (-0.11% MoM). This was much lower than market consensus (5.98%), but close in line to our estimate (5.74%). What convinced us of this deflation was the marked decline in the prices of key foodstuffs, most notably chili, shallot, and rice – the latter following the second (“gadu”) harvest season.
- This food deflation offset the high prices in administered items, transport, and utilities following September's fuel price hikes. It is worth noting, however, that inflation in these three categories are now plateauing, meaning that the first-round effects of the fuel hike is at an end.
- With that, the main inflationary impetus is now coming from the second-round effects towards the broader goods and services basket. Even so, the core inflation only registered a slight uptick to 3.31% YoY, driven mainly by services such as restaurants and personal care. This is in line with BI's retail survey, which showed marked increase in recreation and similarly non-essential expenditures recent months.
- Imported inflation should have risen in September-October, following the Rupiah's largest depreciation YTD. But we have not been able to confirm this from BI's wholesale price data as yet, and at any rate the impact could be somewhat blunted by the decline in consumer goods imports in recent months.
- If the trend continues, then, this may well prove to be the mildest inflationary episode following fuel price hikes, compared to 2005, 2008, or 2013-14 – an achievement given the inflationary pressures that are plaguing most of the world. So what is the secret sauce here?

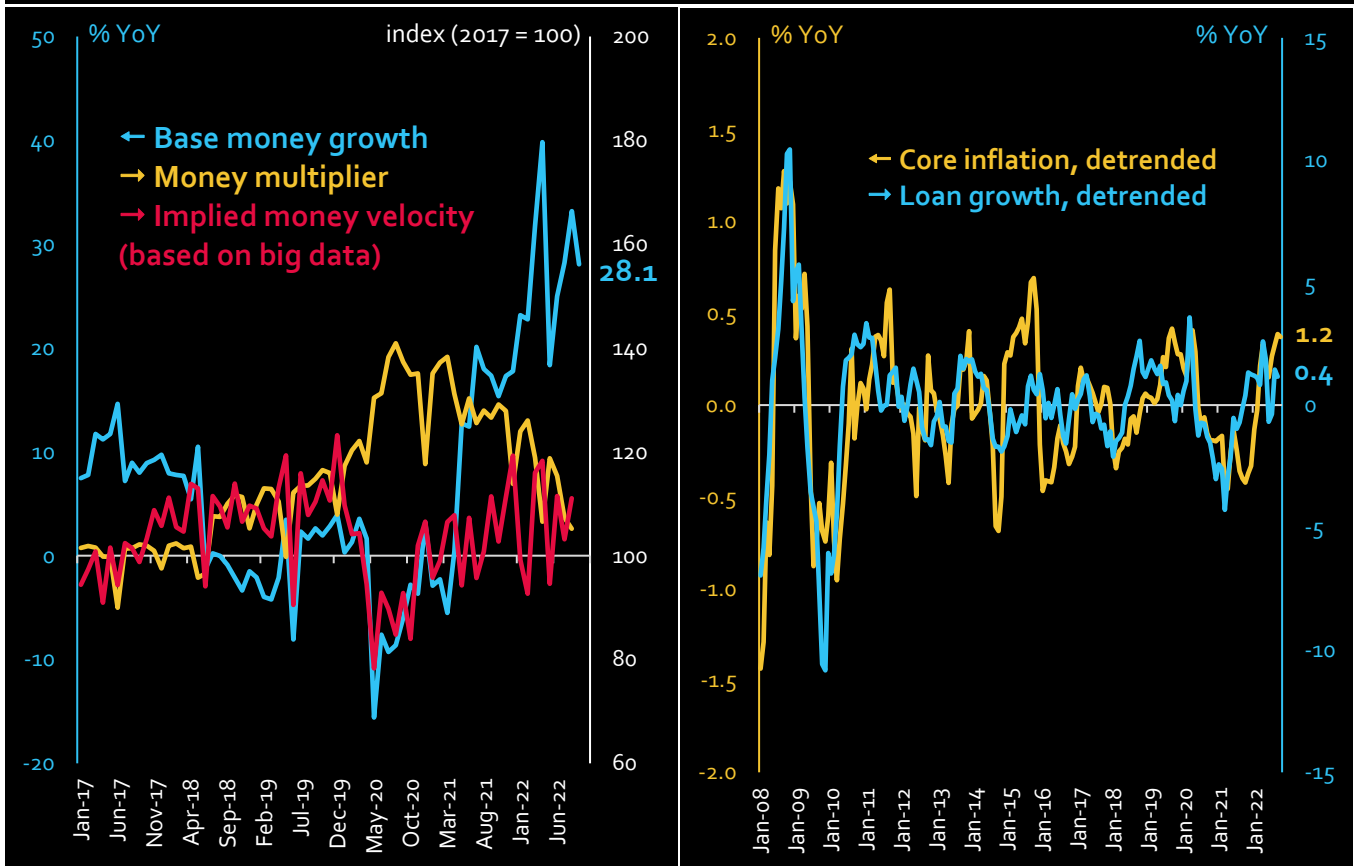
- One important factor is monetary policy. Since the pandemic, the monetary base (M0) has expanded as BI became an important buyer of government debt. However, this has been counteracted by the sharp increase in reserve requirement ratio to 9%, which crimped the money multiplier. This means a plateauing or slowdown of loan growth in the near future (versus an estimated 11% YoY in September), which as we know tracks very well with core inflation.
- Still, the biggest credit has to come from the aforementioned food prices. Indonesia has had good luck in terms of food production this year, as well as good skill from the government with regards to inventory and distribution – a far cry from many other countries which has suffered from increased grains and fertilizer prices related to the Russia-Ukraine War.
- But can this good luck last? There are emerging signs of trouble, particularly for rice. The Bureau of Logistics (Bulog) has reported surprisingly low inventory of rice in the past week, while producer prices have zipped much higher compared to retail prices. The government would have to bridge this gap and purchase more rice to ensure supply through the typically inflationary months of December and January.
- As such, while we correctly foresaw deflation in October, we maintain a cautious outlook whereby annual inflation might still grow closer to 6.5% by year end. This, combined with the strong USD, means BI is likely to hike rates by another 75 bps in November and December.

Panel 1. Declining food prices have offset the impact of fuel price hikes thus far



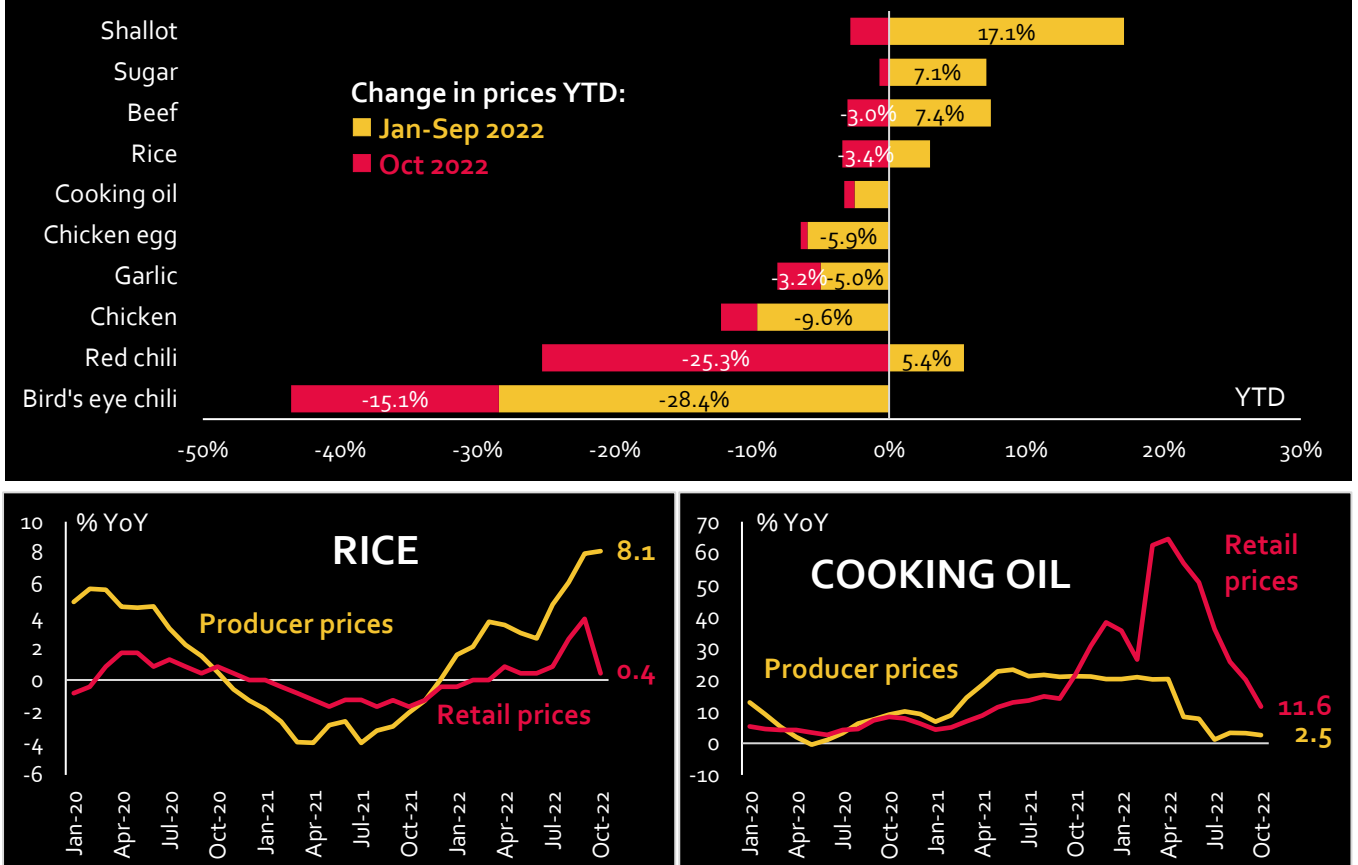
Source: BPS, calculation by BCA Economic Research

Panel 2. Base money growth has been offset by curbing the money multiplier



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

Panel 3. Food prices have been declining, but there are troubling signs for rice



Source: Ministry of Trade and BPS

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Oct	-1 mth	Chg (%)
US	3.25	Oct-22	-4.95	Baltic Dry Index	1,463.0	1,760.0	-16.9
UK	2.25	Oct-22	-7.85	S&P GSCI Index	636.8	607.8	4.8
EU	2.00	Oct-22	-8.70	Oil (Brent, \$/bbl)	94.8	88.0	7.8
Japan	-0.10	Jan-16	-3.10	Coal (\$/MT)	356.1	412.7	-13.7
China (lending)	4.35	Oct-22	1.55	Gas (\$/MMBtu)	5.02	6.40	-21.6
Korea	3.00	Oct-22	-2.60	Gold (\$/oz.)	1,633.6	1,660.6	-1.6
India	5.90	Sep-22	-1.51	Copper (\$/MT)	7,522.0	7,683.3	-2.1
Indonesia	4.75	Oct-22	-0.96	Nickel (\$/MT)	21,705.0	21,012.0	3.3
Money Mkt Rates	31-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	840.6	713.7	17.8
				Rubber (\$/kg)	1.15	1.32	-12.9
SPN (1M)	3.69	4.30	-61.0	External Sector	Sep	Aug	Chg (%)
SUN (10Y)	7.51	7.35	16.2	Export (\$ bn)	24.80	27.86	-11.0
INDONIA (O/N, Rp)	4.25	3.84	41.1	Import (\$ bn)	19.81	22.15	-10.6
JIBOR 1M (Rp)	5.45	4.87	57.9	Trade bal. (\$ bn)	4.99	5.71	-12.6
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Central bank reserves (\$ bn)*	130.8	132.2	-1.06
Lending (WC)	8.42	8.40	1.37	Prompt Indicators	Sep	Aug	Jul
Deposit 1M	2.83	2.84	-1.02	Consumer confidence index (CCI)	117.2	124.7	123.2
Savings	0.64	0.62	1.50	Car sales (%YoY)	18.9	16.4	29.4
Currency/USD	31-Oct	-1 mth	Chg (%)	Motorcycle sales (%YoY)	10.7	11.6	-13.3
UK Pound	0.872	0.895	2.68	Manufacturing PMI	Oct	Sep	Chg (bps)
Euro	1.012	1.020	0.82	USA	#N/A	50.9	0
Japanese Yen	148.7	144.7	-2.67	Eurozone	46.6	48.4	-180
Chinese RMB	7.305	7.116	-2.59	Japan	50.7	50.8	-10
Indonesia Rupiah	15,598	15,228	-2.37	China	49.2	48.1	110
Capital Mkt	31-Oct	-1 mth	Chg (%)	Korea	48.2	47.3	90
JCI	7,098.9	7,040.8	0.83	Indonesia	51.8	53.7	-190
DJIA	32,733.0	28,725.5	13.95				
FTSE	7,094.5	6,893.8	2.91				
Nikkei 225	27,587.5	25,937.2	6.36				
Hang Seng	14,687.0	17,222.8	-14.72				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	2,630.5	2,526.7	103.76				
Govt. Bond	714.7	730.3	-15.52				
Corp. Bond	15.4	15.5	-0.12				

Source: Bloomberg, BI, BPS

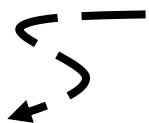
Notes:

^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	5.1
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	6.4
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	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

** Estimation of Rupiah's fundamental exchange rate

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