

CPI:

Seasonal boost or inflection point?

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03 January 2023

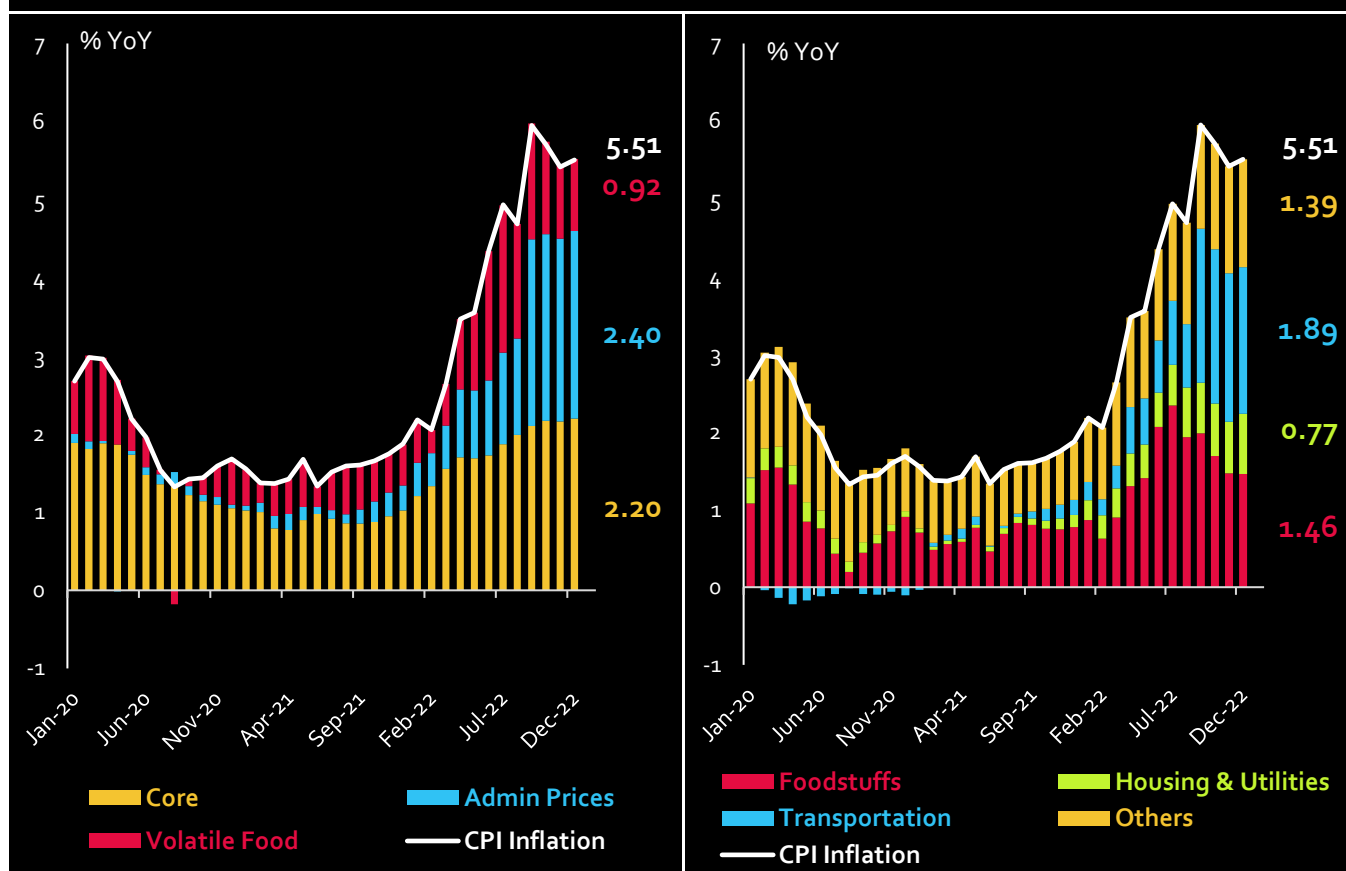
Executive Summary

- Inflation in Dec-22 exceeded expectations, as pent-up demand was unleashed during the holiday season while rice prices rose amid thinning inventory and delayed imports.
- The inflation spurt in December shows that domestic demand remains strong, but it might well be an inflection point before global slowdown begins affecting the domestic economy.
- Stabilizing external pressures should give BI enough leeway to maintain its policy stance and phase out its rate hike cycle in the short-term.

- Inflation made a somewhat surprising comeback with the 5.51% YoY (0.66% MoM) figure in December, significantly higher than consensus (5.39% YoY, 0.44% MoM). The main culprits are largely expected: seasonal inflation on transport and recreation during the year-end holidays, and an uptick in food inflation as the effects of October's harvest season subside. What is surprising, however, is the scale of that inflation.
- This year-end holiday season is the first without Covid-19 restrictions, and as such it unleashed two years' worth of pent up demand. Meanwhile, Covid-19 era hysteresis had reduced the supply-side capacity for the transport and hospitality sectors, accounting for the sharp price increases.
- The other surprise is the strong increase in volatile food inflation (1.57% MoM), undoing months of food deflation. Rice is the main driver here, as efforts to deal with inventory shortage is temporarily hampered by delays in import permits.
- Modestly rising core inflation (3.36% YoY, 0.22% MoM) suggests a healthy consumer demand with minimal additional inflationary pressures. This agrees with our own Intrabiz (business revenues) and Intrabel (consumer spending) data, as well as the solid consumer confidence and job market conditions - albeit with ongoing layoffs in some tech and export-oriented manufacturing industries.
- The question, then, is whether December was an anomaly - a mere inflection point before an inexorable weakening of domestic demand. The latest BI consumer survey, for example, showed declining confidence in income and job security. The growth of base money has also been counteracted by slower money velocity, indicating some softening of private spending. The trickle of job losses in the export oriented sectors could, in the next few months, spread to more weakness in the retail, services and informal sectors.

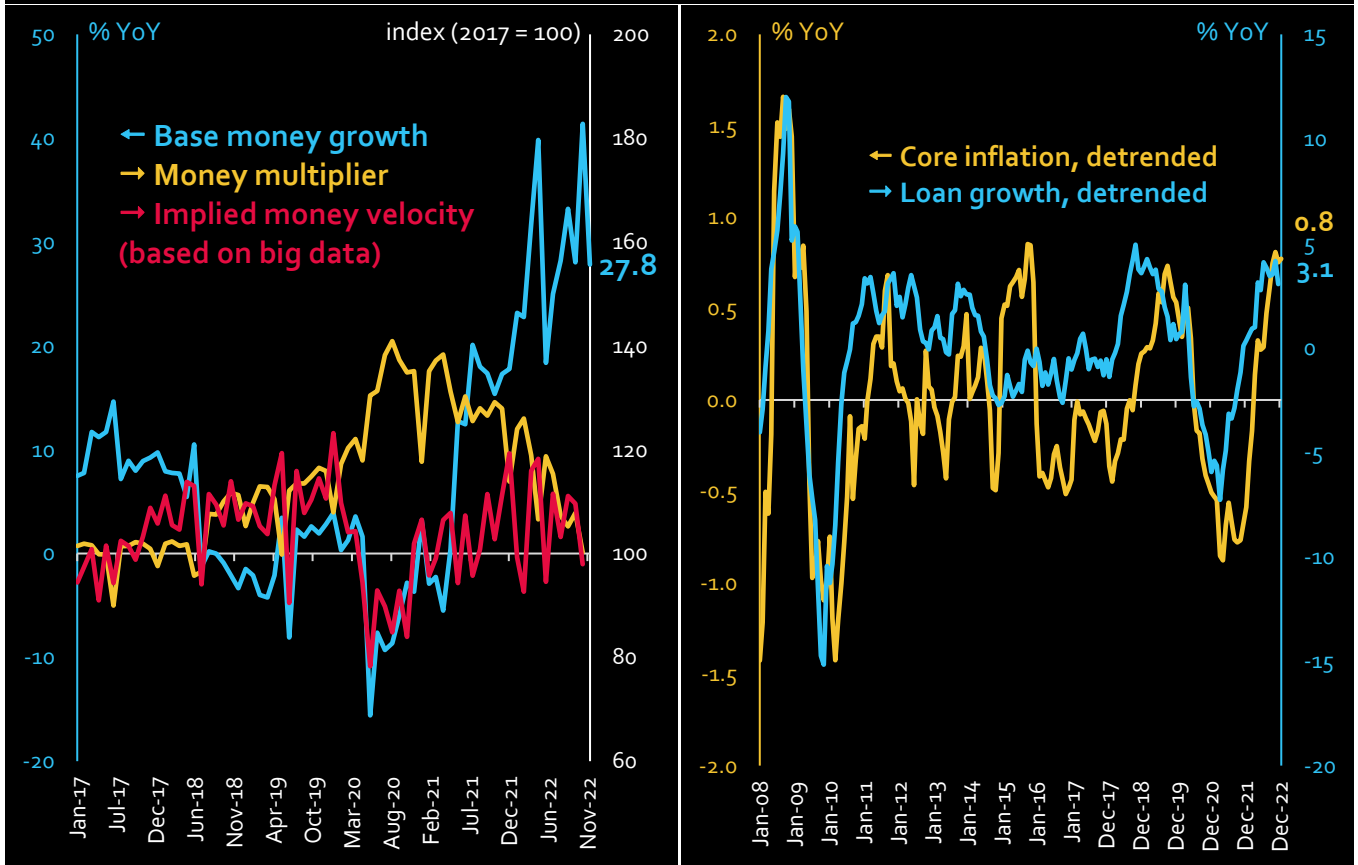
- Of course, slowdown and disinflation are also happening on a global scale. Rapid decline in US inflation, especially non-food & energy items, indicates significant weakening of consumer demand. All the while, the Fed's tighter monetary policy has increased mortgage rates and hit home prices and sales figures. This is compounded by the (albeit temporary) disruptions to China's economy due to the ongoing Covid-19 chaos, while warmer-than-normal winter in Europe also decrease pressure on energy prices.
- Indonesian policymakers can take heart in the still-robust inflation and demand indicators for now, which shows that the current rate of policy tightening has not resulted in excessive weakening of aggregate demand. Their big short-term challenge is stabilizing rice prices, as food availability had been key in keeping inflation under wraps last year.
- The balance of global slowdown and Indonesia's advantages (especially its continuing trade surplus) still provides some leeway for BI to maintain its mix of higher rates and accommodative macroprudential policies. As such, for now we expect only a mild increase in BI policy rates (probably to 6.00%), to be delivered at some point in H1-23.

Panel 1. Volatile food inflation stopped its decline as rice inventories thinned out



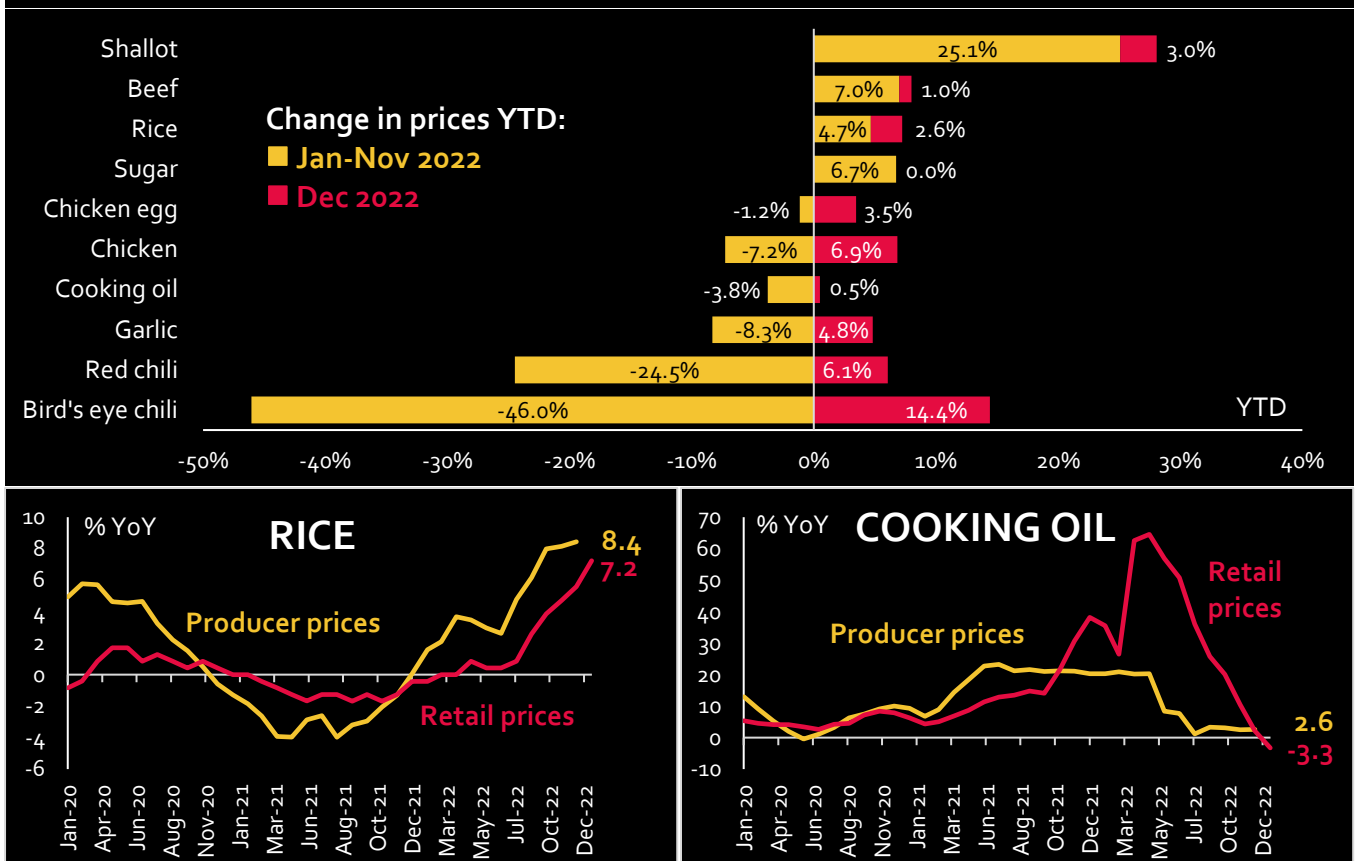
Source: BPS, calculation by BCA Economic Research

Panel 2. Growth in base money has not led to increase in money velocity, signaling possible softening in private spending



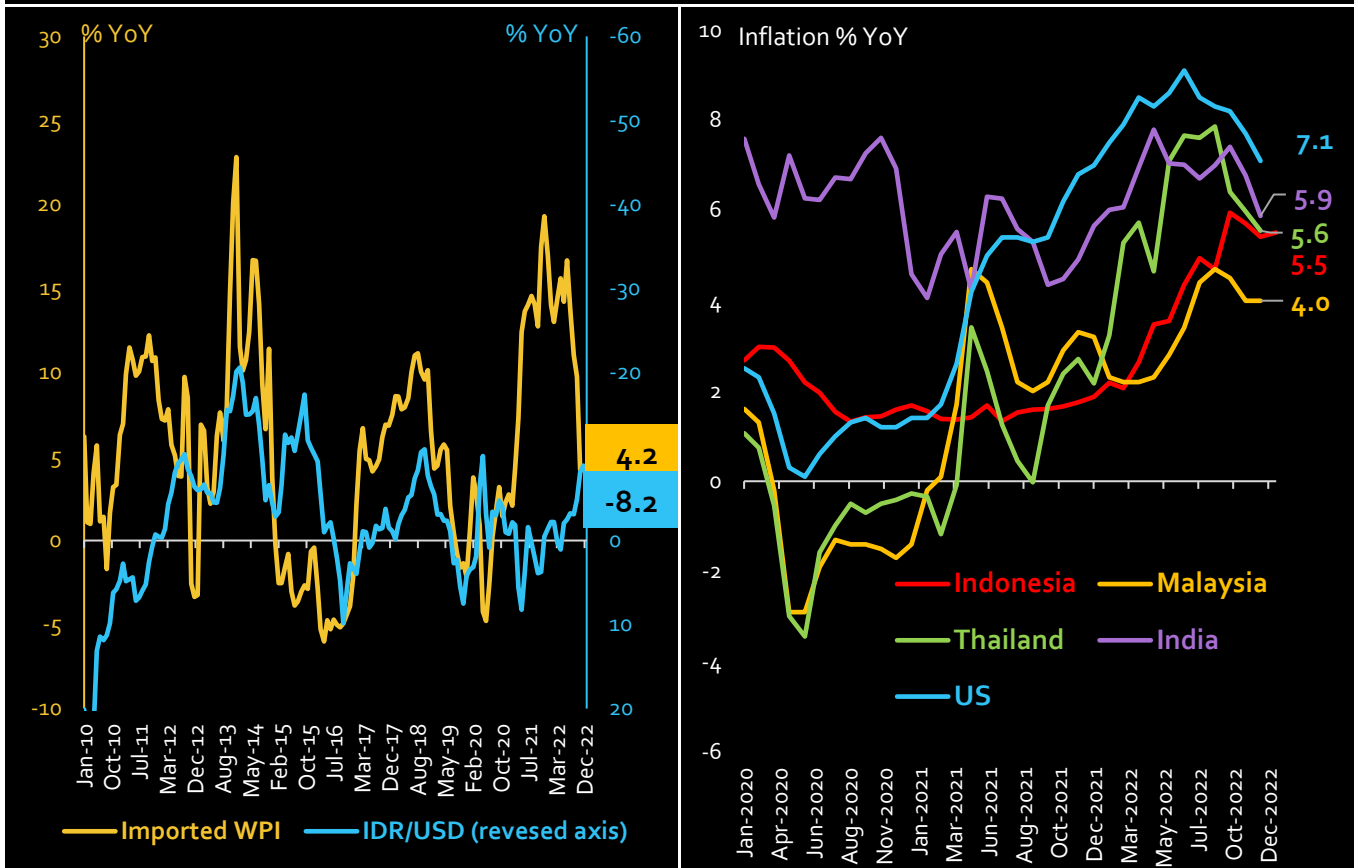
Source: BI, OJK, BCA big data, calculation by BCA Economic research

Panel 3. Elevated demand during holiday seasons push up food stuff prices



Source: Ministry of Trade and BPS

Panel 4. Global inflationary pressures soften in the eve of looming slowdown



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Dec	-1 mth	Chg (%)
US	4.50	Dec-22	-2.60	Baltic Dry Index	1,515.0	1,327.0	14.2
UK	3.50	Dec-22	-7.20	S&P GSCI Index	610.1	608.3	0.3
EU	2.50	Dec-22	-7.60	Oil (Brent, \$/bbl)	85.9	83.0	3.5
Japan	-0.10	Jan-16	-3.90	Coal (\$/MT)	363.0	365.3	-0.6
China (lending)	4.35	Nov-22	2.75	Gas (\$/MMBtu)	3.52	5.99	-41.2
Korea	3.25	Nov-22	-1.75	Gold (\$/oz.)	1,824.0	1,749.9	4.2
India	6.25	Dec-22	0.37	Copper (\$/MT)	8,364.8	8,036.0	4.1
Indonesia	5.50	Dec-22	-0.01	Nickel (\$/MT)	29,886.0	26,744.0	11.7
Money Mkt Rates	30-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	915.4	922.1	-0.7
SPN (1M)	2.88	4.94	-205.9	Rubber (\$/kg)	1.27	1.26	0.8
SUN (10Y)	6.92	6.94	-2.9	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	5.02	4.80	22.8	Export (\$ bn)	24.12	24.73	-2.5
JIBOR 1M (Rp)	6.20	5.95	25.0	Import (\$ bn)	18.96	19.14	-0.9
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	5.16	5.59	-7.8
Lending (WC)	8.42	8.42	-0.03	Central bank reserves (\$ bn)*	134.0	130.2	2.92
Deposit 1M	2.87	2.83	3.57	Prompt Indicators	Nov	Oct	Sep
Savings	0.65	0.64	0.98	Consumer confidence index (CCI)	119.1	120.3	117.2
Currency/USD	30-Dec	-1 mth	Chg (%)	Car sales (%YoY)	4.2	23.3	18.9
UK Pound	0.828	0.837	1.10	Motorcycle sales (%YoY)	26.9	20.9	10.7
Euro	0.934	0.968	3.63	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	131.1	138.6	5.73	USA	N/A	49.0	0
Chinese RMB	6.899	7.159	3.78	Eurozone	47.8	47.1	70
Indonesia Rupiah	15,568	15,743	1.12	Japan	48.8	49.0	-20
Capital Mkt	30-Dec	-1 mth	Chg (%)	China	49.4	49.4	0
JCI	6,850.6	7,012.1	-2.30	Korea	48.2	49.0	-80
DJIA	33,147.3	33,852.5	-2.08	Indonesia	50.9	50.3	60
FTSE	7,451.7	7,512.0	-0.80				
Nikkei 225	26,094.5	28,027.8	-6.90				
Hang Seng	19,781.4	18,204.7	8.66				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	2,699.4	2,656.0	43.37				
Govt. Bond	762.4	736.9	25.43				
Corp. Bond	12.5	14.5	-2.05				

Source: Bloomberg, BI, BPS

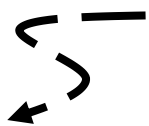
Notes:

^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

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3*	4.6
GDP per Capita (US\$)	3927	4175	3912	4350	4564*	4525
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,292
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	55.8*	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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