

CPI:

## Global soft landing on its way

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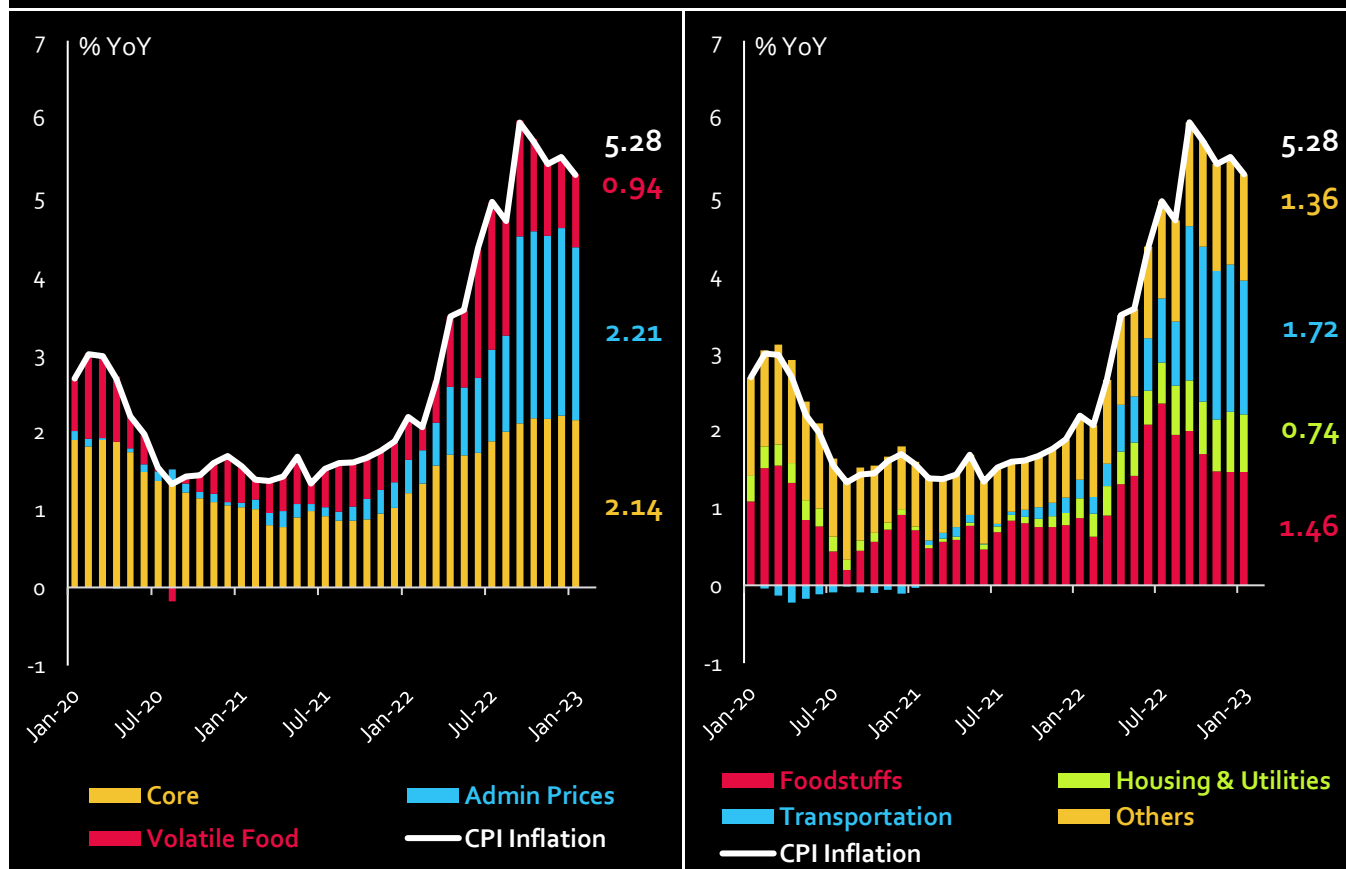
### Executive Summary

- Indonesia's inflation slightly slowed down in January due to significant drop in transport costs and imports outweighing the modest increase in cigarettes and foodstuffs.
- Domestic demand remain strong albeit slowing down due to declining consumer confidence and increasing incidences of layoffs. However numerous temporary boosts to consumption and earlier disbursement of government spending likely to provide boost for the economy.
- Meanwhile the global outlook shifted increasingly to a soft landing scenario. In such scenario, Indonesia will be in a good place as foreign capital inflows would provide monetary space for BI to maintain its policy mix and push economic growth to the upper bound of our growth projections.

- In the first month of 2023 Indonesian inflation scored at 5.28% YoY (0.34% MoM) a slight decline from December's figures and lower than market consensus. The decline was caused by significant drop in transport costs -due to lower airline fares and non-subsidized fuel prices- and global disinflationary pressures seeping through household goods and textile products. The significant decline outweighed the modest increase in cigarettes and volatility in foodstuffs.
- Demand remain relatively strong albeit slightly weakening, signified by healthy but slowing core inflation figure of 3.27% YoY. Our BCA Intrabiz and Intrabel indicators still show healthy consumer and business activities after the end of year holidays. However the signs of worsening consumer activities loom large on the horizon. Anecdotal evidence of layoffs have become more commonplace especially in retail related sectors in addition to previous waves in tech sectors. BI's latest consumer surveys also showed slight deterioration of job and business activity expectations.
- However the incoming weakness is not all doom and gloom yet. In the first semester of 2023, the fasting and Ramadan festivities might provide temporary boost to consumption. Fortunately this is unlikely to boost inflation as it would coincide with harvest of food stuffs and increased imports of food stuffs, keeping consumer purchasing power intact. The government also plans to disburse its spending early in the first semester, giving more additional purchasing boost for the economy.

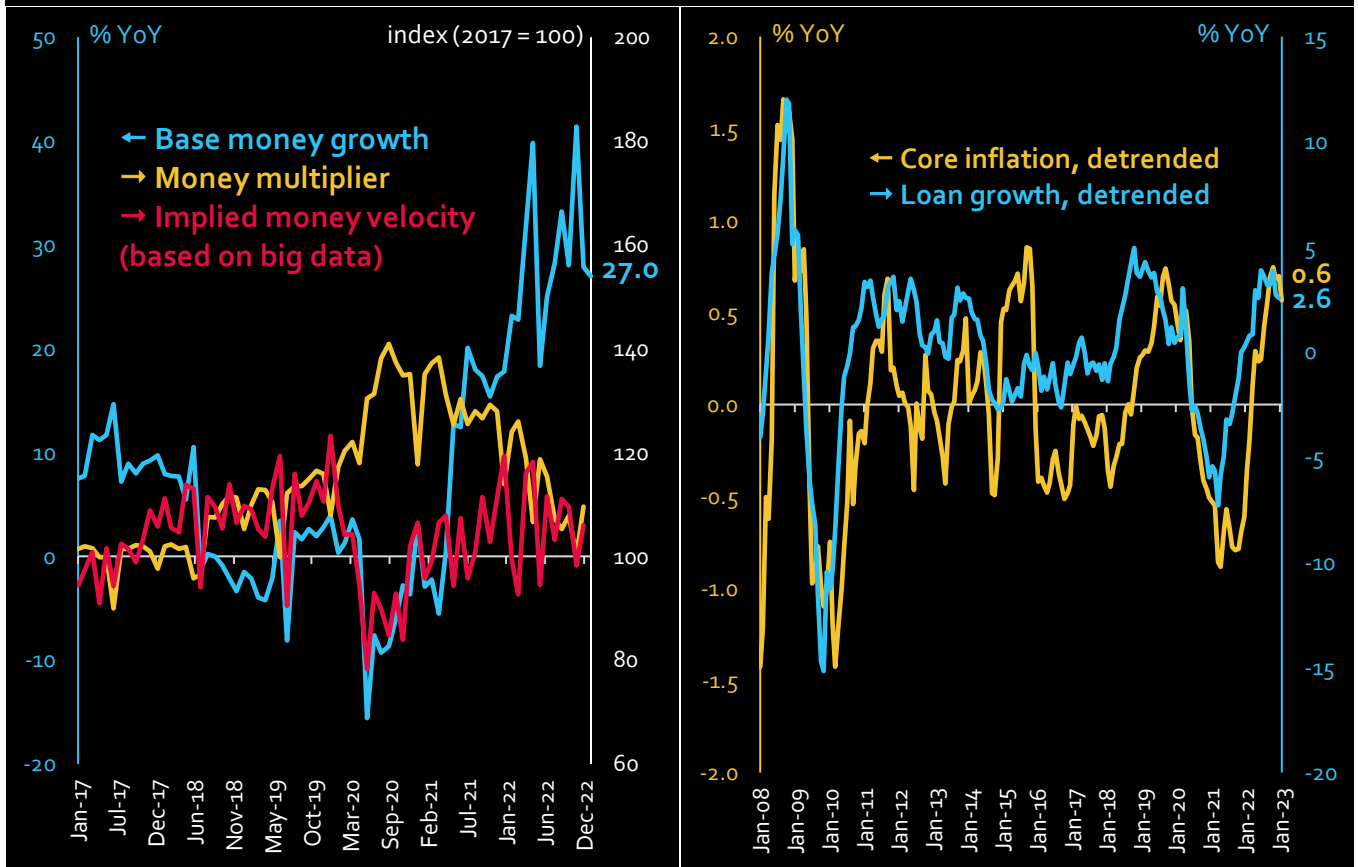
- Indonesia's declining inflation was in line with the accelerated phase of "global cooling" as inflation (and global commodity prices) dropped rapidly from its peak on a global scale. However this was coupled with greater resilience in the global growth outlook, driven by still strong US labour market, a smoother and rapid European adaptation to the energy crisis and the market anticipation of Chinese re-opening. At last it seems realistic to expect the world is heading towards a "soft landing" scenario. Market participants increasingly clamor for the Fed to further slow its tightening cycle in the upcoming FOMC meeting.
- In the meantime it looks like Indonesian economy is stuck in a good place. Increasing market expectations of "soft landing" has already substantiated into a torrent of foreign inflow into the nation's bond markets, complimenting declining exports. Further decline in domestic inflation should further maintain real rate differentials of Indonesian assets and provide some support for the Rupiah. This would provide the luxury for BI to pause its moderate rate tightening cycle in the meantime. However bearing in mind high global uncertainty we are sticking to our prediction that BI would deliver another 25 bps hike in the first half of the year, maintaining a terminal rate of 6.00%. The central bank's pro-growth macro prudential policies should provide support for the economy to grow near the upper end of our growth prediction of 4.5-5.0% in 2023.

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



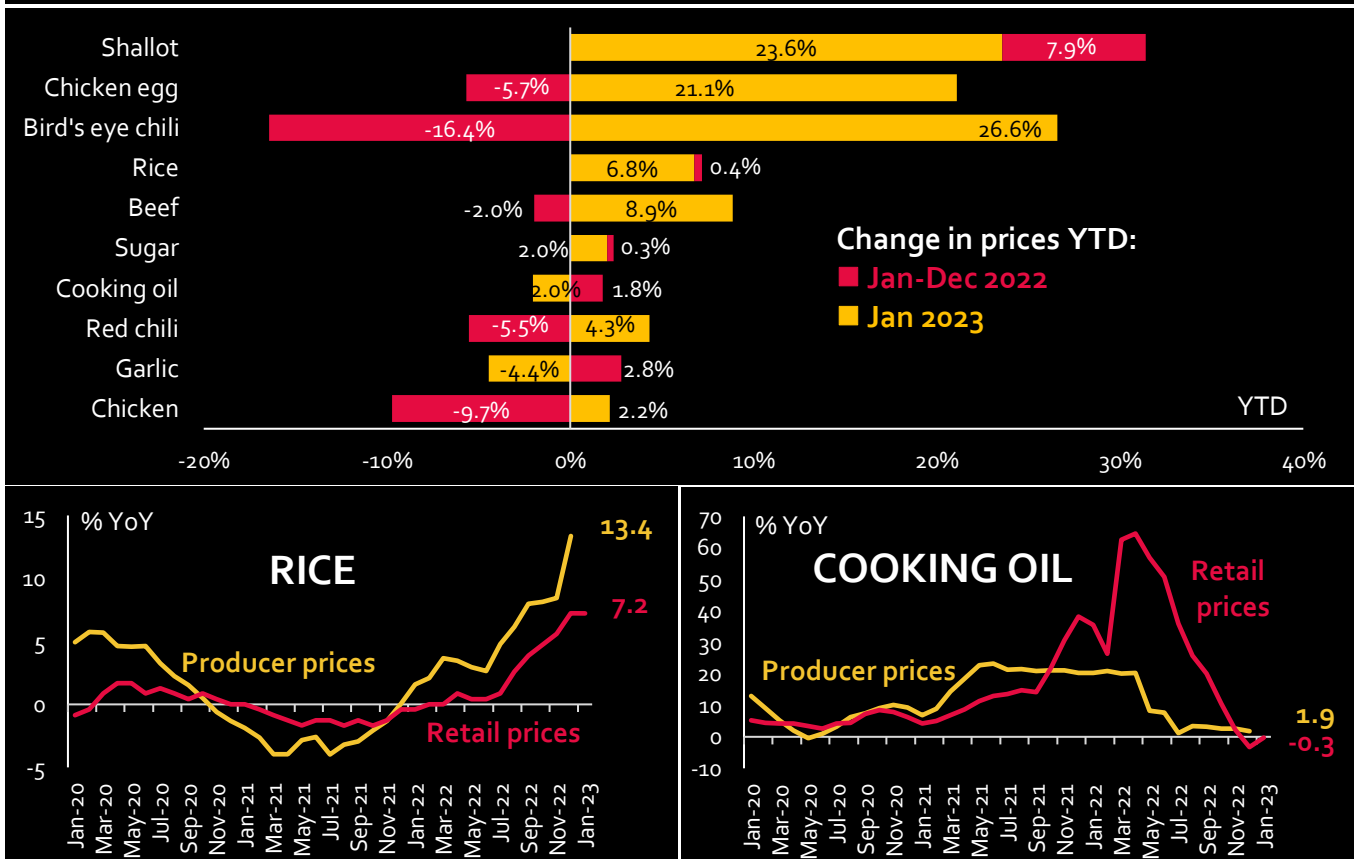
Source: BPS, calculation by BCA Economic Research

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



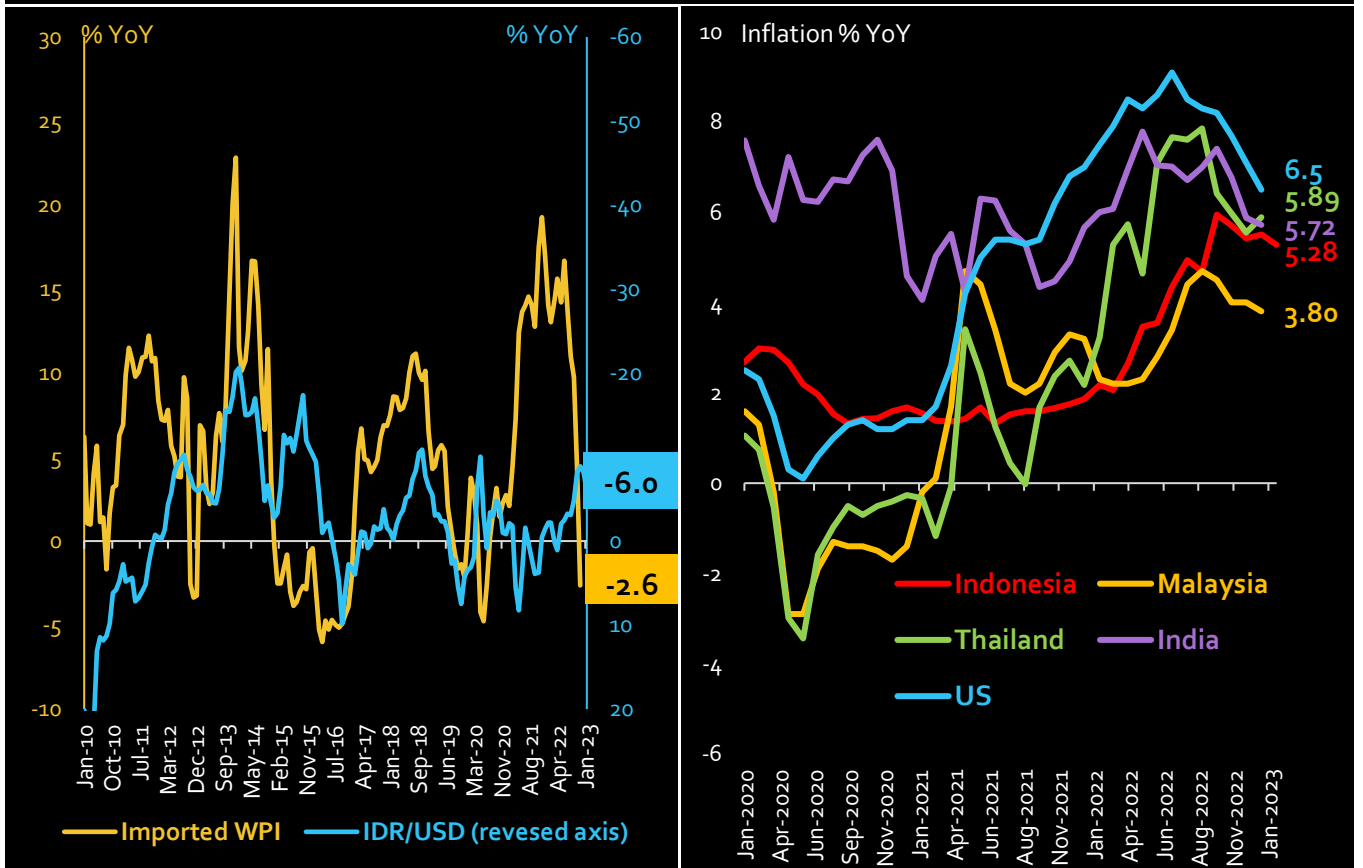
Source: BI, OJK, BCA big data, calculation by BCA Economic research

**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	31-Jan	-1 mth	Chg (%)
US	4.50	Jan-23	-2.00	Baltic Dry Index	681.0	1,515.0	-55.0
UK	3.50	Jan-23	-7.00	S&P GSCI Index	606.1	610.1	-0.7
EU	2.50	Jan-23	-6.70	Oil (Brent, \$/bbl)	84.5	85.9	-1.7
Japan	-0.10	Jan-16	-4.10	Coal (\$/MT)	240.4	323.6	-25.7
China (lending)	4.35	Jan-23	2.55	Gas (\$/MMBtu)	2.66	3.52	-24.4
Korea	3.50	Jan-23	-1.50	Gold (\$/oz.)	1,928.4	1,824.0	5.7
India	6.25	Dec-22	0.53	Copper (\$/MT)	9,199.6	8,364.8	10.0
Indonesia	5.75	Jan-23	0.47	Nickel (\$/MT)	30,153.0	29,886.0	0.9
Money Mkt Rates	31-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	891.6	915.4	-2.6
SPN (1M)	3.39	4.23	-84.0	Rubber (\$/kg)	1.42	1.27	11.8
SUN (10Y)	6.69	6.92	-22.4	External Sector	Dec	Nov	Chg (%)
INDONIA (O/N, Rp)	5.39	5.02	36.8	Export (\$ bn)	23.83	24.09	-1.1
JIBOR 1M (Rp)	6.41	6.20	20.9	Import (\$ bn)	19.94	18.96	5.2
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	3.89	5.13	-24.2
Lending (WC)	8.46	8.42	3.71	Central bank reserves (\$ bn)*	137.2	134.0	2.39
Deposit 1M	2.97	2.87	10.38	Prompt Indicators	Dec	Nov	Oct
Savings	0.66	0.65	0.76	Consumer confidence index (CCI)	119.9	119.1	120.3
Currency/USD	31-Jan	-1 mth	Chg (%)	Car sales (%YoY)	9.0	4.4	23.3
UK Pound	0.812	0.828	1.96	Motorcycle sales (%YoY)	24.6	26.9	20.9
Euro	0.921	0.934	1.48	Manufacturing PMI	Jan	Dec	Chg (bps)
Japanese Yen	130.1	131.1	0.79	USA	N/A	48.4	0
Chinese RMB	6.755	6.899	2.12	Eurozone	48.8	47.8	100
Indonesia Rupiah	14,990	15,568	3.86	Japan	48.9	48.9	0
Capital Mkt	31-Jan	-1 mth	Chg (%)	China	49.2	49.0	20
JCI	6,839.3	6,850.6	-0.16	Korea	48.5	48.2	30
DJIA	34,086.0	33,147.3	2.83	Indonesia	51.3	50.9	40
FTSE	7,771.7	7,451.7	4.29				
Nikkei 225	27,327.1	26,094.5	4.72				
Hang Seng	21,842.3	19,781.4	10.42				
Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)				
Stock	2,700.6	2,699.4	1.22				
Govt. Bond	811.9	762.2	49.70				
Corp. Bond	12.4	12.5	-0.02				

Source: Bloomberg, BI, BPS

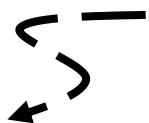
Notes:

^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*	4.7
GDP per Capita (US\$)	3927	4175	3912	4350	4564*	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
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	15,647
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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