

CPI:

Unexpected surge amid weaker demand

Thierris Nora Kusuma
Economist/Analyst

Barra Kuku Mamia
Senior Economist

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Executive Summary

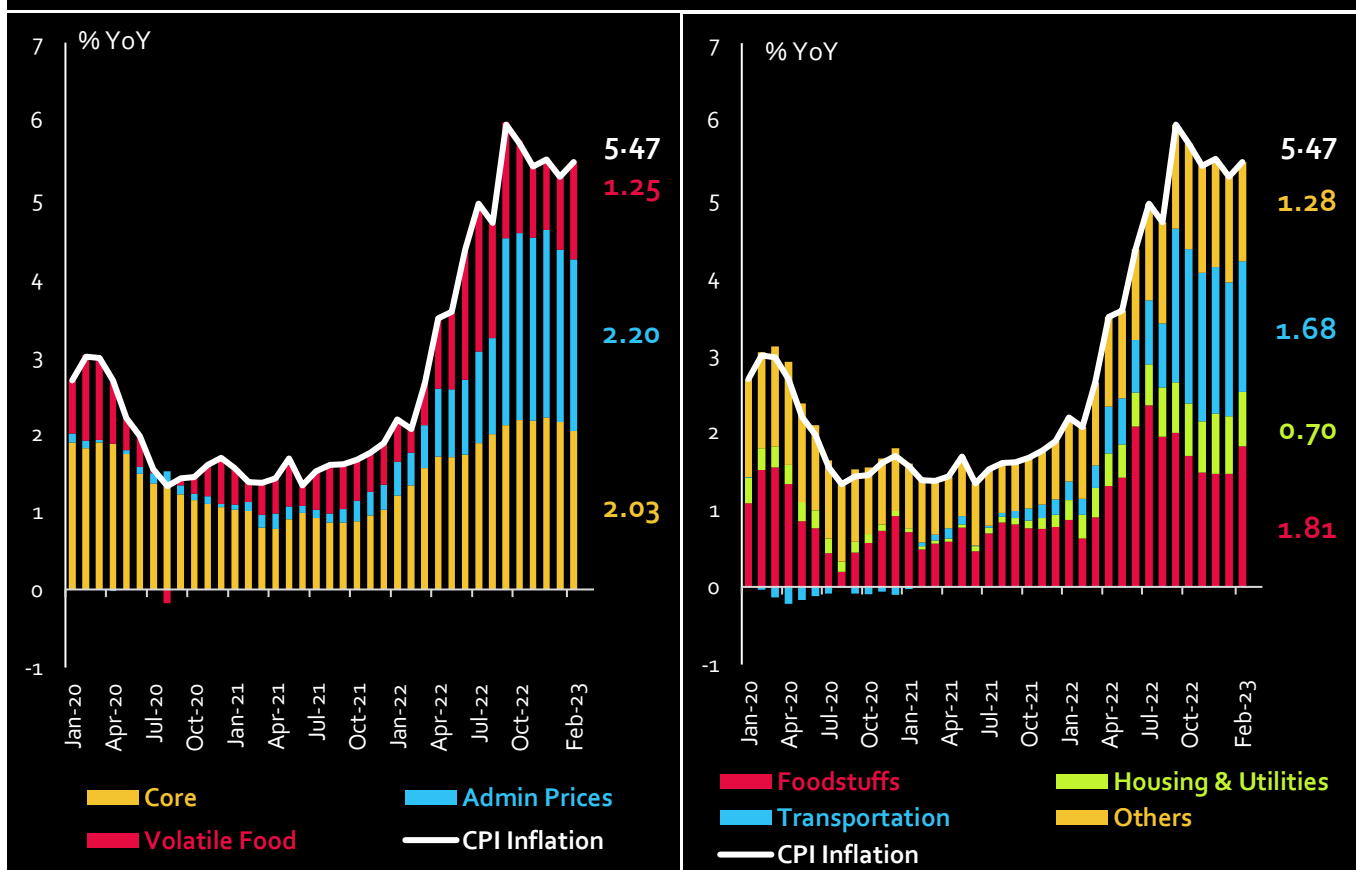
- Indonesia's inflation unexpectedly surged to 5.47% YoY (0.16% MoM) in February 2023, largely attributed to food inflation due to the anticipation of the upcoming fasting month of Ramadan.
- The core inflation has shown a decline to 3.09% which may be indicative of weakening demand and purchasing power, supported by the decline in imported goods prices caused by the overflow of excess inventory from China's reopening.
- While BI has stopped hiking rates, liquidity has continued to tighten as shown by rising market spreads. Future rate outlook may not be set in stone, but can still be influenced by global developments – particularly, how much China's reopening could reignite global inflation.

- In February 2023, Indonesia experienced an unexpected surge in inflation, which reached 5.47% YoY (0.16% MoM), marginally above the anticipated figure of 5.44%. The primary driver of this increase remains food inflation, which continued to exert significant upward pressure on overall inflation. Despite experiencing deflation in the price of chicken and eggs, the scale of these decreases was insufficient to offset the sharp rise in the cost of other food items such as red chilis, rice, and shallots, which had a particularly pronounced impact.
- In contrast to historical trends, February of this year deviated from the expected deflationary pattern, especially in the context of food prices following the Christmas and New Year celebrations. Typically, prices rise during the holiday season and then decrease in February. However, this year, prices did not exhibit the usual seasonal trends, instead showing an upward trend. Partly, this could be attributed to the impending arrival of the fasting month of Ramadan. This may imply further price surges next month, as demand continues to increase ahead of the festivities.
- While food prices have been on the rise, core inflation has shown a decline to 3.09%, which may be indicative of weakening demand and purchasing power. This is also supported by our big data spending index (Intrabel BCA) which shows a decline in consumer spending since after the New Year. Still, we cannot discount the role of the decline in imported (non-food, non-energy) goods prices, as evidenced by the negative import WPI. This may be attributed to the overflow of excess inventory resulting from China's reopening, which has the potential to flood the domestic market with cheaper imported goods.
- In the short-run, there may be further increases in prices, namely food and transportation prices. Although the rising rice price may be temporarily mitigated by government policies

aimed at ensuring sufficient supply during the upcoming festivities or through increased imports, prices may eventually normalize once the harvest season begins in March-April. However, transportation prices are likely to continue increasing due to the upcoming “mudik” season, which traditionally sees an uptick in travel as people return to their hometowns for the holidays. The recent rise in unsubsidized fuel prices (Pertamax) may have some marginal impact as well.

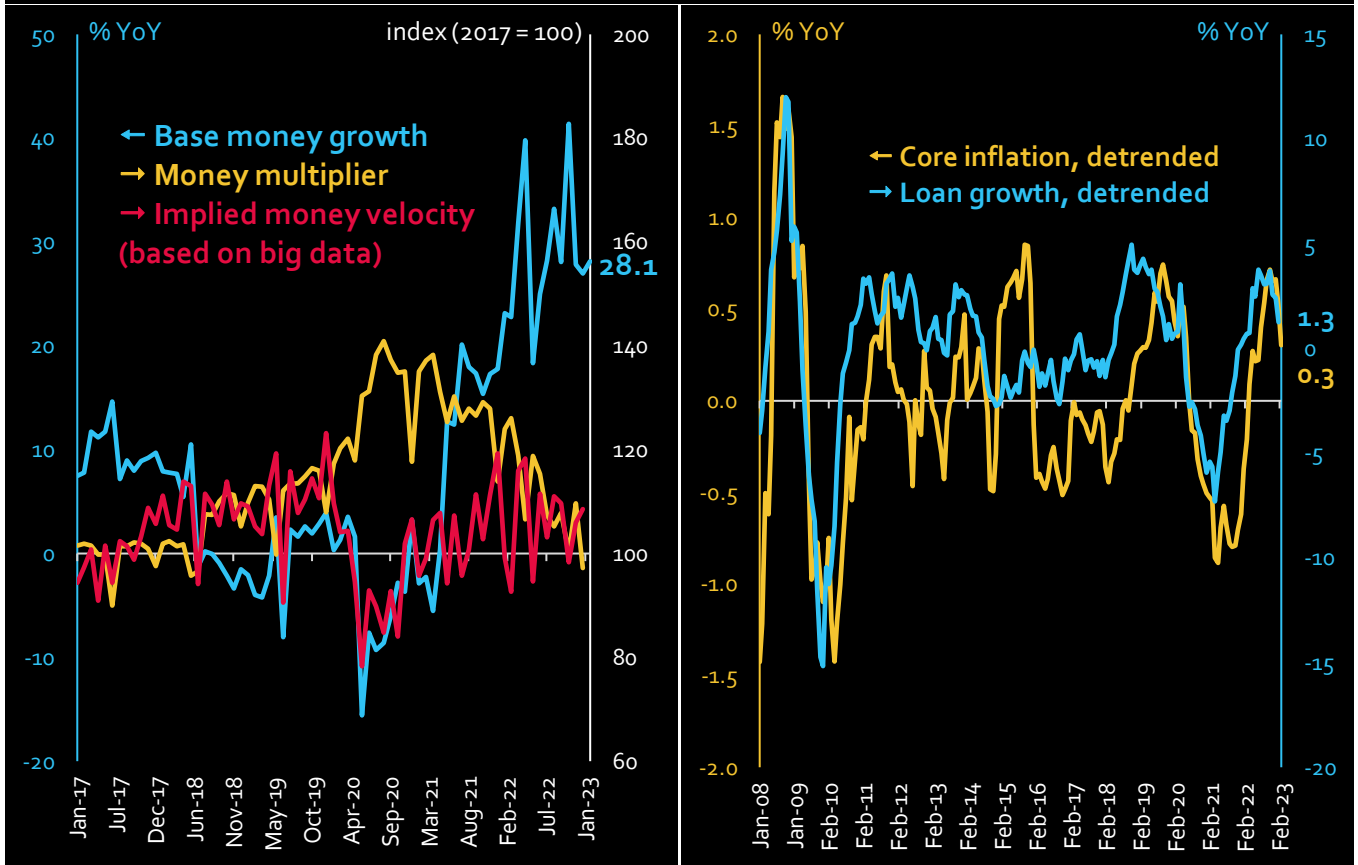
- Indonesia’s short-term inflationary outlook, then, cannot be seen as part of the wider global trend, where the unexpectedly high recent data coming from the US is seen as a sign that the broad dis-inflationary trend is coming to an end. There are signs that US inflation could be more entrenched, especially given the continued tightness in the labor market and strong wage increase. In contrast, while the increase in Indonesia’s minimum wages mostly keeps up with inflation, the drivers of inflation – as mentioned – may be less long-lasting.
- BI’s decision not to raise the BI 7-day Repo Rate last month may seem final, especially given the weakening demand and core inflation. But there are signs that this may not be the last word on the matter. Despite the unchanged benchmark rate, the actual offered interbank rate has gone higher in the past two weeks, from 5.45% on 14/2 to 5.62% on 28/2. The widening interbank spreads seems to indicate that liquidity may not be as ample as previously assumed, which cannot be divorced from the ongoing shift in the market’s view towards “higher-for-longer” global rate outlook, which has led to outflows from the Indonesian bond market. The outcome, ultimately, still hinges on global factors – particularly whether inflation would get a second wind following China’s reopening – and caution on BI’s part is still very much needed.

Panel 1. February inflation driven by foodstuffs, but core inflation declined



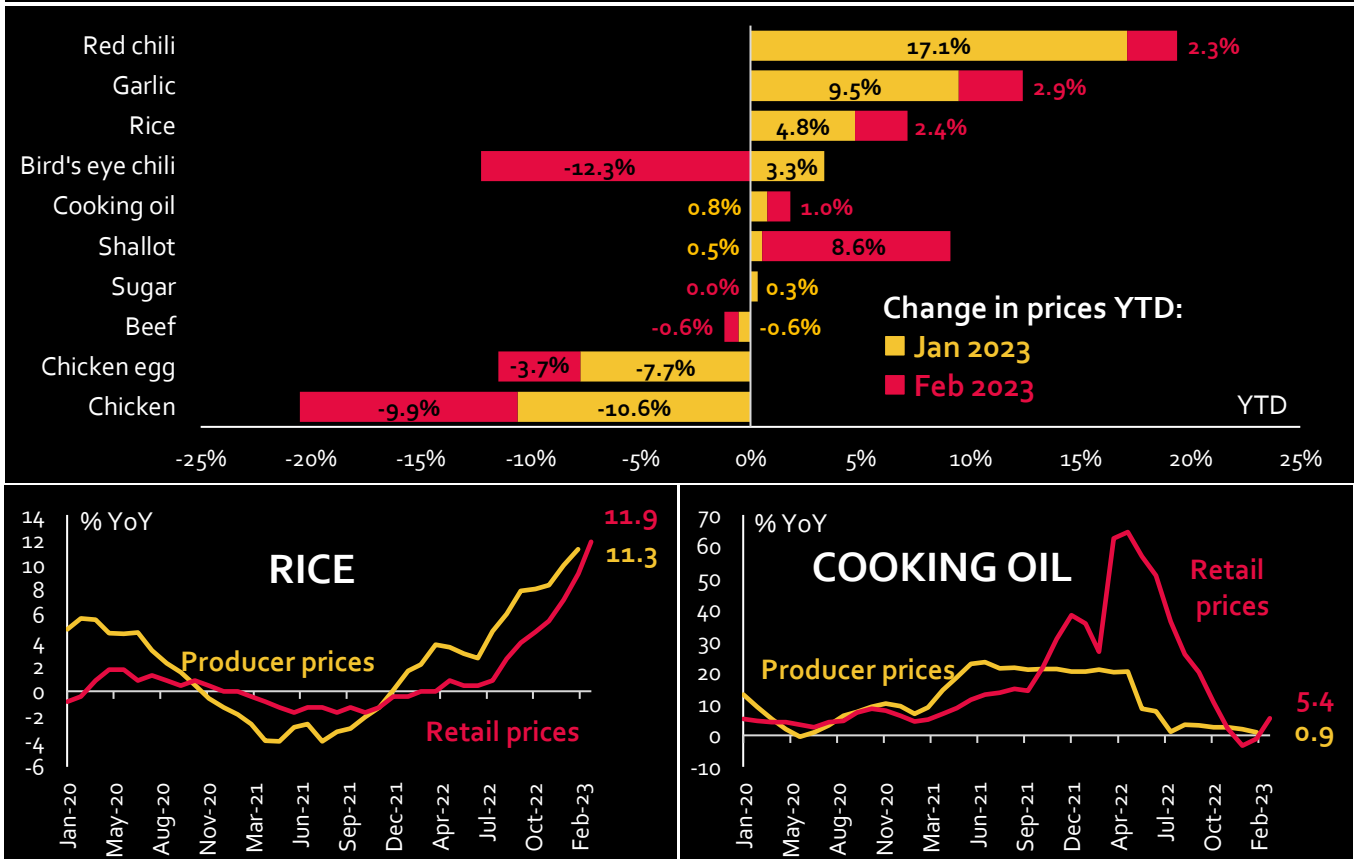
Source: BPS, calculation by BCA Economic Research

Panel 2. Broad money growth has slowed vis-à-vis base money, a sign of slowing loans?



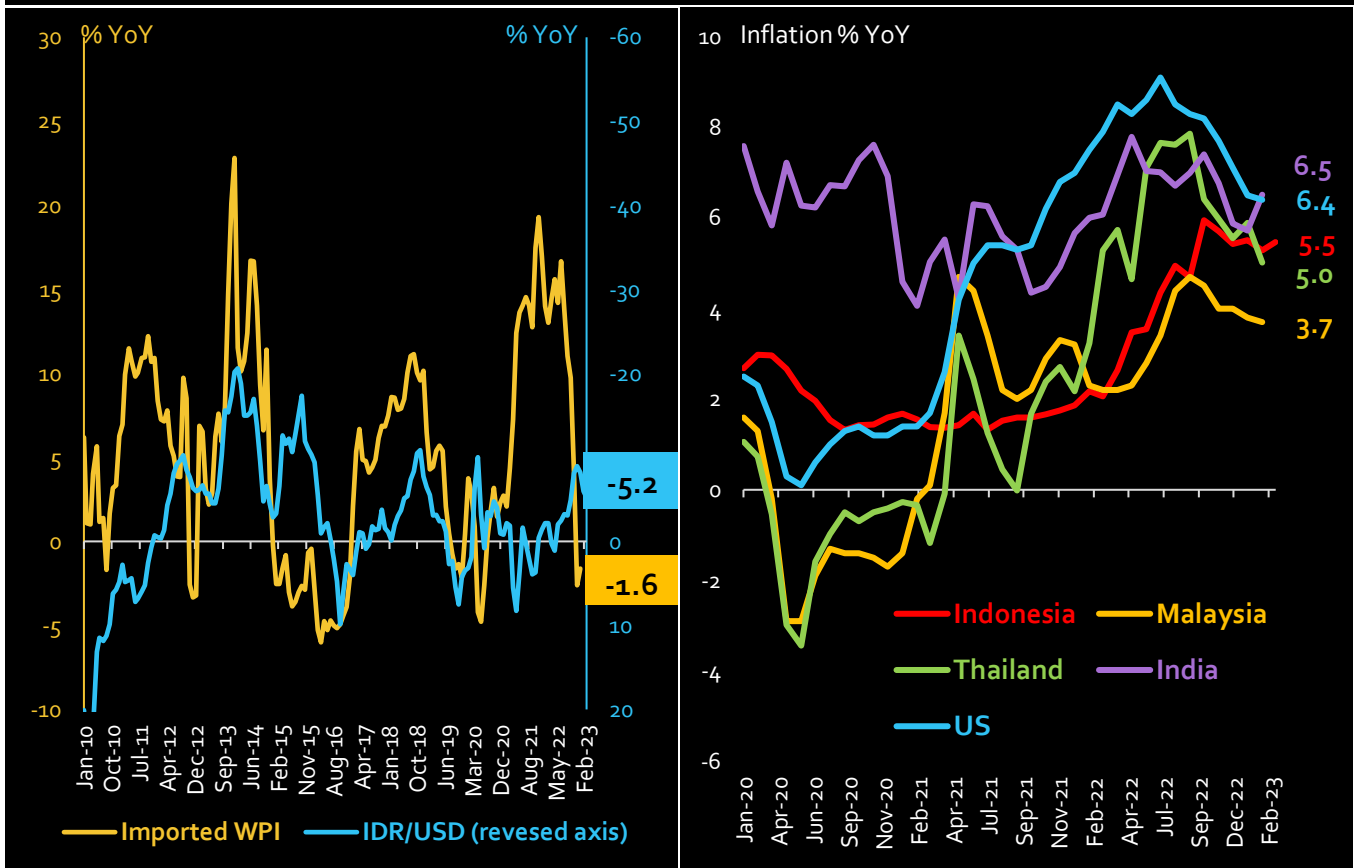
Source: BI, OJK, BCA big data, calculation by BCA Economic research

Panel 3. Food prices are increasing due to anticipation of Ramadan



Source: Ministry of Trade and BPS

Panel 4. Imported deflation has brought down Indonesia's inflation, but is the global dis-inflationary trend slowing?



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	28-Feb	-1 mth	Chg (%)
US	4.75	Feb-23	-1.65	Baltic Dry Index	990.0	676.0	46.4
UK	4.00	Feb-23	-6.10	S&P GSCI Index	581.9	608.9	-4.4
EU	3.00	Feb-23	-5.60	Oil (Brent, \$/bbl)	83.9	86.7	-3.2
Japan	-0.10	Jan-16	-4.40	Coal (\$/MT)	192.9	257.5	-25.1
China (lending)	4.35	Mar-23	2.25	Gas (\$/MMBtu)	2.50	2.83	-11.7
Korea	3.50	Feb-23	-1.70	Gold (\$/oz.)	1,826.9	1,928.0	-5.2
India	6.50	Feb-23	-0.02	Copper (\$/MT)	8,951.0	9,242.2	-3.2
Indonesia	5.75	Feb-23	0.28	Nickel (\$/MT)	24,591.0	28,673.5	-14.2
Money Mkt Rates	28-Feb	-1 mth	Chg (bps)	CPO (\$/MT)	926.8	904.7	2.4
SPN (1M)	4.32	3.41	90.4	Rubber (\$/kg)	1.36	1.45	-6.2
SUN (10Y)	6.88	6.72	15.9	External Sector	Jan	Dec	Chg (%)
INDONIA (O/N, Rp)	5.62	5.28	33.7	Export (\$ bn)	22.31	23.83	-6.36
JIBOR 1M (Rp)	6.40	6.41	-1.5	Import (\$ bn)	18.44	19.86	-7.15
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Trade bal. (\$ bn)	3.87	3.97	-2.39
Lending (WC)	8.60	8.58	1.67	Central bank reserves (\$ bn)*	139.4	137.2	1.58
Deposit 1M	3.69	3.36	32.89	Prompt Indicators	Jan	Dec	Nov
Savings	0.67	0.67	0.00	Consumer confidence index (CCI)	123.0	119.9	119.1
Currency/USD	28-Feb	-1 mth	Chg (%)	Car sales (%YoY)	11.8	9.0	4.4
UK Pound	0.832	0.808	-2.91	Motorcycle sales (%YoY)	38.6	24.6	26.9
Euro	0.946	0.920	-2.69	Manufacturing PMI	Feb	Jan	Chg (bps)
Japanese Yen	136.2	129.9	-4.62	USA	N/A	47.4	0
Chinese RMB	6.936	6.785	-2.18	Eurozone	48.5	48.8	-30
Indonesia Rupiah	15,250	14,985	-1.74	Japan	47.7	48.9	-120
Capital Mkt	28-Feb	-1 mth	Chg (%)	China	51.6	49.2	240
JCI	6,843.2	6,899.0	-0.81	Korea	48.5	48.5	0
DJIA	32,656.7	33,978.1	-3.89	Indonesia	51.2	51.3	-10
FTSE	7,876.3	7,765.2	1.43				
Nikkei 225	27,445.6	27,382.6	0.23				
Hang Seng	19,785.9	22,688.9	-12.79				
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	4784	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	5.75
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	54.5	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.2

*Estimated number

** 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

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

Agus Salim Hardjodinato

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

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

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