CPI:
Slowing ahead of schedule

Thierris Nora Kusuma
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

- Indonesia's inflation declined to 4.33% YoY (0.33% MoM) in April 2023, mainly driven by transportation and food prices during the festive season (Ramadan and Eid/Lebaran).
- The core inflation continued its downward trend to 2.83% YoY which may be indicative of weakening purchasing power and slower credit growth, supported by the decline in imported goods caused by the end overflow of excess inventory from China's reopening.
- As inflation is expected to decline further, coupled with the strong Rupiah, BI has more leeway to maintain its current policy mix, but still subject to the uncertain global situation, particularly with regard to the direction of Fed policy.

- Indonesia's inflation rate continued to decline in April 2023, reaching 4.33% YoY (0.33% MoM) even in the full flow of the festive season (Ramadan and Eid/Lebaran). Transportation was the primary inflation driver, as the number of travellers apparently reach all-time high – with pandemic-era fears and restrictions (mostly) a thing of the past.

- Food prices also remained a significant contributor to inflation, particularly rice. Crop failures due to extreme rain earlier in the year has caused crop failures in some region, dampening the expected disinflation from the rice harvest season.

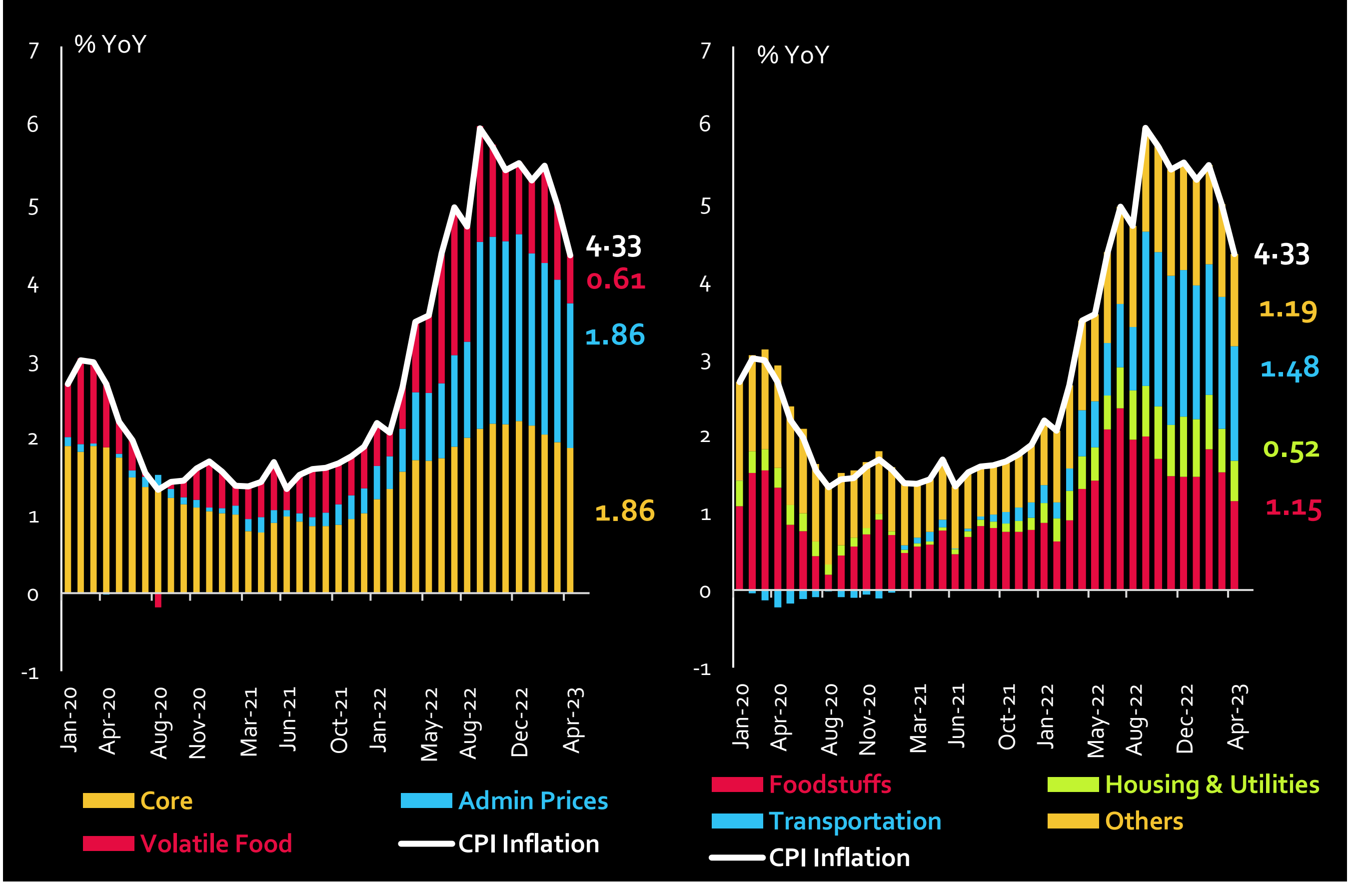
- Despite the rice problems and increased demand during Ramadan, the food inflation was dampened by rice imports and especially by a decline in cooking oil prices. Aside from domestic market obligation (DMO) from the government to anticipate the seasonal demand surge, weaker global demand might have also aggravated global palm oil inventory levels, which downgraded short-term price expectations.

- At the same time, core inflation continued its downward trend, slowing to 2.83% YoY (compared to 2.94% YoY in the previous month). Part of this may be attributed to some decline in consumption, with both our consumer spending and business revenue indices (Intrabel and Intrabiz BCA) having shown declines since the start of the year. However, this weakness could be overstated, and indeed since early April up to Lebaran (i.e. after the disbursement of salaries and seasonal bonuses) we saw much-improved spending numbers albeit still not as good as last year's – perhaps due to a lack of end-of-pandemic-restrictions revenge spending.

- The downward trend in core inflation may also be reflect other issues, such as the slower growth of credit over the past few months. It is notable, however, that the most notable decline was seen for working capital loans, while consumer loans – especially loans for the purchase of motor vehicles and durable goods – have continued trending up.

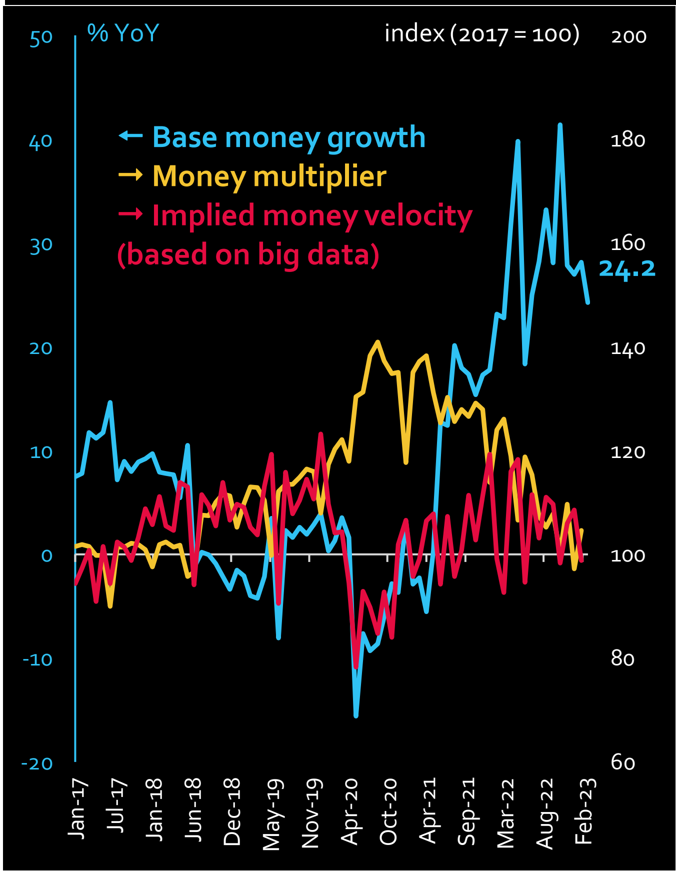
- Another factor is the decline in imported (non-food, non-energy) goods prices, which is evident in the negative import WPI. This may be attributed to China's reopening, which has led to an overflow of excess inventory that could flood the domestic market with cheaper imported goods – a boon for consumers, but a challenge for local producers.
- Overall, Indonesia's inflation has proven to be quite tame, in contrast to the more recalcitrant inflation in many advanced economies. Further declines in inflation are in fact quite possible after the end of Lebaran, although rice prices remain a stumbling block. As such, we are paring down our inflation forecast for the year quite sharply, to just 3.4%.
- The faster-than-predicted decline in inflation, coupled with the strong Rupiah, provides BI much leeway to maintain its current policy mix of cautious headline policies (rate, reserve requirement) but accommodative macroprudential ones. If any changes are to be made, they are likely to be more focused on easing rather than tightening, but as ever this is still subject to the uncertain global situation, particularly with regard to the direction of Fed policy.

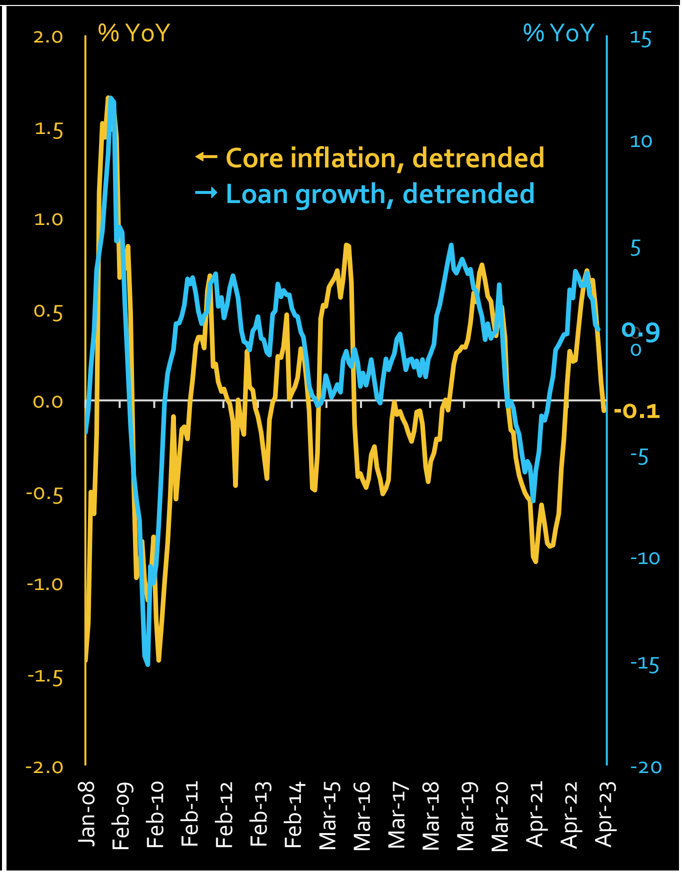
Panel 1. **April inflation declined along with volatile food and core inflation**



Source: BPS, calculation by BCA Economic Research

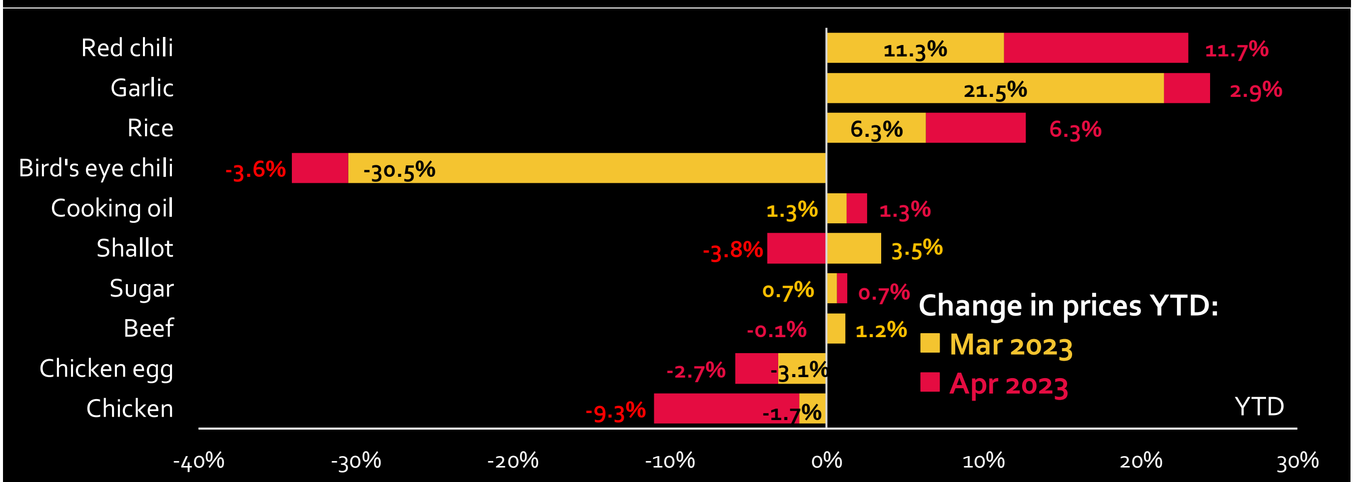
Panel 2. Slowing core inflation indicating weaker purchasing power and slowing credit growth

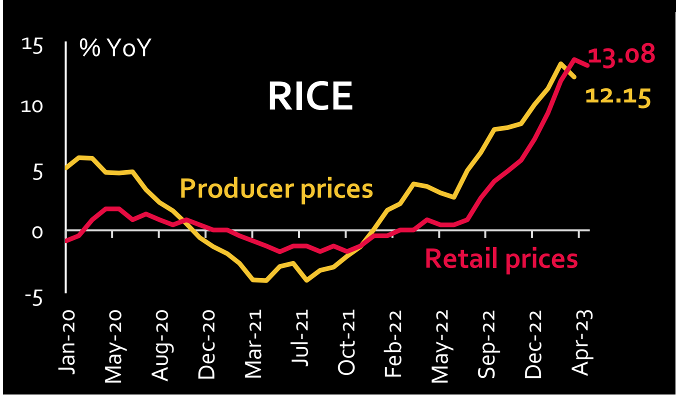


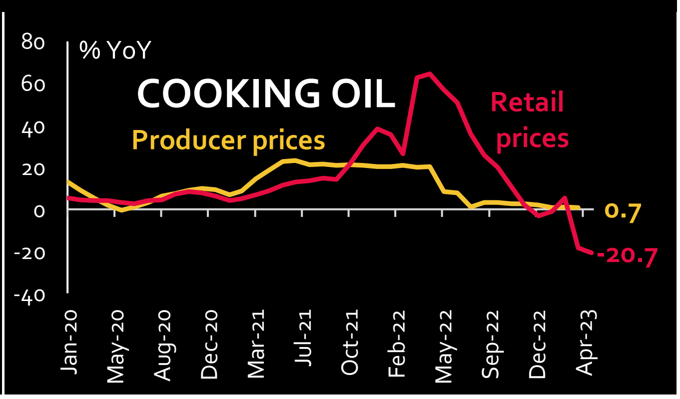


Source: BI, OJK, BCA big data, calculation by BCA Economic research

Panel 3. Rice remains the major contributor to food prices inflation, but dampened by decline in cooking oil prices







Source: Ministry of Trade and BPS

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.00	May-23	0.00
UK	4.25	May-23	-5.85
EU	3.50	May-23	-3.40
Japan	-0.10	Jan-16	-3.30
China (lending)	4.35	Apr-23	3.65
Korea	3.50	Apr-23	-0.20
India	6.50	Apr-23	0.84
Indonesia	5.75	Apr-23	1.42

Money Mkt Rates	28-Apr	-1 mth	Chg (bps)
SPN (1M)	4.35	4.85	-50.2
SUN (10Y)	6.51	6.78	-26.3
INDONIA (O/N, Rp)	5.71	5.59	12.2
JIBOR 1M (Rp)	6.40	6.40	-0.1

Bank Rates (Rp)	Feb	Jan	Chg (bps)
Lending (WC)	8.89	8.75	13.80
Deposit 1M	4.18	4.00	17.94
Savings	0.67	0.67	0.25

Currency/USD	28-Apr	-1 mth	Chg (%)
UK Pound	0.796	0.810	1.82
Euro	0.908	0.922	1.60
Japanese Yen	136.3	130.9	-3.97
Chinese RMB	6.913	6.876	-0.53
Indonesia Rupiah	14,670	15,087	2.84

Capital Mkt	28-Apr	-1 mth	Chg (%)
JCI	6,915.7	6,760.3	2.30
DJIA	34,098.2	32,394.3	5.26
FTSE	7,870.6	7,484.3	5.16
Nikkei 225	28,856.4	27,518.3	4.86
Hang Seng	19,894.6	19,784.7	0.56

Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)
Stock	2,789.1	2,726.8	62.33
Govt. Bond	823.5	818.5	5.00
Corp. Bond	11.8	12.0	-0.20

Trade & Commodities	28-Apr	-1 mth	Chg (%)
Baltic Dry Index	1,576.0	1,402.0	12.4
S&P GSCI Index	565.0	565.8	-0.2
Oil (Brent, $/brl)	79.5	78.7	1.1
Coal ($/MT)	202.1	204.1	-1.0
Gas ($/MMBtu)	2.27	2.02	12.4
Gold ($/oz.)	1,990.0	1,973.5	0.8
Copper ($/MT)	8,577.0	8,968.3	-4.4
Nickel ($/MT)	24,210.5	23,902.0	1.3
CPO ($/MT)	941.5	915.2	2.9
Rubber ($/kg)	1.34	1.32	1.5

External Sector	Mar	Feb	Chg (%)
Export ($ bn)	23.50	21.38	9.89
Import ($ bn)	20.59	15.92	29.33
Trade bal. ($ bn)	2.91	5.46	-46.78
Central bank reserves ($ bn)*	145.2	140.3	3.48

Prompt Indicators	Mar	Feb	Dec
Consumer confidence index (CCI)	123.3	122.4	119.9
Car sales (%YoY)	2.6	7.4	9.0
Motorcycle sales (%YoY)	40.5	56.3	24.6

Manufacturing PMI	Apr	Mar	Chg (bps)
USA	47.1	46.3	80
Eurozone	45.5	47.3	-180
Japan	49.5	49.2	30
China	50.0	50.0	0
Korea	48.1	47.6	50
Indonesia	52.7	51.9	80

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	4.9
GDP per Capita (US$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

*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

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

Firman Yosep Tember
Research Assistant
firman_tember@bca.co.id
+6221 2358 8000 Ext: 20378

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