

CPI:

## Slowing ahead of schedule

Thierris Nora Kusuma  
Economist/Analyst

Barra Kukuh Mamia  
Senior Economist

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### Executive Summary

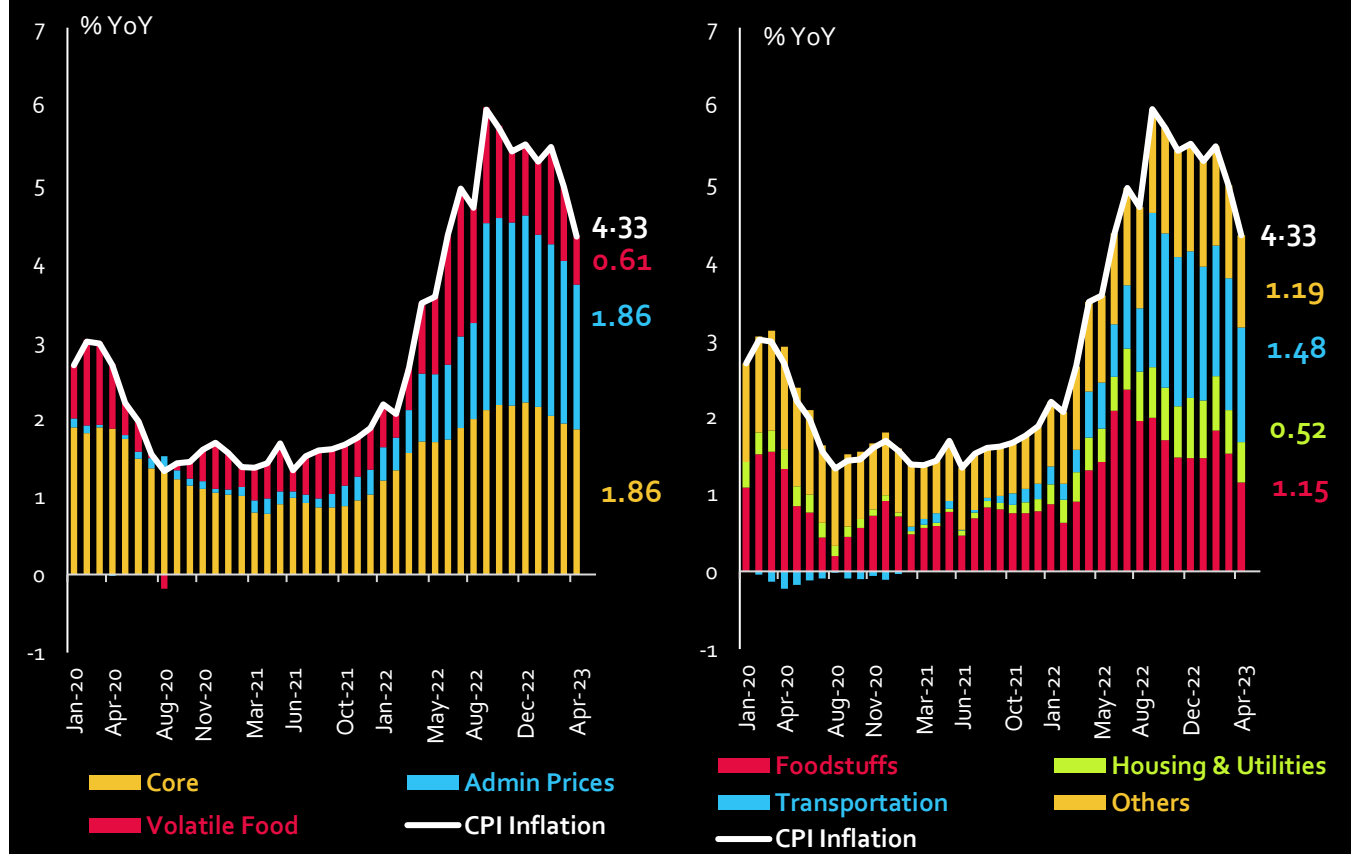
- Indonesia's inflation declined to 4.33% YoY (0.33% MoM) in April 2023, mainly driven by transportation and food prices during the festive season (Ramadan and Eid/Lebaran).
- The core inflation continued its downward trend to 2.83% YoY which may be indicative of weakening purchasing power and slower 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.

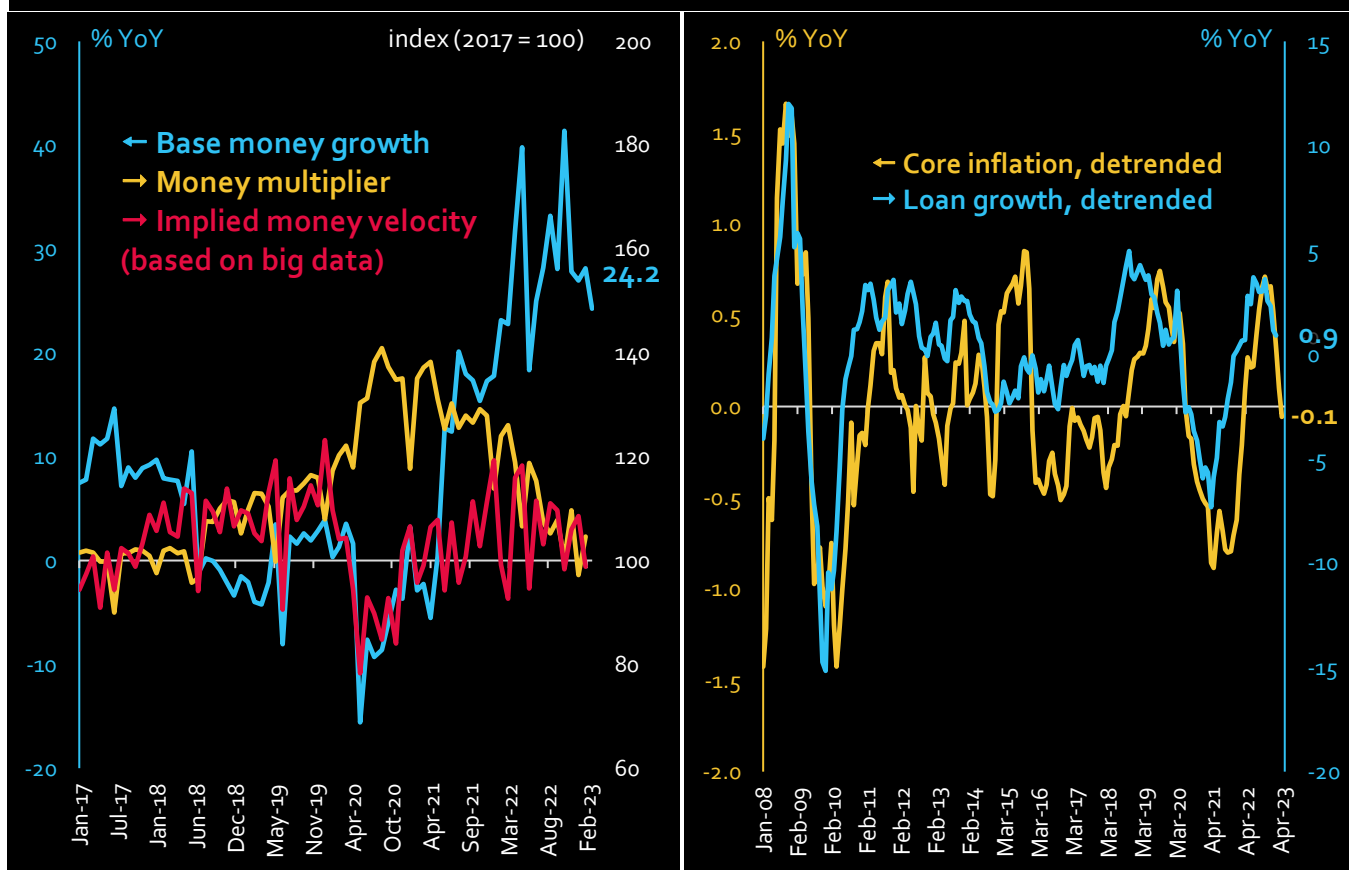
- Another factor is the decline in imported (non-food, non-energy) goods prices, which is evident in the negative import WPI. This may be attributed to China's reopening, which has led to an overflow of excess inventory that could flood the domestic market with cheaper imported goods – a boon for consumers, 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**



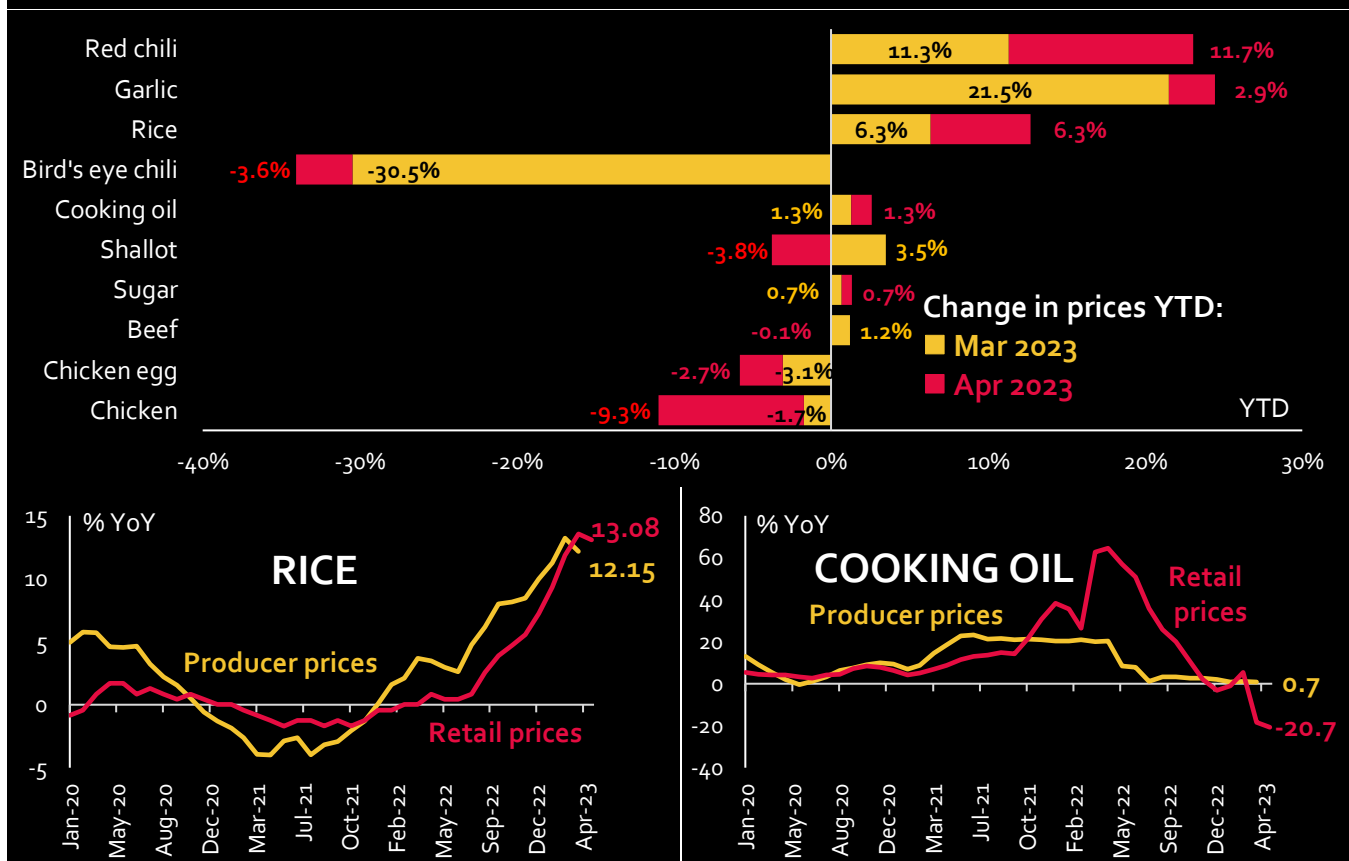
Source: BPS, calculation by BCA Economic Research

**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 (%) | Trade & Commodities             | 28-Apr   | -1 mth   | Chg (%)   |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US                                  | 5.00     | May-23      | 0.00          | Baltic Dry Index                | 1,576.0  | 1,402.0  | 12.4      |
| UK                                  | 4.25     | May-23      | -5.85         | S&P GSCI Index                  | 565.0    | 565.8    | -0.2      |
| EU                                  | 3.50     | May-23      | -3.40         | Oil (Brent, \$/bbl)             | 79.5     | 78.7     | 1.1       |
| Japan                               | -0.10    | Jan-16      | -3.30         | Coal (\$/MT)                    | 202.1    | 204.1    | -1.0      |
| China (lending)                     | 4.35     | Apr-23      | 3.65          | Gas (\$/MMBtu)                  | 2.27     | 2.02     | 12.4      |
| Korea                               | 3.50     | Apr-23      | -0.20         | Gold (\$/oz.)                   | 1,990.0  | 1,973.5  | 0.8       |
| India                               | 6.50     | Apr-23      | 0.84          | Copper (\$/MT)                  | 8,577.0  | 8,968.3  | -4.4      |
| Indonesia                           | 5.75     | Apr-23      | 1.42          | Nickel (\$/MT)                  | 24,210.5 | 23,902.0 | 1.3       |
| Money Mkt Rates                     | 28-Apr   | -1 mth      | Chg (bps)     | CPO (\$/MT)                     | 941.5    | 915.2    | 2.9       |
| SPN (1M)                            | 4.35     | 4.85        | -50.2         | Rubber (\$/kg)                  | 1.34     | 1.32     | 1.5       |
| SUN (10Y)                           | 6.51     | 6.78        | -26.3         | External Sector                 | Mar      | Feb      | Chg (%)   |
| INDONIA (O/N, Rp)                   | 5.71     | 5.59        | 12.2          | Export (\$ bn)                  | 23.50    | 21.38    | 9.89      |
| JIBOR 1M (Rp)                       | 6.40     | 6.40        | -0.1          | Import (\$ bn)                  | 20.59    | 15.92    | 29.33     |
| Bank Rates (Rp)                     | Feb      | Jan         | Chg (bps)     | Trade bal. (\$ bn)              | 2.91     | 5.46     | -46.78    |
| Lending (WC)                        | 8.89     | 8.75        | 13.80         | Central bank reserves (\$ bn)*  | 145.2    | 140.3    | 3.48      |
| Deposit 1M                          | 4.18     | 4.00        | 17.94         | Prompt Indicators               | Mar      | Feb      | Dec       |
| Savings                             | 0.67     | 0.67        | 0.25          | Consumer confidence index (CCI) | 123.3    | 122.4    | 119.9     |
| Currency/USD                        | 28-Apr   | -1 mth      | Chg (%)       | Car sales (%YoY)                | 2.6      | 7.4      | 9.0       |
| UK Pound                            | 0.796    | 0.810       | 1.82          | Motorcycle sales (%YoY)         | 40.5     | 56.3     | 24.6      |
| Euro                                | 0.908    | 0.922       | 1.60          | Manufacturing PMI               | Apr      | Mar      | Chg (bps) |
| Japanese Yen                        | 136.3    | 130.9       | -3.97         | USA                             | 47.1     | 46.3     | 80        |
| Chinese RMB                         | 6.913    | 6.876       | -0.53         | Eurozone                        | 45.5     | 47.3     | -180      |
| Indonesia Rupiah                    | 14,670   | 15,087      | 2.84          | Japan                           | 49.5     | 49.2     | 30        |
| Capital Mkt                         | 28-Apr   | -1 mth      | Chg (%)       | China                           | 50.0     | 50.0     | 0         |
| JCI                                 | 6,915.7  | 6,760.3     | 2.30          | Korea                           | 48.1     | 47.6     | 50        |
| DJIA                                | 34,098.2 | 32,394.3    | 5.26          | Indonesia                       | 52.7     | 51.9     | 80        |
| 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         |                                 |          |          |           |

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

**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

20<sup>th</sup> 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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