

CPI:

## Everything's easing but food still up in the air

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### Executive Summary

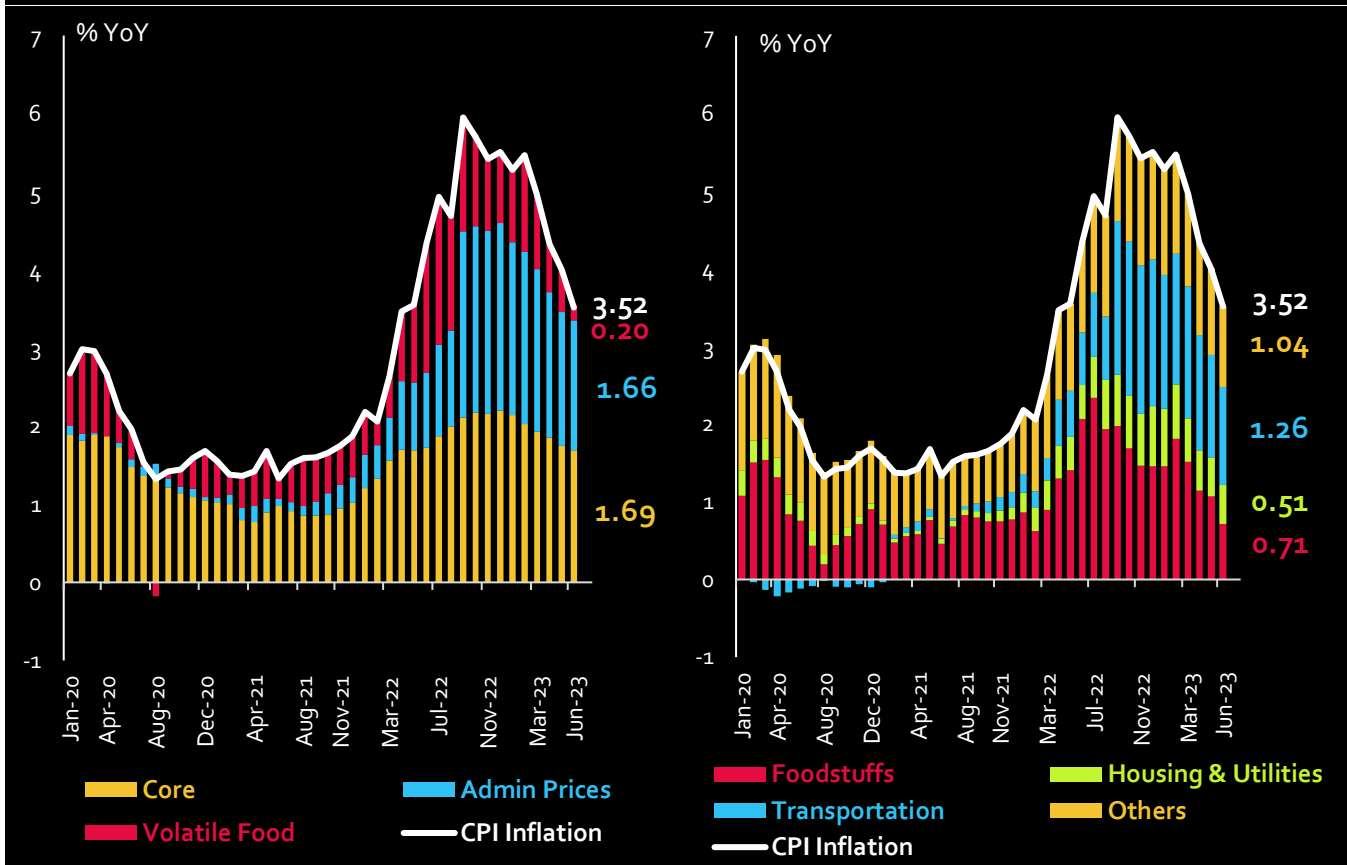
- Indonesia's inflation declined to 3.52% YoY in June, driven largely by the disinflation of foodstuffs.
- The outlook for food inflation remains up in the air, since it is still unclear how severe this year's El Nino would be.
- There might be less potential for core disinflation going forward, but this development could be correlated with a more solid credit growth outlook.
- The disinflation trend is giving BI plenty of leeway, but given the still-hawkish outlook from Western central banks, the deployment of fiscal spending rather than outright monetary stimulus may be favorable at least in the next few months.

- Indonesia's inflation declined yet again in June to 3.52% YoY, slightly lower than the median consensus of 3.62% YoY. Food seems to be the main driver for disinflation last month, partly due to the high-base effect from last year's spike in food prices – but also partly by the normalizing prices of commodities such as bird's eye chilies and cooking oil, while the prices of other commodities (with the exception of garlic) remained relatively stable.
- The decline in food prices suggest that El Nino has not yet been a major challenge to food production in Indonesia. Indeed, measurements by the BMKG (Indonesia's meteorological and geophysical agency) showed that Indonesia has not entered Nino-like conditions as per the end of June, while warnings of heavy rains remained quite prevalent over the western parts of the country.
- This stands in contrast to the measurements of temperature anomalies across the Pacific and Indian Oceans, which point towards a strengthening El Nino. The question about food inflation, as such, is still up in the air (quite literally!) – and indeed, the impact of global warming might moderate some of the drought that typically ensues in Indonesia during El Nino.
- Core inflation again contributed to the disinflationary trend, but its decline seems to be slowing (2.58% YoY in June compared to 2.66% YoY in May). The global oversupply issue, with China at its epicenter, is certainly still present. It is worth speculating, however, if the contraction in China's manufacturing activities in recent months might have eased some of the supply-demand imbalance, especially considering a sharp decline in its exports in May.
- Interestingly, while core goods disinflation is slowing, that for core services seem to be more pronounced in June – for items such as personal care and education. The latter could be a

mere seasonal decline during the end-of-school-year holidays, which likely reverses in the next two months as the new academic year begins.

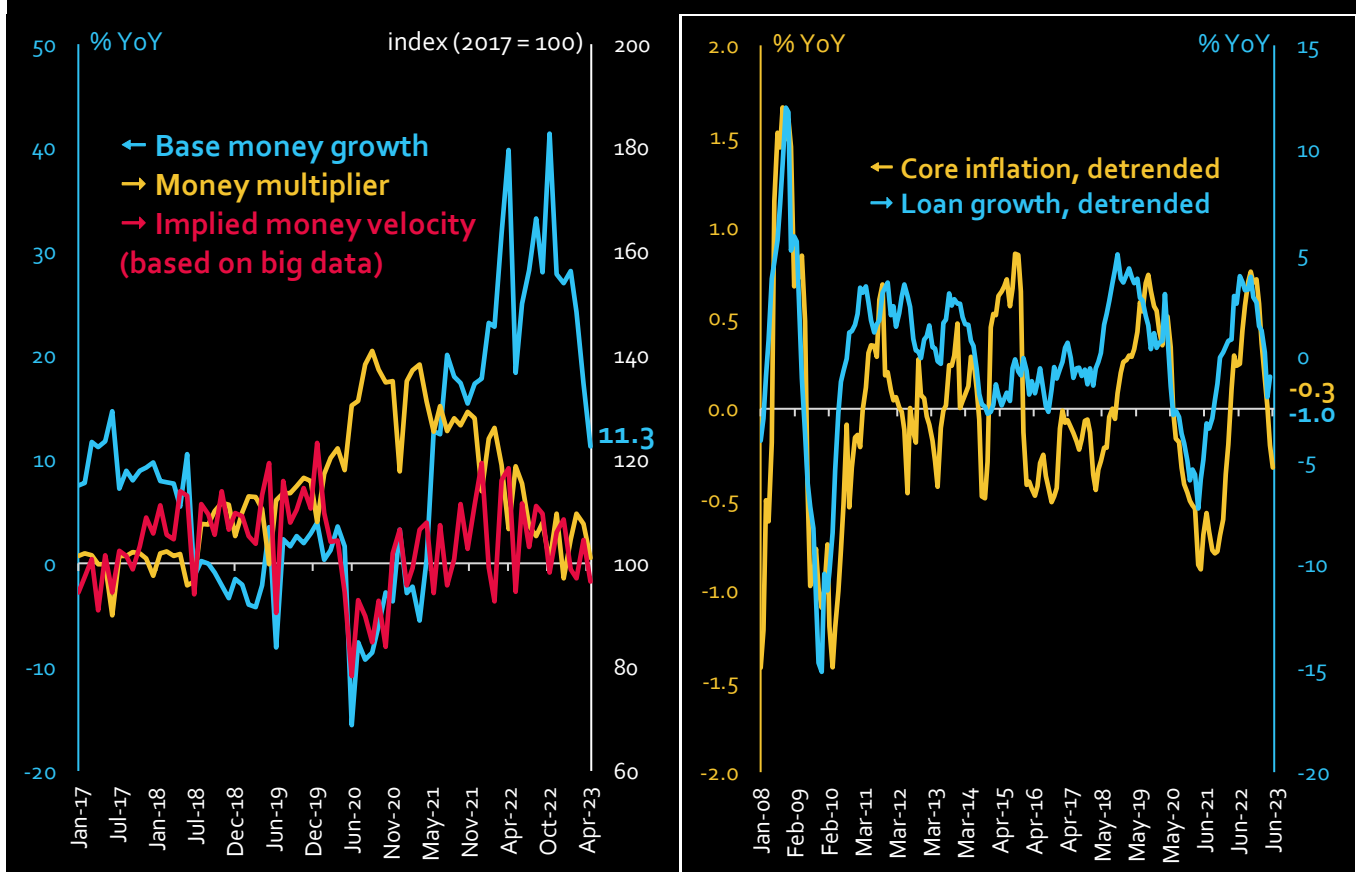
- Still, even if there might be less potential for core disinflation going forward, there is one silver lining for banks: loan growth. As we can see, core inflation and loan growth are closely correlated, and the uptick in loans during May could be related to this change in momentum.
- Assuming that El Nino would not be a major disturbance to food production, an inflation reading of around 2% could be plausible by year-end. The path to 2% is quite clear: absent any change in energy prices (unlikely given current global price levels), the high-base effect from the fuel hike in Sep-22 would evaporate – and it currently contributes around 1.6% to the overall inflation rate.
- This sharp disinflation should maintain the attractiveness of Indonesian bonds and thereby provides a buffer against short-term pressures on the IDR. It also gives BI plenty of leeway, whether domestic demand turns out to be resilient (as the loan growth suggests) or weakening (as our BCA Spending Index suggests – at -16.1% YoY in Jun-23). This is ideal given the still-hawkish outlook from Western central banks, which would favor the faster deployment of fiscal spending rather than outright monetary stimulus at least in the next few months.

**Panel 1. Inflation is declining across the board, particularly for food**



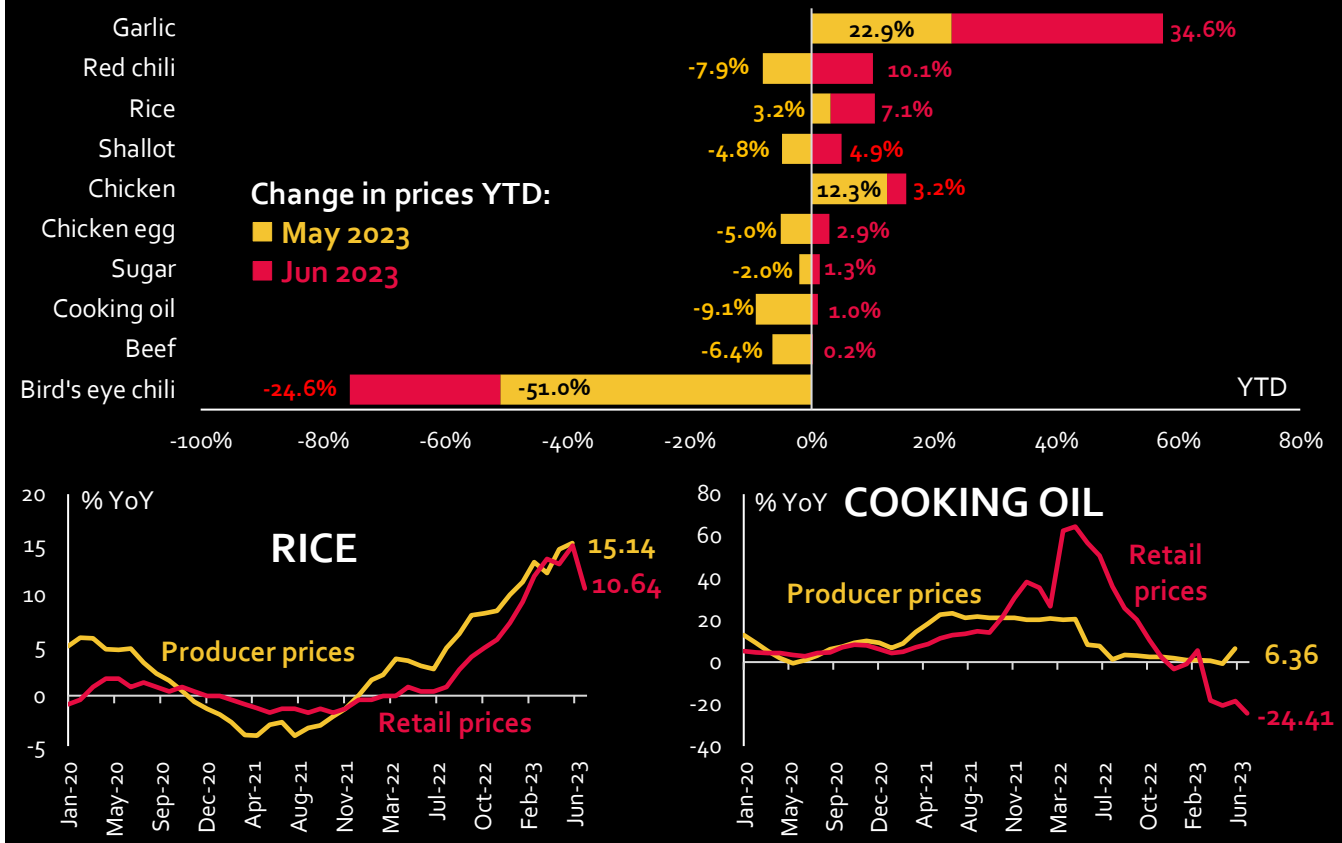
Source: BPS, calculation by BCA Economic Research

**Panel 2. Core inflation continues to decline, but at a slower pace**



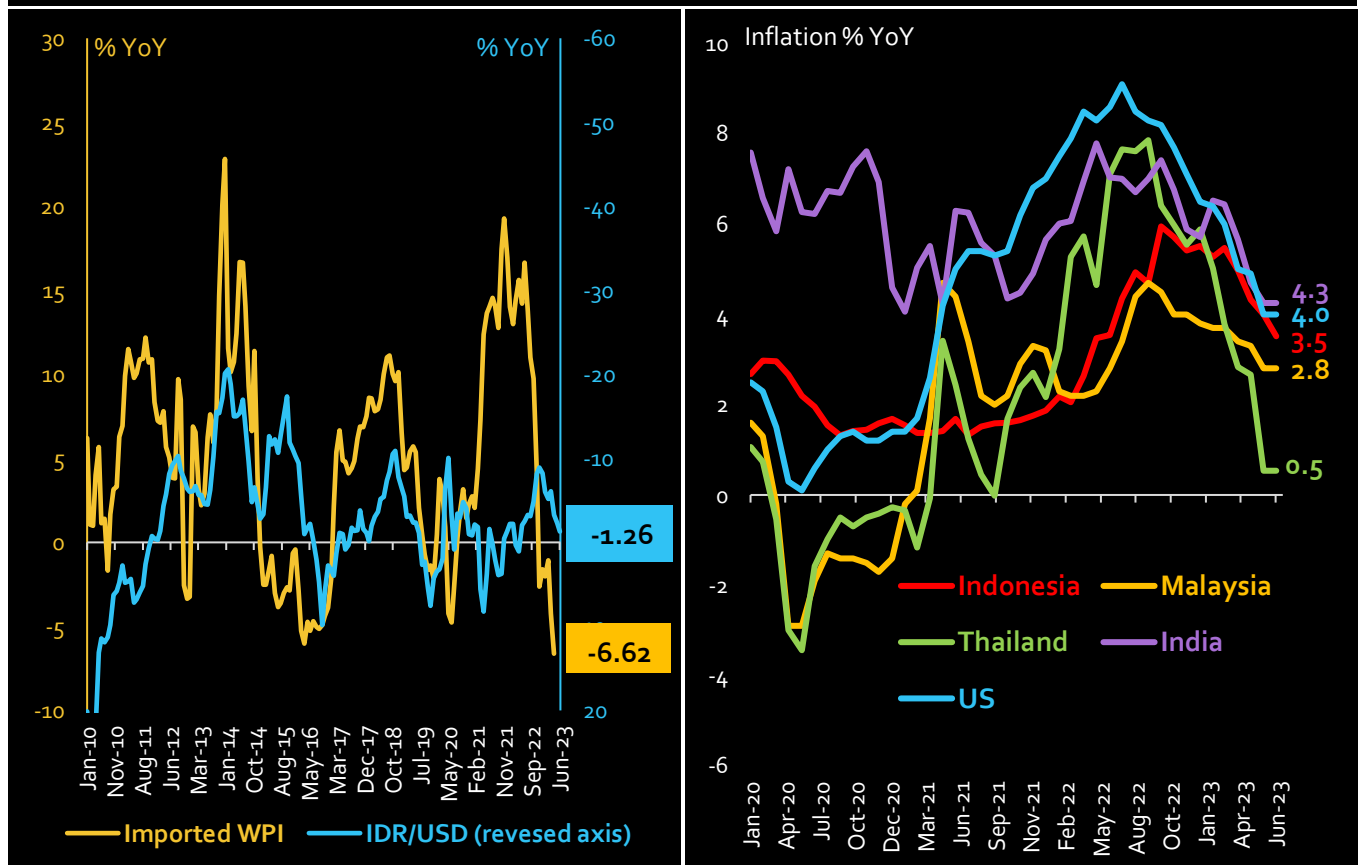
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

**Panel 3. With the exception of garlic, food prices remained relatively stable or even decline**



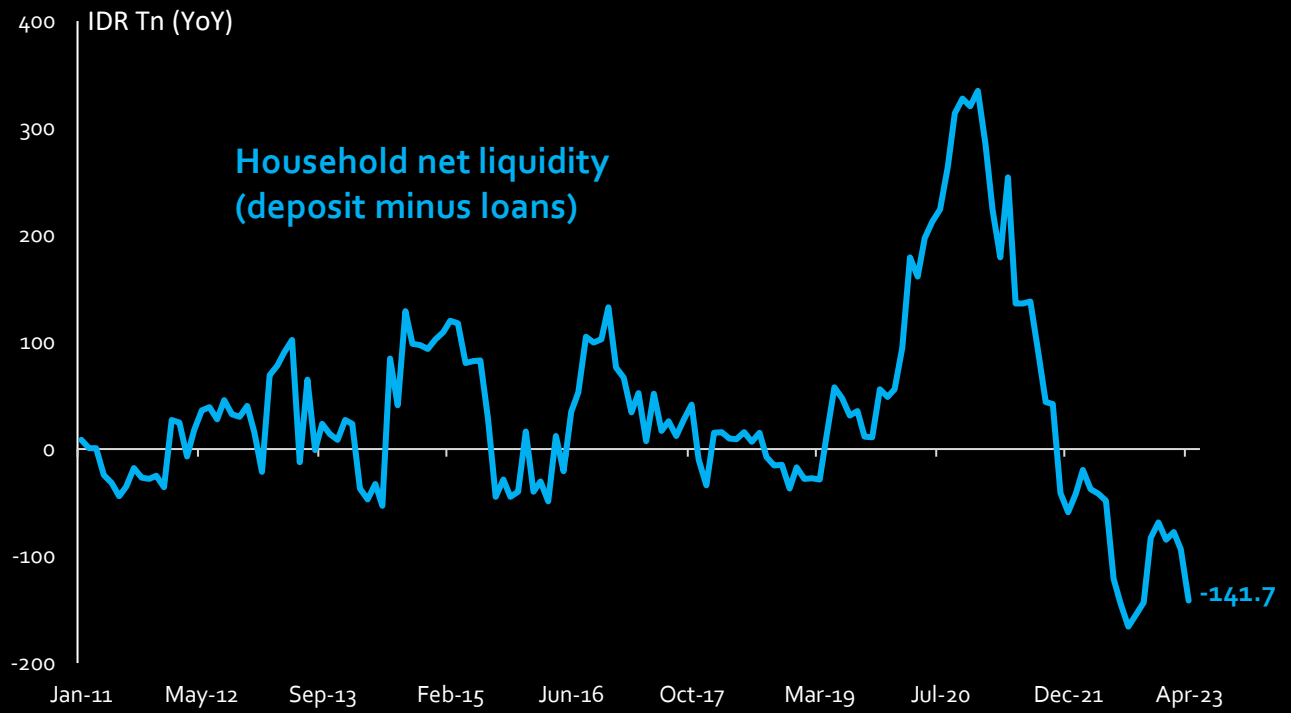
Source: Ministry of Trade, BPS

**Panel 4. Inflation has slowed globally, but more noticeably in Asia thanks to Chinese imports**



Source: BI, Bloomberg

**Chart 1. Households have spent their accumulated savings from Covid**



Source: BI

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	27-Jun	-1 mth	Chg (%)
US	5.25	Jun-23	1.25	Baltic Dry Index	1,183.0	1,172.0	0.9
UK	5.00	Jun-23	-3.70	S&P GSCI Index	533.7	546.9	-2.4
EU	4.00	Jun-23	-1.50	Oil (Brent, \$/bbl)	72.3	77.0	-6.1
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	151.2	146.0	3.6
China (lending)	4.35	Jul-23	4.15	Gas (\$/MMBtu)	2.67	1.88	42.0
Korea	3.50	May-23	0.20	Gold (\$/oz.)	1,913.7	1,946.5	-1.7
India	6.50	Jun-23	2.25	Copper (\$/MT)	8,382.0	8,106.0	3.4
Indonesia	5.75	Jun-23	2.23	Nickel (\$/MT)	20,581.0	21,034.5	-2.2
Money Mkt Rates	27-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	797.5	779.1	2.4
				Rubber (\$/kg)	1.29	1.34	-3.7
SPN (1M)	4.57	4.70	-13.5	External Sector	May	Apr	Chg (%)
SUN (10Y)	6.24	6.41	-16.8	Export (\$ bn)	21.72	19.28	12.61
INDONIA (O/N, Rp)	5.91	5.42	49.6	Import (\$ bn)	21.28	15.35	38.65
JIBOR 1M (Rp)	6.40	6.40	-0.5	Trade bal. (\$ bn)	0.44	3.94	-88.91
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Central bank reserves (\$ bn)*	139.3	144.2	-3.38
Lending (WC)	8.92	8.95	-2.71	Prompt Indicators	May	Apr	Mar
Deposit 1M	4.18	4.20	-2.70	Consumer confidence index (CCI)	128.3	126.1	123.3
Savings	0.67	0.69	-1.70	Car sales (%YoY)	65.2	-28.8	2.7
Currency/USD	27-Jun	-1 mth	Chg (%)	Motorcycle sales (%YoY)	113.4	-19.4	40.5
UK Pound	0.784	0.810	3.28	Manufacturing PMI	Jun	May	Chg (bps)
Euro	0.912	0.933	2.22	USA	N/A	46.9	0
Japanese Yen	144.1	140.6	-2.41	Eurozone	43.4	44.8	-140
Chinese RMB	7.224	7.064	-2.22	Japan	49.8	50.6	-80
Indonesia Rupiah	14,993	14,955	-0.25	China	50.5	50.9	-40
Capital Mkt	27-Jun	-1 mth	Chg (%)	Korea	47.8	48.4	-60
JCI	6,661.9	6,687.0	-0.38	Indonesia	52.5	50.3	220
DJIA	33,926.7	33,093.3	2.52				
FTSE	7,461.5	7,627.2	-2.17				
Nikkei 225	32,538.3	30,916.3	5.25				
Hang Seng	19,148.1	18,746.9	2.14				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	2,755.0	2,738.1	16.95				
Govt. Bond	846.9	829.4	17.53				
Corp. Bond	11.3	11.8	-0.47				

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	5.0
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.3
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	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

\*Estimated number

\*\* Estimation of Rupiah's fundamental exchange rate

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