

CPI:

Food-induced inflation strikes again

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Executive Summary

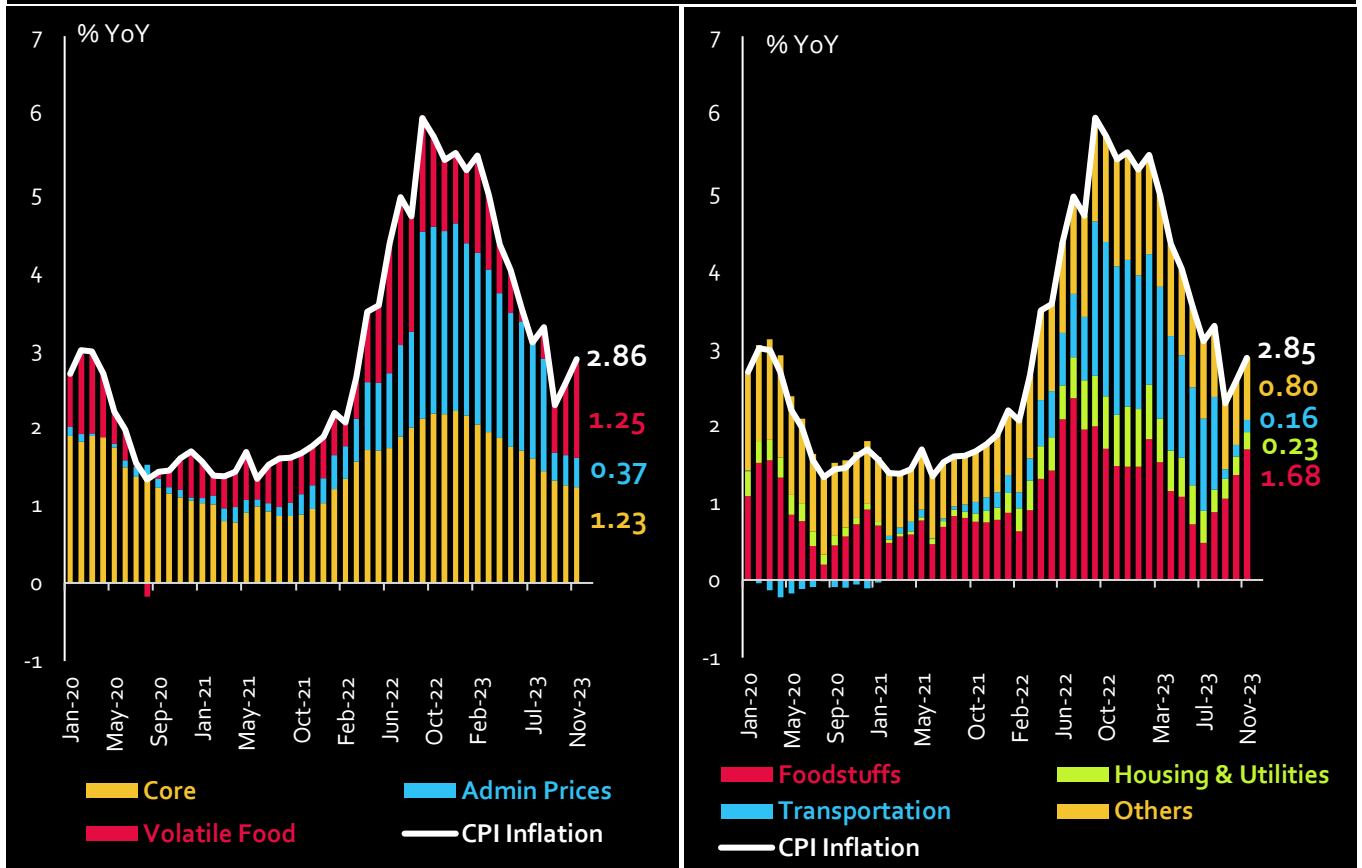
- Inflation increased to 2.86% YoY (0.38% MoM) in Oct-23, driven mainly by a sharp increase in chili prices. Food prices could still rise in the near-term due to unfavorable weather conditions.
- Core inflation slowed to 1.87% YoY (0.12% MoM), likely attributed to the global disinflationary trend, given the still negative imported inflation data.
- Inflation may still increase in the near-term due to Rupiah depreciation and the seasonal uptick in demand towards the year-end.
- We expect BI to maintain interest rates at 6% until the year-end due to the relatively low inflation and the modest recovery of the Rupiah in Nov-23. But the muted inflation figures in Oct – Nov indicate that the nominal GDP growth in Q4 could remain depressed.

- Indonesia's inflation increased to 2.86% YoY (0.38% MoM) in Nov-23, in line with our forecast of 2.93% YoY. Foodstuffs still reigned as the biggest contributor (over 84.2%) of the monthly inflation figure.
- Within the foodstuffs category, surging chili prices contributed approximately 75% to the monthly increase, driven by an El-Nino induced supply shortage. Meanwhile, the increase in rice prices was relatively mild compared to recent months, as several rice-producing regions of Indonesia had begun harvesting.
- The stability in rice prices was also influenced by the government's distribution of rice reserves through the PBP program, which is expected to continue until Mar-24. However, uncertainty surrounding the impact of weather on food supply, especially with the start of the monsoon season currently mixed in with El Nino, suggests that food prices could still rise in the near term.
- Core inflation continued its downward trajectory, reaching 1.87% YoY (0.12% MoM) compared to 1.91% YoY in Oct-23. This decline is likely attributed to ongoing global developments rather than domestic factors, particularly given Indonesia's still negative imported inflation of -5.67% YoY in the latest available reading (Sep-23), albeit rising from the lowest point in Jul-23 (-11.40%). Other signs of external driven disinflation include the deflation in the clothing and apparel category in Nov-23, which could indicate the continued inflow of cheap imported goods from China.
- Nevertheless, we expect Indonesia's headline inflation figure to still pick up in the near term due mainly to two factors. First, the sizeable Rupiah depreciation in Oct-23 will probably translate to higher imported inflation, as we are starting to see for some FMCG items. The

transmission might be slow or delayed – since businesses might still have unsold inventories which was bought before Rupiah depreciated – but they may eventually manifest over the next 2 - 3 months.

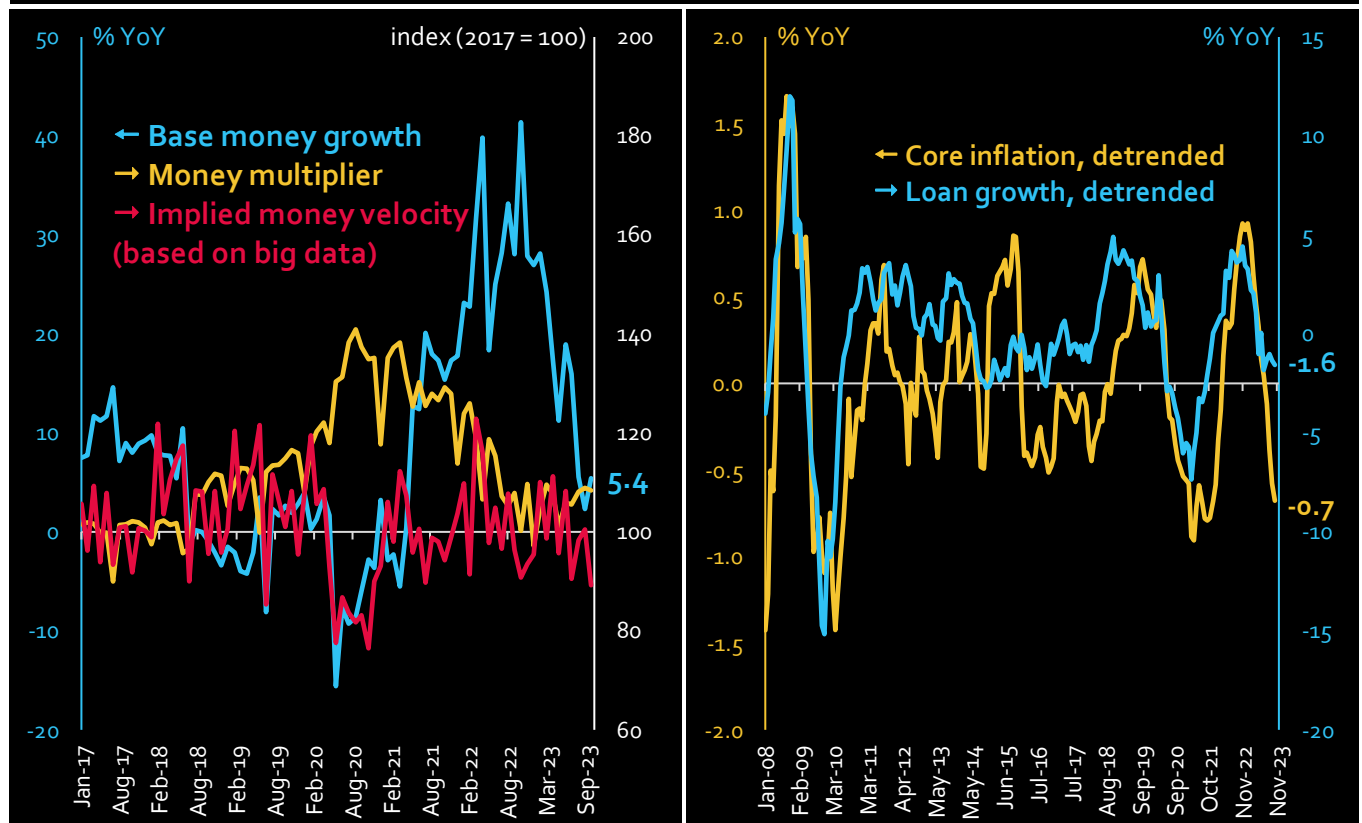
- This is further supported by the seasonal uptick in demand towards the year-end, which could increase prices for “holiday essentials” such as foodstuffs, transportation, and apparel. The likely increase in government spending in December (and more generally ahead of the 2024 General Elections) could also temporarily boost households’ spending power.
- Overall, we expect inflation to remain under control since any domestically-driven inflation would likely still be counterbalanced by the global disinflationary trend. And with the Rupiah staging a modest recovery in Nov-23, we expect BI to maintain interest rates at 6% until the year-end to facilitate economic growth. On the flip side, however, given the low inflation figures in Oct - Nov, we expect nominal GDP growth to remain depressed in Q4 (around 5-6% YoY), which does not bode well for loan or deposit growth.

Panel 1. Foodstuffs was still the biggest contributor to inflation last month



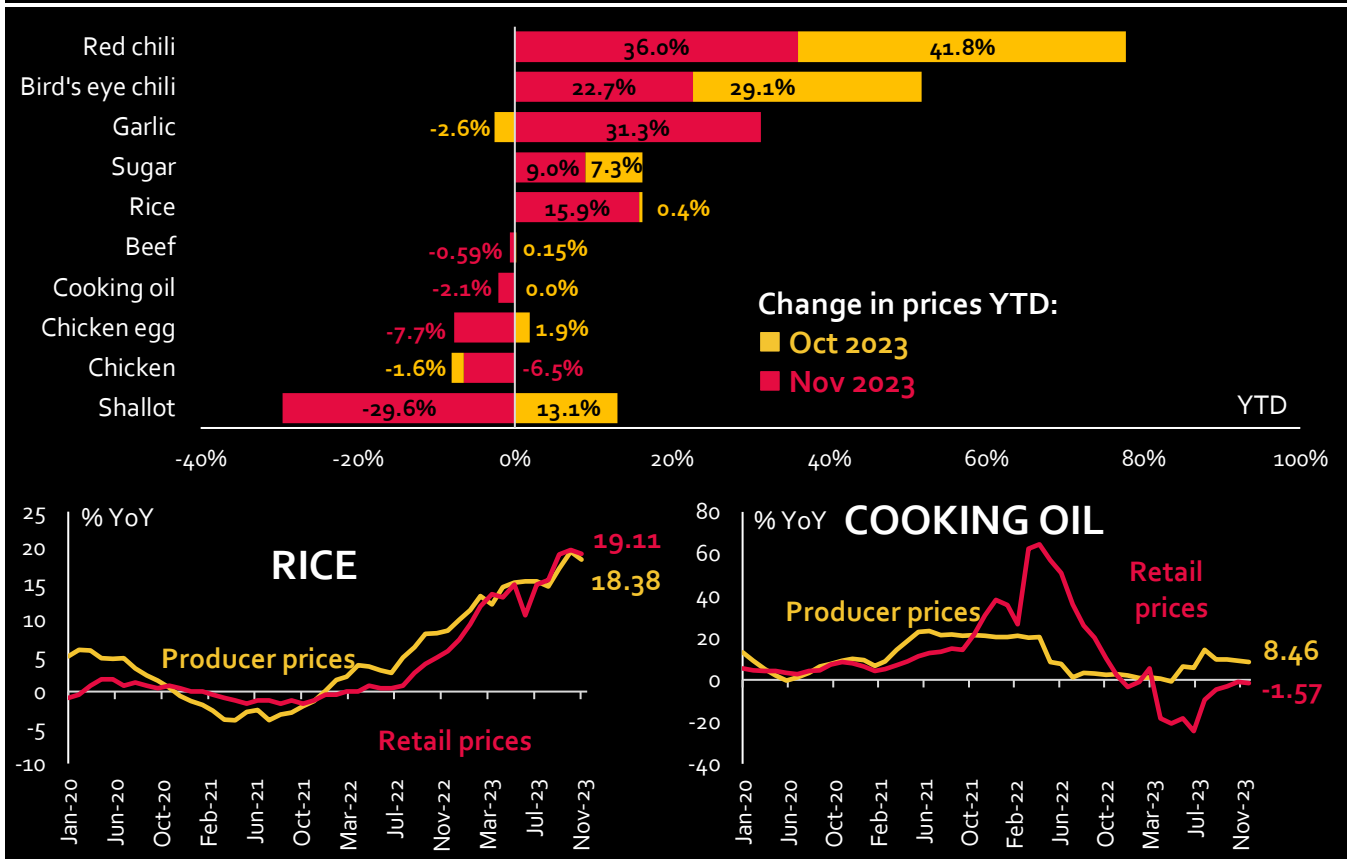
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation continues to slow down, but further downside might be limited



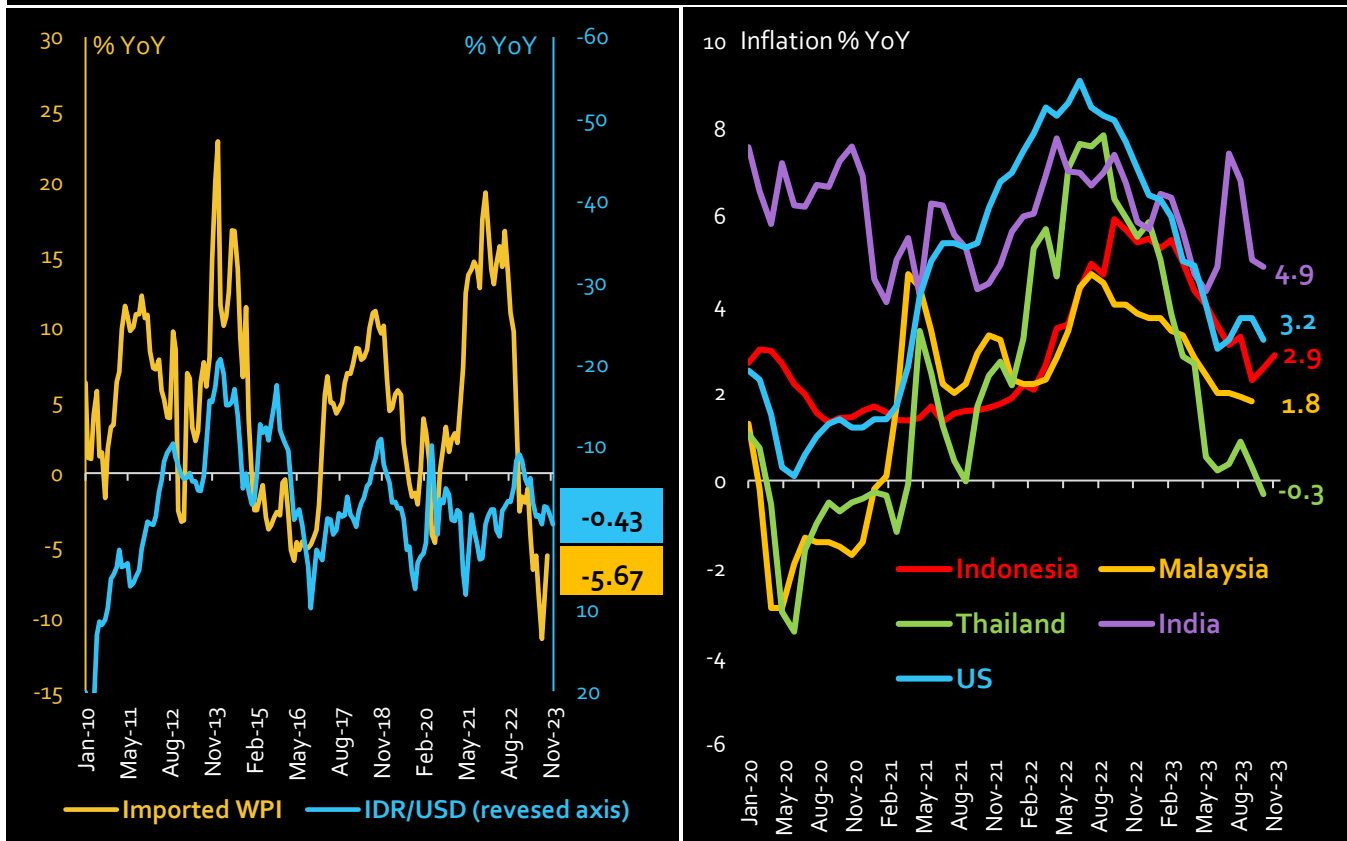
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Higher chili prices accounted for the lion's share of food inflation last month



Source: Ministry of Trade, BPS

Panel 4. Core inflation continue to be suppressed by Indonesia's still negative imported inflation (as of Sep-23)



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Nov	-1 mth	Chg (%)
US	5.50	Nov-23	2.30	Baltic Dry Index	2,937.0	1,502.0	95.5
UK	5.25	Nov-23	0.65	S&P GSCI Index	555.8	579.5	-4.1
EU	4.50	Nov-23	2.10	Oil (Brent, \$/bbl)	82.8	87.5	-5.3
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	132.2	134.3	-1.6
China (lending)	2.50	Nov-23	4.55	Gas (\$/MMBtu)	2.75	3.17	-13.2
Korea	3.50	Nov-23	-0.30	Gold (\$/oz.)	2,036.4	1,996.1	2.0
India	6.50	Oct-23	1.63	Copper (\$/MT)	8,387.5	8,068.8	4.0
Indonesia	6.00	Nov-23	3.14	Nickel (\$/MT)	16,438.0	18,267.0	-10.0
Money Mkt Rates	30-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	799.3	761.6	4.9
SPN (1M)	6.25	6.17	8.6	Rubber (\$/kg)	1.46	1.43	2.1
SUN (10Y)	6.61	7.11	-50.0	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	5.93	5.82	10.8	Export (\$ bn)	22.15	20.75	6.76
JIBOR 1M (Rp)	6.65	6.66	-0.6	Import (\$ bn)	18.67	17.34	7.68
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	3.48	3.41	2.08
Lending (WC)	9.02	8.96	5.79	Central bank reserves (\$ bn)*	133.1	134.9	-1.30
Deposit 1M	4.33	4.29	4.24	Prompt Indicators	Oct	Sep	Aug
Savings	0.66	0.66	0.38	Consumer confidence index (CCI)	124.3	121.7	125.2
Currency/USD	30-Nov	-1 mth	Chg (%)	UK Pound	0.792	0.822	3.73
UK Pound	0.792	0.822	3.73	Euro	0.918	0.942	2.57
Euro	0.918	0.942	2.57	Japanese Yen	148.2	149.1	0.61
Japanese Yen	148.2	149.1	0.61	Chinese RMB	7.135	7.311	2.47
Chinese RMB	7.135	7.311	2.47	Indonesia Rupiah	15,510	15,890	2.45
Indonesia Rupiah	15,510	15,890	2.45	Capital Mkt	30-Nov	-1 mth	Chg (%)
Capital Mkt	30-Nov	-1 mth	Chg (%)	Manufacturing PMI	Nov	Oct	Chg (bps)
JCI	7,080.7	6,735.9	5.12	USA	N/A	46.7	0
DJIA	35,950.9	32,929.0	9.18	Eurozone	43.8	43.1	70
FTSE	7,453.8	7,327.4	1.72	Japan	48.3	48.7	-40
Nikkei 225	33,486.9	30,697.0	9.09	China	50.7	49.5	120
Hang Seng	17,042.9	17,406.4	-2.09	Korea	50.0	49.8	20
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)	Indonesia	51.7	51.5	20
Stock	2,895.1	2,833.3	61.89				
Govt. Bond	810.4	823.0	-12.62				
Corp. Bond	11.3	10.8	0.52				

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	5.1
GDP per Capita (US\$)	3927	4175	3912	4350	4784	4982
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.8
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	15,728
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	34.9
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.4

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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