CPI Inflation:

A mirage of a deflation

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Executive Summary

- Inflation declined to 0.76% YoY (-0.76% MoM) due to a temporary electricity price discount. Absent the discount, inflation would be around 2.25% YoY (0.71% MoM).
- Foodstuffs showed higher-than-expected inflation mainly due to chili, but rice remains the key commodity to watch amid recent government decision to halt imports for 2025.
- Core inflation continues to accelerate due to supply-side factors (gold and processed food) rather than demand-side. In the coming months, it may increase further from Rupiah depreciation.
- A rise in inflation could help lower the real rate, thus supporting private sector spending, as BI's ability to cut rates remains constrained by global uncertainty.

- Inflation unexpectedly declined to 0.76% YoY (-0.76% MoM) in Jan-25, contrary to analysts' consensus which predicted a slight uptick in inflation (1.86% YoY/0.35% MoM). Although this strikingly low figure may seem alarming – redolent of last year's discourse about deflation and weak purchasing power – most of the decline was due to a temporary (only for Jan-Feb) 50% discount on electricity prices.

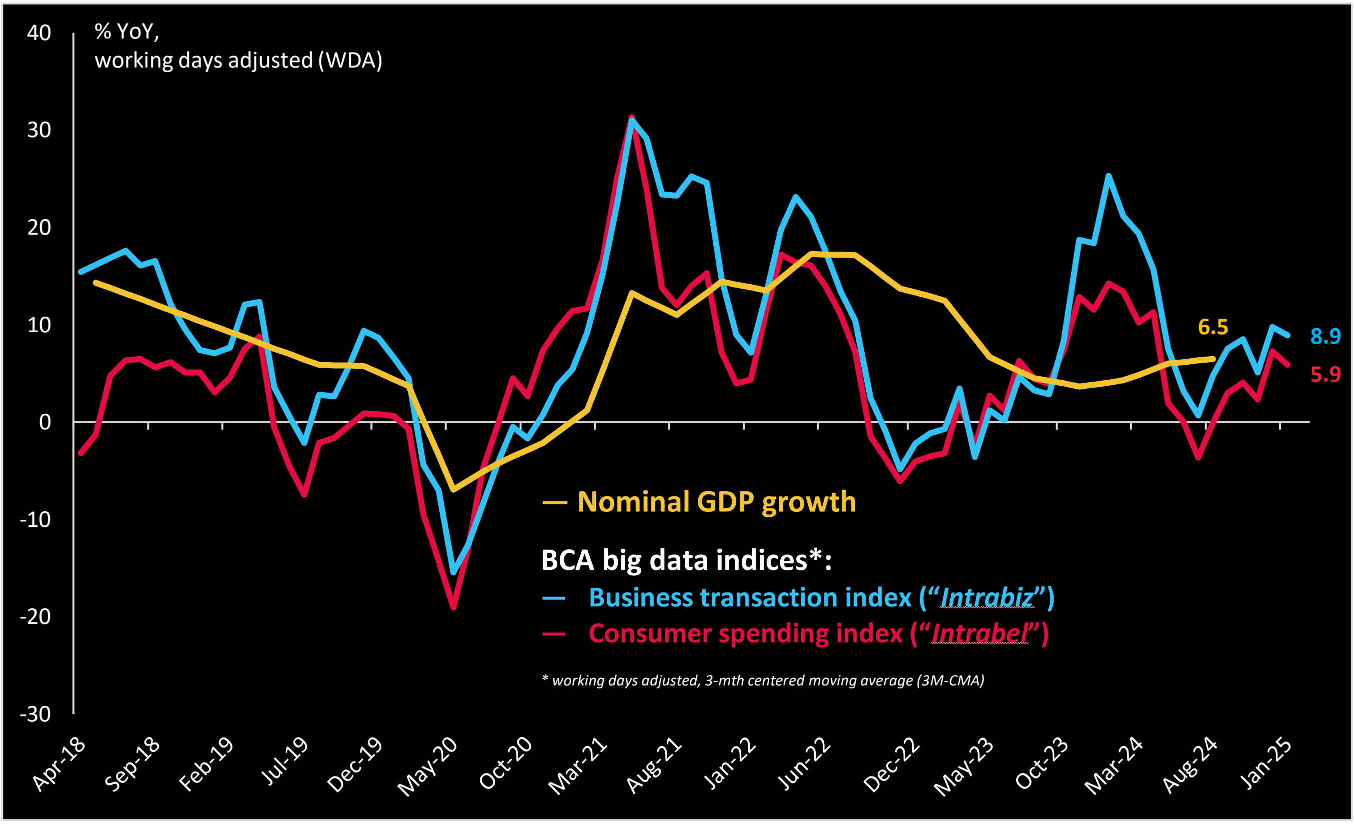
- The discount, we should recall, was part of an incentive package issued in December to offset the impact of an impending increase in VAT rate (from 11% to 12%). While the VAT hike was nixed at the last hour, the stimulus stays. All these probably helped consumer spending, with our big data indices showing a minor bump in the past two months (***Chart 1***).

- Outside of electricity, however, inflation was significantly higher – even exceeding analysts' consensus – at 2.25% YoY (0.71% MoM). The culprit of this higher-than-expected inflation was foodstuffs, which contributed 0.56% to headline inflation. Much of this was caused by chili prices, with both bird's eye chili and red chili seeing price increase of 40-50% MoM due to a combination of extreme rainy weather and rising demand during year-end.

- Rice was a minor contributor to inflation (rising 1.33% MoM according to Ministry of Trade data) but remains something to watch out for. The government has announced that it would not import rice in 2025 – a sharp turnaround from its policy in 2023-24 – as part of its drive for self-sufficiency. This announcement may make domestic prices more susceptible to speculation, although weather fluctuations (mild La Niña) are generally expected to support rice production in H1-25. The government's strategic reserves, which retain abundant carryover stock of 8.1 Mn tons from 2024, will be a key dampener of potential volatility.

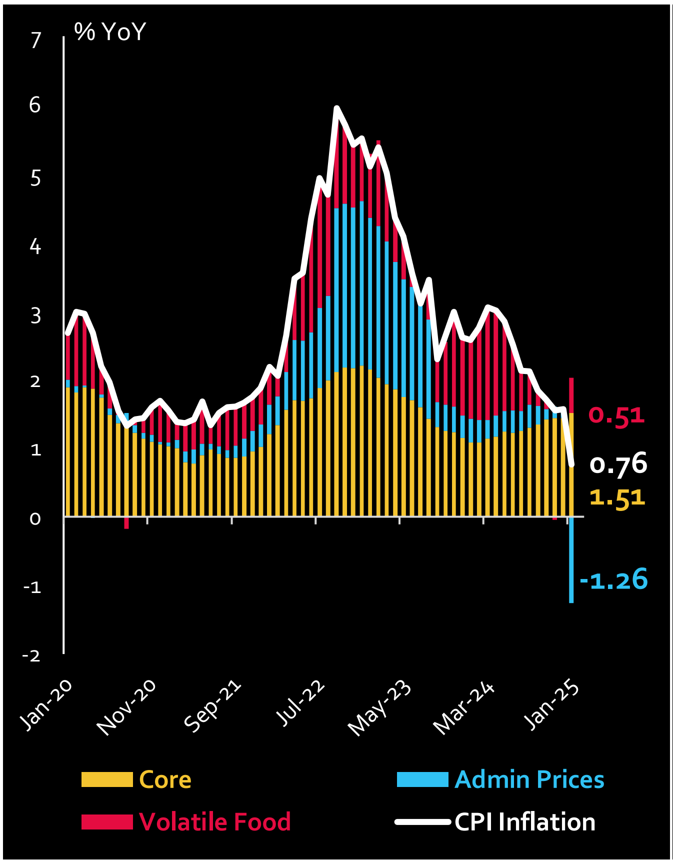
- Core inflation also accelerated (to 2.36% YoY/0.30% MoM), but most of it was likely unrelated to domestic demand. The main driver, as before, were processed foodstuffs (cooking oil and coffee) and gold, whose prices begun increasing last year due to supply disruptions and – in the latter's case – speculations and geopolitical factors. Big ticket items (house rent, car and motorcycle prices) also increased, which may hamper recovery in consumer loans after a less-than-stellar 2024.
- Imported inflation has remained quiescent in YoY terms (-0.69% per Dec-24) but has begun to rise in MoM terms (0.39%) on account of depreciation of the rupiah. As we mentioned in recent reports, BI's shift to a more accommodative posture is not unreasonable but comes with risks of further depreciation especially given growing concerns about Trump's tariffs. The main question, then, is whether the tariffs will exacerbate the recent oversupply-and-dumping phenomenon, especially from China who will find the Global South (including Indonesia) a more accepting buyer of its products.
- These early inflation figures have not shifted our prediction that inflation will rise to 2.2-2.7% this year, with food prices and Rupiah as the main upside risks. Such moderate increase in inflation is not altogether bad, especially if it means lower real interest rates – recall that real BI Rate was at 4.43% in Dec-24. After BI's 25 bps cut and ignoring electricity discounts, the real BI Rate is now much lower at ~3.5%, which should mark an incipient recovery in private sector liquidity.
- The key question, then, is whether real rates will continue to decline. Given the ramped-up risk of global volatility and stronger USD, we think that BI only has the room to cut by another 25 bps (at most), especially given the Fed's seeming reluctance to cut. With fiscal (or quasi-fiscal) expansion still on the menu – albeit tempered by recent cuts on non-essential spending – BI will have to expertly triangulate between the twin risks of weaker private spending and Rupiah depreciation.

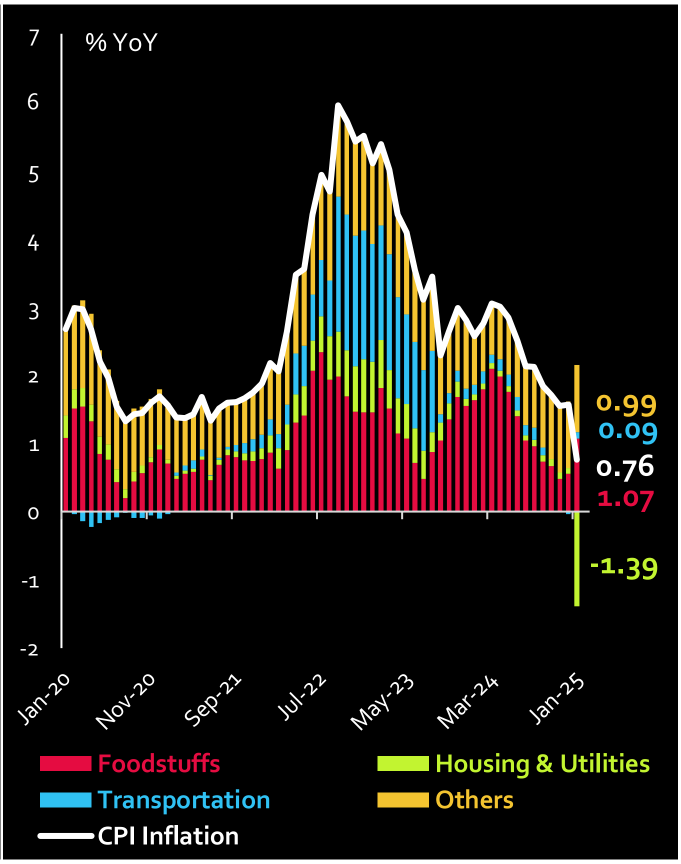
Chart 1. Big Data indices show an uptick in consumer spending in the past 2 months



Source: BCA Big Data, calculation by BCA Economic Research

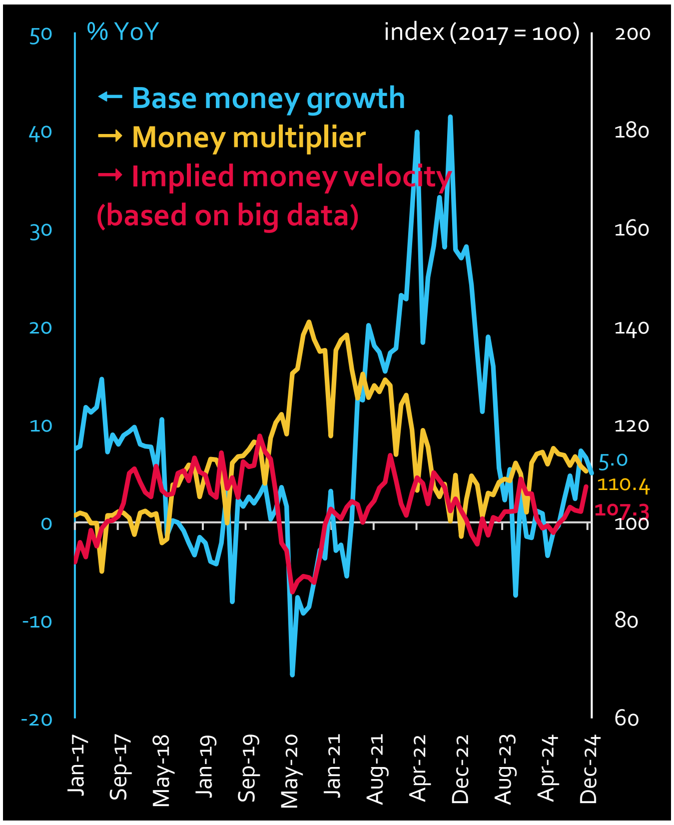
Panel 1. Administered prices fell sharply due to the electricity price discount, while food prices rose due to chili prices

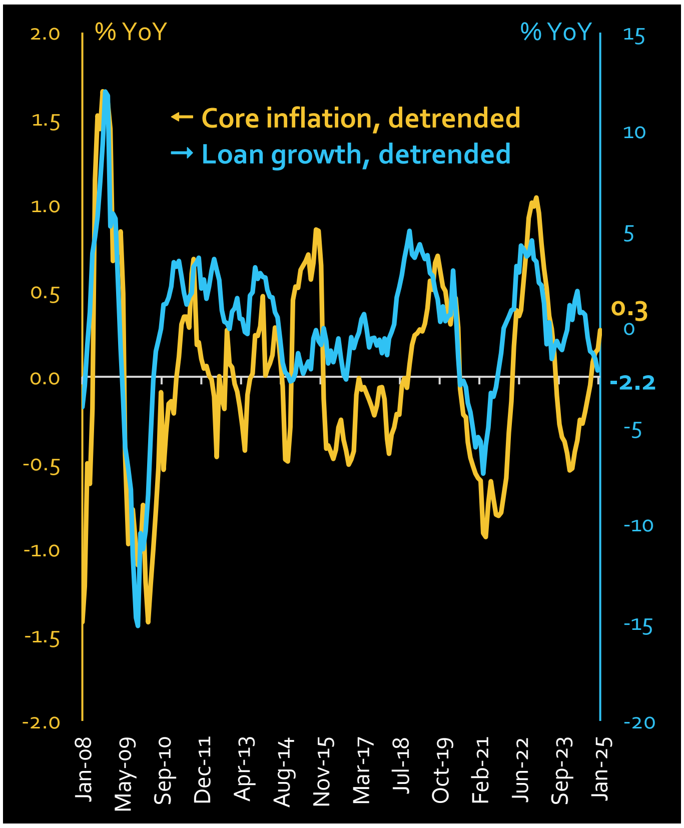




Source: BPS, calculation by BCA Economic Research

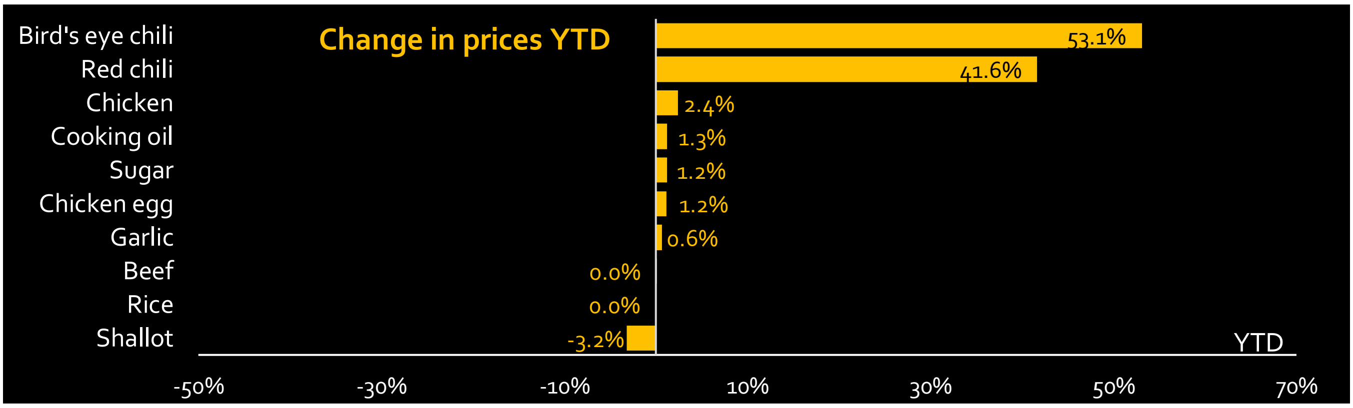
***Panel 2.* Core inflation has risen again, mainly due to higher gold and processed food prices, but it is not aligned with the slowdown in loan growth**

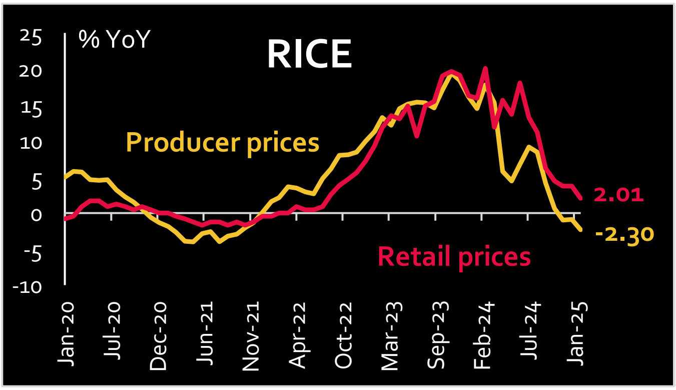


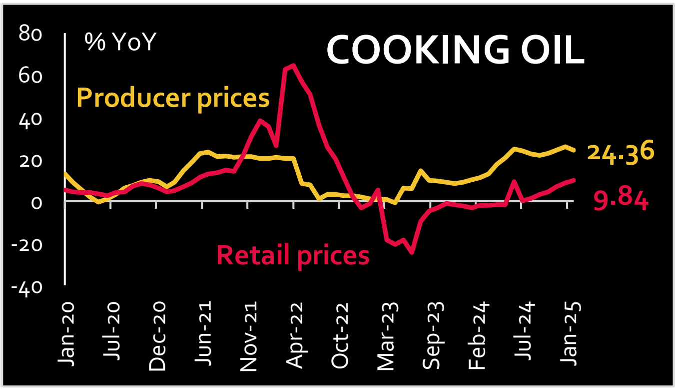


Source: BI, OJK, BCA big data, calculation by BCA Economic Research

***Panel 3.* Chili prices have surged due to bad weather, while rice prices remain stable**

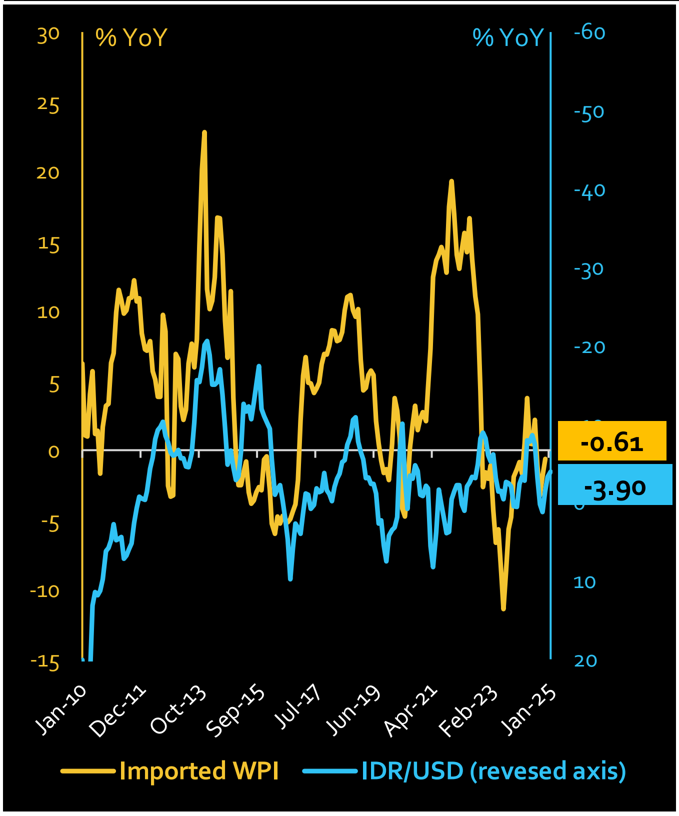


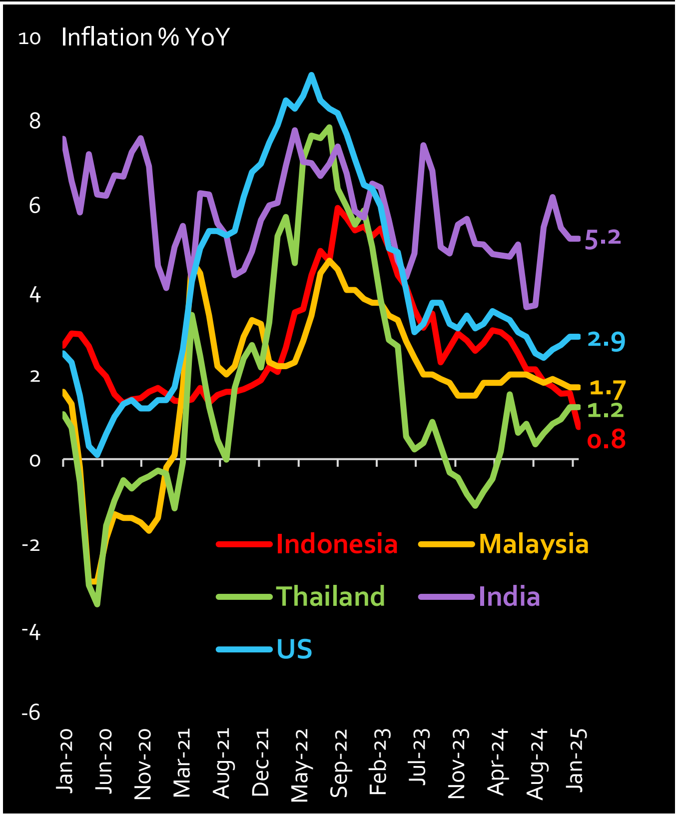




Source: Ministry of Trade, BPS

Panel 4. There is a risk of rising imported inflation due to the recent depreciation of the rupiah





Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.50	Dec-24	1.60
UK	4.75	Nov-24	2.25
EU	2.90	Jan-25	0.40
Japan	0.50	Jan-25	-3.70
China (lending)	2.00	Sep-24	4.25
Korea	3.00	Nov-24	1.10
India	6.50	Feb-23	1.28
Indonesia	5.75	Jan-25	4.99

Money Mkt Rates	3-Feb	-1 mth	Chg (bps)
SPN (1Y)	6.67	6.73	-6.2
SUN (10Y)	7.05	7.00	4.4
INDONIA (O/N, Rp)	5.80	5.98	-18.4
JIBOR 1M (Rp)	6.40	6.62	-22.7

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.68	8.72	-3.69
Deposit 1M	4.78	4.78	-0.49
Savings	0.67	0.66	0.37

Currency/USD	3-Feb	-1 mth	Chg (%)
UK Pound	0.803	0.805	0.22
Euro	0.967	0.970	0.35
Japanese Yen	154.7	157.3	1.64
Chinese RMB	7.245	7.322	1.06
Indonesia Rupiah	16,435	16,190	-1.49

Capital Mkt	3-Feb	-1 mth	Chg (%)
JCI	7,030.1	7,164.4	-1.88
DJIA	44,421.9	42,732.1	3.95
FTSE	8,583.6	8,224.0	4.37
Nikkei 225	38,520.1	39,894.5	-3.45
Hang Seng	20,217.3	19,760.3	2.31

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,531.1	3,521.3	9.76
Govt. Bond	881.3	876.6	4.65
Corp. Bond	6.0	5.9	0.10

Trade & Commodities	3-Feb	-1 mth	Chg (%)
Baltic Dry Index	738.0	1,072.0	-31.2
S&P GSCI Index	566.9	553.6	2.4
Oil (Brent, $/brl)	76.0	76.5	-0.7
Coal ($/MT)	118.8	125.0	-5.0
Gas ($/MMBtu)	3.30	3.40	-2.9
Gold ($/oz.)	2,815.2	2,640.2	6.6
Copper ($/MT)	8,978.6	8,768.0	2.4
Nickel ($/MT)	14,993.6	14,886.5	0.7
CPO ($/MT)	1,032.7	1,049.8	-1.6
Rubber ($/kg)	2.02	1.93	4.7

External Sector	Dec	Nov	Chg (%)
Export ($ bn)	23.46	24.00	-2.24
Import ($ bn)	21.22	19.63	8.10
Trade bal. ($ bn)	2.24	4.37	-48.73
Central bank reserves ($ bn)*	155.7	150.2	3.65

Prompt Indicators	Dec	Nov	Oct
Consumer confidence index (CCI)	127.7	125.9	121.1
Car sales (%YoY)	-6.4	-11.9	-3.9
Motorcycle sales (%YoY)	-5.5	-10.3	5.4

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	51.2	49.4	180
Eurozone	46.6	45.1	150
Japan	48.7	49.6	-90
China	50.1	50.5	-40
Korea	50.3	49.0	130
Indonesia	51.9	51.2	70

Source: Bloomberg, BI, BPS

Notes:

*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

	2019	2020	2021	2022	2023	2024E	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	5.9	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4975	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6#	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00#	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97#	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102#	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0#	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections*

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