

CPI: Indonesia rebounds as global landscape grows shakier

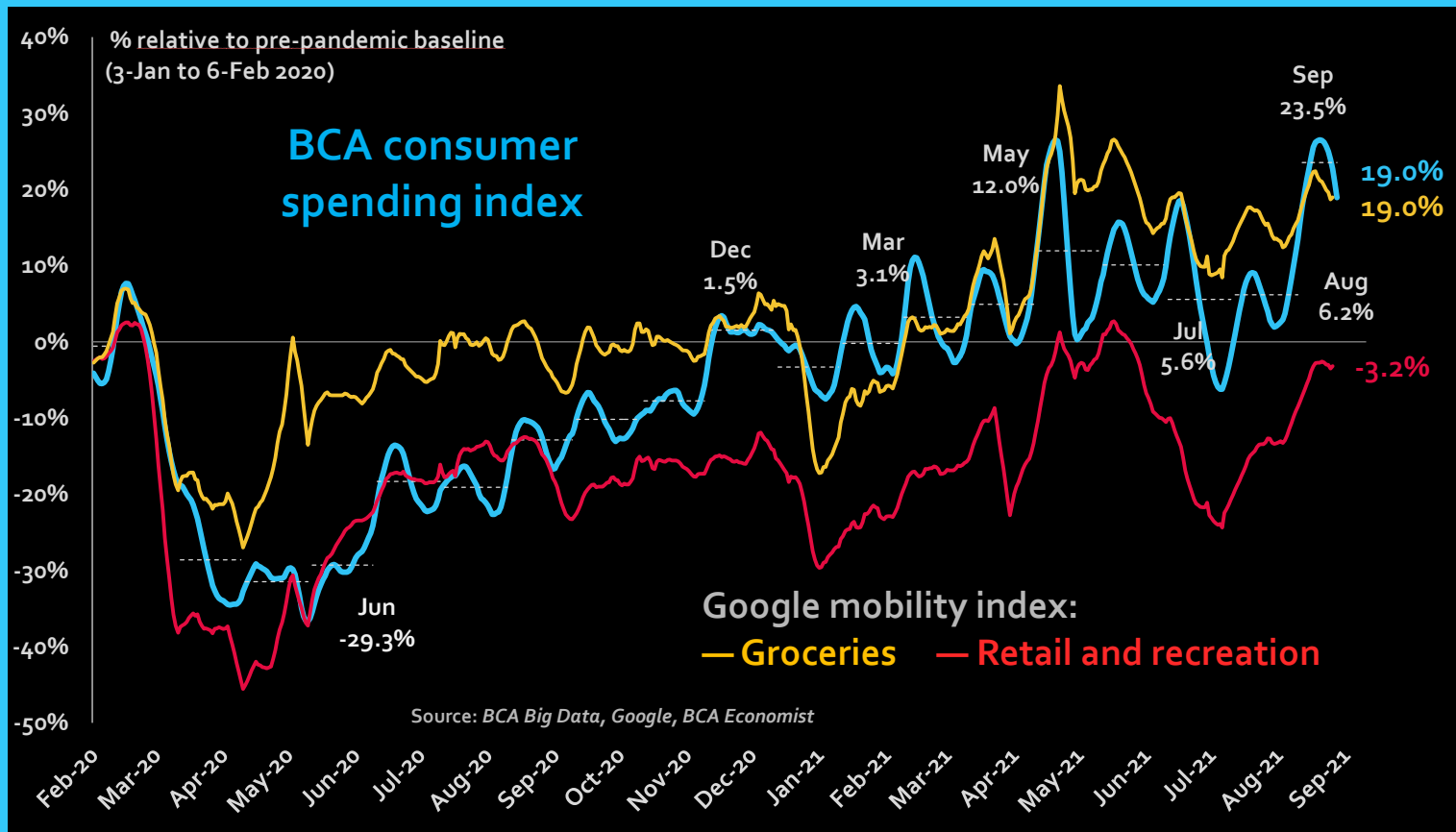
Executive Summary:

- **Consumer prices declined (-0.04% MoM / +1.60% YoY), due to a seasonal decline in food prices.**
 - **In contrast to fossil fuels, the low and stable food prices during the pandemic are mostly not the result of government intervention, but rather the relatively insulated nature of Indonesian agriculture.**
 - **Despite still-weak core inflation, BCA's transaction data picked up a very strong demand rebound in September.**
 - **The domestic recovery, however, comes amid a potential inflection point in the global economy, which could lead to slower growth in the medium-term even if short-term inflation remains elevated.**
 - **The impact of the current fossil fuel rally on domestic price levels are still unknown, but it could potentially be felt by early next year when the DMO agreement with local coal producers are renewed.**
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- The consumer price index showed 0.04% MoM deflation (1.60% YoY inflation) in September, as food prices declined seasonally, while the disruptions of the past few months – mainly PPKM and school reopening – are in the rear-view mirror.
 - The decline in food prices, while totally expected for September, continues to underscore the weak food price inflation that we have seen throughout the pandemic. **And in contrast to fossil fuels, such low prices are for the most part not the product of government intervention.** Comparing the price levels received by the farmers against those paid by the consumers (*Panel 1*), we see little divergence that could be attributed to subsidy, although rice imports may play some role.
 - **The low and stable food prices, then, should mostly be attributed to the idiosyncrasies of Indonesia's agricultural sector, which has remained somewhat insulated from recent global price pressures (Panel 2).** Where it does intersect with the external market, global food inflation can either favor domestic producers (especially in the case of CPO) or disfavor them (in the case of poultry farmers where excess supply clashes against the high prices of corn-based feed). It also helps that global prices for rice, Indonesia's number one staple food, continues to tack lower than most other foodstuffs.
 - **Meanwhile, the stagnant core inflation (at 1.30% YoY) did not reflect the strong pent-up demand that we saw from BCA's transaction data in September (Chart 1).** Indeed, core inflation has not kept track of the ups-and-down of consumer demand for so long, that it is perhaps time to retire this old trope once and for all. It is perhaps more appropriate to see this measure as the more "purely" monetary component of inflation, and that its present weakness reflects the slow (albeit rising) pace of "inside money" creation, i.e. bank lending.
 - The signs of recovery are not limited to consumer spending alone, however, but also to business activities, as seen from both BCA's transaction data and Markit's Manufacturing PMI. But the PMI's return to above-50 territory comes at a time when global PMI are hitting fresh lows, partly due to the lingering effects of Delta and a burgeoning energy crunch in China and the UK.
 - The greatest worry, however, is whether this is part of a bigger shift that could derail the global recovery and instead lead towards stagflation. The current political stalemate in the US could be the start of a fiscal retrenchment, which may lead to narrower US current account deficits – and thereby less surplus for countries like Indonesia. Still, the high stakes mean that some kind of resolution (debt ceiling being raised and perhaps a smaller-than-planned stimulus) is likely to be reached.
 - A potential slowdown in China, however, represents a bigger threat for Indonesia, as it could lead to a broad-based slowdown in commodity prices. As the situation surrounding Evergrande and previous tech crackdown attest, the Chinese authorities seems willing to accept a disruption to its growth model as a price for more control and more financial discipline. **Thus, while high coal and gas prices would probably continue to provide some "fig leaf" for Indonesian exports well into the winter, the global demand that has helped supercharge our recovery in the past four quarters could be slowing.**
 - Finally, we think it is still too early to tell how much of the current global energy crunch would bleed back towards domestic inflation. Thus far during the

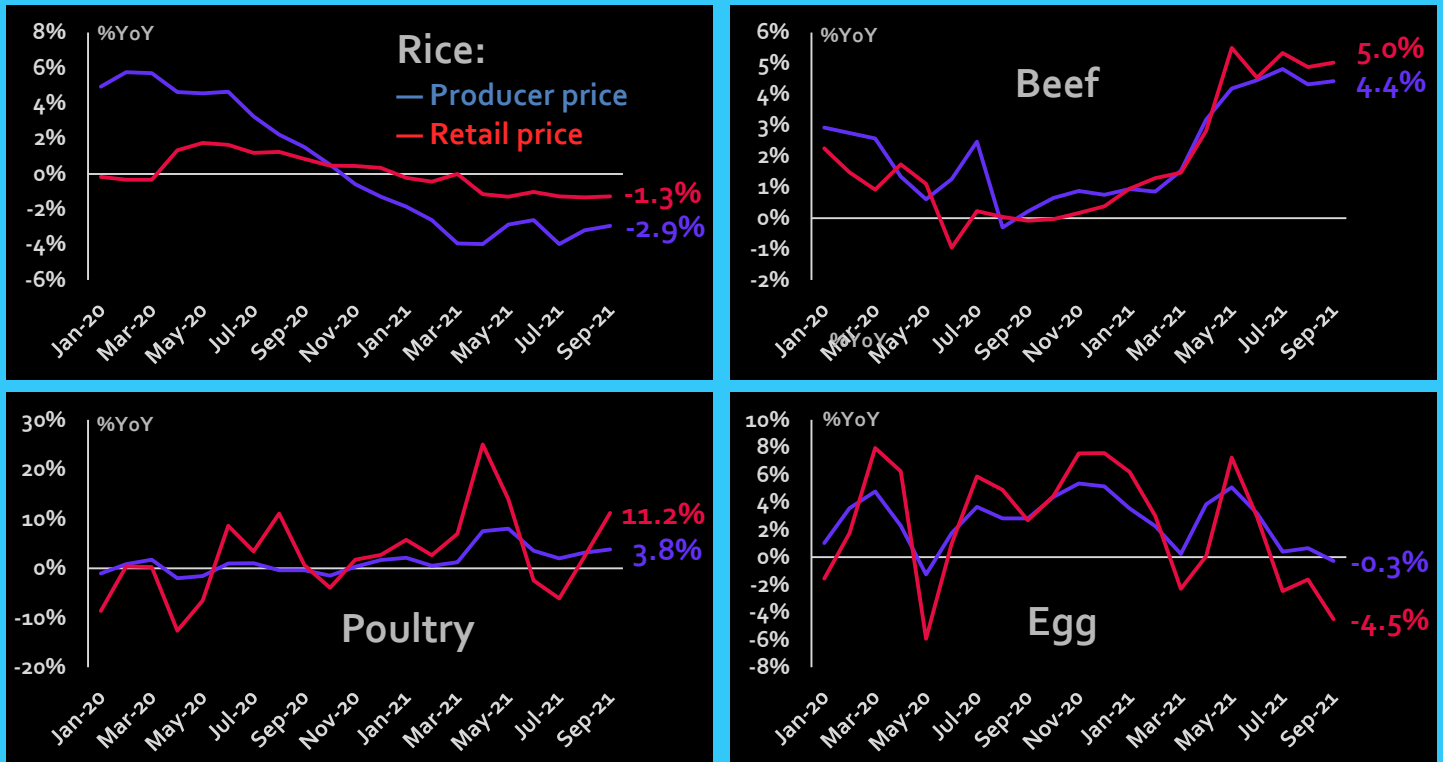
pandemic, the government has shown very strong commitment to maintain energy prices, which remains apparent in their 2022 budget. The big question, however, concerns electricity price – which has so far been fixed through domestic market obligation (DMO), with coal prices at USD 70/MT. **If coal prices remain**

high by the end of 2021, it is probable that the government will hash out a “burden sharing” arrangement among itself, the PLN, the coal producers, and the consumers – which means some increase in both DMO prices and retail electricity prices.

Chart 1. Consumer demand staged a strong comeback in September, even exceeding Lebaran levels

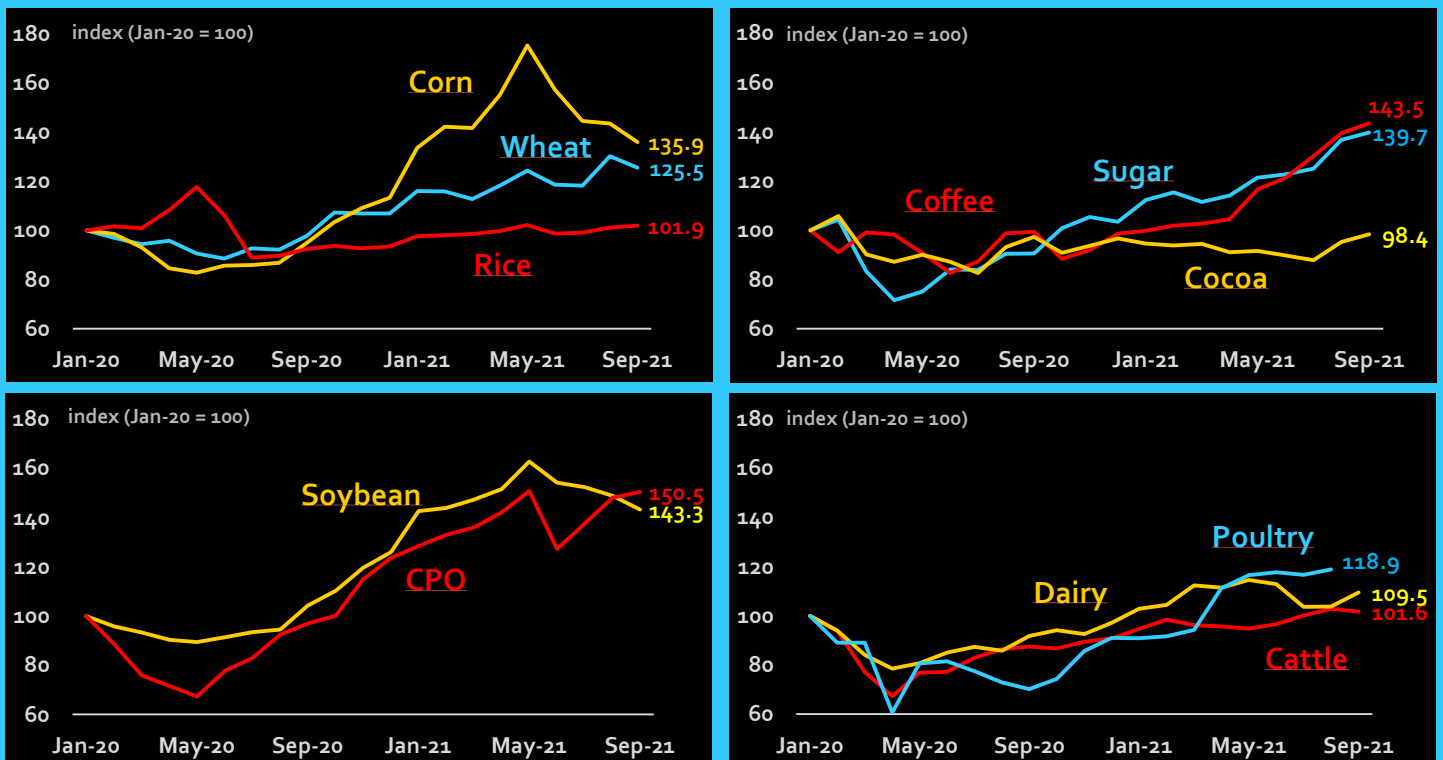


Panel 1. The relative lack of food inflation has been due to stable producer-level prices rather than government intervention/subsidy



Source: BPS, PIHPS, BCA Economist

Panel 2. Global inflation pressures have been substantial, although the relative stability of rice and strength of CPO works in Indonesia's favor



Source: Bloomberg, BCA Economist

Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	1-Oct	-1 mth	Chg (%)
US	0.25	Mar-20	-5.05	Baltic Dry Index	5,202.0	4,132.0	25.9
UK	0.10	Mar-20	-3.10	S&P GSCI Index	561.9	527.4	6.5
EU	0.00	Mar-16	-3.40	Oil (Brent, \$/bbl)	79.3	73.0	8.6
Japan	-0.10	Jan-16	0.30	Coal (\$/MT)	161.5	121.4	33.0
China (lending)	4.35	Oct-15	3.55	Gas (\$/MMBtu)	5.59	4.34	28.9
Korea	0.75	Aug-21	-1.85	Gold (\$/oz.)	1,761.0	1,813.6	-2.9
India	4.00	May-20	-1.30	Copper (\$/MT)	9,135.0	9,528.3	-4.1
Indonesia	3.50	Feb-21	1.90	Nickel (\$/MT)	17,970.0	19,589.5	-8.3
Money Mkt Rates	1-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,114.3	1,088.8	2.3
				Rubber (\$/kg)	1.66	1.62	2.5
SPN (1M)	2.58	3.25	-66.9	External Sector	Aug	Jul	Chg (%)
SUN (10Y)	6.22	6.05	17.1	Export (\$ bn)	21.42	17.71	20.9
INDONIA (O/N, Rp)	2.79	2.79	0.2	Import (\$ bn)	16.68	15.11	10.3
JIBOR 1M (Rp)	3.56	3.55	1.0	Trade bal. (\$ bn)	4.74	2.60	82.6
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Central bank reserves (\$ bn)	144.8	144.8	0.00
Lending (WC)	9.00	9.02	-2.01	Prompt Indicators	Aug	Jul	Jun
Deposit 1M	3.39	3.47	-7.96				
Savings	0.75	0.81	-5.48				
Currency/USD	1-Oct	-1 mth	Chg (%)	Consumer confidence index (CCI)	77.3	80.2	107.4
UK Pound	0.738	0.727	-1.52	Car sales (%YoY)	123.5	163.6	476.1
Euro	0.862	0.847	-1.80	Motorcycle sales (%YoY)	48.2	28.9	155.1
Japanese Yen	111.1	110.0	-0.93				
Chinese RMB	6.445	6.461	0.25	Cement sales (%YoY)	-1.0	1.9	36.9
Indonesia Rupiah	14,308	14,268	-0.28				
Capital Mkt	1-Oct	-1 mth	Chg (%)	Manufacturing PMI	Sep	Aug	Chg (bps)
JCI	6,228.8	6,150.3	1.28	USA	61.1	59.9	120
DJIA	34,326.5	35,360.7	-2.92	Eurozone	58.6	61.4	-280
FTSE	7,027.1	7,119.7	-1.30	Japan	51.5	52.7	-120
Nikkei 225	28,771.1	28,089.5	2.43	China	50.0	49.2	80
Hang Seng	24,575.6	25,879.0	-5.04	Korea	52.4	51.2	120
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)	Indonesia	52.2	43.7	850
Stock	2,146.6	2,017.2	129.35				
Govt. Bond	964.5	980.4	-15.94				
Corp. Bond	24.0	24.4	-0.36				

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.6
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	27.2
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-0.7

** Estimation of Rupiah's fundamental exchange rate

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