CPI:
All risks covered, for now

Elbert Timothy Lasiman
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

- Indonesia's inflation rose to 3.27% YoY in August 2023 due to base effect, but there was a slight deflation in monthly terms (-0.02% MoM), as food prices declined. However, there is still a risk to rice prices coming from El Nino.
- Core inflation continues to slow as Chinese economy is slowing down, and US economy shows signs of slowing. Though, a significant stimulus from China may benefit Indonesia, despite the higher inflation risk.
- BI is likely to maintain its policy rate until year-end, as the inflation outlook remains stable. In addition, fiscal policy cover both sides of the risks, inflation or slowing consumption.

- Indonesia's inflation rose slightly in August to 3.27% YoY, up from 3.08% YoY in the previous month. The YoY uptick was mainly due to base effect, whereas there was actually a slight deflation in monthly terms (-0.02% MoM). Volatile food items, particularly poultry and onions, contributed to the monthly deflation, but this was partly offset by inflation in education during the back-to-school season.

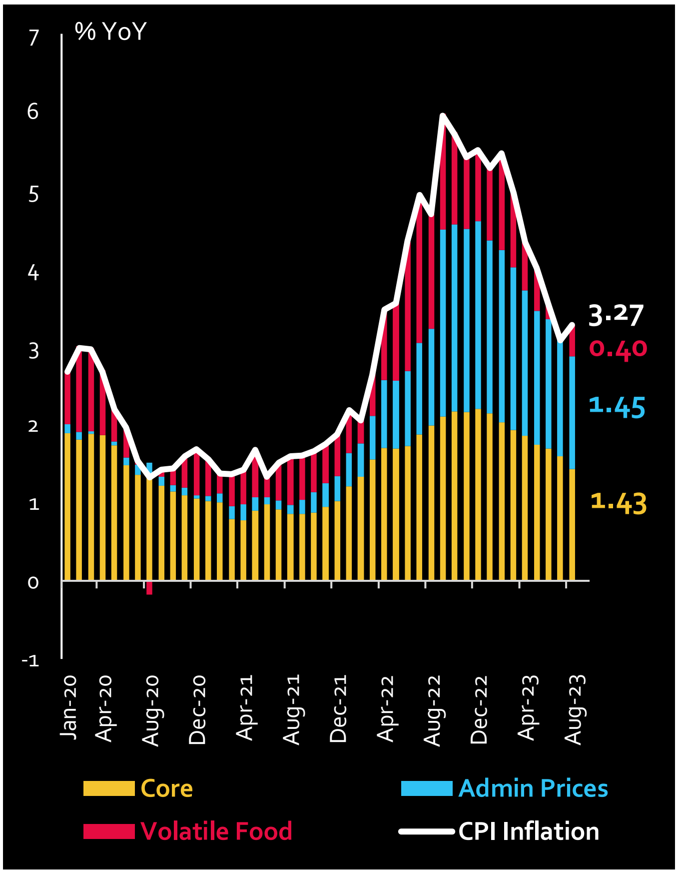
- The monthly foodstuff deflation still belies significant inflation risk, particularly concerning rice. Drought conditions during El Nino have already led to crop failures across Java and Sumatra before the harvest season. Furthermore, India placed more restrictions regarding their export of rice by pegging basmati rice prices to USD 1200/ton and imposing a 20% duty on parboiled rice.

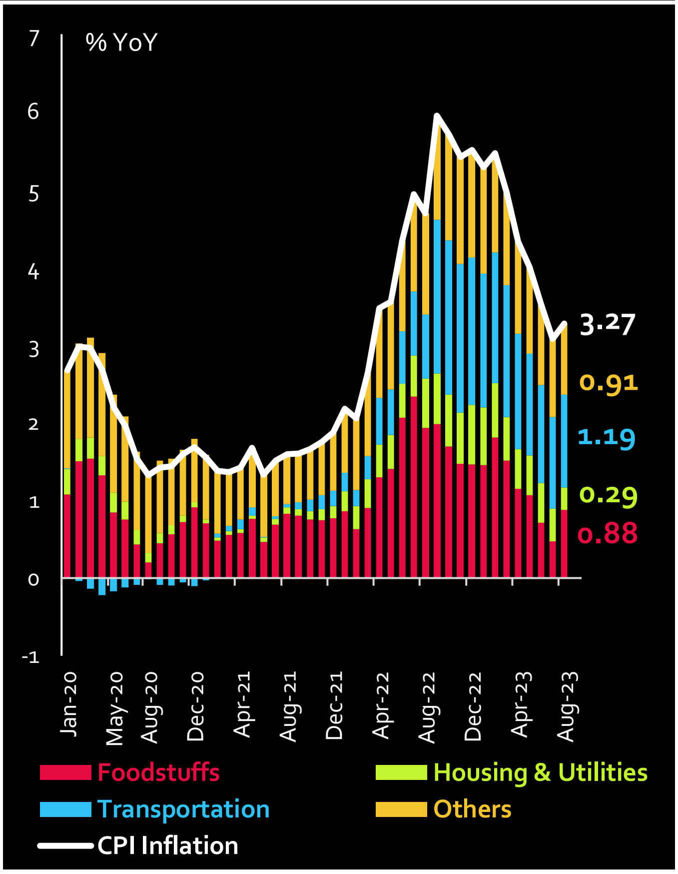
- The good news is that Indonesia currently maintains an ample rice supply until the end of the year, amounting to 1.5 million tons. The government also keeps approximately IDR 80 Tn in reserve (plus IDR 109 Tn more next year), to be used for market interventions should food prices continue to escalate. Still, the main uncertainty lies in the 2024 harvest, as El Nino is expected to last until Feb-Mar '24, potentially disrupting the whole planting-harvesting cycle for the next crop of rice (Nov-23 to Apr-24).

- On another note, core inflation slowed down significantly to 2.18% YoY, compared to 2.43% YoY in July 2023. Despite our concerns about China's export decline last month, the slowing Chinese economy probably still looms large here. This is particularly true given Indonesia's import deflation – imported WPI was at -11.4% in July – and the continuing global disinflation, with Chinese CPI now already going negative.

- Disinflation is still spreading, too, in the US despite a recent uptick in the latest PCE data (from 3.0 % to 3.3% YoY). The trimmed-mean PCE (which excludes components with extreme changes) continues to slow down, suggesting that inflation is slowing down for the majority of goods, with only some outliers – related mainly to food or energy – contributing to the upside.
- This trend may continue for some time, given signs of weakening demand not just in China but also in many other countries. In the US, a loosening labor market (with declining number of job openings) are starting to take hold. Weak demand from China and the US could even check some of the supply-driven pressures in the oil market, as seen from the brief decline in oil prices following an earlier OPEC+ driven supply fear.
- Disinflation may seem to be a good thing for Indonesian consumers, but not everything is a happy-go-lucky scenario here. Declining global aggregate demand could adversely impact Indonesian exporters (other than those benefiting from the energy/El Nino concerns). It could also replicate the situation in Q2-23, where nominal GDP was scarcely higher than real GDP growth. This will likely cap both loan and deposit growth at mid-to-high single digits, and so their slight uptick in July may perhaps be just a temporary situation.
- Other than energy/El Nino, the one thing that may yet galvanize global inflation is the arrival of a "bazooka" stimulus from Beijing – instead of the incremental easing that we have seen in the past three months. This could potentially boost commodity prices and weaken the USD in relative terms, given that the Fed may have less room to counter it if the US economy is slowing down. This scenario is thus better for the Rupiah and Indonesia's exports, despite the higher inflation risk.
- The overall inflation outlook, then, remains relatively benign and give no reason for a hurried response. We have not even entered September yet, where inflation can go potentially lower than 2.6% YoY, due to the Sep-22 base effect after the fuel price hike. Consequently, BI is likely to maintain its policy rate until year-end, while fiscal policy still has plenty of room to stabilize inflation or bolster consumer demand, should the need arise in either direction.

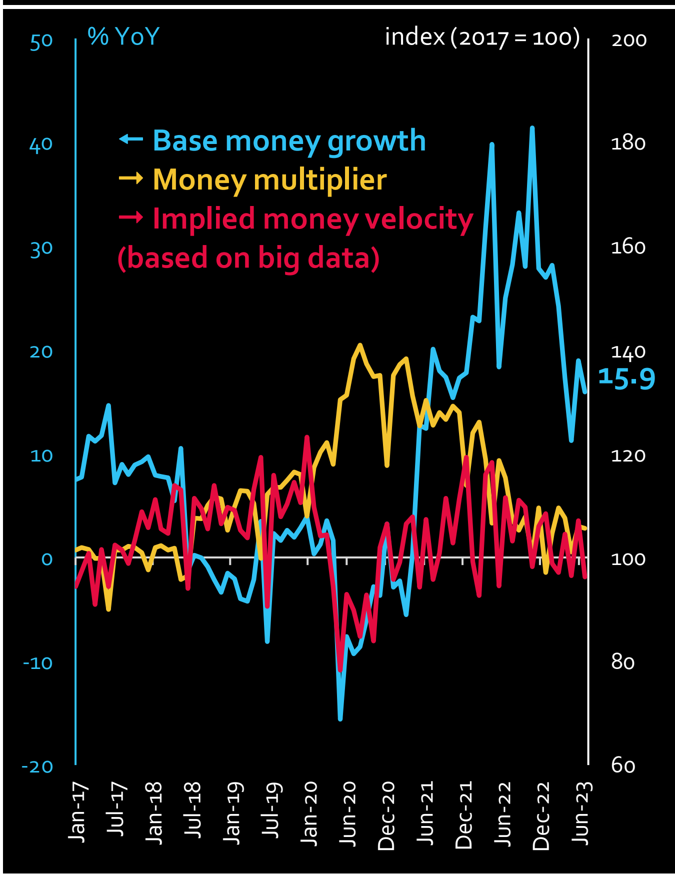
Panel 1. **Inflation is declining across the board, but food slightly accelerate due to base effect**

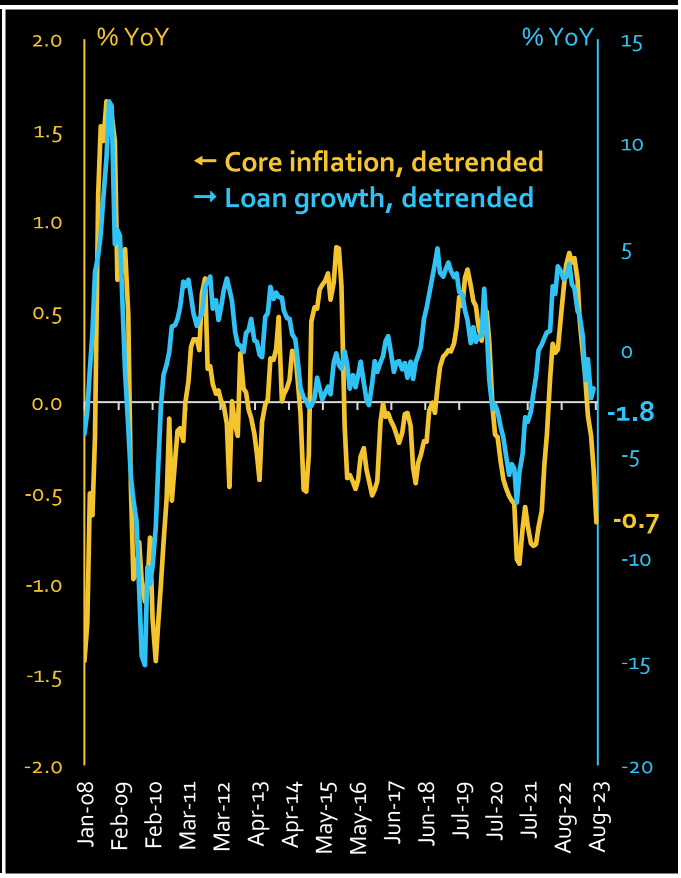




Source: BPS, calculation by BCA Economic Research

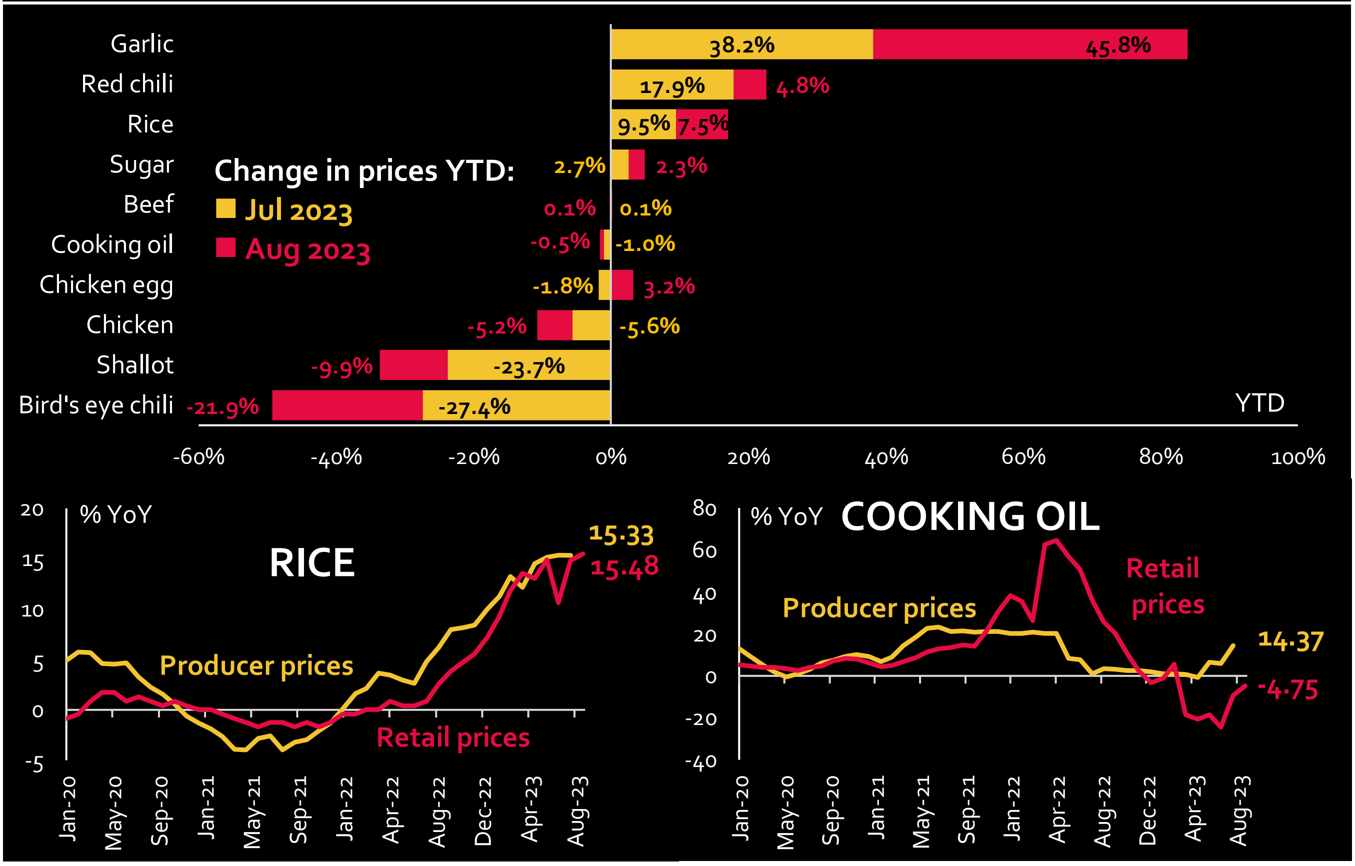
Panel 2. **Core inflation continues to decline, which may portends a continued slowdown in demand for loans despite the apparent recovery last month**





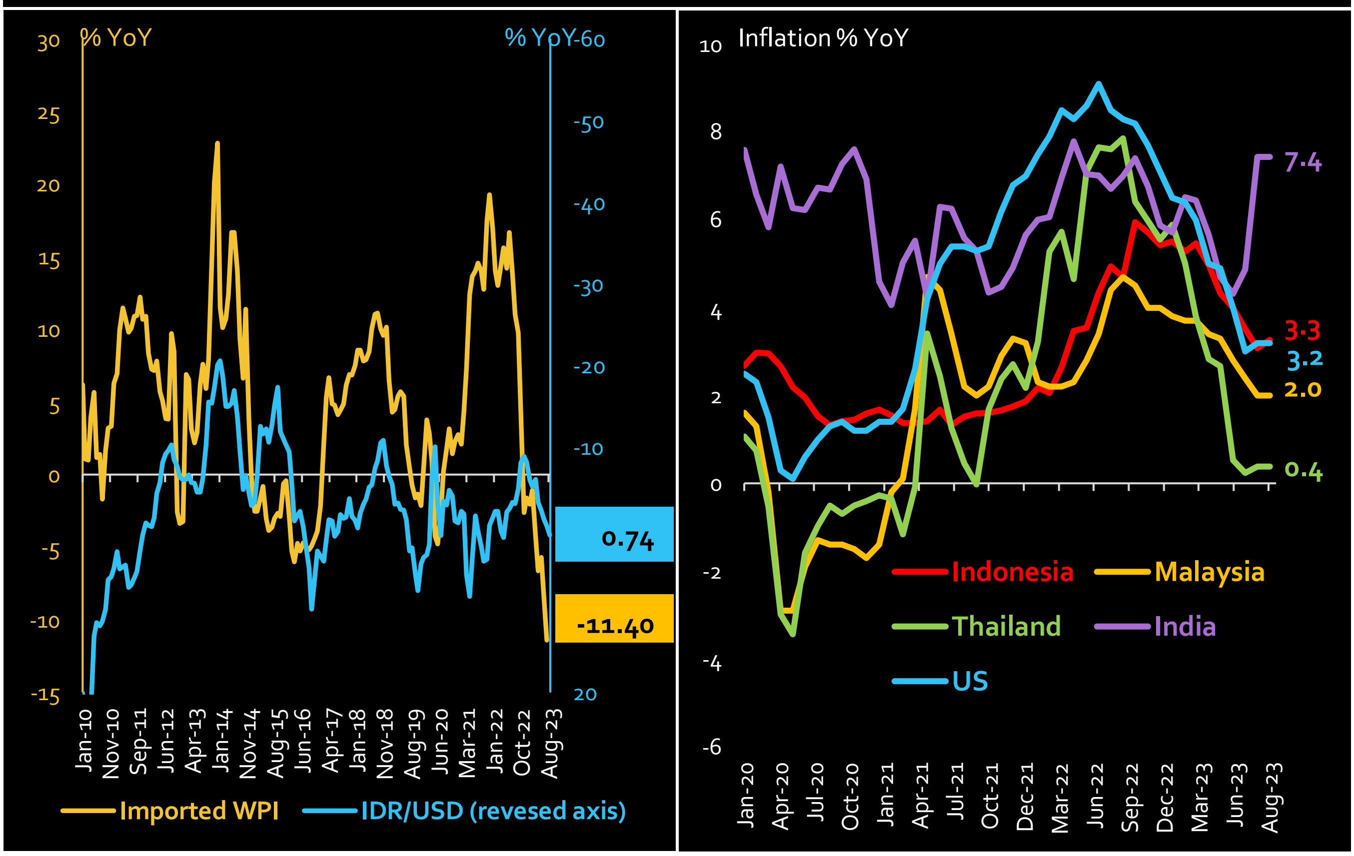
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. **Except for some imported-dependent commodities, food prices remained relatively stable or even decline amidst the intensifying El Nino risk**



Source: Ministry of Trade, BPS

Panel 4. **Indonesia and its Asian counterparts continue to benefit from China's excess inventory**



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Aug-23	2.30
UK	5.25	Aug-23	-1.55
EU	4.25	Aug-23	-1.05
Japan	-0.10	Jan-16	-3.40
China (lending)	2.50	Aug-23	4.65
Korea	3.50	Aug-23	1.20
India	6.50	Aug-23	-0.94
Indonesia	5.75	Aug-23	2.48
Money Mkt Rates	**31-Aug**	**-1 mth**	**Chg (bps)**
SPN (1M)	5.46	4.82	63.8
SUN (10Y)	6.36	6.23	13.3
INDONIA (O/N, Rp)	5.57	5.69	-12.5
JIBOR 1M (Rp)	6.40	6.40	0.0
Bank Rates (Rp)	**May**	**Apr**	**Chg (bps)**
Lending (WC)	8.93	8.92	0.35
Deposit 1M	4.19	4.18	1.37
Savings	0.67	0.67	0.00
Currency/USD	**31-Aug**	**-1 mth**	**Chg (%)**
UK Pound	0.789	0.779	-1.26
Euro	0.922	0.909	-1.40
Japanese Yen	145.5	142.3	-2.23
Chinese RMB	7.259	7.143	-1.60
Indonesia Rupiah	15,230	15,080	-0.98
Capital Mkt	**31-Aug**	**-1 mth**	**Chg (%)**
JCI	6,953.3	6,931.4	0.32
DJIA	34,721.9	35,559.5	-2.36
FTSE	7,439.1	7,699.4	-3.38
Nikkei 225	32,619.3	33,172.2	-1.67
Hang Seng	18,382.1	20,078.9	-8.45
Foreign portfolio ownership (Rp Tn)	**Aug**	**Jul**	**Chg (Rp Tn)**
Stock	2,869.7	2,892.9	-23.21
Govt. Bond	845.3	855.2	-9.90
Corp. Bond	11.1	11.3	-0.20

Trade & Commodities	31-Aug	-1 mth	Chg (%)
Baltic Dry Index	1,086.0	1,127.0	-3.6
S&P GSCI Index	591.4	593.4	-0.3
Oil (Brent, $/brl)	86.9	85.6	1.5
Coal ($/MT)	158.5	144.7	9.5
Gas ($/MMBtu)	2.57	2.58	-0.4
Gold ($/oz.)	1,940.2	1,965.1	-1.3
Copper ($/MT)	8,404.5	8,800.0	-4.5
Nickel ($/MT)	20,087.0	22,076.0	-9.0
CPO ($/MT)	821.7	843.6	-2.6
Rubber ($/kg)	1.34	1.31	2.3
External Sector	**Jul**	**Jun**	**Chg (%)**
Export ($ bn)	20.88	20.60	1.36
Import ($ bn)	19.57	17.15	14.10
Trade bal. ($ bn)	1.31	3.45	-61.96
Central bank reserves ($ bn)*	137.7	137.5	0.12
Prompt Indicators	**Jul**	**Jun**	**May**
Consumer confidence index (CCI)	123.5	127.1	128.3
Car sales (%YoY)	-6.8	4.7	65.2
Motorcycle sales (%YoY)	45.6	66.6	113.4
Manufacturing PMI	**Aug**	**Jul**	**Chg (bps)**
USA	N/A	46.4	0
Eurozone	43.7	42.7	100
Japan	49.6	49.6	0
China	51.0	49.2	180
Korea	48.9	49.4	-50
Indonesia	53.9	53.3	60

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	5.2
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US$ 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

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Firman Yosep Tember
Research Assistant
firman_tember@bca.co.id
+6221 2358 8000 Ext: 20378

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000   Fax : (62-21) 2358-8343