

CPI:

A slow march up north

Keely Julia Hasim
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

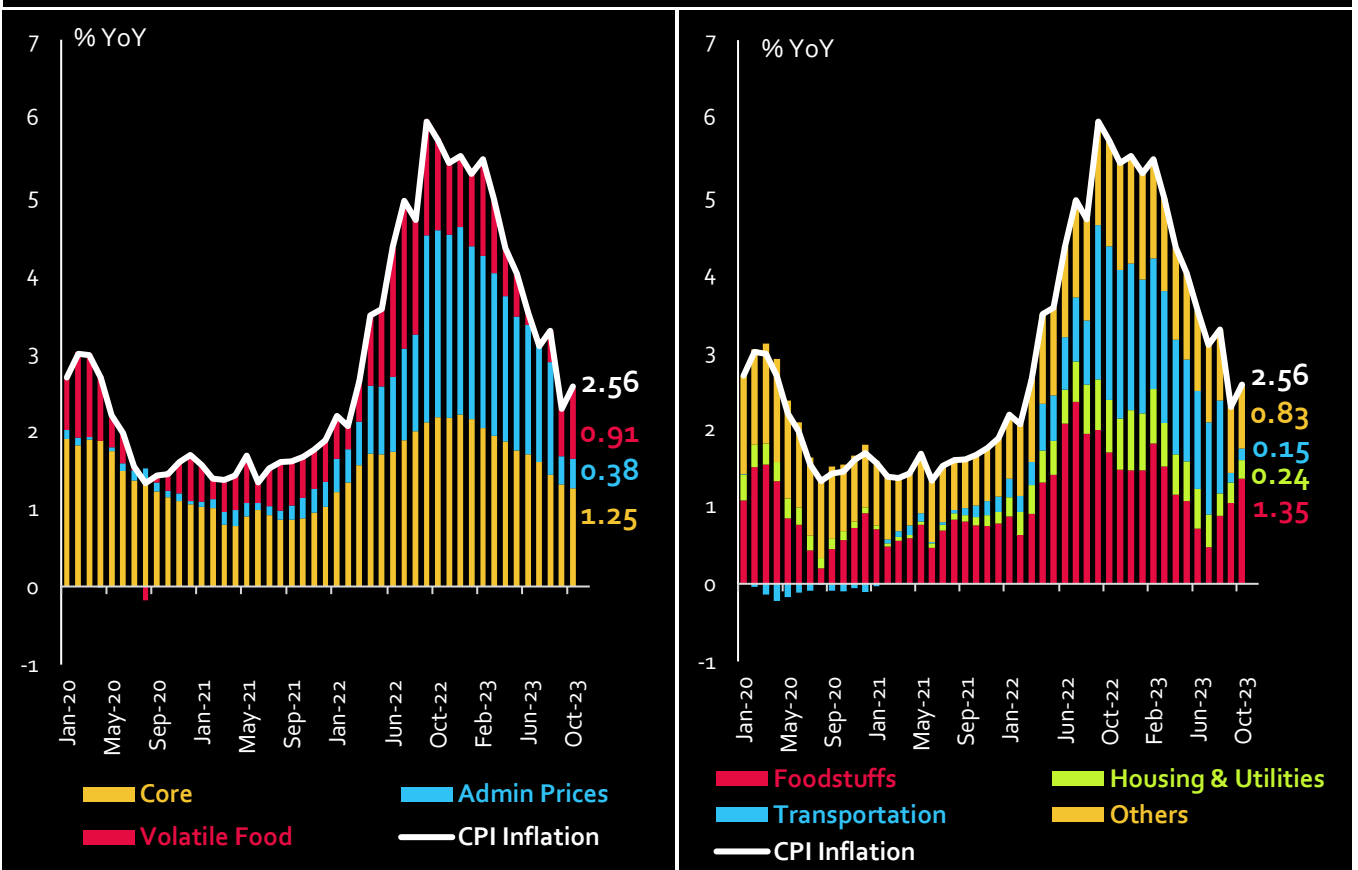
- Inflation increased to 2.56% YoY (0.17% MoM) in Oct-23, driven mainly by increased food and transportation costs.
- Core inflation slowed to 1.91% YoY, which is likely attributed to global developments, rather than indicating weak domestic demand.
- There are indications core inflation will increase in the near term, particularly due to Rupiah depreciation and increased government spending nearing the 2024 General Elections. Still strong credit growth also gives us a further sign that core inflation may pick up again.
- Further tightening may be necessary to stabilize the Rupiah later in the month, but its effect on GDP growth will likely manifest in a more gradual fashion.

- Indonesia's inflation increased to 2.56% YoY (0.17% MoM) in Oct-23, in line with our forecast of 2.55% YoY. Notably, foodstuffs and transportation accounted for the lion's share (over 70%) of the monthly inflation figure. And as we mentioned last month, the seasonal disinflation during the second harvest season (Sep-Oct) has essentially been "cancelled" by El Nino-induced drought.
- Soaring prices of rice continued to be the main source of food inflation, also accompanied by a significant increase in the price of chilies. The government has also continued to ramp up its rice imports, by securing another 700 thousand tons worth of import contracts from Thailand, Vietnam, Pakistan, and Myanmar – and this race between new imports and El Nino will continue to define inflation outlook in the short-term.
- The surge in transportation costs, meanwhile, reflects the increase in global oil prices. While the transmission of oil shock remains confined to non-subsidized fuels rather than subsidized ones, the increase last month was significant enough to have contributed 0.04% to MoM inflation. We expect this to nonetheless revert somewhat next month, as Pertamina had announced lower prices following the recent dip in global oil prices.
- Core inflation continued to slow down, settling at 1.91% YoY versus 2.00% YoY in Sep-23, but as before we should not treat this as a surefire sign of slowing domestic demand. Indeed, our in-house consumer spending tracker (Intrabel BCA) points toward quite stable demand throughout Q3, with even a substantial uptick in October. Much of the core-disinflationary trend, then, may be explained by global developments, particularly given Indonesia's still negative imported inflation (-8.7% YoY) at the latest reckoning (Aug-23). The resilience of

China's manufacturing in Q3 might have driven more "dumping" which helps suppress core prices in its major export markets.

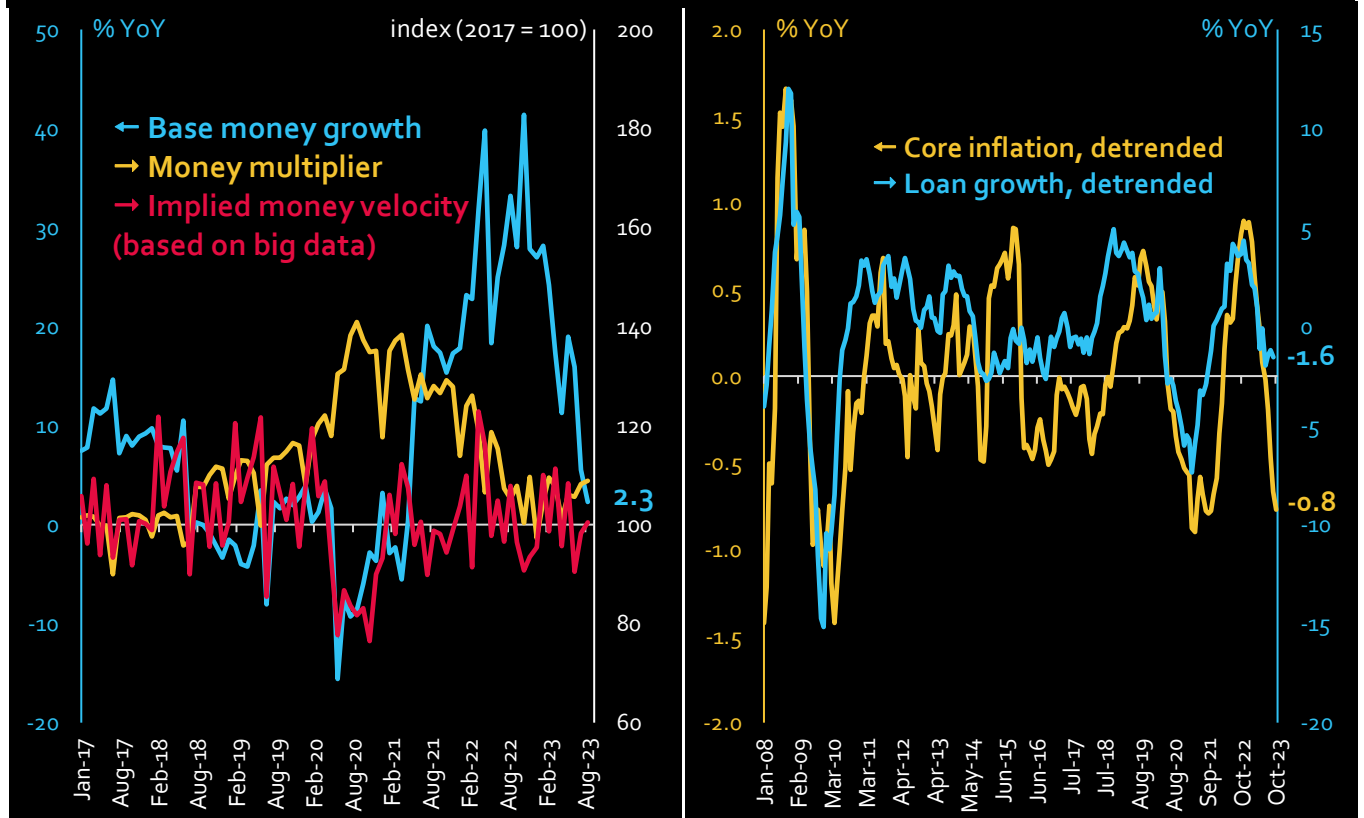
- There are, nonetheless, indications that core inflation may pick up again in the near-term. For one, core inflation could increase due to the recent depreciation of the Rupiah, leading to higher imported inflation. Stronger consumption in Q4, supported by the government's increased spending as it approaches the 2024 General Elections, could also stimulate core inflation. Finally, bank loan growth have also remained robust in Sep-23 (8.96% YoY), which – given its close cyclical correlation to core inflation – gives us a further sign that the underlying trajectory of core inflation may not be all downwards after all.
- With consumption holding strong and fiscal spending coming in, we remain cautiously optimistic over GDP growth prospects in Q3-23 (which we forecast at around 5.05% YoY) and indeed in the next few quarters. And even if further monetary tightening could be necessary to support the Rupiah later this month – and signs from the BoJ decision to the US Treasury market still point towards further global liquidity tightness – its effect on GDP growth will likely manifest in a more gradual fashion. In particular, government transfers to low-income households as well as slow transmission to loan rates (particularly consumer loans) should serve as cushions to short-term growth outlook.

Panel 1. The increase in inflation was driven by rising foodstuff and transportation costs



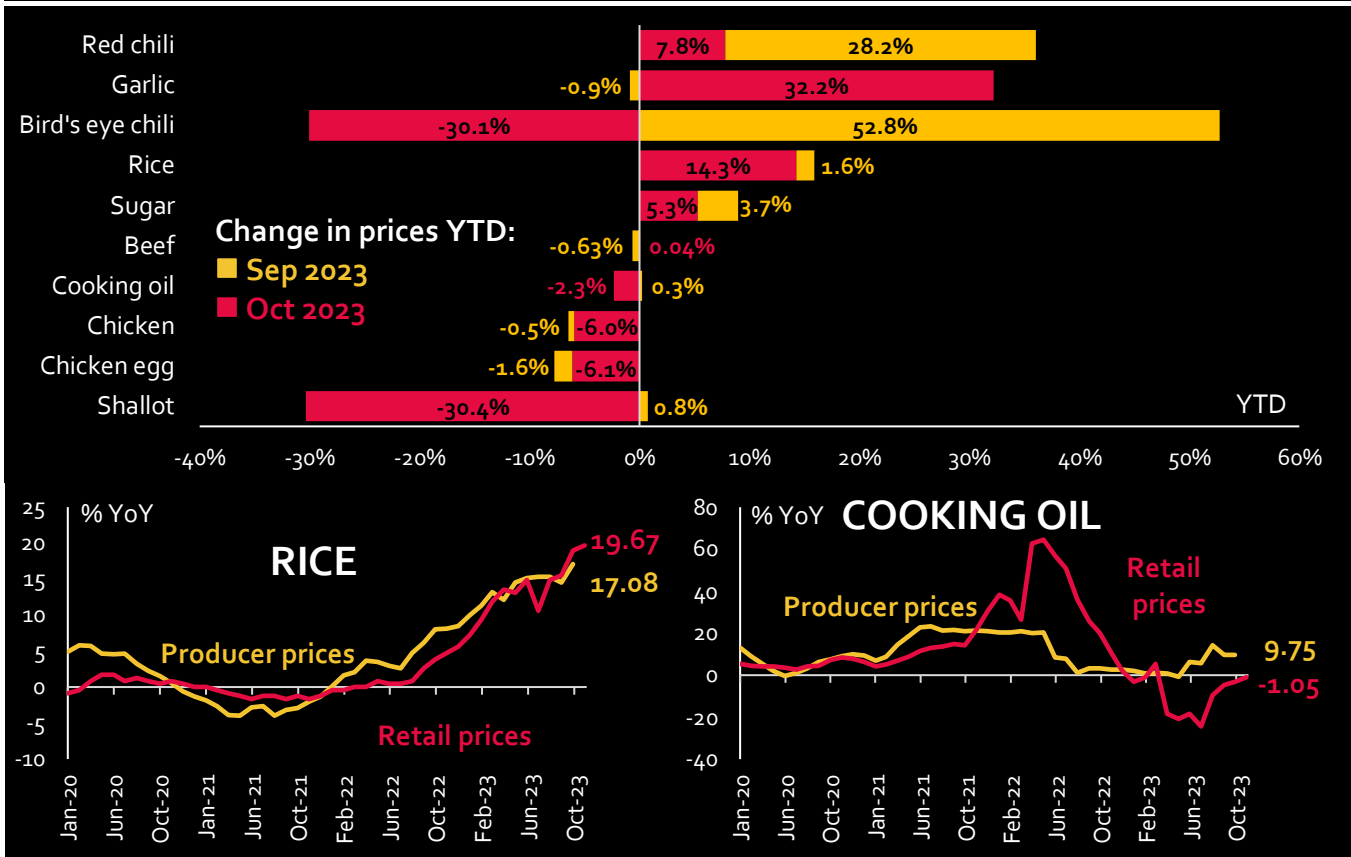
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation continues to decline, but there are indications that it will rise again in the near-term



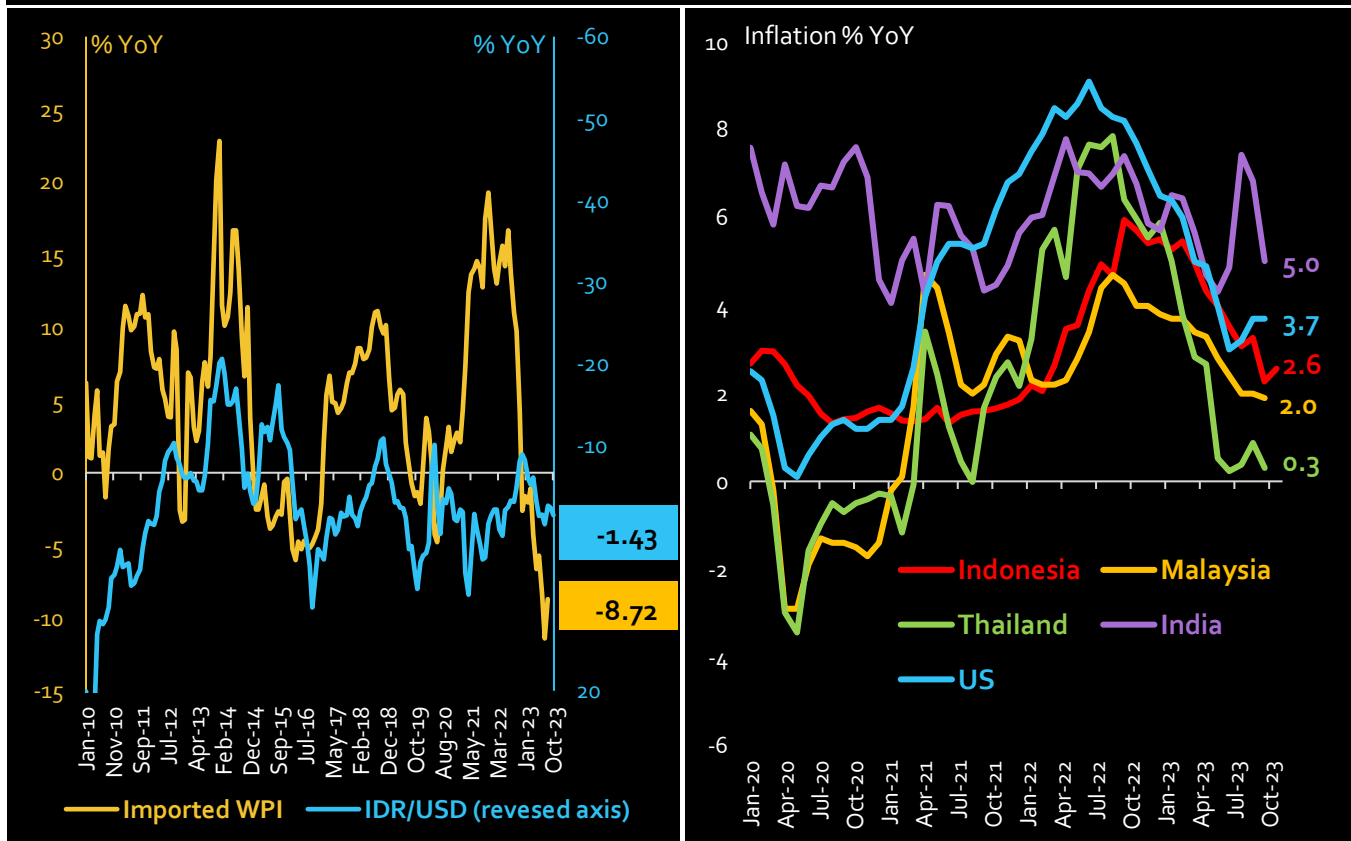
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Higher rice and 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



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Oct	-1 mth	Chg (%)
US	5.50	Oct-23	1.80	Baltic Dry Index	1,459.0	1,701.0	-14.2
UK	5.25	Oct-23	-1.45	S&P GSCI Index	577.0	609.7	-5.4
EU	4.50	Oct-23	1.60	Oil (Brent, \$/brl)	87.4	95.3	-8.3
Japan	-0.10	Jan-16	-3.10	Coal (\$/MT)	131.1	166.6	-21.3
China (lending)	2.50	Oct-23	4.35	Gas (\$/MMBtu)	3.34	2.68	24.6
Korea	3.50	Oct-23	-0.20	Gold (\$/oz.)	1,983.9	1,848.6	7.3
India	6.50	Oct-23	1.48	Copper (\$/MT)	8,029.0	8,212.5	-2.2
Indonesia	6.00	Oct-23	3.44	Nickel (\$/MT)	17,903.0	18,440.0	-2.9
Money Mkt Rates	31-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	751.2	785.3	-4.3
SPN (1M)	6.38	5.33	105.6	Rubber (\$/kg)	1.43	1.39	2.9
SUN (10Y)	7.09	6.89	19.6	External Sector	Sep	Aug	Chg (%)
INDONIA (O/N, Rp)	5.85	5.63	21.9	Export (\$ bn)	20.76	22.00	-5.63
JIBOR 1M (Rp)	6.65	6.40	25.4	Import (\$ bn)	17.34	18.88	-8.15
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	3.42	3.12	9.61
Lending (WC)	8.95	8.93	2.84	Central bank reserves (\$ bn)*	134.9	137.1	-1.60
Deposit 1M	4.24	4.19	4.92	Prompt Indicators	Sep	Aug	Jul
Savings	0.67	0.67	-0.41	Consumer confidence index (CCI)	121.7	125.2	123.5
Currency/USD	31-Oct	-1 mth	Chg (%)	Car sales (%YoY)	-20.1	-8.3	-6.7
UK Pound	0.823	0.820	-0.38	Motorcycle sales (%YoY)	-0.9	1.8	45.6
Euro	0.946	0.946	0.02	Manufacturing PMI	Oct	Sep	Chg (bps)
Japanese Yen	151.7	149.4	-1.52	USA	N/A	49.0	0
Chinese RMB	7.316	7.298	-0.25	Eurozone	43.0	43.4	-40
Indonesia Rupiah	15,885	15,455	-2.71	Japan	48.7	48.5	20
Capital Mkt	31-Oct	-1 mth	Chg (%)	China	49.5	50.6	-110
JCI	6,752.2	6,939.9	-2.70	Korea	49.8	49.9	-10
DJIA	33,052.9	33,507.5	-1.36	Indonesia	51.5	52.3	-80
FTSE	7,321.7	7,608.1	-3.76	Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)
Nikkei 225	30,858.9	31,857.6	-3.14	Stock	2,895.1	2,833.3	61.89
Hang Seng	17,112.5	17,809.7	-3.91	Govt. Bond	809.3	823.0	-13.66
				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	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.25
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,114
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
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

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

M Rifat Juniardo S

Economist / Analyst

rifat_juniardo@bca.co.id

+6221 2358 8000 Ext: 1077657

Agus Salim Hardjodinto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

Aldi Rizaldi

Research Assistant

aldi_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

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

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