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Monthly Economic & Finance Briefing

Economic, Banking & Industry Research of BCA Group - DKP

Inflation: Global reflation, domestic slowflation?

***Executive Summary*:**

- **Indonesia's CPI increased by 1.68% YoY last month, largely driven by Lebaran-related factors.**
- **Beyond this however, inflation in Indonesia remains somewhat tepid, despite the surge in the PPI in various other countries**. A combination of still-weak domestic demand as well as government price controls appear to be the main culprits.
- **External factors, rather than inflation, remain the key determinants of BI policy going forward.**

- **Indonesia's Consumer Price Index (CPI) jumped by 1.68% YoY last month,** largely in line with the expectations of most analysts.

- **The key driver here of course, is Lebaran.** Most of the items experiencing the largest price hikes last month fall squarely under the category of "Lebaran staples." These include foodstuffs (+3.05% YoY), apparel (+1.32% YoY), and transportation (+0.85% YoY), which recorded a more modest increase due to the government ban on *mudik*. Looking ahead though, one may wonder: will inflation truly fade away once Lebaran recedes into the background, or will other inflationary pressures gradually gather steam in the coming months?

- **There are valid reasons for such concerns: chief among them the supply crunch and logistical bottlenecks that continues to plague global supply chains.** Production price indices (PPI) have skyrocketed in several key economies – among them China and the US – driven by continued economic recovery as well as the remarkable surge in commodity prices over the past few months **(*Charts 1A & 1B*)**.

- **It is in the context of these seemingly inexorable pressures on the supply-side that we must make sense of Indonesia's still anemic CPI.** Absent the Lebaran burst, last month's inflationary figures do not seem to be anything too robust to write home about, especially when compared to inflation in other countries. Aside from continuing price control by the government with regards to food and energy, we can see three "cushions" that might have reduced the transmission of inflationary shocks to Indonesian consumers **(*Chart 3*)**.

- Firstly, it should be noted that while its PPI has skyrocketed, the increase in China's CPI has been far more measured to the increases observed in other places such as the US **(*Charts 1A & 1B*)**. **There is reason to believe that China's government has been taking measures to keep inflation in check**, such as public pronouncements aimed at "talking down" commodity prices, exchange rate controls, as well as what appears to be the beginning of a monetary tightening cycle. Given China's outsized share in global manufacturing, domestic inflationary controls are also in effect global controls.

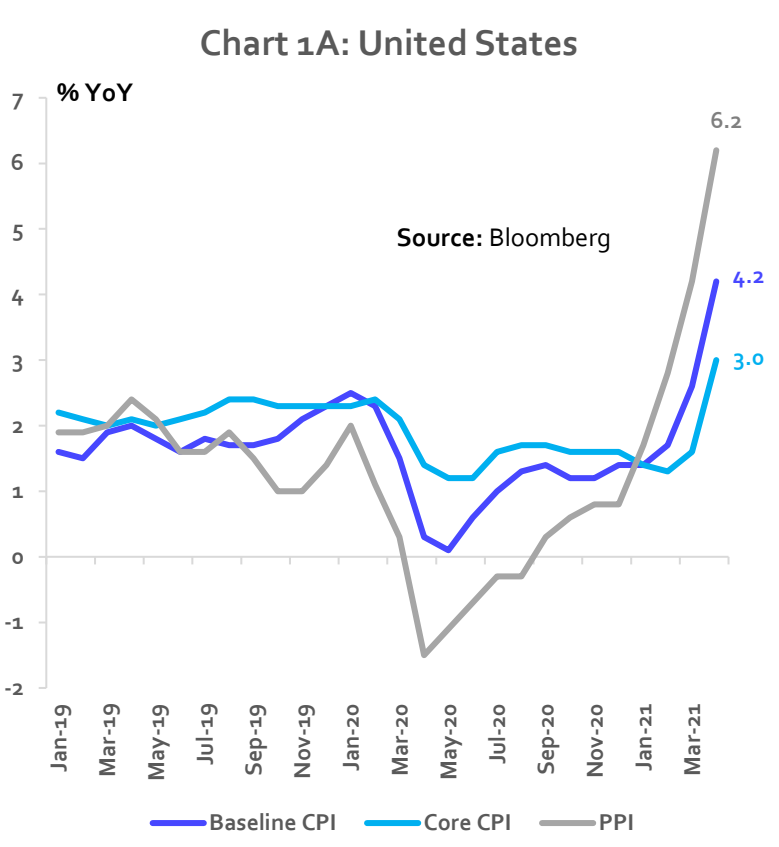
- **Secondly, although wholesale import prices have also risen in Indonesia, their effect on consumer prices have so far remained limited (*Chart 2*).** This is probably because although the global supply crunch may have driven prices up for importers, domestic demand for these goods (which comes mostly from the upper-middle class) may still be too anemic or otherwise too transient (i.e. related to the Lebaran season) to allow importers to pass on their higher costs to consumers.

- **Finally, whereas rising supply-demand pressures appear to be an important trend driving global supply chains, the same does not necessarily hold for domestic production.** Indeed, general wholesale prices have remained largely stagnant in Indonesia, as the leaner production capacities (trimmed by Covid's initial shock) of domestic producers have yet to contend with the large surge in demand and the global logistical nightmare that countries such as the US are facing **(*Chart 2*)**.

- So what do these numbers imply? For one, we cannot read too much into them to infer that the recovery is accelerating or otherwise, given the seasonal effect and the aforementioned cushions. **But of course there are good reasons to believe that the recovery in Indonesia is running slightly behind that of the global supply chains – which might be good news for the current account balance for now.**

- **The other implication is that external factors, rather than inflation per se, remains the key determinant of BI policy going forward.** The current situation of rising commodity prices, loose US policy, and tight(ening) Chinese policy is inherently unstable and contradictory to each other, and the potential resolution – the announcement of Fed tapering – could lead to a more critical exchange rate shock.

Charts 1A & 1B. PPI figures have skyrocketed in both the US and China, although its transmission to consumers appears much more pronounced in the US



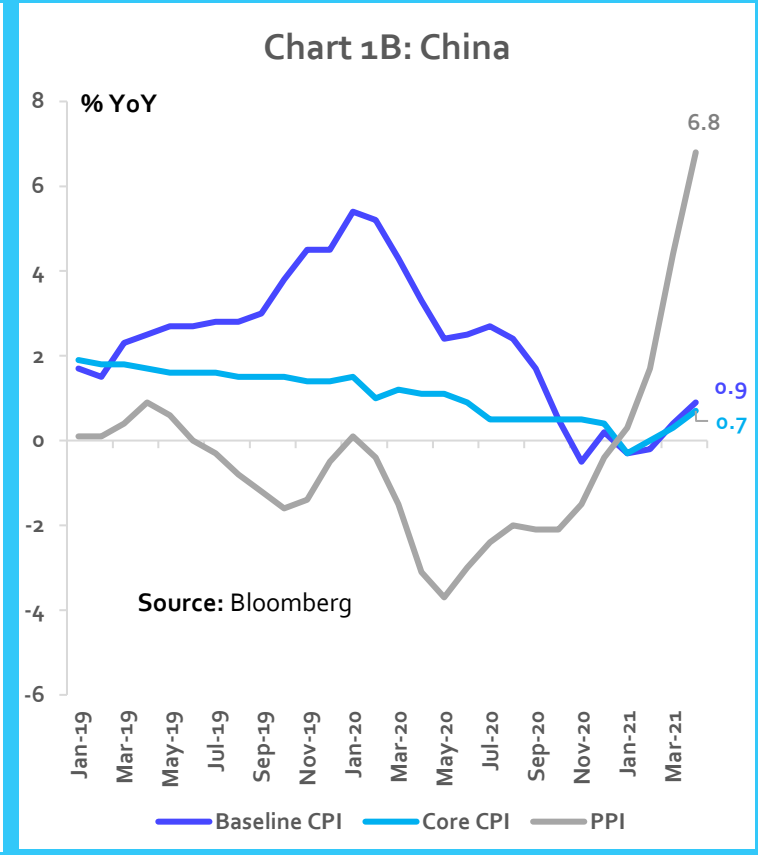


Chart 2. Although the prices of imported goods have surged in recent months, domestic inflation has remained generally low

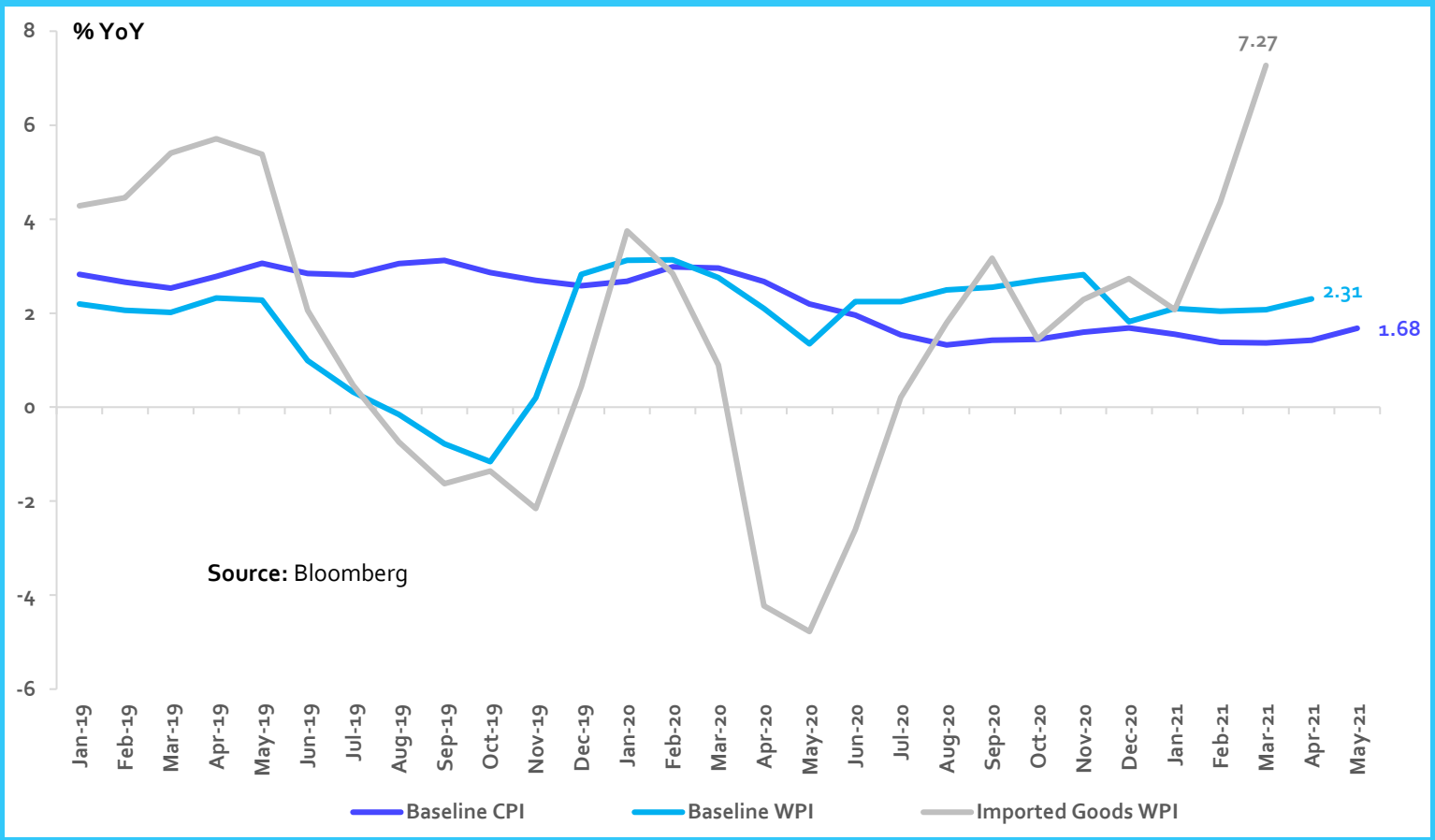
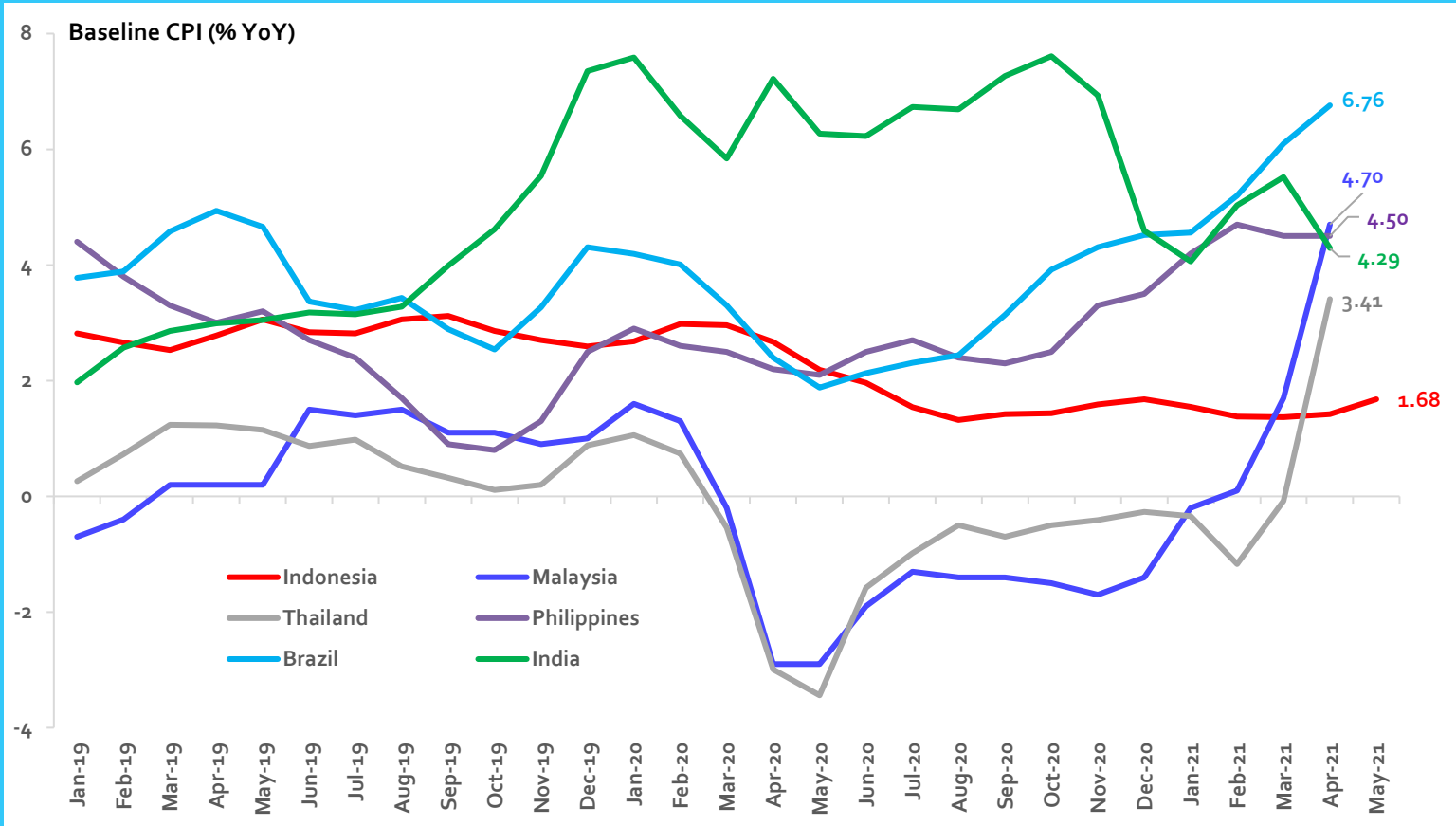


Chart 3. Inflation in Indonesia has generally remained low and stable relative to other emerging markets



Source: Bloomberg

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.5
GDP per Capita (US$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.460
Trade Balance (US$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	0.25	Mar-20	-3.95
UK	0.10	Mar-20	-1.40
EU	0.00	Mar-16	-2.00
Japan	-0.10	Jan-16	0.30
China (lending)	4.35	Oct-15	3.45
Korea	0.50	May-20	-2.10
India	4.00	May-20	-0.29
Indonesia	3.50	Feb-21	1.82
Money Mkt Rates	**1-Jun**	**-1 mth**	**Chg (bps)**
SPN (1M)	2.61	2.74	-12.6
SUN (10Y)	6.41	6.44	-3.5
INDONIA (O/N, Rp)	2.79	2.79	0.1
JIBOR 1M (Rp)	3.56	3.56	-0.3
Bank Rates (Rp)	**Mar**	**Feb**	**Chg (bps)**
Lending (WC)	9.12	9.23	-10.55
Deposit 1M	3.74	3.88	-14.01
Savings	0.83	0.83	0.13
Currency/USD	**1-Jun**	**-1 mth**	**Chg (%)**
UK Pound	0.707	0.723	2.37
Euro	0.819	0.832	1.61
Japanese Yen	109.5	109.3	-0.16
Chinese RMB	6.381	6.475	1.47
Indonesia Rupiah	14,280	14,445	1.16
Capital Mkt	**1-Jun**	**-1 mth**	**Chg (%)**
JCI	5,947.5	5,995.6	-0.80
DJIA	34,575.3	33,874.9	2.07
FTSE	7,080.5	6,969.8	1.59
Nikkei 225	28,814.3	28,812.6	0.01
Hang Seng	29,468.0	28,724.9	2.59
Foreign portfolio ownership (Rp Tn)	**May**	**Apr**	**Chg (Rp Tn)**
Stock	1,892.8	1,892.9	-0.11
Govt. Bond	956.9	964.6	-7.66
Corp. Bond	27.5	28.5	-1.00

Trade & Commodities	1-Jun	-1 mth	Chg (%)
Baltic Dry Index	2,568.0	3,053.0	-15.9
S&P GSCI Index	528.1	505.9	4.4
Oil (Brent, $/brl)	70.3	67.3	4.5
Coal ($/MT)	115.3	89.8	28.3
Gas ($/MMBtu)	2.95	2.87	2.8
Gold ($/oz.)	1,900.4	1,769.1	7.4
Copper ($/MT)	10,234.5	9,829.0	4.1
Nickel ($/MT)	18,100.5	17,653.0	2.5
CPO ($/MT)	977.3	1,100.5	-11.2
Rubber ($/kg)	1.65	1.67	-1.2
External Sector	**Apr**	**Mar**	**Chg (%)**
Export ($ bn)	18.48	18.35	0.7
Import ($ bn)	16.29	16.79	-3.0
Trade bal. ($ bn)	2.19	1.57	40.0
Central bank reserves ($ bn)	138.8	137.1	1.24
Prompt Indicators	**Apr**	**Mar**	**Feb**
Consumer confidence index (CCI)	101.5	93.4	85.8
Car sales (%YoY)	902.9	10.5	-38.2
Motorcycle sales (%YoY)	282.0	-7.2	-30.8
Cement sales (%YoY)	8.3	10.9	0.7
Manufacturing PMI	**May**	**Apr**	**Chg (bps)**
USA	61.2	60.7	50
Eurozone	63.1	62.9	20
Japan	53.0	53.6	-60
China	52.0	51.9	10
Korea	53.7	54.6	-90
Indonesia	55.3	54.6	70

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

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