

CPI:

## Out of the woods for now

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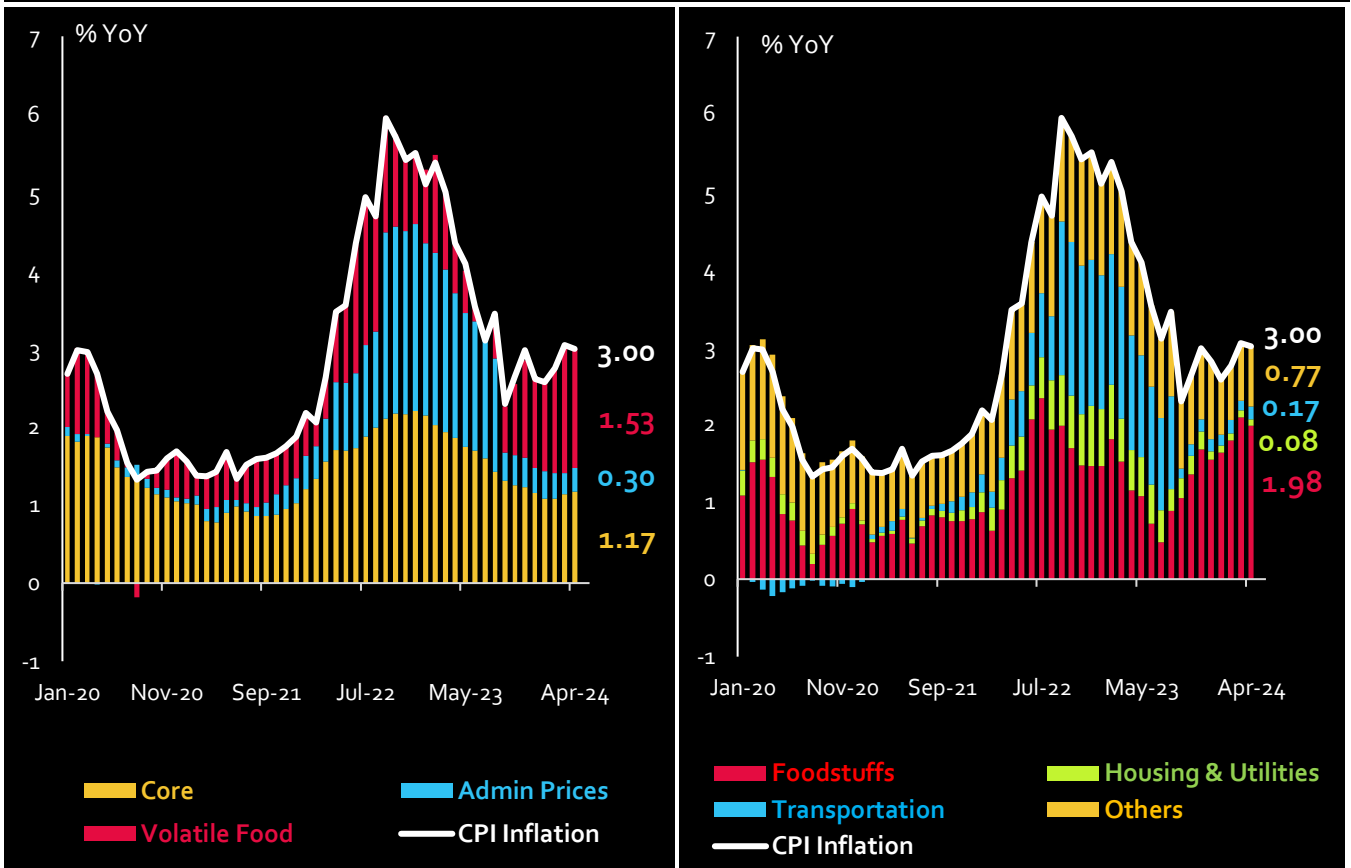
### Executive Summary

- Indonesia inflation slightly declined to 3.00% YoY (0.25% MoM) in April 2024, with transportation contributing the most to the monthly increase.
- Food prices have begun to normalize thanks to the harvest season, but there are long-term concerns over food security due to heatwaves across Southeast Asia.
- Increase in global oil prices should have a limited pass-through to overall inflation if price adjustments only occur for non-subsidized fuels.
- Core inflation experienced a moderate increase amid the large amounts of cash in circulation and the more limited impact from global disinflation.
- Any further increases in the BI rate will likely be driven by concerns over domestic liquidity and Rupiah, rather than inflation, considering the mixed outlook from the last FOMC meeting.

- Indonesia's inflation rate slightly declined to 3.00% YoY (0.25% MoM) in April 2024, closely in line with our forecast (2.99% YoY). Transportation was the primary inflation driver, contributing around 50% of the monthly increase in inflation, as expected from the annual mass homecoming of people before the Eid celebrations.
- On the other hand, food prices have started to normalize, particularly for red chilies and rice, amid the harvest season, which also helps offset the increase in demand during Ramadan and Eid. Despite the favorable short-term developments in food prices, we cannot help but worry about their longer-term prospects after reports of heatwaves erupted across Southeast Asia. These heatwaves could potentially impact rice production both domestically and in Indonesia's main sources of imported rice – including Thailand, Vietnam, and Myanmar – after India cut itself off from the rice export market.
- The recent increase in global oil prices has also sparked concerns over energy-driven inflation. However, considering that non-subsidized fuel accounts for only around ~13% of total fuel consumption in Indonesia, the pass-through to overall inflation in the near term should be relatively tame, if prices of subsidized fuels remain the same.
- Meanwhile, core inflation continued to experience a slight uptick, reaching 1.82% YoY (Mar-24: 1.77% YoY), which might be correlated with the large amounts of cash in circulation after the government's social assistance and the seasonal distribution of bonuses (THR) in late March. However, the uptick in cash circulation seemed to only have boosted transaction activities for low-income groups, particularly for basic goods and secondary Eid items such as new clothing, while consumption of middle-upper income groups remained relatively muted.

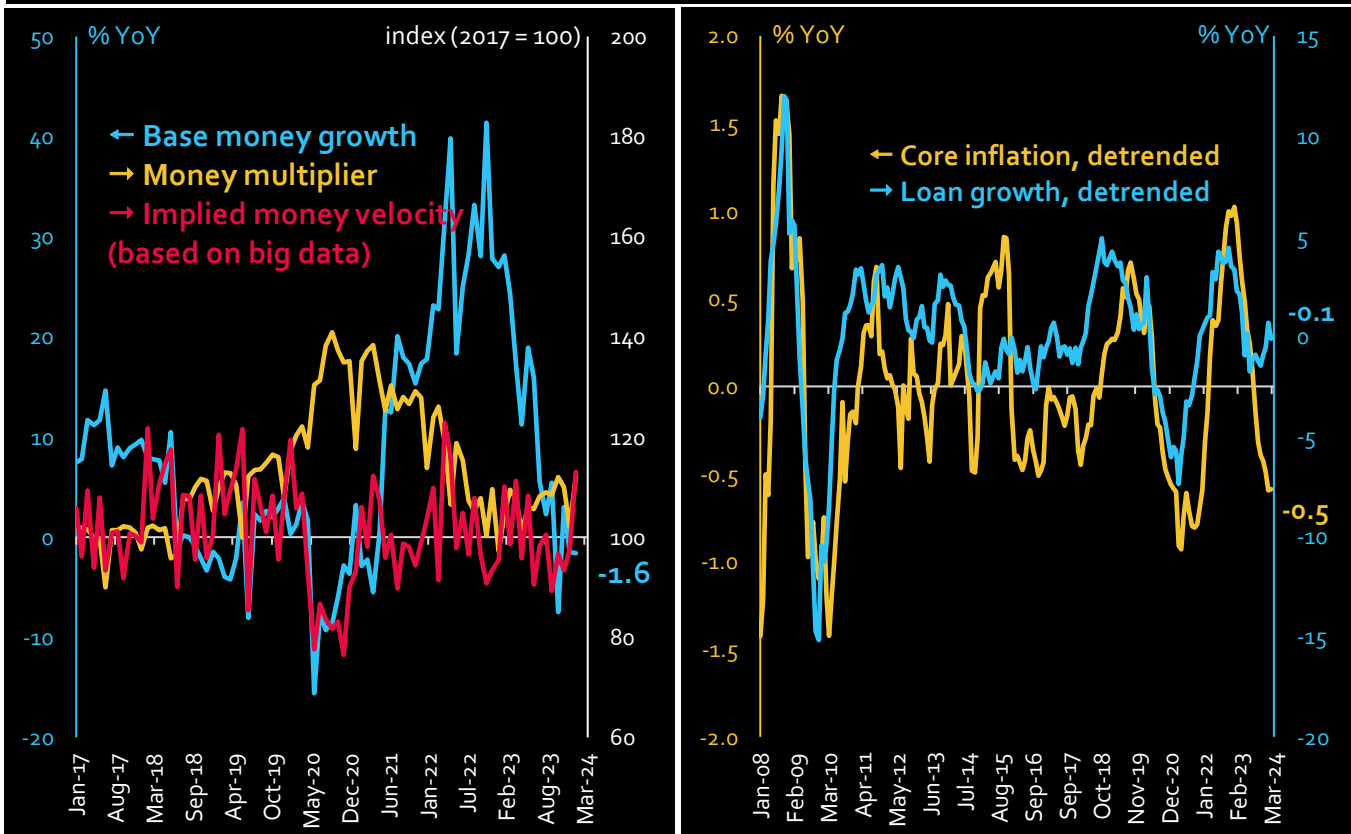
- Globally, the disinflationary effect from imported inflation is also seemingly stalling, as seen from the upward trend in imported WPI (-1.69% as of Feb-24). The sharp depreciation of the Rupiah in late March should also accelerate the increase in imported WPI over the next couple of months, with the increase in prices already beginning to show for a few e-commerce items.
- Overall, we still maintain a relatively moderate inflation outlook for the year at 3.0 – 3.3%, but we might note that some limited upside risks for inflation may emerge in the coming year. For one, the planned increase in the value added taxes (VAT) from 11% to 12% starting on January 1, 2025, should have some inflationary effect across the board. Rumors of Peralite being replaced by Pertamina Green is another oft-discussed risk lately, which is something that we have [discussed before](#). While this could also increase inflation, it would be a lot milder compared to if Peralite would be replaced completely by Pertamina. But we have reasons to believe that – even if it ends up happening – the switch will only be implemented fully within a few years into the new presidential term, considering that the domestic production capacity for ethanol is still very limited.
- In the meantime, inflation is likely the least of BI's concerns at the moment, compared to pressures on domestic liquidity and the Rupiah. Any further increases in the BI rate will likely be driven by these concerns, especially considering the mixed outlook from the last FOMC meeting.

**Panel 1. Food inflation experienced a slowdown due to the harvest season**



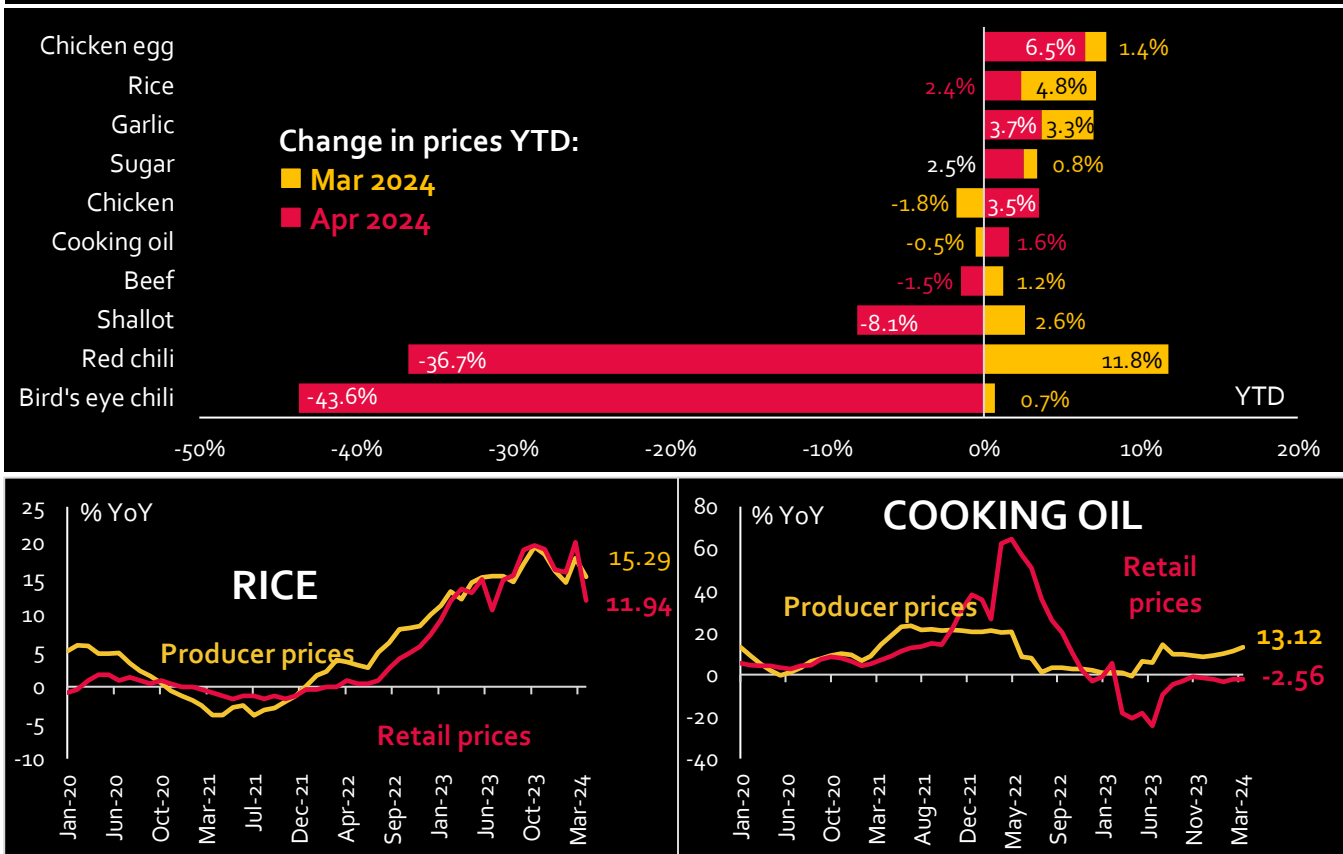
Source: BPS, calculation by BCA Economic Research

**Panel 2. Core inflation increased, likely correlated with the rising trend of money growth**



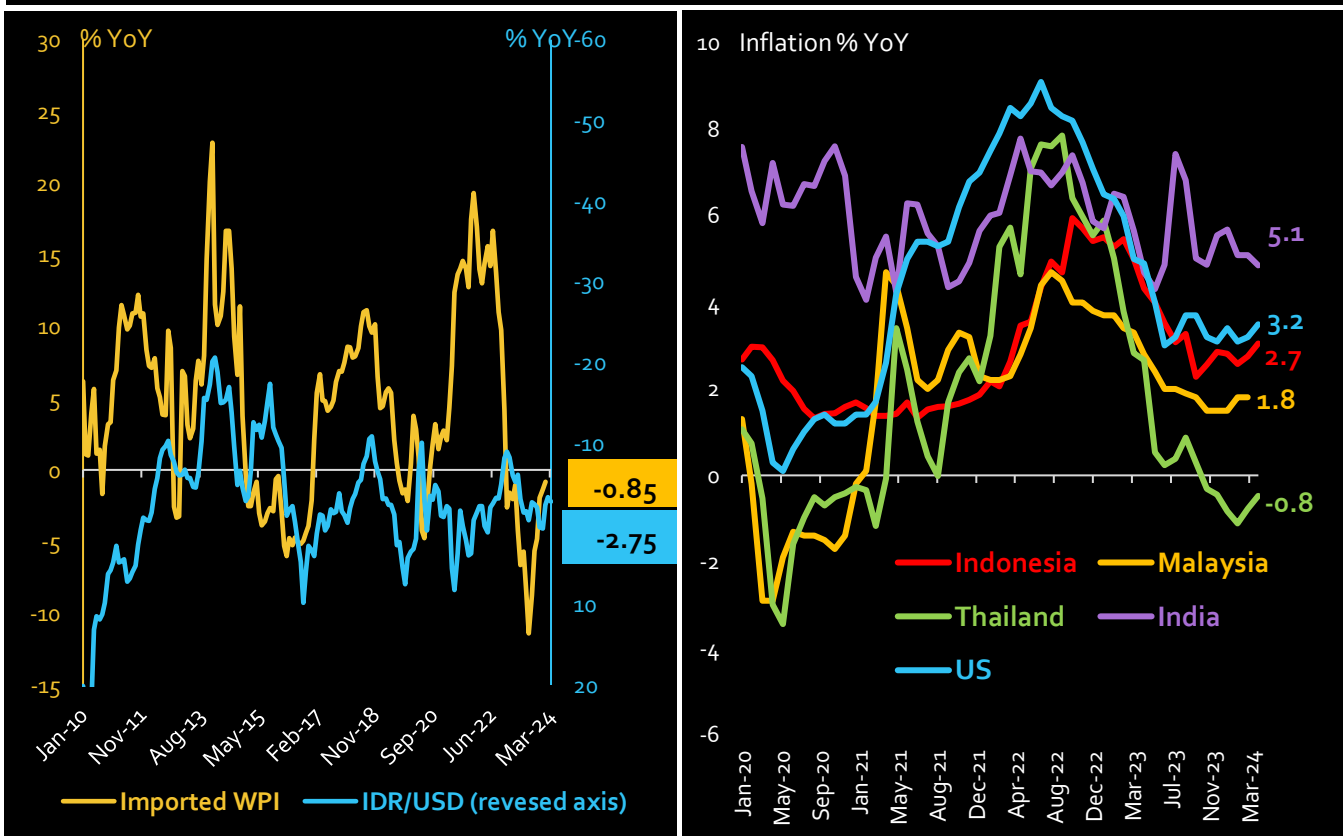
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

**Panel 3. Increase in food prices are beginning to slow, especially for chilies, shallots, and rice**



Source: Ministry of Trade, BPS

**Panel 4. Slower global disinflation is evident in the rising trend of Indonesia's imported WPI**



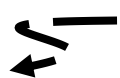
## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Apr	-1 mth	Chg (%)
US	5.50	Jul-23	2.00	Baltic Dry Index	1,685.0	1,821.0	-7.5
UK	5.25	Aug-23	2.05	S&P GSCI Index	586.2	582.5	0.6
EU	4.50	Jul-23	2.10	Oil (Brent, \$/bbl)	87.9	87.5	0.4
Japan	-0.10	Jan-16	-2.80	Coal (\$/MT)	145.1	139.6	3.9
China (lending)	2.50	Aug-23	4.25	Gas (\$/MMBtu)	1.68	1.54	9.1
Korea	3.50	Jan-23	0.60	Gold (\$/oz.)	2,286.3	2,229.9	2.5
India	6.50	Feb-23	1.65	Copper (\$/MT)	9,892.4	8,766.5	12.8
Indonesia	6.25	Apr-24	3.25	Nickel (\$/MT)	19,065.0	16,568.0	15.1
Money Mkt Rates	30-Apr	-1 mth	Chg (bps)	CPO (\$/MT)	809.0	906.7	-10.8
				Rubber (\$/kg)	1.58	1.60	-1.3
SPN (1M)	5.88	5.80	7.6	External Sector	Mar	Feb	Chg (%)
SUN (10Y)	7.22	6.69	52.5	Export (\$ bn)	22.43	19.27	16.40
INDONIA (O/N, Rp)	6.07	5.91	16.6	Import (\$ bn)	17.96	18.44	-2.60
JIBOR 1M (Rp)	6.90	6.65	26.0	Trade bal. (\$ bn)	4.47	0.83	436.66
Bank Rates (Rp)	Jan	Dec	Chg (bps)	Central bank reserves (\$ bn)*	140.4	144.0	-2.53
Lending (WC)	8.87	8.86	1.70	Prompt Indicators	Mar	Feb	Jan
Deposit 1M	4.68	4.76	-7.90	Consumer confidence index (CCI)	123.8	123.1	125.0
Savings	0.68	0.69	-1.30	UK Pound	0.801	0.792	-1.04
Currency/USD	30-Apr	-1 mth	Chg (%)	Euro	0.938	0.927	-1.15
				Japanese Yen	157.8	151.4	-4.09
				Chinese RMB	7.241	7.222	-0.26
				Indonesia Rupiah	16,260	15,855	-2.49
Capital Mkt	30-Apr	-1 mth	Chg (%)	Manufacturing PMI	Apr	Mar	Chg (bps)
JCI	7,234.2	7,288.8	-0.75	USA	50.0	51.9	-190
DJIA	37,815.9	39,807.4	-5.00	Eurozone	45.7	46.1	-40
FTSE	8,144.1	7,952.6	2.41	Japan	49.6	48.2	140
Nikkei 225	38,405.7	40,369.4	-4.86	China	51.4	51.1	30
Hang Seng	17,763.0	16,541.4	7.39	Korea	49.4	49.8	-40
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)	Indonesia	52.9	54.2	-130
Stock	3,294.9	3,226.6	68.31				
Govt. Bond	791.0	810.7	-19.68				
Corp. Bond	8.4	9.4	-0.97				

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
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,119
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

\* Estimated Number

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