

CPI:

On track, with downslopes and upslopes

Elbert Timothy Lasiman
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

03 Jun 2024

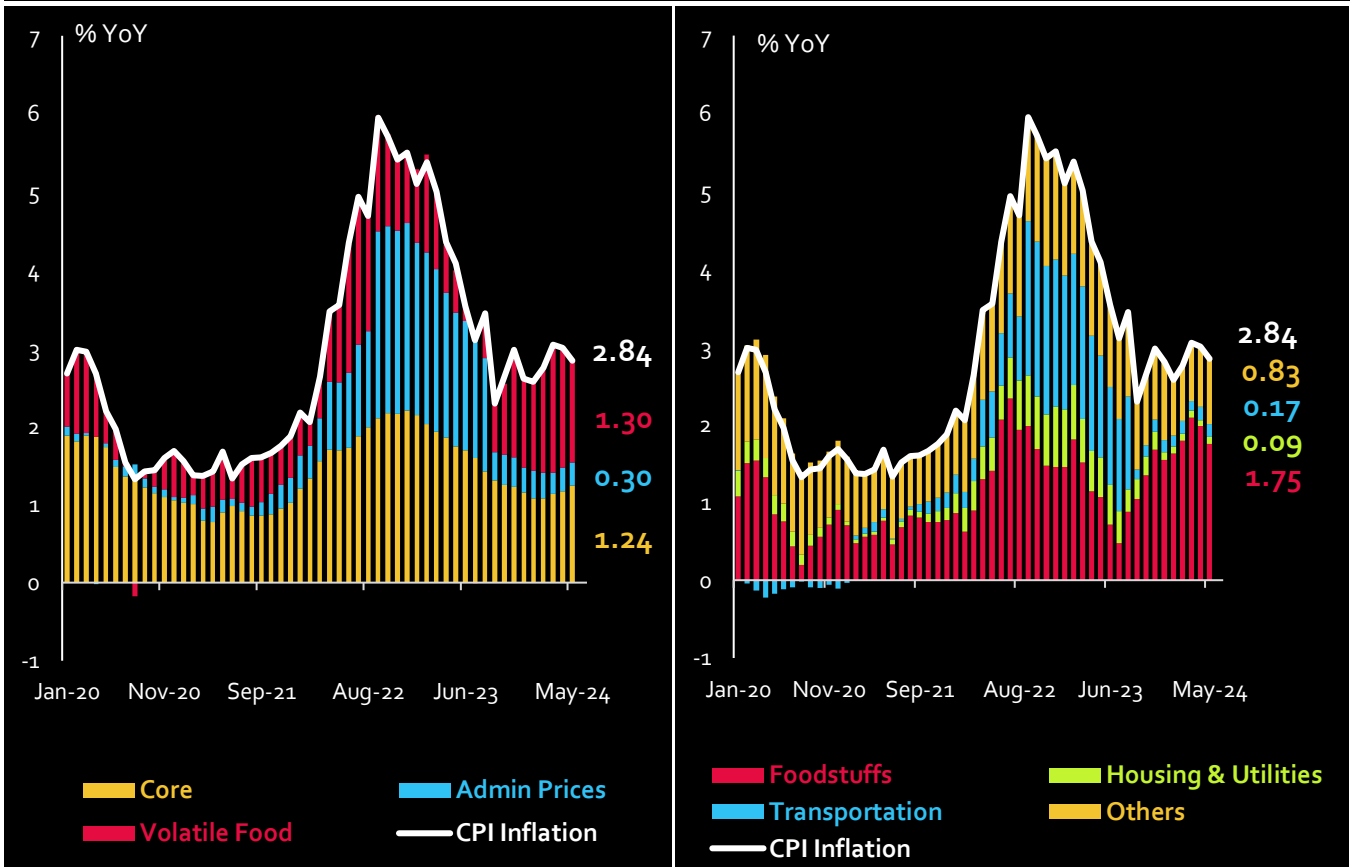
Executive Summary

- Indonesia's inflation slowed down to 2.84% YoY in May 2024 (-0.03% MoM), mainly due to disinflation in foodstuffs. Rice prices have significantly eased because of the existing stock and lower demand.
- Core inflation accelerated to 1.93% YoY, but it mostly reflects the rally in gold prices. On the other hand, no significant rise in other components may point to a weak domestic demand.
- Even though imported inflation is currently on an upward trend, the recent regulation (Permendag 8/2024), which eases import restrictions, might suggest that there will be another round of import-driven disinflation.
- There is still the possibility of a 25 – 50 bps hike from BI, but the concern is not inflation but Rupiah depreciation and Fed rate outlook.

- Indonesia's inflation has slowed down to 2.84% YoY in May 2024, with a deflation of 0.03% MoM in monthly terms. The deceleration, although slower than the consensus of 2.94% YoY, is not a huge surprise given the seasonal easing of price pressure after the holiday season.
- Similar to last month, disinflation on foodstuffs is the biggest driver that pulls inflation down, but the effect is more significant compared to last month. Rice, by itself, contributes to a deflation of 0.15% MoM. Along with lower demand after the holiday season, existing stocks from rice imports in the first quarter and the recent harvests in April seem to continue to push prices downwards.
- As administered prices do not change much, the most dominant factor that contributes to inflation (in monthly terms) is core inflation, with a 0.17% MoM / 1.93% YoY increase (1.84% YoY in Apr-24). At first glance, one might think it points to higher domestic demand. However, on closer inspection, only one subsector significantly contributes to inflation: other personal care with a 13.29% YoY increase. Zoom in further, and we can see that this is attributed mostly to gold (jewelries). With the ongoing rally in global gold prices, it is no wonder that this subsector has been on a significant uptrend in the last 3 months (5.76% YoY in Feb-24). Excluding other personal care, inflation is much lower, at 2.61% YoY.
- Thus, contrary to a naive read on core inflation, the lack of other contributions in core inflation is a concern for domestic demand. Although in the short term, core inflation might rise a bit because of education prices when a new school term takes place, a weak domestic demand outlook, especially in the second semester, might continue to put downward pressure on core inflation.

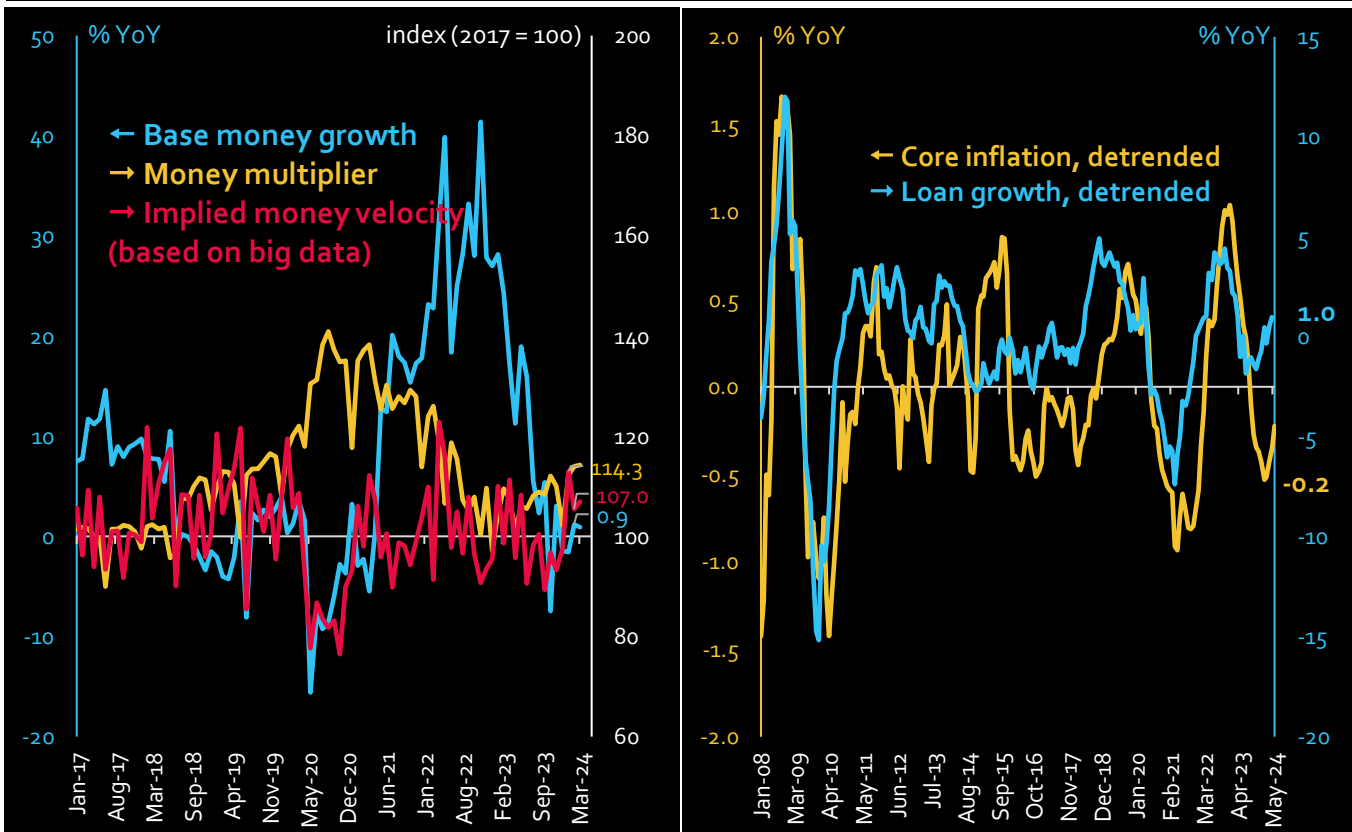
- Of course, inflation is not just influenced by domestic factors, but also global ones. Imported inflation, once a reliably negative contributor to inflation, turned positive for the first time in 16 months in March. Higher prices on Chinese goods, as well as currency depreciation, played a role here, but there might also be a matter of import restrictions (Permendag 36/2023), which was an attempt to respond to the influx of Chinese imports.
- More recently, however, the regulation was U-turned through Permendag 8/2024, and much of the previous restrictions are removed. This could be detrimental to certain industries (e.g. textiles), but it could once more lower consumer goods prices. We need to note that while Chinese PPI has improved versus 2023, its inventory buildup has also returned at strength – implying that another round of “dumping” might be around the corner.
- All in all, the situation might warrant a downward revision in our inflation outlook, but we cannot be too confident just yet. There could be additional rounds of inflation around July-August (from school fees) as well as the year-end shopping season. There is also a lingering rumor of BBM price hike, although the government has confirmed there will be no price hike in June. In addition, foodstuffs might later become another driver of inflation, especially around the October-November harvest, if the weather remains inclement.
- The current stable inflation is very much a minor concern for Bank Indonesia, while concerns over Rupiah depreciation and Fed rate outlook remains at the forefront. We maintain the possibility of another 25-50 bps hike in BI Rate, although this will depend greatly on the timing and extent of the exchange-rate pressure. For now, BI seems to soak up the pressure through SRBI, where short-term (6M to 12M) yields of 7.3 – 7.5% appears quite attractive for foreign investors.

Panel 1. Food inflation experienced another slowdown due to the lower demand



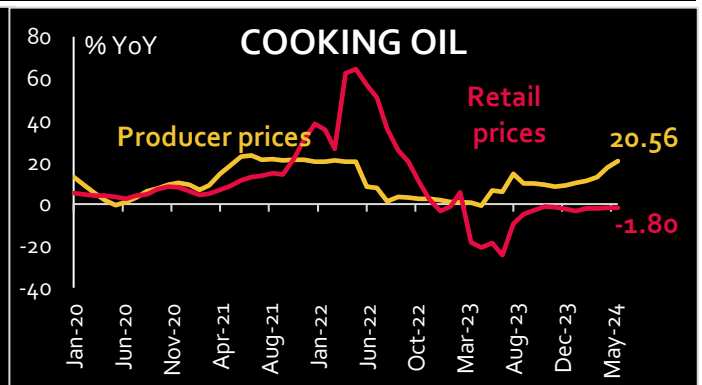
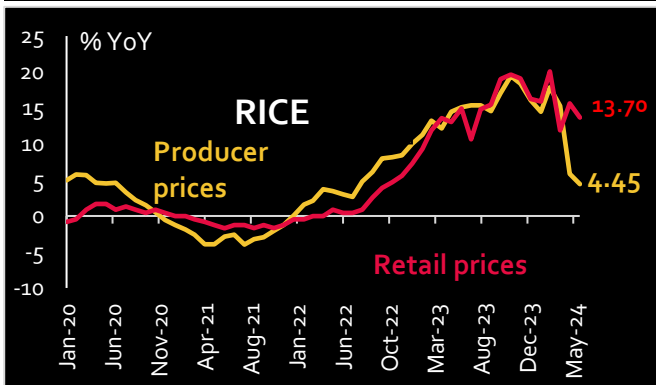
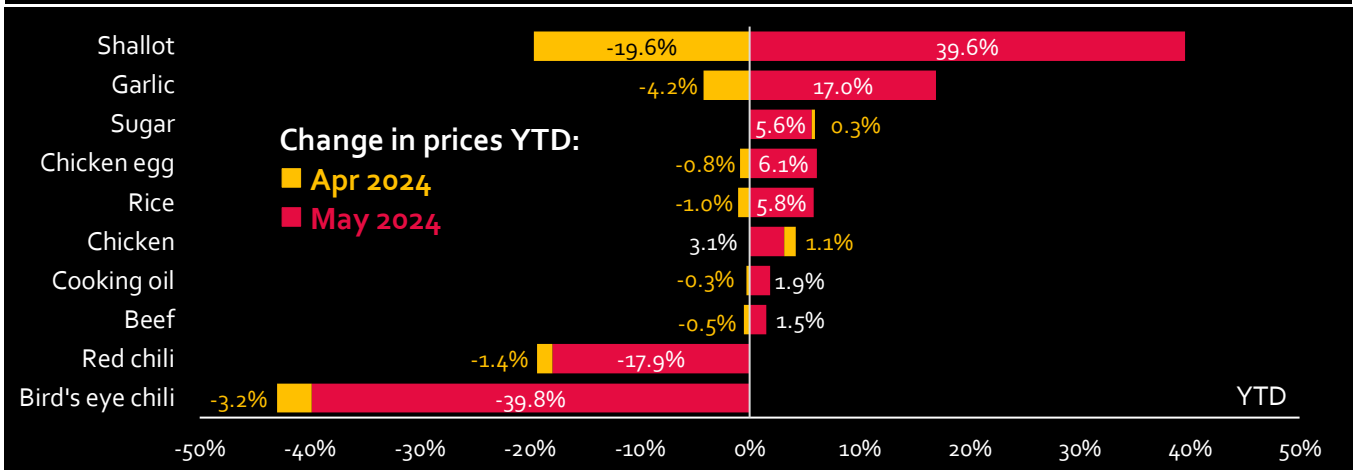
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation accelerated but mostly because of gold price rally



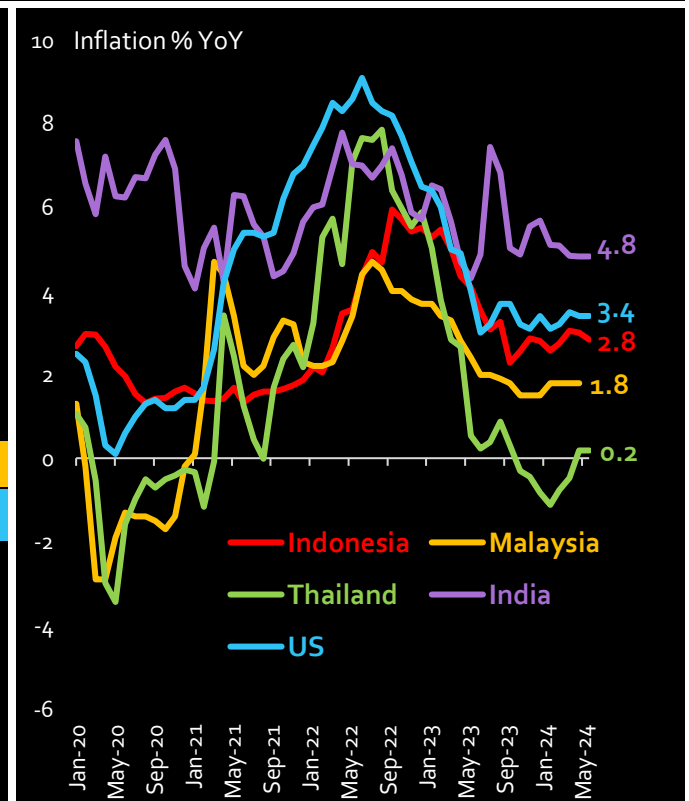
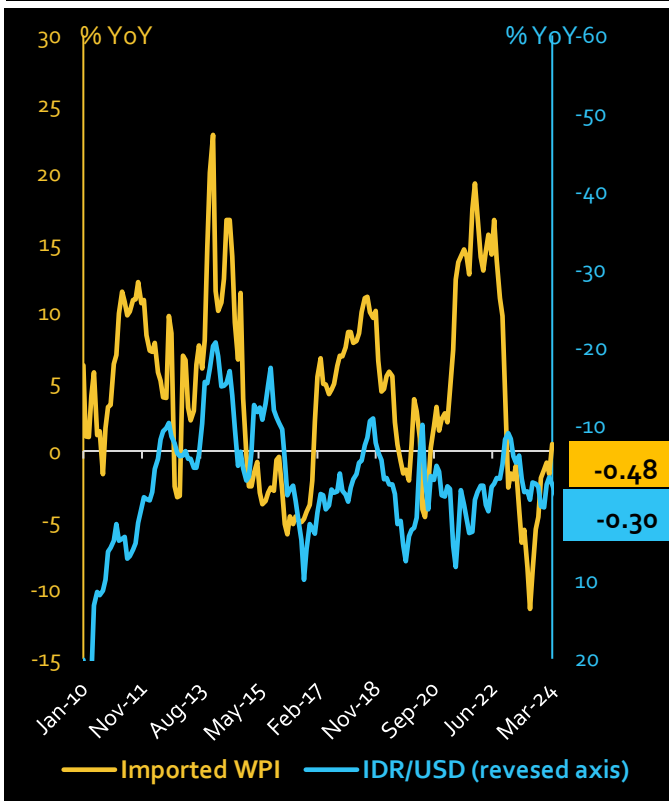
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

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



Source: Ministry of Trade, BPS

Panel 4. Imported inflation might come down again because of another possibility of China's dumping



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-May	-1 mth	Chg (%)
US	5.50	Jul-23	2.10	Baltic Dry Index	1,815.0	1,685.0	7.7
UK	5.25	Aug-23	2.95	S&P GSCI Index	573.3	586.2	-2.2
EU	4.50	Jul-23	1.90	Oil (Brent, \$/bbl)	81.6	87.9	-7.1
Japan	-0.10	Jan-16	-2.60	Coal (\$/MT)	143.9	143.4	0.3
China (lending)	2.50	Aug-23	4.05	Gas (\$/MMBtu)	1.86	1.68	10.7
Korea	3.50	Jan-23	0.60	Gold (\$/oz.)	2,327.3	2,286.3	1.8
India	6.50	Feb-23	1.67	Copper (\$/MT)	9,913.4	9,892.4	0.2
Indonesia	6.25	Apr-24	3.41	Nickel (\$/MT)	19,455.6	19,065.0	2.0
Money Mkt Rates	31-May	-1 mth	Chg (bps)	CPO (\$/MT)	850.0	809.0	5.1
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.76	1.58	11.4
SUN (10Y)	6.91	7.22	-30.9	External Sector	Apr	Mar	Chg (%)
INDONIA (O/N, Rp)	6.11	6.07	3.4	Export (\$ bn)	19.62	22.54	-12.97
JIBOR 1M (Rp)	6.90	6.90	-0.5	Import (\$ bn)	16.07	17.96	-10.55
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	3.55	4.58	-22.46
Lending (WC)	8.84	8.87	-3.03	Central bank reserves (\$ bn)*	136.2	140.4	-2.98
Deposit 1M	4.62	4.68	-5.80	Prompt Indicators	Apr	Mar	Feb
Savings	0.67	0.68	-0.11	Consumer confidence index (CCI)	127.7	123.8	123.1
Currency/USD	31-May	-1 mth	Chg (%)	Car sales (%YoY)	-17.5	-26.2	-18.8
UK Pound	0.785	0.801	2.00	Motorcycle sales (%YoY)	18.3	-7.8	-2.9
Euro	0.922	0.938	1.71	Manufacturing PMI	Apr	Mar	Chg (bps)
Japanese Yen	157.3	157.8	0.31	USA	50.0	51.9	-190
Chinese RMB	7.242	7.241	-0.01	Eurozone	45.7	46.1	-40
Indonesia Rupiah	16,250	16,260	0.06	Japan	49.6	48.2	140
Capital Mkt	31-May	-1 mth	Chg (%)	China	51.4	51.1	30
JCI	6,970.7	7,234.2	-3.64	Korea	49.4	49.8	-40
DJIA	38,686.3	37,815.9	2.30	Indonesia	52.9	54.2	-130
FTSE	8,275.4	8,144.1	1.61	Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)
Nikkei 225	38,487.9	38,405.7	0.21	Stock	3,294.9	3,226.6	68.31
Hang Seng	18,079.6	17,763.0	1.78	Govt. Bond	791.0	810.7	-19.68
				Corp. Bond	8.4	9.4	-0.97

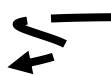
Source: Bloomberg, BI, BPS

Notes:

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

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



Scan for the link to our report depository or click:

https://s.id/BCA_REI

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

Economic, Banking & Industry Research Team

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinto

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

thieris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

Aldi Rizaldi

Research Assistant

aldi_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

Fikri Adam Zaqi

Research Assistant

fikri_zaqi@bca.co.id

+6221 2358 8000 Ext: 20378

Eri Tristanto

Research Assistant

-

+6221 2358 8000 Ext: -

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

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 1020451 or fax to: (62-21) 2358 8343 or email: aldi_yanto@bca.co.id