

## CPI Inflation:

# Demand and supply fall south

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### Executive Summary

- Indonesia's inflation further slowed down to 2.13% in July (-0.18% MoM), with foodstuffs deflation led by shallots, red chili, tomato, and chicken. However, food inflation remains a risk, with rice still being the key player, although milder from previous expectation.
- Core inflation saw an increase fueled by a recent gold rally and back-to-school season, while domestic demand growth appears to be slower.
- Weaker domestic demand in China and the return to oversupply-and-dumping dynamic have further pulled down inflation.
- Low inflation and expectation on Fed rate cut have made BI's calculus much simpler, but BI remained on cautious stance, amid concern on Rupiah's depreciation.

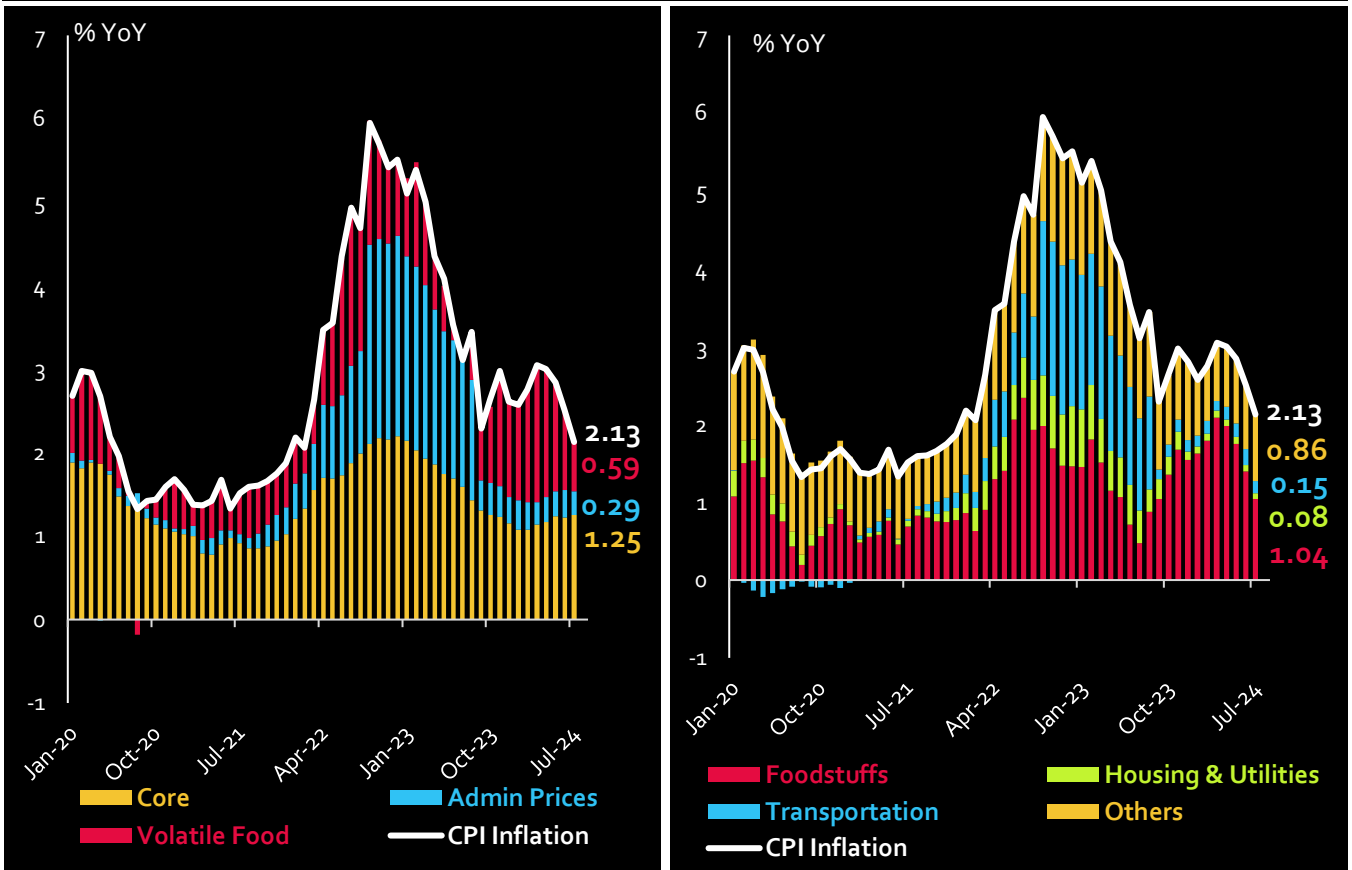
- Inflation slowed down further to 2.13% YoY in July, with a deflation of 0.18% MoM. Foodstuffs deflation continued for the fourth straight month, and July saw the sharpest deflation since November 2022.
- This deflation was dominated by chicken, shallots, red chili, and tomato, thanks in part to recent harvests. Bird's eye chili was an outlier with the increase in price, while rice only saw slight price increase which did not add too much to inflation.
- Core inflation increased in both monthly terms (+0.18%) and annually (from 1.90% to 1.95% YoY). However, much of these came from two subsectors in particular: other personal care (0.35% MoM) and education (0.69% MoM).
- The market's optimism about a potential Fed rate cut has rekindled another gold rally, while the increased chances of another Trump presidency might have pushed some central banks to further stock up on gold. Meanwhile, back-to-school season caused a jump in student tuition payments, which would continue into August. If we exclude these effects from gold and education, the CPI inflation would be much lower, at 1.68% YoY.
- Such slow inflation, of course, is a harbinger of weak domestic demand, which we have discussed in previous reports. We expect Q2 growth to be significantly slower than Q1, and a recovery in consumption might have to await government spending during Regional Elections in Q4, or even new stimulus from the Prabowo admin next year.
- We should be careful, however, not to attribute all these solely on the demand-side, since supply-side factors also play a role. Most importantly, the steep decline in China's real

consumer demand in Q2 has given rise to another oversupply-and-dumping dynamic similar to early 2023. This could be a reason why imported WPI inflation peaked in April (3.73% YoY) but then fell in May (0.48%), despite a weaker Rupiah.

- This shift in the Chinese economy is a major reason why we are sharply revising our FY inflation outlook to 2.7 – 2.9% YoY. Previously, we had expected China’s demand recovery (which peaked in late 2023) to continue into 2024, reducing the excess inventory level that we had seen since the pandemic.
- Rice remains the key X-factor, with the government already anticipating another weather-disrupted harvest and accordingly raised the maximum retail price (*harga eceran tertinggi* or HET). Still, it appears that the worst of El Niño is now behind us, and the same is true with the severe heatwave in Indochina and the Indian Subcontinent. These offer us a glimpse of more stable rice prices in the future – if not through better domestic output, then at least through lower imported prices.
- Continued decline in inflation rate certainly makes BI’s calculus much simpler, but global rate outlook and the Rupiah remains the main factor that would decide how early and how fast BI could ease policy. While the Fed has given tentative signals on a potential cut in September, we need to keep in mind that the market has always been too optimistic over the prospects of a rate cut in the past two years. As such, our outlook is still that BI Rate would end up between 6.00 – 6.25% by the year-end (either zero or one cut).

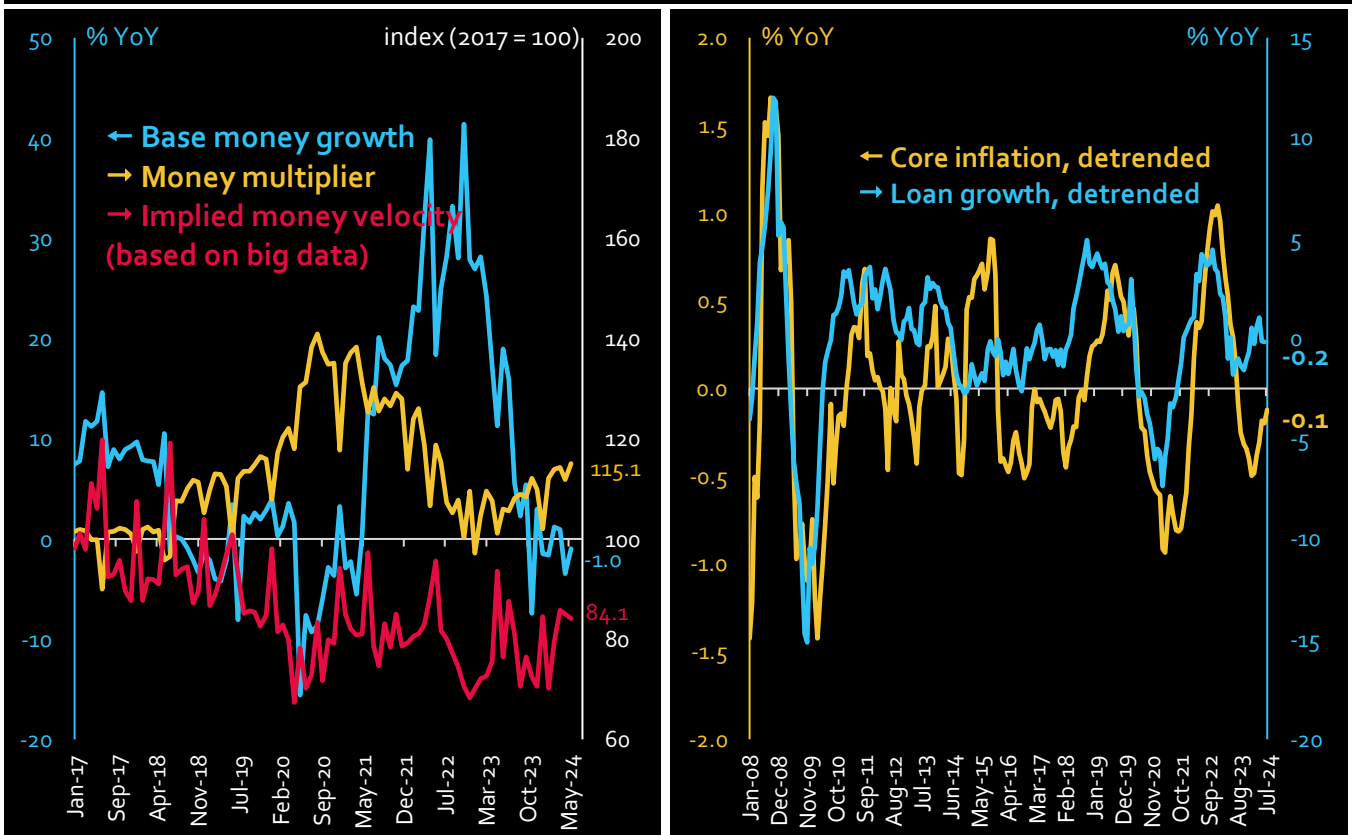
*"Despite an increase in core inflation, domestic demand growth appears to be slower"*

**Panel 1. Food inflation experienced another slowdown, while core inflation remains stable**



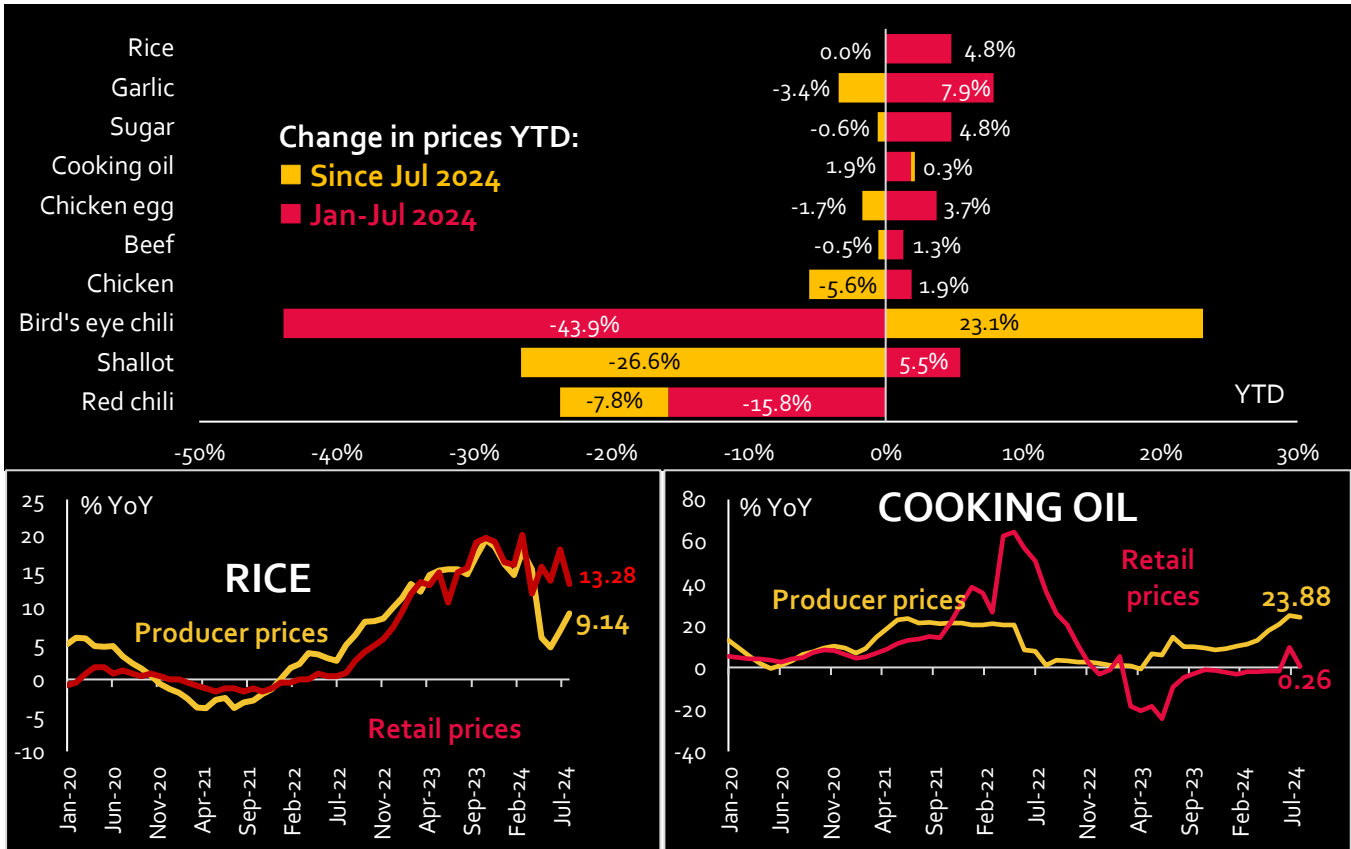
Source: BPS, calculation by BCA Economic Research

**Panel 2. Strong loan growth may indicate higher core inflation in periods ahead**



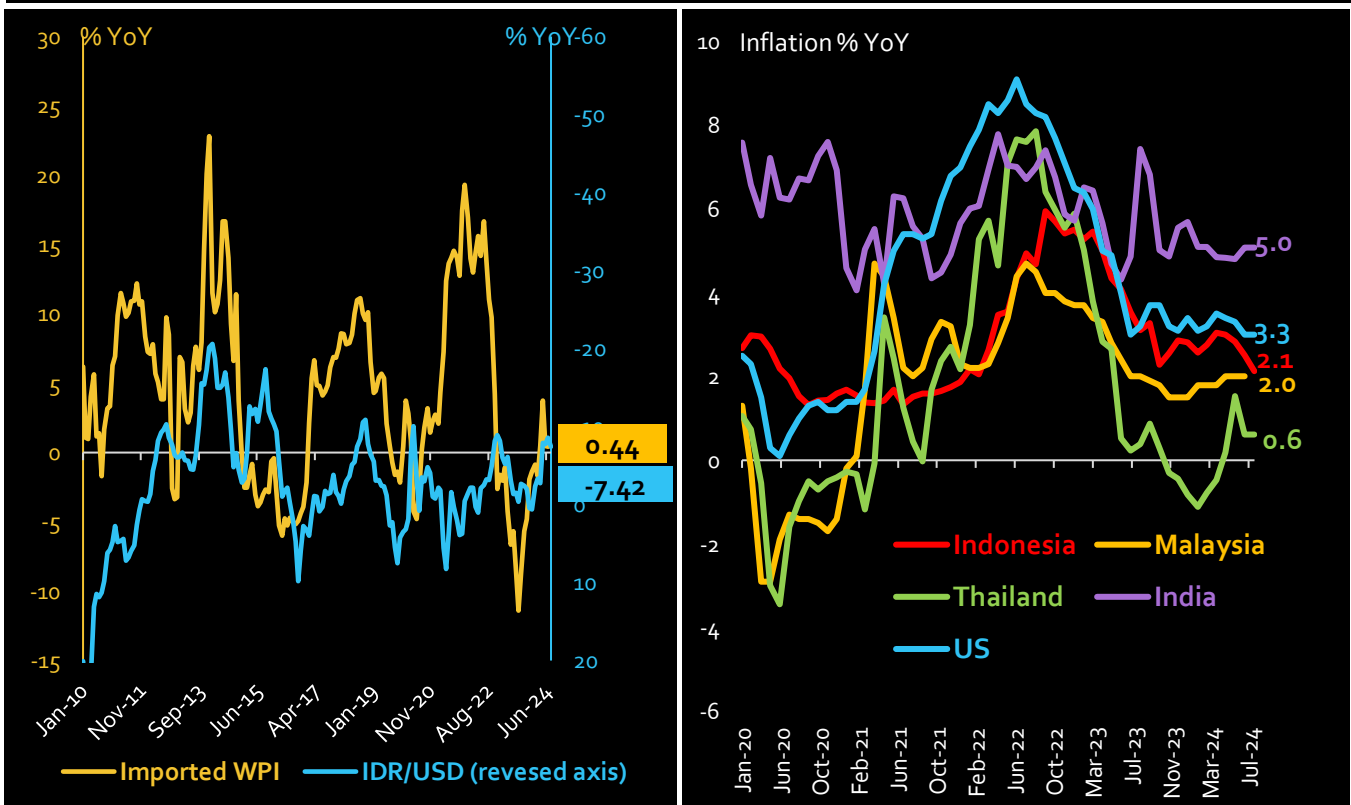
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

**Panel 3. Rice prices remain stable while shallots and red chili price decrease due to the recent harvest.**



Source: Ministry of Trade, BPS

**Panel 4. The weakening Rupiah may continue to drive imported inflation northwards.**



Source: BI, Bloomberg

## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Jul	-1 mth	Chg (%)
US	5.50	Jul-23	2.50	Baltic Dry Index	1,708.0	2,050.0	-16.7
UK	5.25	Aug-23	3.25	S&P GSCI Index	551.4	578.4	-4.7
EU	4.25	Jul-23	1.65	Oil (Brent, \$/bbl)	80.7	86.4	-6.6
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	141.4	134.9	4.8
China (lending)	2.30	Aug-23	4.15	Gas (\$/MMBtu)	1.86	2.36	-21.2
Korea	3.50	Jan-23	1.10	Gold (\$/oz.)	2,447.6	2,326.8	5.2
India	6.50	Feb-23	1.42	Copper (\$/MT)	9,102.3	9,456.0	-3.7
Indonesia	6.25	Apr-24	4.12	Nickel (\$/MT)	16,336.1	17,040.2	-4.1
Money Mkt Rates	31-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	882.0	847.0	4.1
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.68	1.66	1.2
SUN (10Y)	6.89	7.05	-15.3	External Sector	Jun	May	Chg (%)
INDONIA (O/N, Rp)	6.24	6.15	8.7	Export (\$ bn)	20.84	22.33	-6.66
JIBOR 1M (Rp)	6.90	6.90	0.0	Import (\$ bn)	18.45	19.40	-4.89
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	2.39	2.93	-18.37
Lending (WC)	8.86	8.85	1.37	Central bank reserves (\$ bn)*	140.2	139.0	0.87
Deposit 1M	4.68	4.65	2.54	Prompt Indicators	Jun	May	Apr
Savings	0.67	0.68	-1.07	Consumer confidence index (CCI)	123.3	125.2	127.7
Currency/USD	31-Jul	-1 mth	Chg (%)	Car sales (%YoY)	-11.8	-13.2	-17.4
UK Pound	0.778	0.791	1.67	Motorcycle sales (%YoY)	3.5	-4.5	18.3
Euro	0.924	0.933	1.05	Manufacturing PMI	Jun	May	Chg (bps)
Japanese Yen	150.0	160.9	7.27	USA	51.6	51.3	30
Chinese RMB	7.227	7.267	0.56	Eurozone	45.8	47.3	-150
Indonesia Rupiah	16,260	16,375	0.71	Japan	50.0	50.4	-40
Capital Mkt	31-Jul	-1 mth	Chg (%)	China	51.8	51.7	10
JCI	7,255.8	7,063.6	2.72	Korea	52.0	51.6	40
DJIA	40,842.8	39,118.9	4.41	Indonesia	50.7	52.1	-140
FTSE	8,368.0	8,164.1	2.50	Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Nikkei 225	39,101.8	39,583.1	-1.22	Stock	3,273.1	3,115.0	158.05
Hang Seng	17,344.6	17,718.6	-2.11	Govt. Bond	805.6	807.0	-1.38
				Corp. Bond	8.2	8.2	-0.06

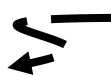
Source: Bloomberg, BI, BPS

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	2.87
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,172
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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