

CPI Inflation:

A global disinflation morass

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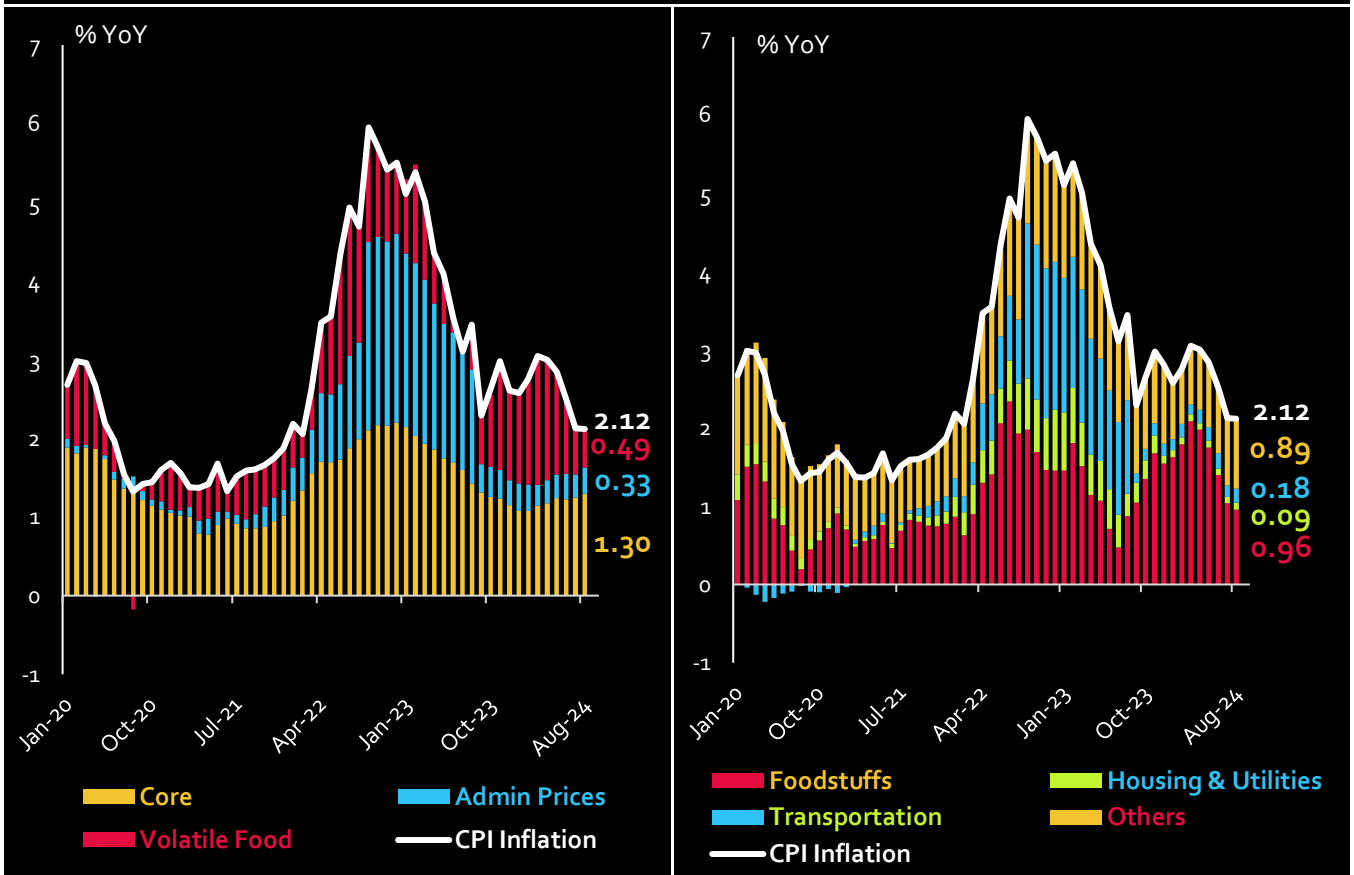
Executive Summary

- Indonesia's inflation rate continued its deflationary trend in August, reaching 2.12% YoY (-0.03% MoM), driven by deflation in foodstuffs like shallots and chicken, while administered prices rose due to non-subsidized fuel prices.
- Core inflation increased (0.20% MoM), mainly due to personal care and education costs, which, if excluded, would result in much lower overall inflation, around 1.7% YoY.
- Low domestic and global demand, especially from China and the US, have further kept inflation down, impacting Indonesia's imported prices.
- Lack of growth catalyst and persistently low inflation make monetary easing increasingly likely, but Bank Indonesia might prioritize unwinding SRBI and potentially delay initial rate cut into Q4.

- The deflationary streak continued in August at 0.03% MoM, for an annual inflation rate of 2.12%. Foodstuffs continued to be the main cause of deflation – shallots and chicken in particular – while administered prices rose 0.23% on monthly basis due to non-subsidized fuel prices.
- Core inflation rose quite noticeably (0.20% MoM), but as with last month this was driven by mainly two factors: personal care (0.50% MoM) and education (0.65%). If we exclude these, the headline inflation would be much lower, at around 1.7% YoY.
- Most observers continue to blame on the low inflation prints on weak domestic demand, and they are not wrong. The consumer spending index (Intrabel) from our big data has been in negative territory during July-August, even though a handful of sales indicators (motorcycle and household appliances) did show strong numbers in July.
- However, any such analysis would be incomplete if we disregard the global backdrop. Inflation and demand have been falling across the globe, including in China and the US. In the former's case, rampant oversupply has pushed down on producer prices, and therefore our imported (wholesale) price index. As for the latter, low inflation has heightened rate cut expectations, helping strengthen the Rupiah which would further suppress imported inflation.
- The PMI data, also published today, confirm the bleak picture as all four major powerhouses – China, the US, Eurozone, and Japan – languish below 50. This puts Indonesia's negative PMI print into perspective, even though the gap with better-performing peers (especially Vietnam and India) remains troubling.

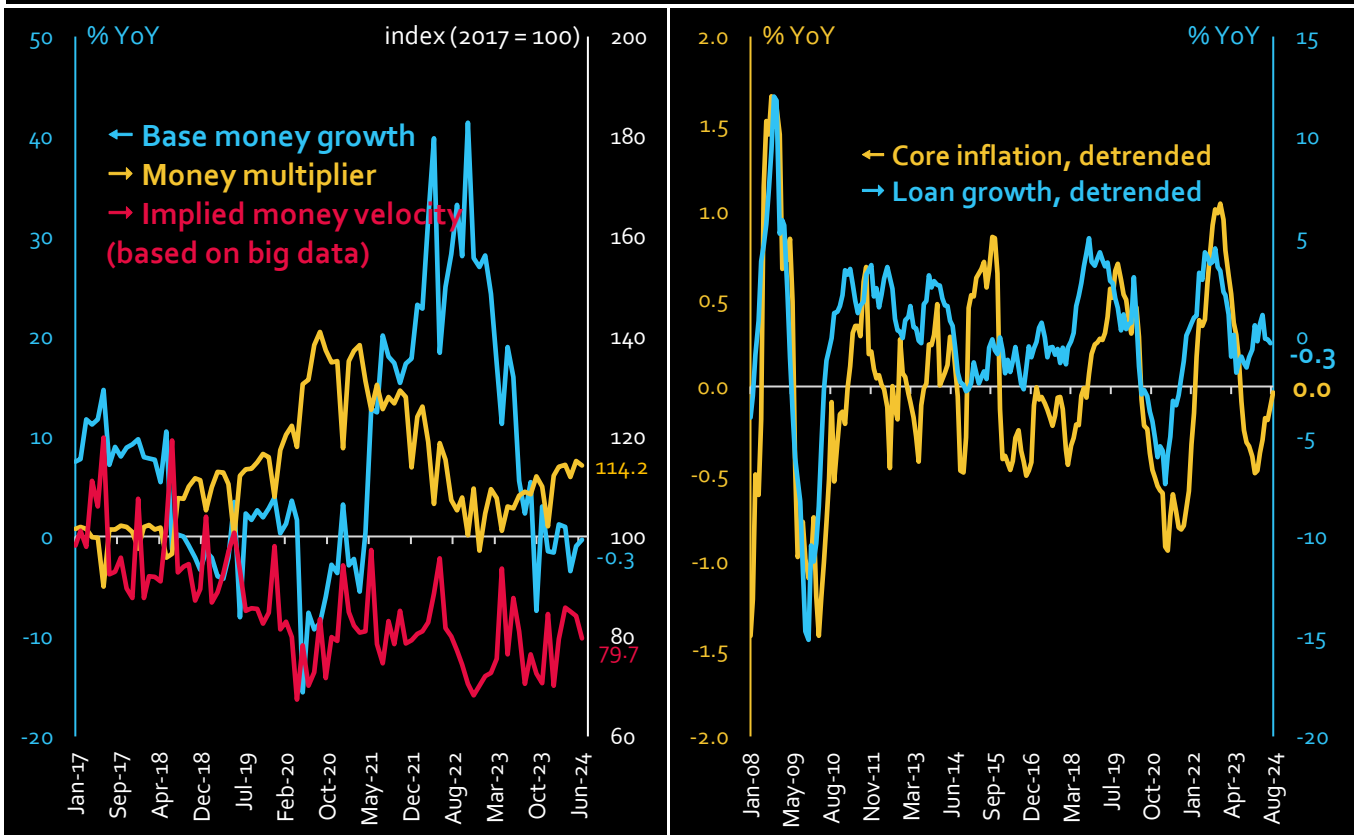
- The weaker inflation and growth prospects mean that monetary easing is just a matter of time, but – as we wrote before – there remains reservations that would probably delay BI’s initial rate cut into Q4. We still see the slowing issuance and, eventually, unwinding of SRBI as the most efficacious way to ease policy, albeit one with potential drawback on Rupiah.
- As for growth, there is a conspicuous lack of catalyst in H2-24, other than Regional Elections in November. Even then, the political stakes (and therefore the amount of spending) are simply not as high as the General Elections in February. For the moment, our growth outlook probably stands on a rather narrow base of tourism, capital-intensive manufacturing, and public-sector projects, while globally things would hinge on a potential demand-side stimulus in China.

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



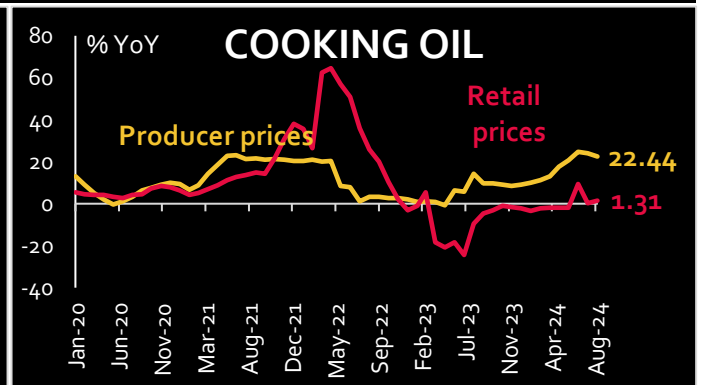
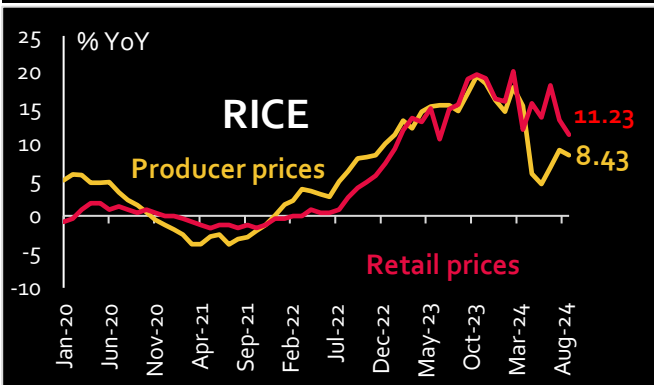
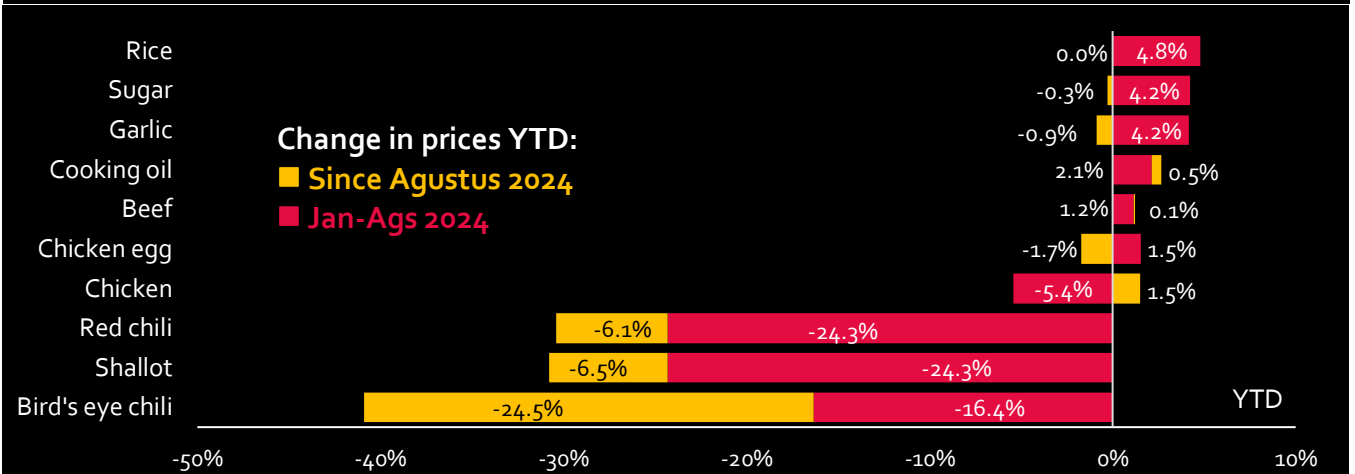
Source: BPS, calculation by BCA Economic Research

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



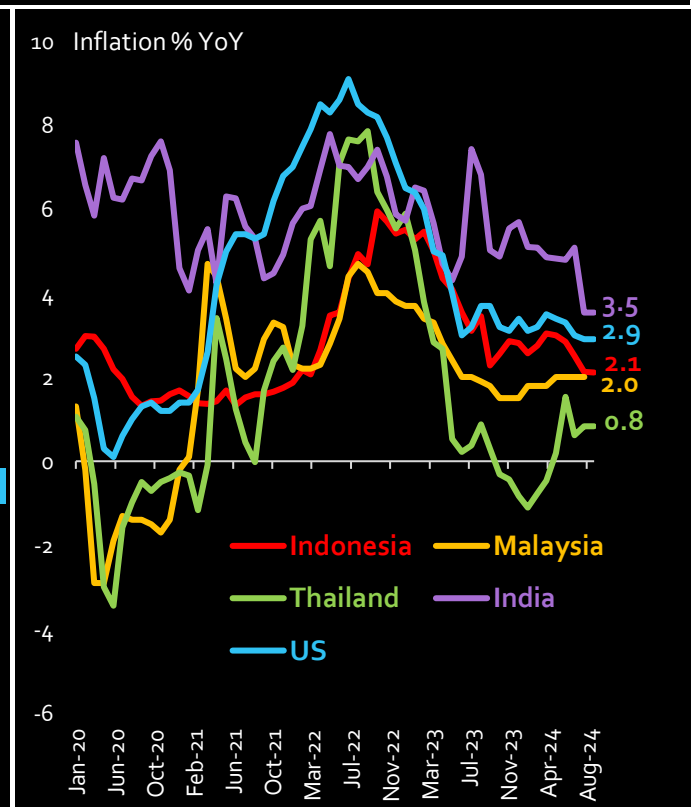
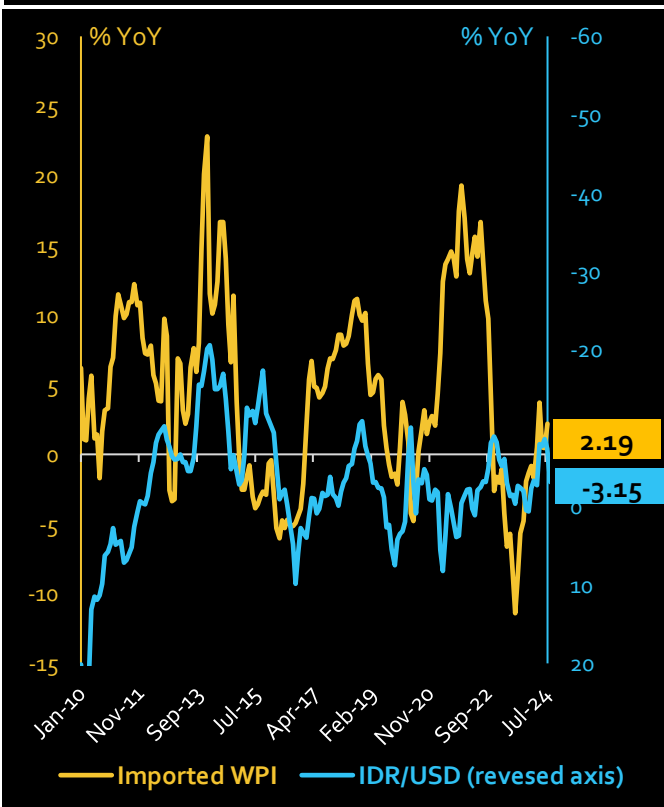
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Rice prices remain stable while chicken and shallots saw a decrease



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	30-Aug	-1 mth	Chg (%)
US	5.50	Jul-23	2.60	Baltic Dry Index	1,814.0	1,762.0	3.0
UK	5.00	Aug-23	2.80	S&P GSCI Index	536.7	539.1	-0.4
EU	4.25	Jul-23	2.05	Oil (Brent, \$/bbl)	78.8	78.6	0.2
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	145.3	140.3	3.6
China (lending)	2.30	Aug-23	3.85	Gas (\$/MMBtu)	1.87	1.86	0.5
Korea	3.50	Jan-23	0.90	Gold (\$/oz.)	2,503.4	2,410.8	3.8
India	6.50	Feb-23	2.96	Copper (\$/MT)	9,118.1	8,842.9	3.1
Indonesia	6.25	Jul-24	4.13	Nickel (\$/MT)	16,538.7	15,797.6	4.7
Money Mkt Rates	30-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	942.4	874.7	7.7
				Rubber (\$/kg)	1.84	1.65	11.5
Bank Rates (Rp)	Jun	May	Chg (bps)	External Sector	Jul	Jun	Chg (%)
Lending (WC)	8.82	8.86	-3.79	Export (\$ bn)	22.21	20.85	6.55
Deposit 1M	4.70	4.68	2.60	Import (\$ bn)	21.74	18.45	17.82
Savings	0.67	0.67	0.02	Trade bal. (\$ bn)	0.47	2.39	-80.29
				Central bank reserves (\$ bn)*	145.4	140.2	3.74
Currency/USD	30-Aug	-1 mth	Chg (%)	Prompt Indicators	Jul	Jun	Apr
UK Pound	0.762	0.779	2.27	Consumer confidence index (CCI)	123.4	123.3	127.7
Euro	0.905	0.925	2.15	Car sales (%YoY)	-7.9	-11.8	-17.4
Japanese Yen	146.2	152.8	4.52	Motorcycle sales (%YoY)	26.0	3.5	18.3
Chinese RMB	7.091	7.241	2.11	Manufacturing PMI	Jul	Jun	Chg (bps)
Indonesia Rupiah	15,455	16,300	5.47	USA	49.6	51.6	-200
Capital Mkt	30-Aug	-1 mth	Chg (%)	Eurozone	45.8	45.8	0
JCI	7,670.7	7,241.9	5.92	Japan	49.1	50.0	-90
DJIA	41,563.1	40,743.3	2.01	China	49.8	51.8	-200
FTSE	8,376.6	8,274.4	1.24	Korea	51.4	52.0	-60
Nikkei 225	38,647.8	38,526.0	0.32	Indonesia	49.3	50.7	-140
Hang Seng	17,989.1	17,002.9	5.80				
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)				
Stock	3,322.0	3,273.1	48.98				
Govt. Bond	813.1	808.1	4.97				
Corp. Bond	7.6	8.2	-0.60				

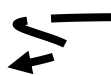
Source: Bloomberg, BI, BPS

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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