CPI Inflation:

Out of deflation, but not out of the woods

01 Nov 2024

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Executive Summary

- Inflation recorded another slowdown in October at 1.71% YoY (1.84% YoY in September), ending the five-month deflation streak with a weak 0.08% MoM inflation.
- The main contributors to declining inflation are foodstuffs and transportation, the latter due to lower non-subsidized fuel prices. Core inflation accelerated to 2.21% YoY, mainly because of global price increases in gold, coffee, and CPO.
- We expect inflation to gradually normalize towards 3% YoY next year, because of a higher food inflation outlook and recovering demand, as indicated by recovering base money growth and money velocity.

- Inflation saw another slowdown in October at 1.71% YoY, down from 1.84% in September. This marked an end to the five-month deflation streak, although MoM inflation was a mere 0.08%. Core inflation rose more than analysts expected, reaching 2.21% YoY, but foodstuffs and administered prices (mainly transportation) remained in deflation.

- As before, the foodstuff deflation continued to reflect high base effect from last year (mainly for rice), even though prices overall have increased slightly in October. The government's vigilance with respect to food stocks – possibly with an eye on the two Election seasons this year – have also paid off, and robust imports of cereals continued until at least August. We are also entering another rice harvest season, and while there are reports of potential crop failure due to drought, this should further curb the risk of food inflation in the short-term.

- Transportation has also entered the deflation zone with a 0.1% YoY decrease, contributing to a 0.12% drop in headline inflation figure between September and October. The decrease was expected, as Pertamina lowered the price of non-subsidized fuels in October by 6–10%. However, this reduction was primarily due to oil prices hitting a one-year low in September, which promptly rose again in October upon tit-for-tat missile attacks in the Middle East.

- Unsurprisingly, Pertamina announced a price increase of 1.9–3.5% for non-subsidized fuels (excluding Pertamax). This is a rather marginal increase, all told, but continued risks from oil price and/or Rupiah depreciation could lead to downstream effects. One such possibilities is a rebound in aviation fuel prices, which – combined with high travel demand at year-end – could drive transport inflation once again.

- Core inflation is currently the only component contributing significantly to inflation; however, it is also distorted by rising gold prices. Excluding the impact of gold, core inflation would be only 1.67% YoY, and headline inflation 1.36% YoY – which is below Bank Indonesia's target range of 2.5% ± 1%.

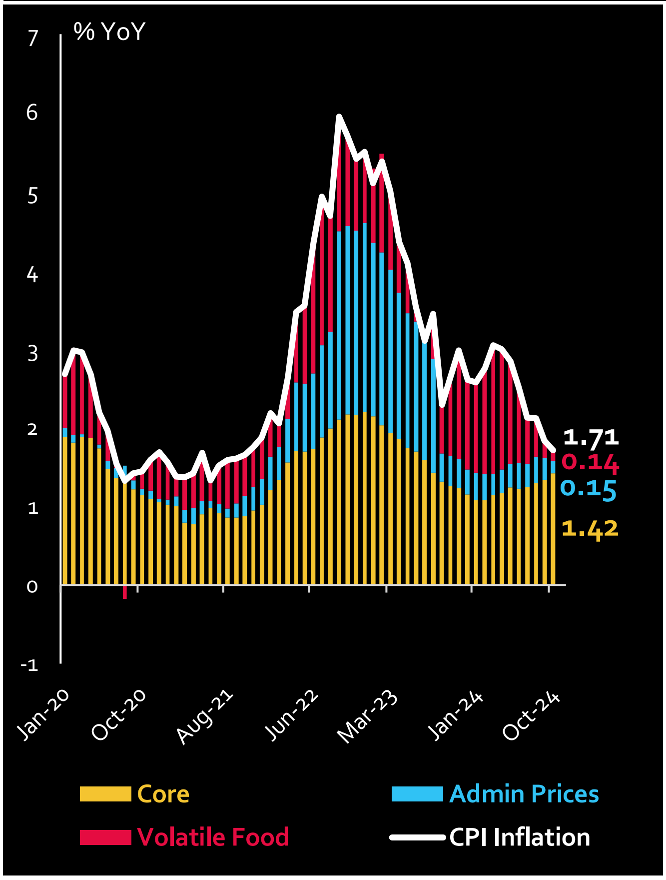
- Interestingly, the second, third, and fourth largest contributors to core inflation are all prepared/processed food (rice dishes, coffee powder, and cooking oil). The latter two in particular reflected global price increases in coffee and palm oil – i.e. cost-push rather than demand-pull inflation. Consumer demand, then, remains a live concern, which aligns with our big data indices which showed weaker spending in October compared to September.

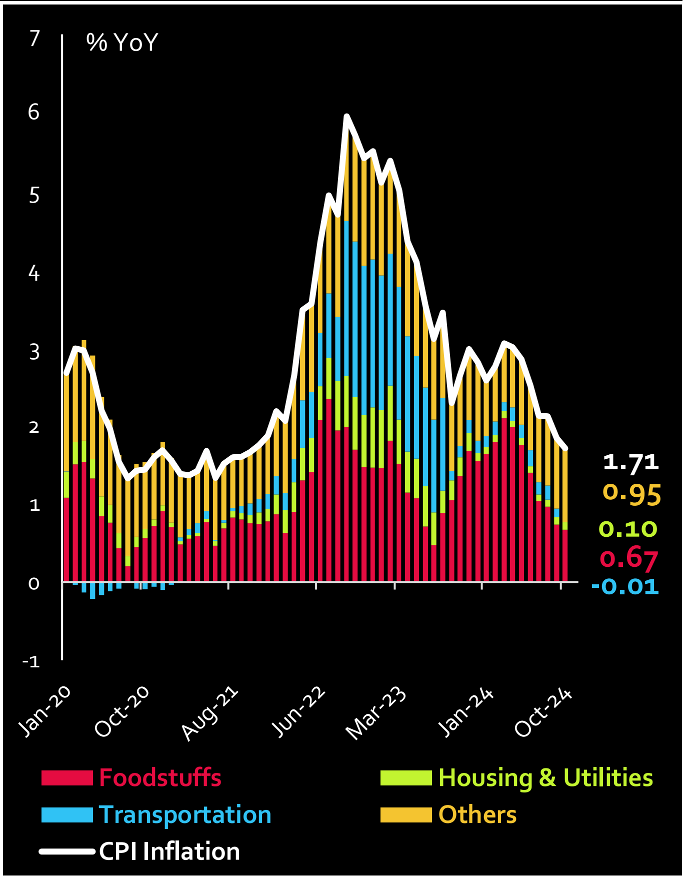
- Still, it's not all doom and gloom in the short term. We anticipate a degree of demand-pull inflation in November and December, although largely due to seasonal factors. Additionally, the upcoming Regional Elections may boost money circulation, as social assistance (*bansos*) spending delayed in Q3 will soon be distributed and government spending is expected to peak in Q4. A rebound in transport inflation, as previously discussed, may also make a significant contribution to the short-term outlook.

- Thus, while inflation is likely to be lower than 2% this year, we expect a gradual normalization closer to 3% next year. The high-base effect on foodstuff inflation will not remain indefinitely, and climatic factors (La Nina and or an accelerating global warming) could make an impact on more tropical crops next year, as they have already done on cocoa, coffee, and CPO. The Prabowo administration's goal to boost production through food estate programs could help control food inflation, but it will take some time to bear fruit.

- Meanwhile on the monetary front, base money growth (by BI) and money velocity have been recovering since mid-year (***Panel 2***), with accelerating money velocity possibly signaling a potential improvement in demand by year-end. Both of these probably outweigh the decline in money multiplier, as a result of marginally slower loan growth in recent months. This trend suggests a possibility for a healthier level of inflation to emerge next year.

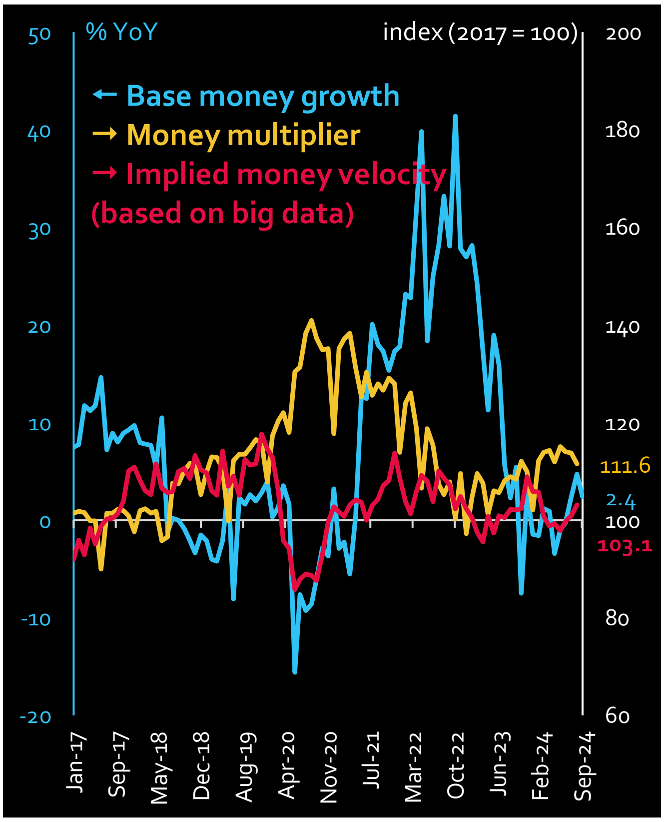
Panel 1. Foodstuffs continue their slowdown, with transportation going to the deflation zone

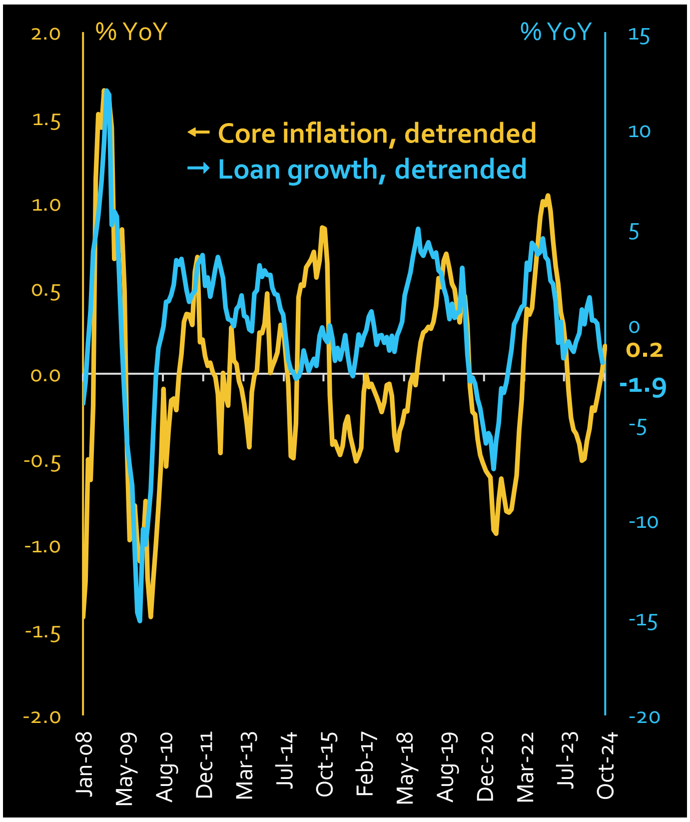




Source: BPS, calculation by BCA Economic Research

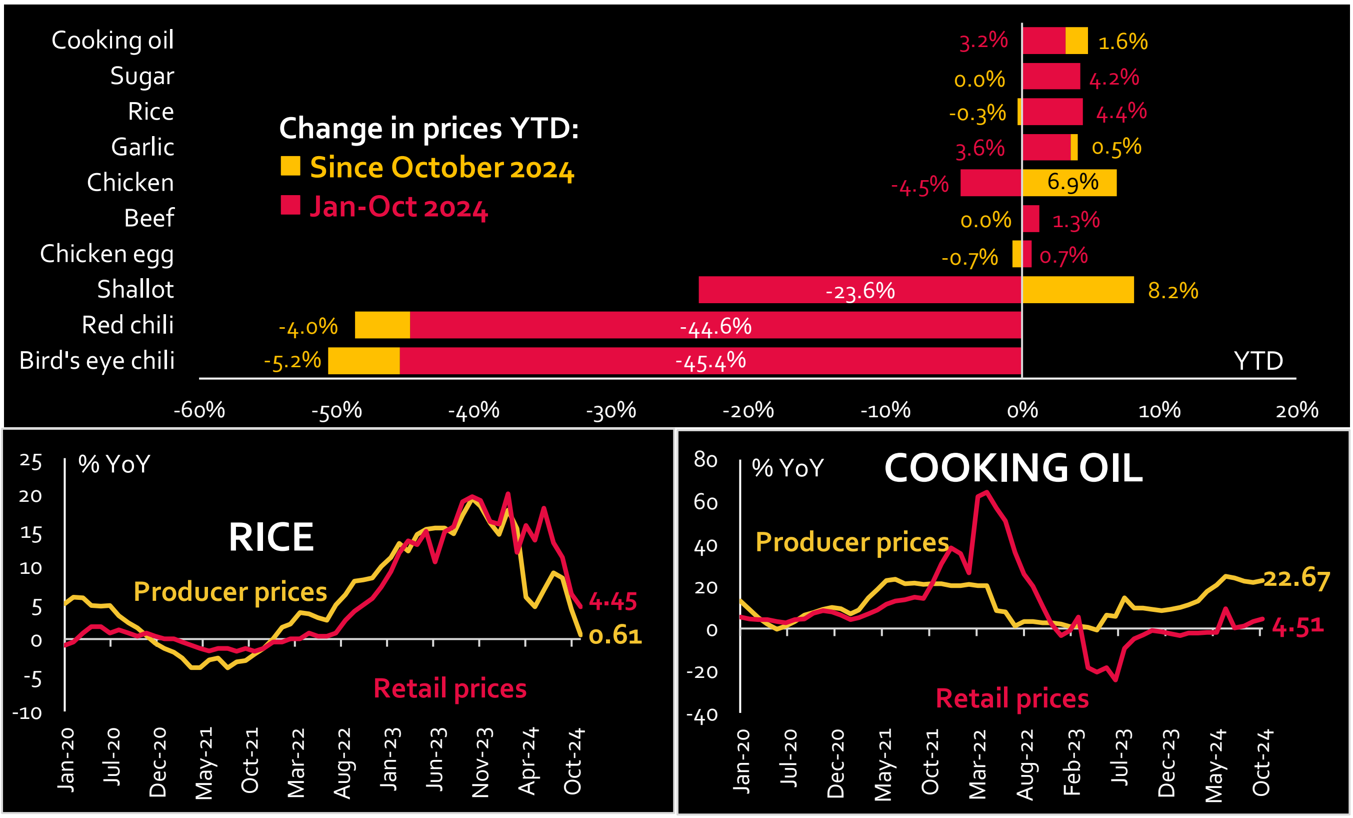
Panel 2. Money multiplier and money velocity are picking up, indicating a brighter demand outlook despite slowing loan growth





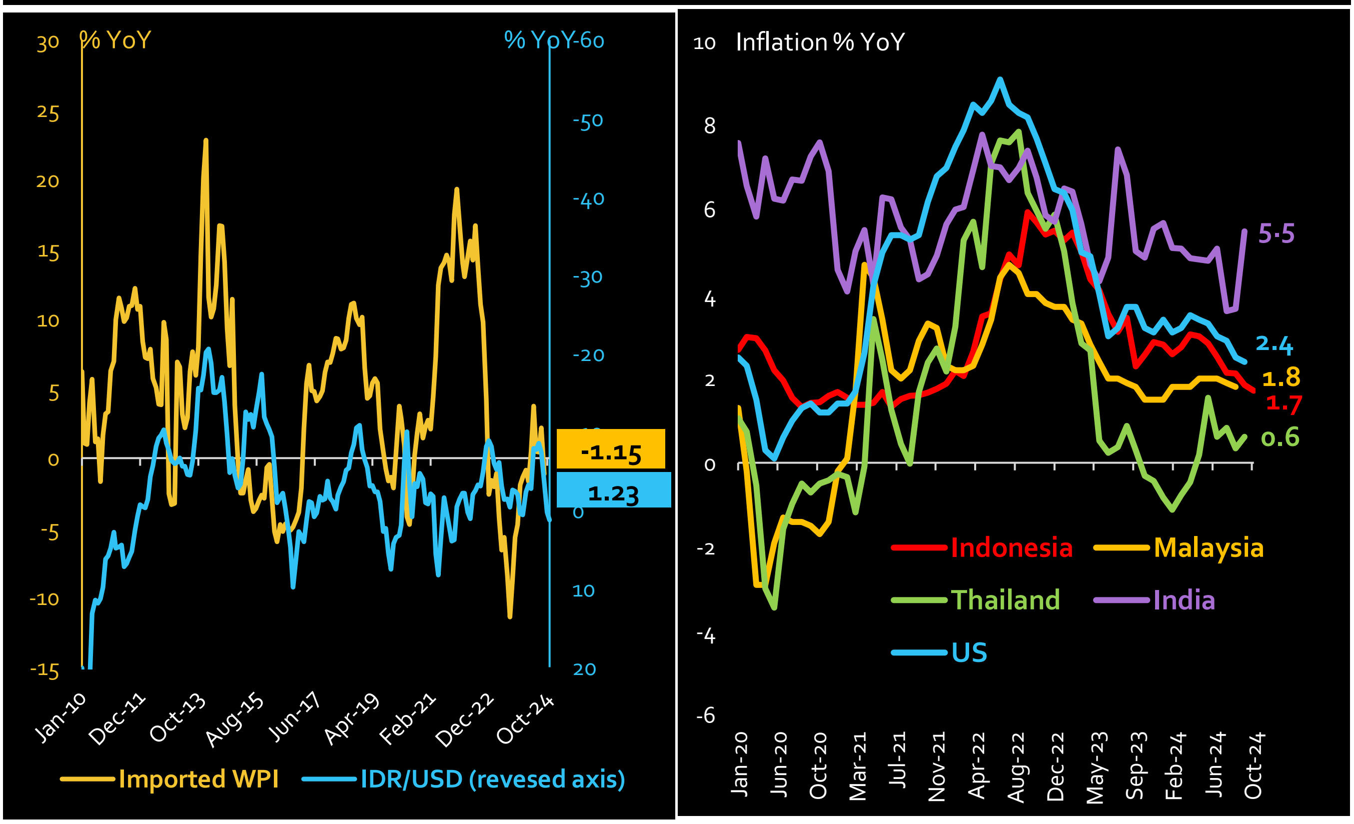
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Shallot and chicken prices increase significantly, contributing to positive MoM inflation



Source: Ministry of Trade, BPS

Panel 4. A still stable rupiah is keeping imported inflation low



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.00	Sep-24	2.60
UK	5.00	Aug-24	3.30
EU	3.40	Oct-24	1.40
Japan	0.25	Jul-24	-2.60
China (lending)	2.00	Sep-24	3.95
Korea	3.25	Oct-24	1.65
India	6.50	Feb-23	1.01
Indonesia	6.00	Sep-24	4.29

Money Mkt Rates	31-Oct	-1 mth	Chg (bps)
SPN (1Y)	6.66	6.47	19.4
SUN (10Y)	6.77	6.44	33.0
INDONIA (O/N, Rp)	5.98	6.17	-19.2
JIBOR 1M (Rp)	6.63	6.66	-2.3

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.78	8.81	-2.51
Deposit 1M	4.79	4.78	1.00
Savings	0.65	0.65	-0.09

Currency/USD	31-Oct	-1 mth	Chg (%)
UK Pound	0.775	0.748	-3.56
Euro	0.919	0.898	-2.25
Japanese Yen	152.0	143.6	-5.53
Chinese RMB	7.118	7.019	-1.40
Indonesia Rupiah	15,697	15,140	-3.55

Capital Mkt	31-Oct	-1 mth	Chg (%)
JCI	7,574.0	7,527.9	0.61
DJIA	41,763.5	42,330.2	-1.34
FTSE	8,110.1	8,237.0	-1.54
Nikkei 225	39,081.3	37,919.6	3.06
Hang Seng	20,317.3	21,133.7	-3.86

Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)
Stock	3,558.2	3,684.6	-126.37
Govt. Bond	870.6	852.3	18.28
Corp. Bond	6.9	7.0	-0.02

Trade & Commodities	31-Oct	-1 mth	Chg (%)
Baltic Dry Index	1,388.0	2,084.0	-33.4
S&P GSCI Index	534.2	532.9	0.2
Oil (Brent, $/brl)	73.2	71.8	1.9
Coal ($/MT)	145.5	147.9	-1.6
Gas ($/MMBtu)	1.82	2.65	-31.3
Gold ($/oz.)	2,744.0	2,634.6	4.2
Copper ($/MT)	9,373.6	9,692.0	-3.3
Nickel ($/MT)	15,452.6	17,266.3	-10.5
CPO ($/MT)	1,081.3	1,008.7	7.2
Rubber ($/kg)	1.98	2.17	-8.8

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	22.08	23.44	-5.80
Import ($ bn)	18.82	20.67	-8.91
Trade bal. ($ bn)	3.26	2.78	17.37
Central bank reserves ($ bn)*	149.9	150.2	-0.21

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	123.5	124.4	123.4
Car sales (%YoY)	-9.1	-14.2	-7.8
Motorcycle sales (%YoY)	3.7	7.4	24.1

Manufacturing PMI	Oct	Sep	Chg (bps)
USA	47.8	47.3	50
Eurozone	45.9	45.0	90
Japan	49.2	49.7	-50
China	50.3	49.3	100
Korea	48.3	48.3	0
Indonesia	49.2	49.2	0

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	15,650
Trade Balance (US$ 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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