CPI Inflation:

A trough before a hill

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Executive Summary

- Inflation decreased again in Nov-24 to 1.55% YoY and 0.3% MoM. Inflation was mostly driven by volatile food prices ex-rice.
- Climate change seems to cause periodic price spikes for tropical crops. While this could improve Indonesia's terms of trade, it poses significant challenges to inflation.
- The government's fiscal needs may or may not lead to higher inflation next year depending on the policy choices.
- A weaker Rupiah due to Trump tariffs may exert inflationary pressure, albeit offset by ample and cheap Chinese imports.

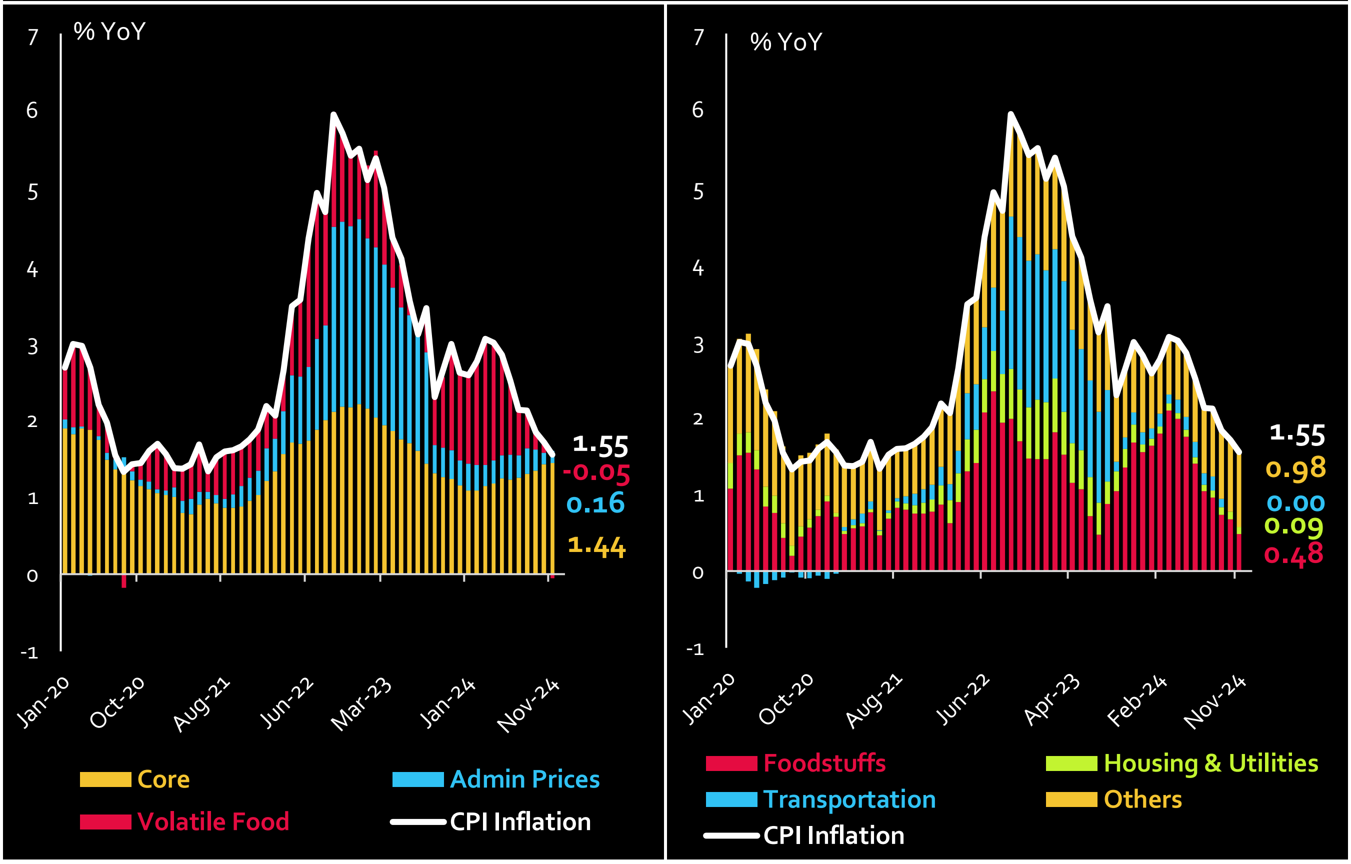
- Following weak GDP numbers in Q3-24, many analysts (including us) are pinning their hopes on Q4 to mark the start of a recovery. This is especially the case for November, which coincided with the Regional Elections.

- In theory, stronger GDP growth might also be indicated by higher inflation, given that the dis-inflation in recent months has been blamed (rightly or wrongly) on weak demand. In that light, then, can November's inflation data give us any clue about the growth momentum?

- The answer, unfortunately, is a Gallic shrug. Inflation slowed again in YoY terms (to 1.55%) due to high-base effect, but the MoM figure (0.30%) was relatively high for November. Then again, the high MoM inflation was almost entirely driven by foodstuffs and would have been much worse had rice prices not declined – due to both harvests and recent imports.
- Prices for several food commodities rose at the same time, including shallots, tomatoes, poultry, and cooking oil. As we have often noted before, climatic factor may be a factor in this food inflation. In the case of shallots, for instance, the planting cycle in July-August were disrupted by exceptionally dry climate, causing poor harvest in November.
- More broadly, we have seen periodic price spikes among tropical commodities during the past 2-3 years, which affect rice, sugar, cocoa, coffee, rubber, and CPO. This is a boon for Indonesia's terms of trade, but it also presents a formidable challenge in the government's bid to stabilize prices and strengthen food security.
- This threat is one reason why we expect inflation to pick up again next year – nothing too worrying, but merely towards the middle of BI's target range at 2.5% YoY. The other inflationary risk comes from a potential overheating of the economy, as household consumption, private CAPEX, and government spending competes for a limited supply of domestic liquidity.

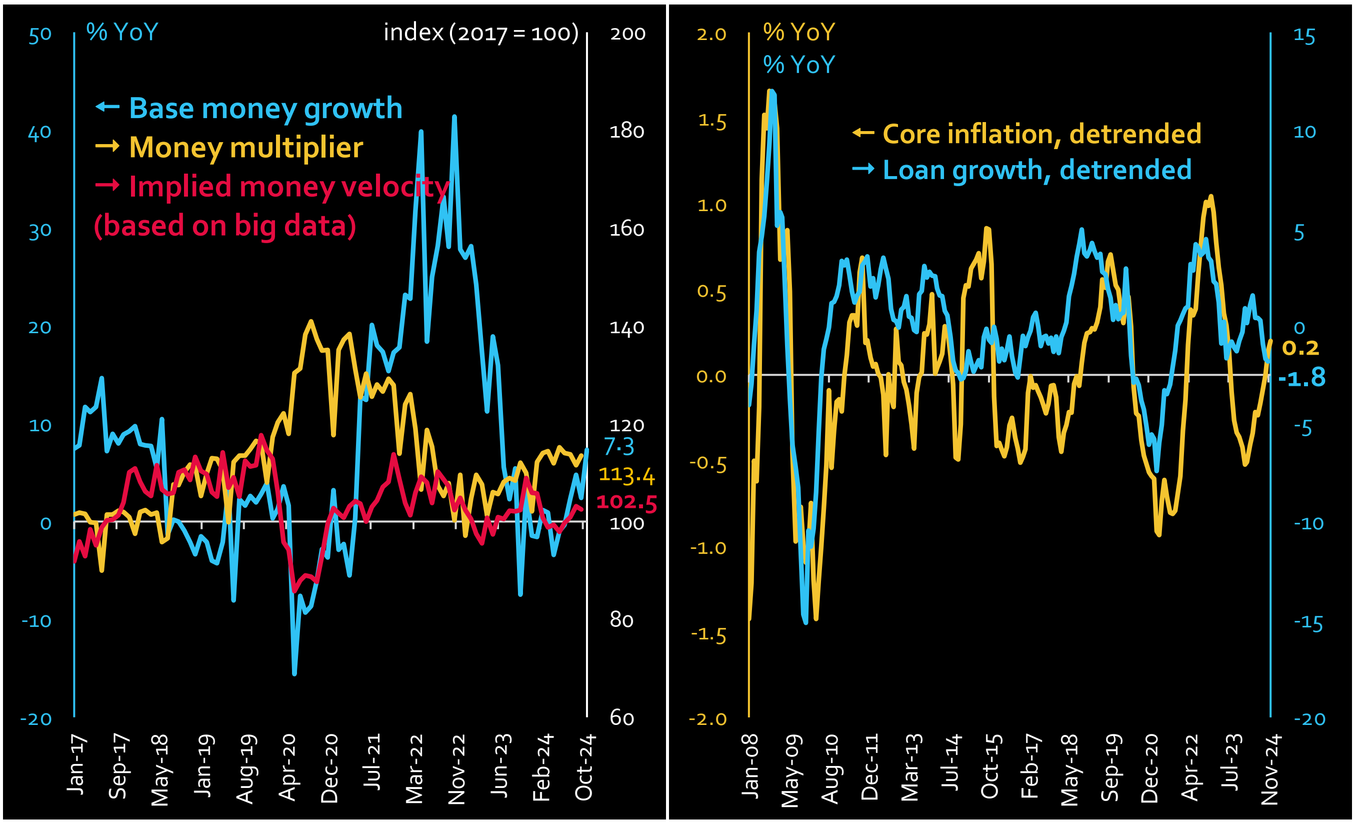
- In theory, this dwindling liquidity should imply lower inflation. In practice, however, the government's attempt to wring out more liquidity to finance its programs could translate to lower effective liquidity for households (through higher inflation). This is especially true if the government does it through higher VAT rate (from 11% to 12%) or by reducing energy subsidy/compensation.
- The former could translate to higher CPI inflation by 0.4-0.5% YoY in our reckoning, while the latter's effect could be more variable, depending on the mechanism chosen. Indeed, the government could choose to restrict supply of "subsidized" fuel (e.g. Pertalite) to force motorists to switch to market-priced Pertamax, and the ensuing higher cost might not even show up as inflation, if the weight of subsidized vs. non-subsidized fuels are fixed in CPI calculations.
- Nonetheless, there are other options for the government that may "pull" more liquidity from abroad, as to ease the "scramble for liquidity" at home. These include tax amnesty – which has proven effective in adding fresh liquidity, but nonetheless cannot be used to frequently – and the formation of mega-SWF (BP Danantara), which could use its huge balance sheet to obtain large-scale financing from abroad.
- The other inflationary risk next year comes from the exchange rate, with Asian currencies potentially weakening even more when Pres. Trump finally enact his tariffs. For Indonesia, this effect could be partially offset by an influx of even cheaper Chinese goods, which must seek new markets after the tariffs. But this is – as we well understand by now – a mixed blessing for Indonesia at best, given the detrimental effect on domestic industries. Concerns over growth, then, would probably remain at the forefront in 2025, relative to inflationary worries.

Panel 1. **Decline in YoY volatile food inflation hides an incipient increase in food prices ex-rice**



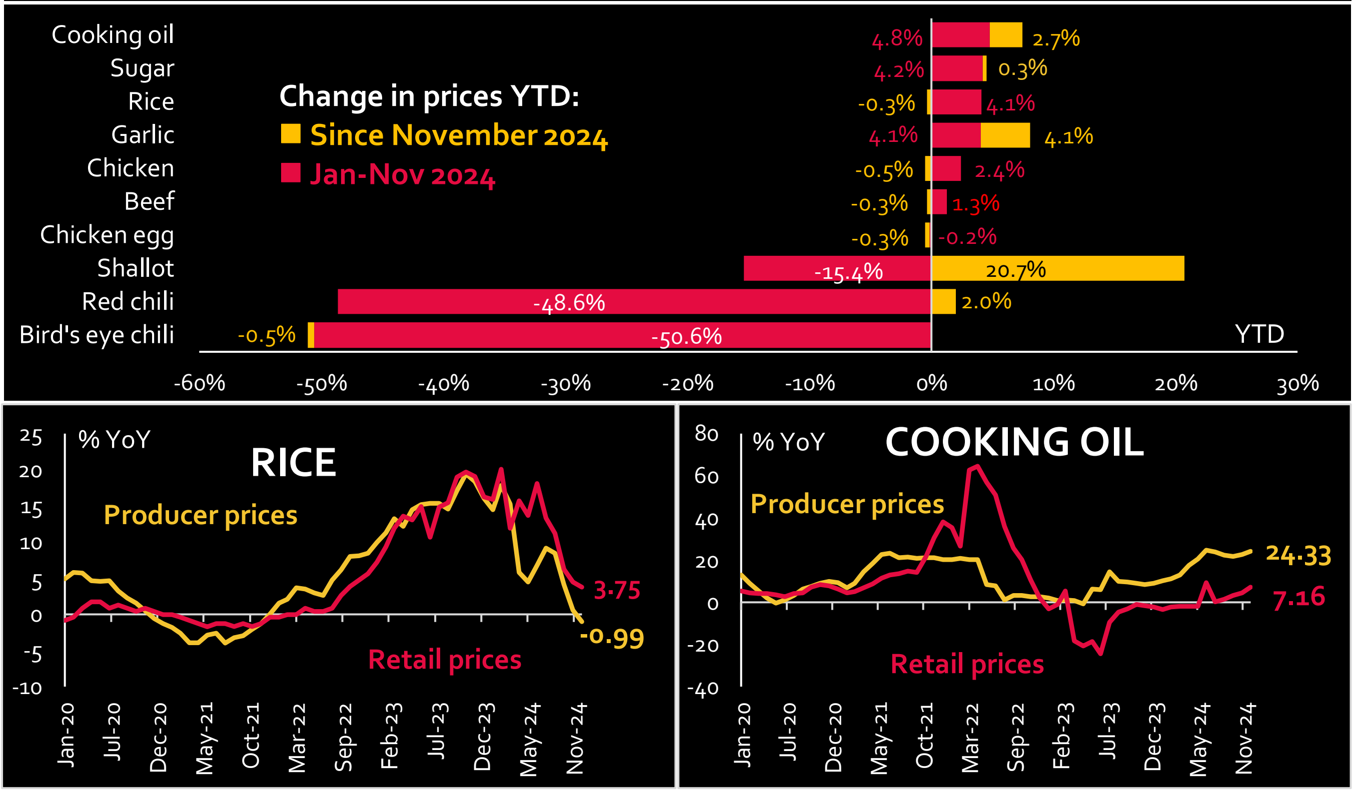
Source: BPS, calculation by BCA Economic Research

Panel 2. **Core inflation has risen again cyclically, but not in line with slowing loan growth**



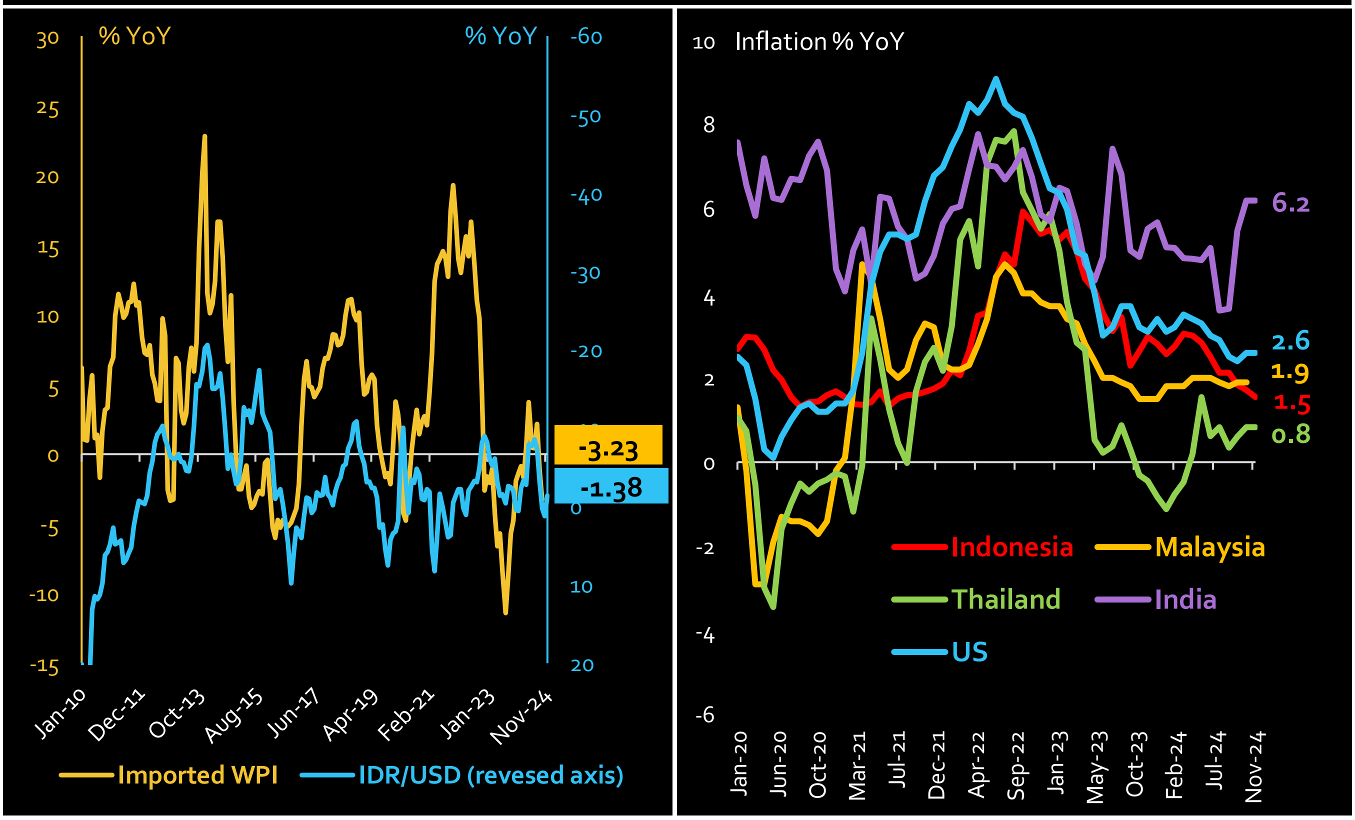
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Shallot and cooking oil becomes a major contributor in MoM inflation



Source: Ministry of Trade, BPS

Panel 4. Indonesia's disinflation is unique compared to rising inflation in peer countries



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.75	Nov-24	2.15
UK	4.75	Nov-24	2.45
EU	3.40	Oct-24	1.10
Japan	0.25	Jul-24	-2.40
China (lending)	2.00	Sep-24	4.05
Korea	3.00	Oct-24	1.50
India	6.50	Feb-23	0.29
Indonesia	6.00	Sep-24	4.45
Money Mkt Rates	**2-Dec**	**-1 mth**	**Chg (bps)**
SPN (1Y)	6.69	6.70	-1.4
SUN (10Y)	6.85	6.76	9.4
INDONIA (O/N, Rp)	6.18	6.01	17.7
JIBOR 1M (Rp)	6.62	6.63	-1.1
Bank Rates (Rp)	**Sep**	**Aug**	**Chg (bps)**
Lending (WC)	8.87	8.78	8.91
Deposit 1M	4.81	4.79	2.01
Savings	0.67	0.65	1.33
Currency/USD	**2-Dec**	**-1 mth**	**Chg (%)**
UK Pound	0.790	0.774	-2.08
Euro	0.953	0.923	-3.10
Japanese Yen	149.6	153.0	2.28
Chinese RMB	7.274	7.129	-2.00
Indonesia Rupiah	15,900	15,720	-1.13
Capital Mkt	**2-Dec**	**-1 mth**	**Chg (%)**
JCI	7,047.0	7,505.3	-6.11
DJIA	44,782.0	42,052.2	6.49
FTSE	8,312.9	8,177.2	1.66
Nikkei 225	38,513.0	38,053.7	1.21
Hang Seng	19,550.3	20,506.4	-4.66
Foreign portfolio ownership (Rp Tn)	**Nov**	**Oct**	**Chg (Rp Tn)**
Stock	3,402.4	3,573.9	-171.49
Govt. Bond	872.5	885.6	-13.07
Corp. Bond	7.1	6.9	0.23

Trade & Commodities	2-Dec	-1 mth	Chg (%)
Baltic Dry Index	1,298.0	1,378.0	-5.8
S&P GSCI Index	533.3	534.8	-0.3
Oil (Brent, $/brl)	71.8	73.1	-1.7
Coal ($/MT)	136.0	145.7	-6.7
Gas ($/MMBtu)	3.05	1.42	114.8
Gold ($/oz.)	2,639.1	2,736.5	-3.6
Copper ($/MT)	8,874.1	9,444.8	-6.0
Nickel ($/MT)	15,461.6	15,689.5	-1.5
CPO ($/MT)	1,179.2	1,116.3	5.6
Rubber ($/kg)	2.00	1.97	1.5
External Sector	**Oct**	**Sep**	**Chg (%)**
Export ($ bn)	24.41	22.06	10.69
Import ($ bn)	21.94	18.82	16.54
Trade bal. ($ bn)	2.48	3.23	-23.39
Central bank reserves ($ bn)*	151.2	149.9	0.87
Prompt Indicators	**Oct**	**Sep**	**Aug**
Consumer confidence index (CCI)	121.1	123.5	124.4
Car sales (%YoY)	-3.9	-9.1	-14.2
Motorcycle sales (%YoY)	5.4	3.7	7.4
Manufacturing PMI	**Nov**	**Oct**	**Chg (bps)**
USA	49.7	48.5	120
Eurozone	45.2	46.0	-80
Japan	49.0	49.2	-20
China	51.5	50.3	120
Korea	50.6	48.3	230
Indonesia	49.6	49.2	40

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

	2020	2021	2022	2023	2024E	2025E
Gross Domestic Product (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.9
GDP per Capita (US$)	3912	4350	4784	4920	4945	4980
Consumer Price Index Inflation (% YoY)	1.7	1.9	5.5	2.6	1.9	2.5
BI 7 day Repo Rate (%)	3.75	3.50	5.50	6.00	5.75	5.00
USD/IDR Exchange Rate (end of year)**	14,050	14,262	15,568	15,397	15,947	16,393
Trade Balance (US$ billion)	21.7	35.3	54.5	37.0	29.3	26.2
Current Account Balance (% GDP)	-0.4	0.3	1.0	-0.1	-0.7	-0.9

* Estimated Number

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