

Indonesia's Inflation Indicators

Inflation by Expenditure YoY	Jan '23	Feb '23
Headline inflation	5.3%	5.5%
Headline inflation, mom	0.34%	0.16%
Food, beverages and tobacco	5.8%	7.2%
Clothing and footwears	1.1%	1.2%
Housing, utilities and household fuels	3.6%	3.4%
Equipment and household maintenance	4.3%	4.0%
Health	3.0%	2.9%
Transportations	13.9%	13.6%
Telecommunication and financial Service	-0.2%	-0.2%
Recreation, sport and culture	2.9%	2.6%
Education	2.8%	2.8%
Accommodations and restaurants	4.5%	4.1%
Personal care and other services	6.2%	5.6%
Inflation by Volatility Level, yoy		
Core inflation	3.3%	3.1%
Administered price inflation	12.3%	12.2%
Volatile good inflation	5.7%	7.6%
- Energy	15.3%	15.0%
- Foods	5.7%	7.4%
Inflation by Sector, yoy		
Wholesale price Inflation	5.6%	5.9%
- Agriculture	4.2%	5.1%
- Mining and Quarrying	12.2%	11.4%
- Manufacturing	5.9%	6.1%

Indonesia's PMI & Labor Market

	Jan '23	Feb '23
Manufacturing PMI	51.3	51.2
Average Nominal Wage Growth	3.6%	3.6%

Source: BPS, SSI Research

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Tamed inflation; Not enough

- *Headline CPI showed month-to-month deceleration to 0.16% MoM, though the annual figure picked up slightly to 5.47% YoY, due to rising staple food prices amid heavy rainfall across regions.*
- *However, pressure from the supply side should continue to ease as freight costs decelerate, paving the way for companies to maintain output prices.*
- *Given the manageable inflationary pressure, BI should consider raising its policy rate to face external volatility that might harm IDR stability.*

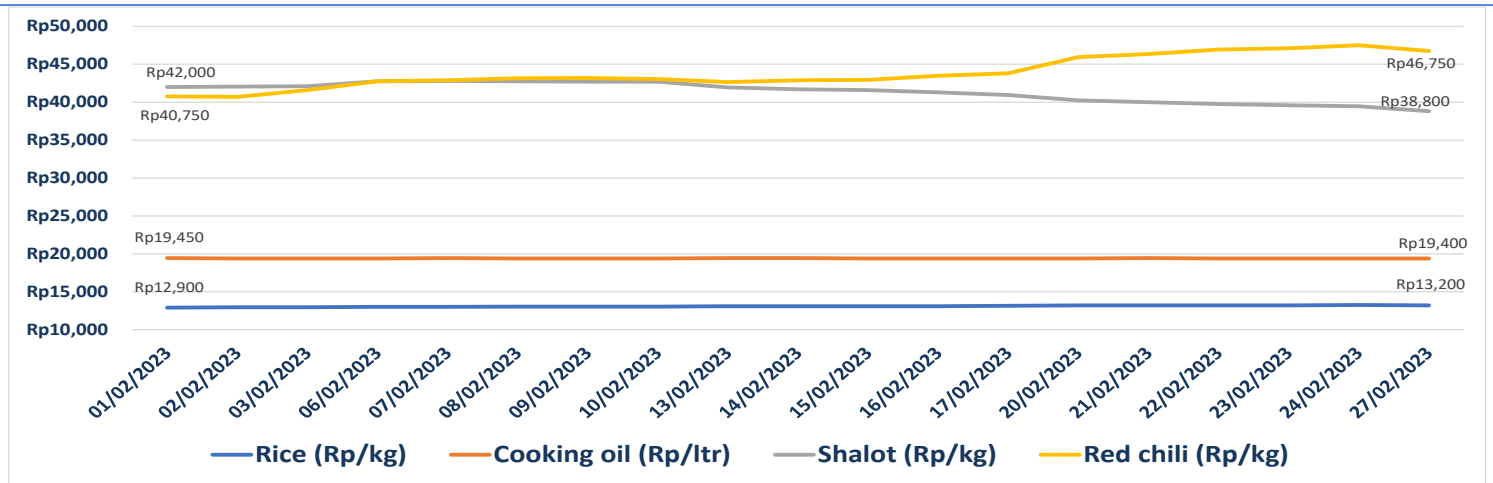
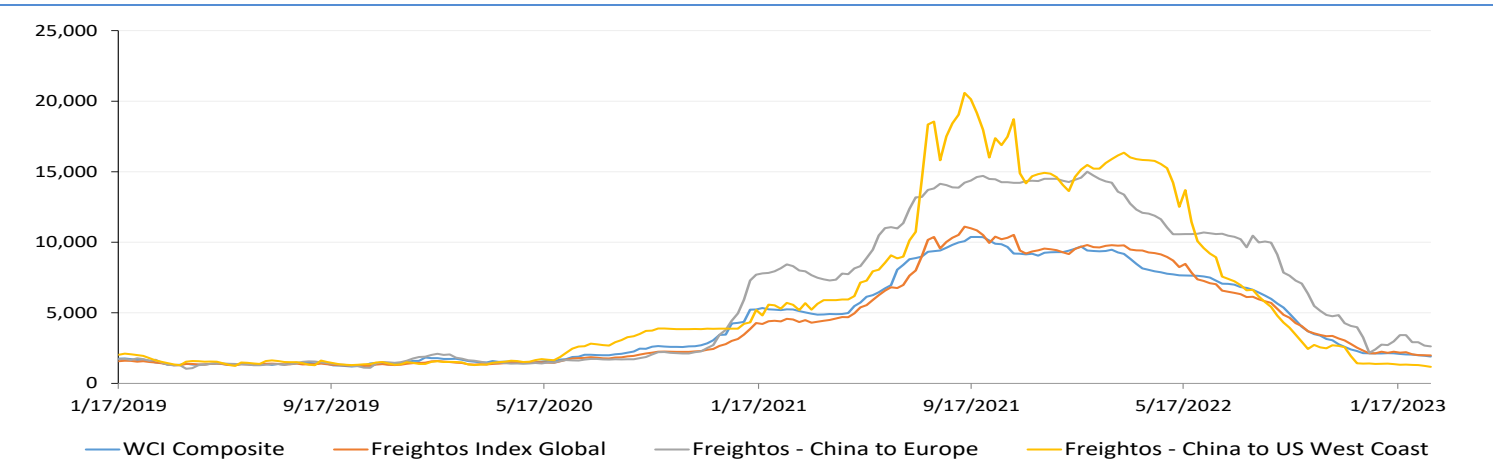
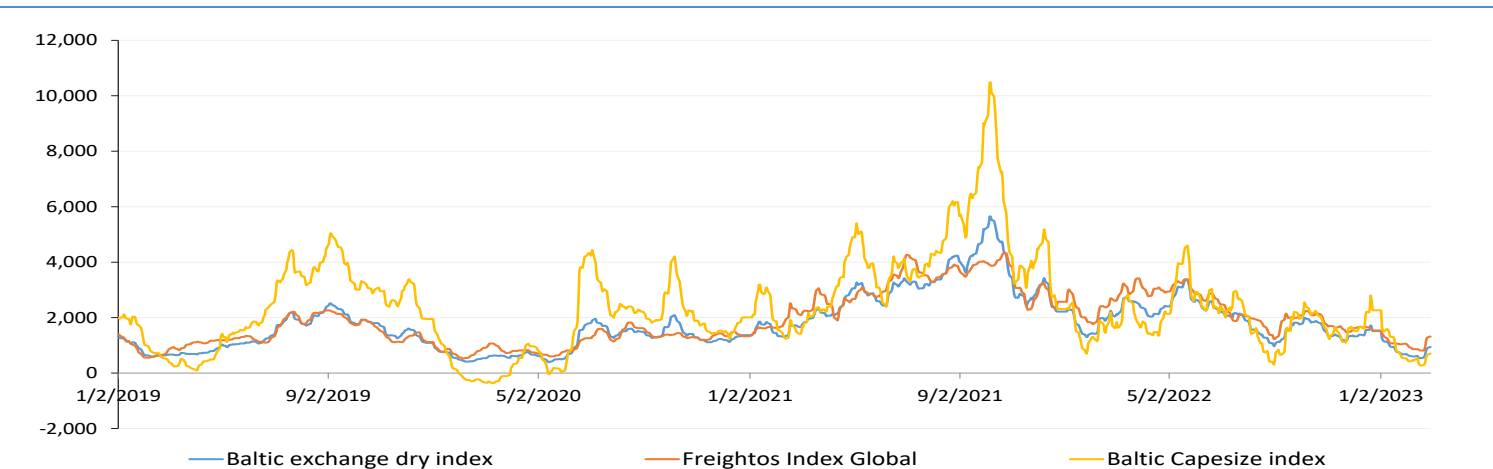
Hotter-than-expected CPI inflation as staple food prices continue to rise.

Indonesia's CPI inflation came at 0.16% MoM (Jan: 0.34% MoM) and 5.47% YoY (Jan: 5.28% YoY) in February, lower than our estimate (5.51% YoY) but higher than market forecast (5.42% YoY). We noted that inflation in February was mainly driven by staple food prices, including rice, shallot, chili, onions, and potatoes, as heavy rainfall hampered production and supply (Exhibit 1 showed that some staple food products, including rice, were short in supply, leading to price surges). However, as we believe that rainfall will pass its peak this month, as well as the upcoming harvesting period, the price of rice will decelerate soon.

The end of supply chain problem. According to February's S&P Markit Manufacturing Index for Indonesia, production activities in the country's manufacturing sector remained in the expansion zone (above 50) though it was flat when compared to the previous month. Export order was the devil behind the stagnancy in the index. Nevertheless, notable positive highlights from the reading are: 1) Delivery process from vendors has been shortened to a one-year low, and 2) Input cost has been gradually dissipated. Those reflected the easing of supply chain bottleneck, which had squeezed companies' ability to recover.

Wholesale price index also provides evidence of manageable inflationary pressure. Global supply problem has been somewhat solved lately, as freight costs from China to Europe and the U.S continue to normalize (Exhibit 2) and the Baltic dry index continues its downtrend (Exhibit 3). Indonesia's manufacturing wholesale price index has improved as well, slowing down to 6.1% YoY in February 2023, one of its lowest in 5 months (Exhibit 4). Although Indonesia's production price index is still seeking for its peak (Exhibit 5), we believe that producers should manage to maintain its input cost as well as operating margin. Therefore, there is no need to hike output prices going forward, preserving our headline CPI to remain within the range Bank Indonesia's target for this year.

BI needs to raise its policy rate, but rather modestly, to support domestic demand. Given the manageable inflationary pressure, it is reasonable for the central bank to maintain its relatively neutral stance. Nonetheless, volatility remains sparked by uncertainty over The Fed's terminal rate which in turn could jeopardize Rupiah stability in the next couple of months. Thus, we urge BI to adjust its benchmark rate by at least 25bps to curb Rupiah depreciation that can harm inflation expectations by boosting imported inflation.

Chart 1. Indonesia's Food Commodity Prices in February 2023

Chart 2. Global index of freight cost

Chart 3. Baltic dry index


Sources: Ministry of Trade, BPS, Bank Indonesia, Bloomberg, SSI Research

Chart 4. Indonesia's Wholesale Price Index YoY% Changes (manufacturing only)

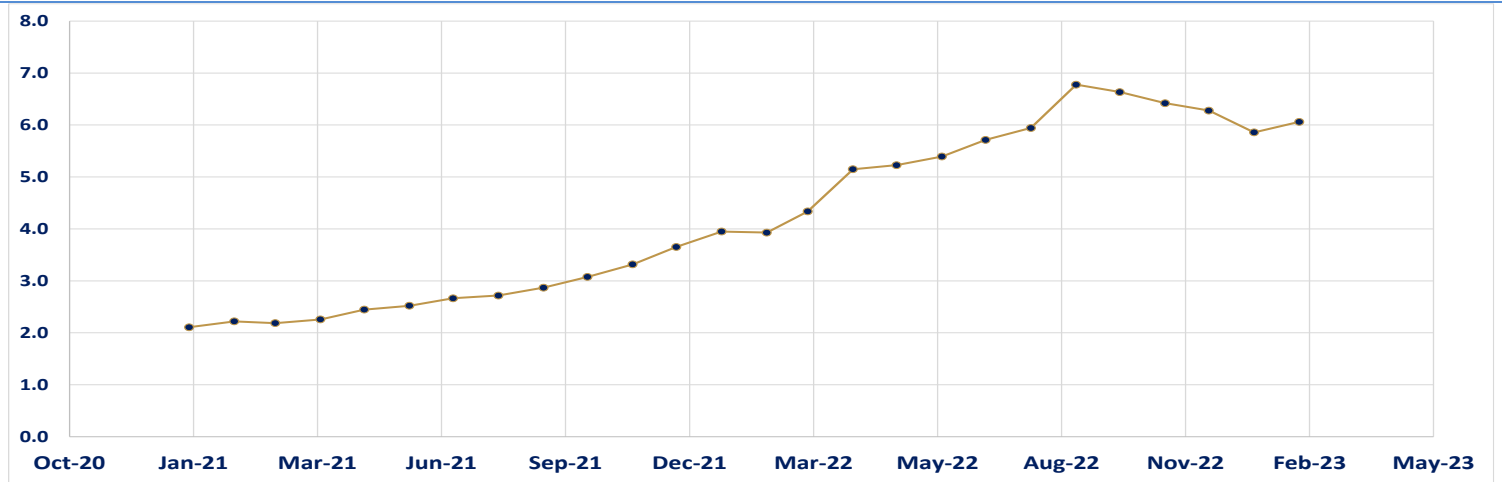
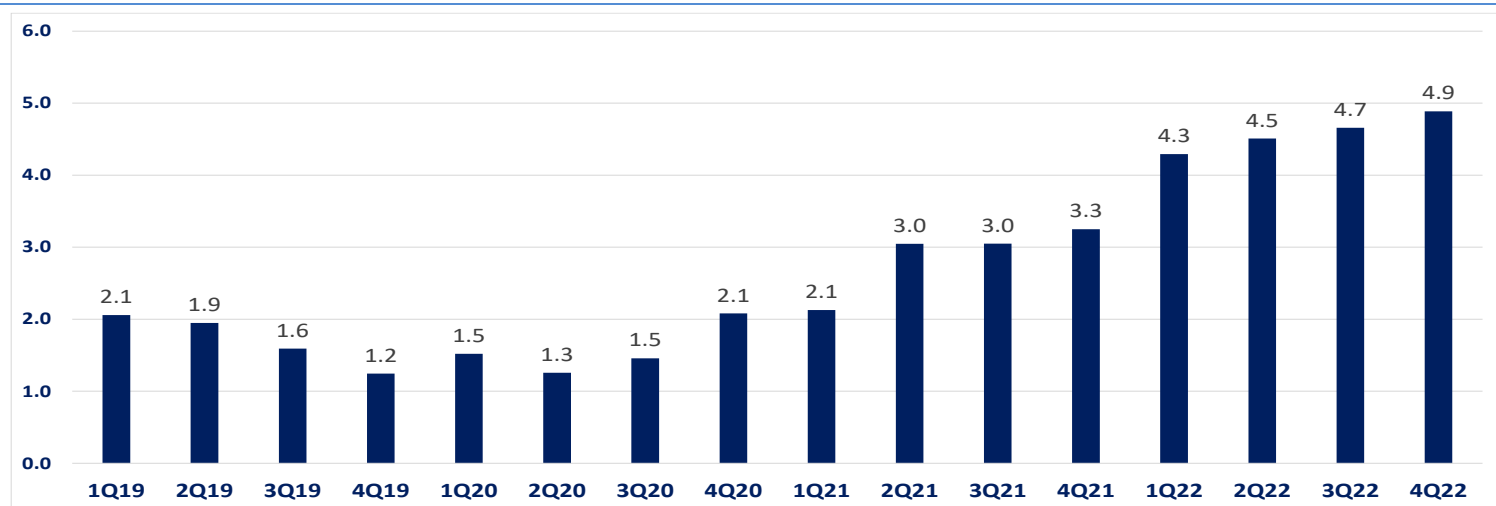


Chart 5. Indonesia's Manufacturing PPI YoY% Changes



Sources: BPS, SSI Research

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