

Indonesia Inflation Indicators

Inflation by Expenditure Category, yoy	April	May
Headline inflation	4.3%	4.0%
Headline inflation, mom	0.33%	0.09%
Food, beverages and tobacco	4.6%	4.3%
Clothing and footwears	1.8%	1.5%
Housing, utilities and household fuels	2.5%	2.5%
Equipment and household maintenance	3.3%	3.0%
Health	2.6%	2.5%
Transportations	12.0%	10.6%
Telecommunication and financial Service	-0.3%	-0.3%
Recreation, sport and culture	2.4%	2.2%
Education	2.8%	2.8%
Accommodations and restaurants	3.8%	3.4%
Personal care and other services	4.7%	4.5%
Inflation by Volatility Level, yoy		
Core inflation	2.8%	2.7%
Administered price inflation	10.3%	9.5%
Volatile good inflation	3.7%	3.3%
- Energy	12.1%	12.0%
- Foods	3.8%	3.3%
Inflation by Sector, yoy		
Wholesale price Inflation	4.6%	4.4%
- Agriculture	3.5%	4.0%
- Mining and Quarrying	9.9%	9.8%
- Manufacturing	4.8%	4.5%
Manufacturing PMI	52.7	50.3

Source: BPS, SSI Research

Inflation fell to BI's target ceiling in May

Indonesia's CPI inflation slowed down to 4% yoy in May, lower than expected. The slowdown was mainly caused by an unexpected decrease in core inflation to 2.66% yoy. According to our estimates, this may cause Indonesia's inflation rate to fall to 2.6-2.7% yoy by the end of the year. However, we decided to maintain our inflation projection at 2.8% yoy to anticipate the impact of drought due to El Niño. Our inflation projection is higher than BI's FY23 projection of 3.3% yoy, since BI has a more optimistic GDP growth projection, as shown by its 2Q23 GDP growth projection of 5.1% yoy (SSI: 4.6% yoy). Meanwhile, the latest manufacturing PMI data and bank loan growth showed signs of economic slowdown. In our opinion, BI's inflation projection of 3.3% yoy is achievable if BI cuts its 7DRRR by 50 bps to 5.25% in 2H23.

Consumer price inflation (CPI) continued its slowdown in May, recorded at 4% yoy (Apr: 4.3% yoy; Cons May: &SSI: 4.2%). The decline was mainly caused by the sharper-than-expected slowdown in core inflation to 2.66% yoy (Apr: 2.8% yoy; Cons May: 2.8% yoy; SSI 2.76% yoy). The slowdown in inflation of administered prices also had a big contribution, especially the transportation category (1.3 percentage points of total inflation at 4% yoy). Transport inflation slowed down to 10.6% yoy (Apr: 12% yoy). At the same time, food inflation fell to 3.3% yoy (Apr: 3.8% yoy) due to the government's food price control policy. In our opinion, the food price control policy will be a crucial point in the next 6 months due to El Niño. Bappenas estimates that rice production could fall by 5 million tons this year due to El Niño ([Bappenas sebut produksi padi terancam menyusut hingga 5 juta ton akibat El Nino](#)). As a result, inflationary pressure, particularly from food prices, might increase. Taking this into account, we maintain our FY23 inflation projection at 2.8% yoy (see Chart 1), higher than BI's FY23 projection of 3.3% yoy. If the impact of El Niño is not as bad as feared, inflation could slow down further to 2.6-2.7% yoy.

In our view, Bank Indonesia's FY23 inflation projection of 3.3% yoy (SSI: 2.8% yoy) is too optimistic, since it does not take into account the negative impact of the current high interest rate policy. This view is reflected in BI's 2Q23 GDP growth projection of 5.1% yoy (SSI: 4.6% yoy) ([Gubernur BI proyeksikan ekonomi RI tumbuh 5.1% pada kuartal II](#)) which had been announced to the public and mentioned again during the investor conference call after the announcement of the results of BI's May RDG on 25 May 2023. Meanwhile, bank credit growth slowed down to 8% yoy in May, far below BI's FY23 target of 10-12%. Manufacturing PMI also showed a significant slowdown to 50.3 or 0.6% mom (Apr: 52.7 or 5.4% mom; see Chart 2). To achieve this inflation target, we believe that BI needs to provide monetary stimulus in the form of 7DRRR cut. We maintain our 7DRRR cut projection in 2H23 at 50 bps to 5.25%.

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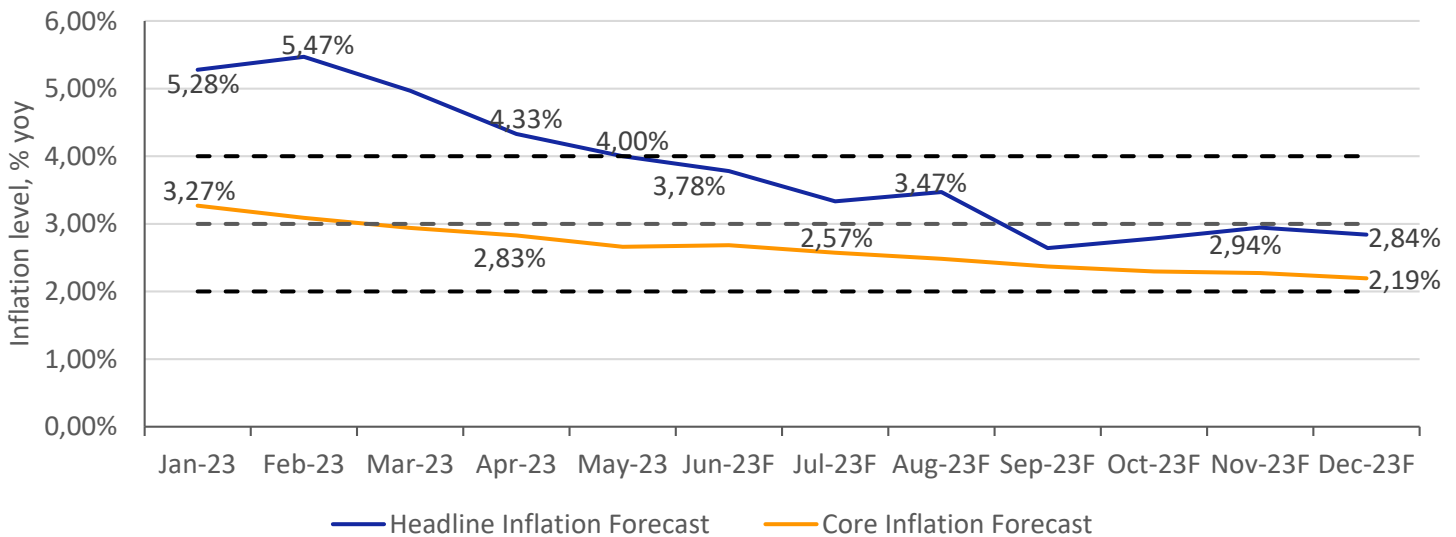
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Table 1. SSI Macroeconomic Forecast Table

Indicators (% yoy)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	FY21	FY22	FY23F
Real GDP (NSA % qoq)	(0.9)	3.3	1.5	1.1	(1.0)	3.7	1.8	4.0	(0.9)	3.4	1.7	0.6			
Real GDP	(0.7)	7.1	3.5	5.0	5.0	5.4	5.7	5.0	5.0	4.6	4.5	4.7	3.7	5.3	4.7
Unemployment rate (% nsa)	6.3	6.3	6.5	6.5	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	6.5	5.9	5.3
Consumer price	1.4	1.3	1.6	1.9	2.6	4.4	6.0	5.5	5.0	3.8	2.6	2.8	1.9	5.5	2.8
Current account balance (% to GDP)	(0.4)	(0.7)	1.7	0.5	0.2	1.1	1.3	1.3	0.9	(0.6)	(0.3)	(0.4)	0.3	1.0	(0.1)
12M rolling sum	(0.2)	(0.1)	0.3	0.3	0.4	0.9	0.8	1.0	1.2	0.7	0.3	(0.1)			
Fiscal balance (% to GDP)	(0.8)	(1.7)	(2.7)	(4.6)	0.1	0.4	0.3	(2.4)	0.6	(1.1)	(1.8)	(2.8)	(4.6)	(2.4)	(2.8)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	3.50	3.50	3.50	3.50	4.25	5.50	5.75	5.75	5.50	5.25	3.75	5.50	5.25
10-year government bond yield (%)	6.78	6.59	6.26	6.38	6.74	7.22	7.37	6.94	6.79	6.40	6.20	6.00	6.38	6.94	6.00
Exchange rate (USD/IDR)	14,525	14,500	14,313	14,253	14,369	14,898	15,228	15,568	14,995	14,600	14,700	14,900	14,253	15,568	14,900

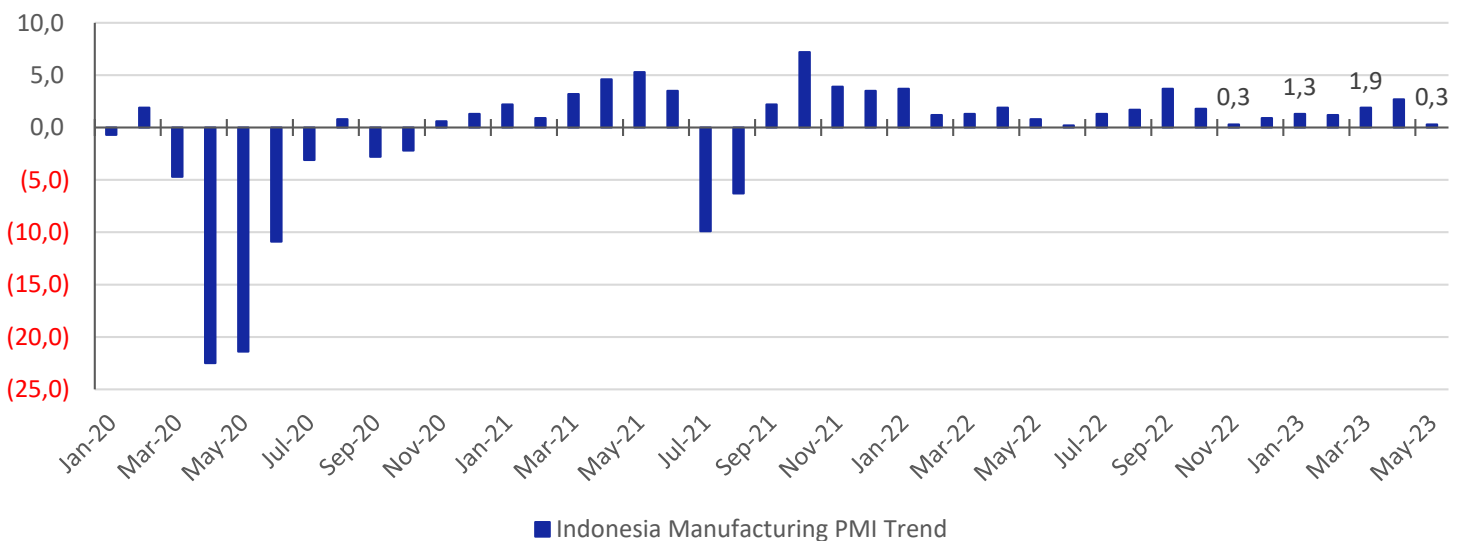
Source: SSI Research.

Chart 1. SSI's Inflation Projection



Source: Bank Indonesia, SSI Research

Chart 2. SSI's Indonesia Economic Activity Indicator based on Manufacturing PMI



Source: Bank Indonesia, SSI Research

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