

## Indonesia Inflation Indicators

Inflation by Expenditure Category, yoy	July	August
Headline inflation	3.1%	3.3%
Headline inflation, mom	0.12%	-0.02%
Food, beverages and tobacco	1.9%	3.5%
Clothing and footwears	1.4%	1.1%
Housing, utilities and household fuels	2.0%	1.4%
Equipment and household maintenance	2.4%	2.2%
Health	2.7%	2.7%
Transportations	9.6%	9.7%
Telecommunication and financial Service	-0.2%	-0.2%
Recreation, sport and culture	2.0%	1.9%
Education	3.1%	2.1%
Accommodations and restaurants	3.1%	2.9%
Personal care and other services	4.0%	3.8%
Inflation by Volatility Level, yoy		
Core inflation	2.4%	2.2%
Administered price inflation	8.4%	8.1%
Volatile good inflation	0.0%	2.4%
- Energy	10.5%	9.6%
- Foods	0.3%	2.5%
Inflation by Sector, yoy		
Wholesale price Inflation	3.6%	3.7%
- Agriculture	2.6%	5.2%
- Mining and Quarrying	6.4%	5.1%
- Manufacturing	3.7%	3.4%
Manufacturing PMI	53.3	53.9

Source: BPS, SSI Research

## BI might not start cutting its 7DRRR in 4Q23

Indonesia's CPI inflation went up slightly in August to 3.27% yoy (Jul: 3.08% yoy), mainly driven by the increase in food inflation to 2.42% yoy (Jul: -0.03% yoy). Food inflation may continue to increase in the coming months as El Niño becomes more and more intense, as expected by BMKG. However, we predict that the impact of a moderate El Niño on headline inflation will be relatively minimal. Meanwhile, core CPI inflation, which came in lower than expected at 2.18% yoy (Jul: 2.43% yoy), could continue its decline and reach 1.87% by the end of 2023 due to BI's decision to hold the 7DRRR rate at 5.75%. Despite the possibility of core inflation falling below the lower limit of BI's target of 2%, we believe that BI may not start cutting its 7DRRR in 4Q23 due to the increasing risk of Rupiah depreciation.

Indonesia's headline CPI inflation rebounded to 3.27% yoy in August, in line with ours and consensus estimates (Jul: 3.08% yoy; Cons: 3.34% yoy; SSI: 3.3% yoy), due to the increase in volatile goods inflation to 2.42% yoy (Jul: -0.03% yoy), which itself was driven by food inflation (2.51% yoy; Jul: 0.27% yoy), including rice (14.8% yoy) and garlic (42% yoy). However, the increase in rice and garlic prices was offset by the decline in the prices of chili (-32.1% yoy), cayenne pepper (-23.9% yoy), and shallots (-26.4% yoy).

We predict that food inflation will continue to increase in the coming months as El Niño becomes more intense, as expected by BMKG. ([Indeks El Niño BMKG](#)). Oleh sebab itu, kami mempertahankan proyeksi inflasi FY23 di 2.6% BMKG expects this year's El Niño intensity to be relatively moderate. Thus, food inflation is projected to be in the range of 4-6%, and its impact on general inflation will be relatively minimal. **Therefore, we maintain our FY23 inflation projection at 2.6%**

Meanwhile, Indonesia's core inflation fell lower than ours and consensus estimate to 2.18% yoy (Jul: 2.43% yoy; Cons: 2.33% yoy; SSI 2.3% yoy). The decline might be driven by several factors, both from the income side (which is currently difficult to observe since BPS stopped its wage statistics) and from the monetary side. Bank Indonesia's policy of keeping its benchmark interest rate (7DRRR) at 5.75% slowed down money supply growth, which also led to a drop in core inflation (see Chart 1).

We project Indonesia's core CPI inflation to fall to 1.9% (see Chart 2) if BI holds its 7DRRR rate at 5.75% through the end of the year. To avoid that, BI needs to cut its 7DRRR. However, we noticed that the global economic conditions are not supportive. The acute decline of China's economy, which triggered the depreciation of the CNY and other Asian currencies, and the possibility of the Fed holding the FFR in the 5.25-5.5% range for longer than previously expected (consensus: 2Q24) have increased the risk of Rupiah depreciation if BI cuts its 7DRRR too early. **Facing this situation, we prepared an alternative scenario for BI to start cutting its 7DRRR in 1Q24 with a total cut of 125 bps to 4.5%. However, we do not rule out the possibility that BI may start cutting its 7DRRR in 4Q23 by 25 bps to 5.5%, provided that the Fed decides to start cutting its FFR in 1Q24 and the Chinese government succeeds in slowing down CNY depreciation in September.**

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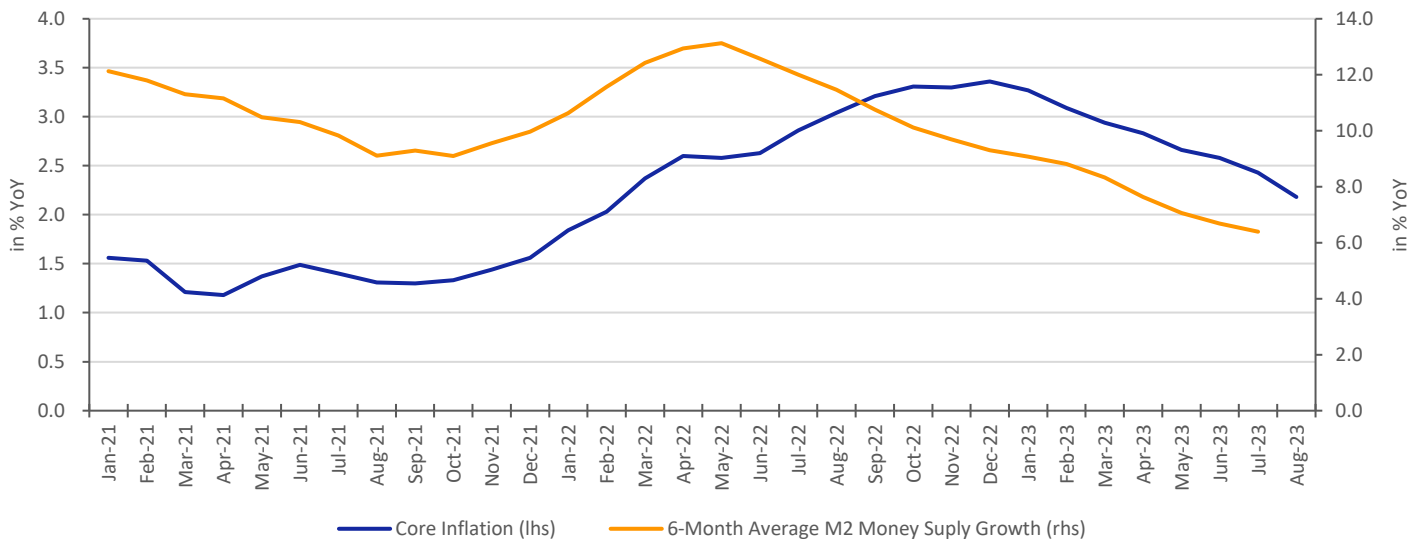
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**Table 1. SSI Macroeconomic Forecast Table**

Indicators (% yoy)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	(0.9)	3.7	1.8	0.4	(0.9)	3.9	1.8	0.3	(0.9)	3.6	1.7	0.6			
Real GDP	5.0	5.5	5.7	5.0	5.0	5.2	5.1	5.1	5.1	4.8	4.8	5.0	5.3	5.1	4.9
Unemployment rate (% nsa)	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	2.6	4.4	6.0	5.5	5.0	3.5	2.4	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	0.2	1.1	1.3	1.3	0.9	(0.6)	(1.5)	(1.2)	(1.2)	(1.3)	(1.5)	(1.7)	1.0	(0.6)	(1.4)
12M rolling sum	0.4	0.9	0.8	1.0	1.2	0.7	(0.1)	(0.6)	(1.1)	(1.3)	(1.3)	(1.4)			
Fiscal balance (% to GDP)	0.1	0.5	0.3	(2.4)	0.6	0.7	(1.3)	(2.3)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.3)	(2.3)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	4.25	5.50	5.75	5.75	5.75	5.50	5.00	4.50	4.25	4.25	5.50	5.50	4.25
10-year government bond yield (%)	6.74	7.22	7.37	6.94	6.79	6.26	6.50	6.20	6.00	5.80	5.70	5.60	6.94	6.20	5.60
Exchange rate (USD/IDR)	14,369	14,898	15,228	15,568	14,995	14,993	15,200	15,000	15,000	14,900	14,800	14,700	15,568	15,000	14,700

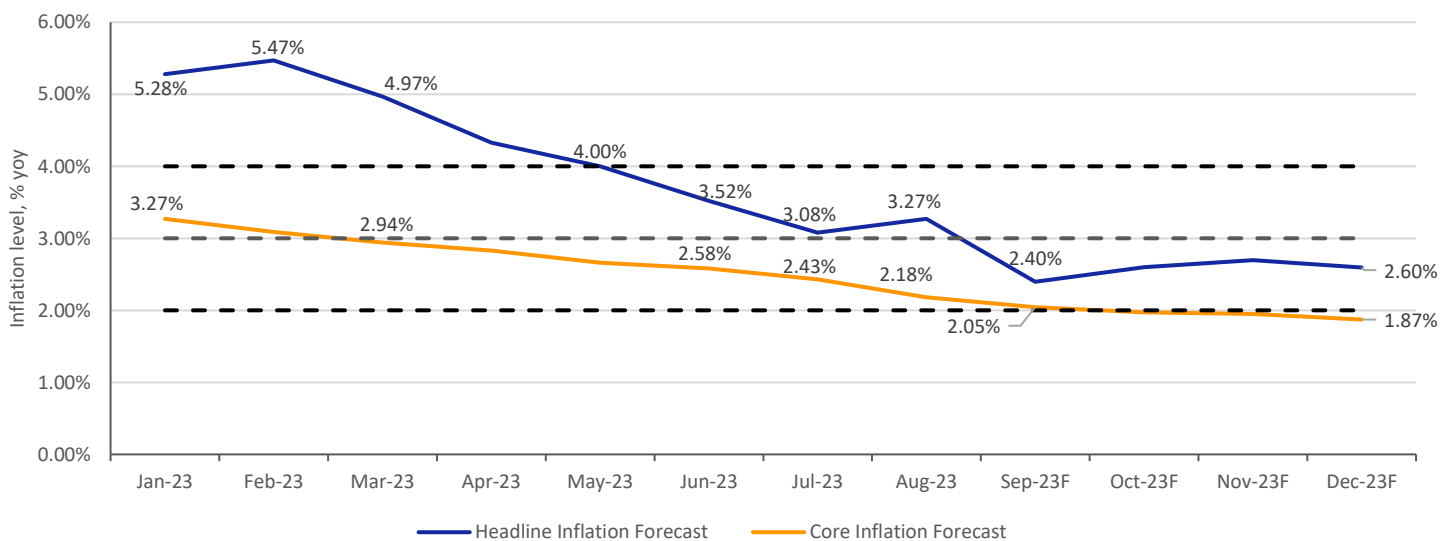
Source: SSI Research.

**Chart 1. Impact of Monetary Tightening on Inflation**



Source: BI, BPS, SSI Research

**Chart 2. SSI's Inflation Projection for 2023**



Source: BI, BPS, Bloomberg, SSI Research

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