

PIER Snapshot: 2023 CPI

02 January 2024

2023 CPI: Inflation Eased due to Softer Administered Price Inflation

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CPI Review

- In Dec-23, monthly inflation increased to 0.41% mom compared to 0.38% mom in the previous month. Despite exceeding the previous period, Dec-23 monthly inflation was lower than our estimated 0.6% mom, primarily due to lower-than-anticipated food inflation. It was also relatively lower compared to the usual seasonal range of 0.5% - 0.6% mom. The main contributors to inflation were volatile prices and core inflation, influenced by El Nino impact and the seasonally higher demand during the year-end holidays. For the full-year inflation in 2023, it notably decreased from 5.51% in 2022 to 2.61%, back to within Bank Indonesia's target range of 2% - 4%. This decline was largely attributed to lower administered price (AP) inflation, driven by reduced global fuel and energy prices causing the pressure on energy subsidies to decrease thus allowing the government to maintain stable energy prices, including electricity tariffs and subsidized fuel prices. However, the emergence of the El Nino impact led to a higher full-year volatile price inflation.
- Volatile price inflation decreased to 1.42% mom in Dec-23 from 1.72% mom in Nov-23, indicating a gradual easing of the impact of El Nino on food prices. The primary contributors to the monthly volatile price inflation were red chili, shallot, and tomatoes. Some food inflation experienced a slight easing in Dec-23 compared to the previous month. For the entire year of 2023, volatile price inflation increased compared to 2022. It rose to 6.73% from 5.61%, driven by food commodities such as rice, red chili, and bird's eye chili. This heightened volatile price inflation in 2023 was more attributed to supply issues affecting certain food commodities. The El Nino phenomenon, characterized by a prolonged dry season, led to decreased production of agricultural products hence limiting food supply.
- Monthly AP inflation in Dec-23 experienced an increase, primarily driven by a surge in airline fares due to heightened demand during the holiday season. In comparison to the previous month, the contribution of airfare inflation to headline inflation rose from 0.04 ppt to 0.05 ppt. Consequently, the monthly AP inflation increased to 0.39% mom from 0.08% mom. On an annual basis, considering the fading impact of higher fuel prices from the previous year, AP inflation for 2023 showed a significant easing, decreasing to 1.72% from the high of 13.34%.
- Core inflation increased to 0.14% mom from 0.12% mom, bolstered by stronger global gold prices and a seasonally improved demand during the year-end holidays. Gold jewelry made a notable contribution of 0.02 ppt to the headline inflation. On an annual basis, core inflation decelerated to 1.82% in 2023 from 3.36% in 2022. The 2023 core inflation was primarily influenced by various components, including gold jewelry, housing rent, and wages for household assistants. The deceleration in core inflation was primarily attributed to lower raw material costs, reflected by weaker producer prices throughout 2023, thereby reducing the risk of inflation passing through from the supply side to the demand side.

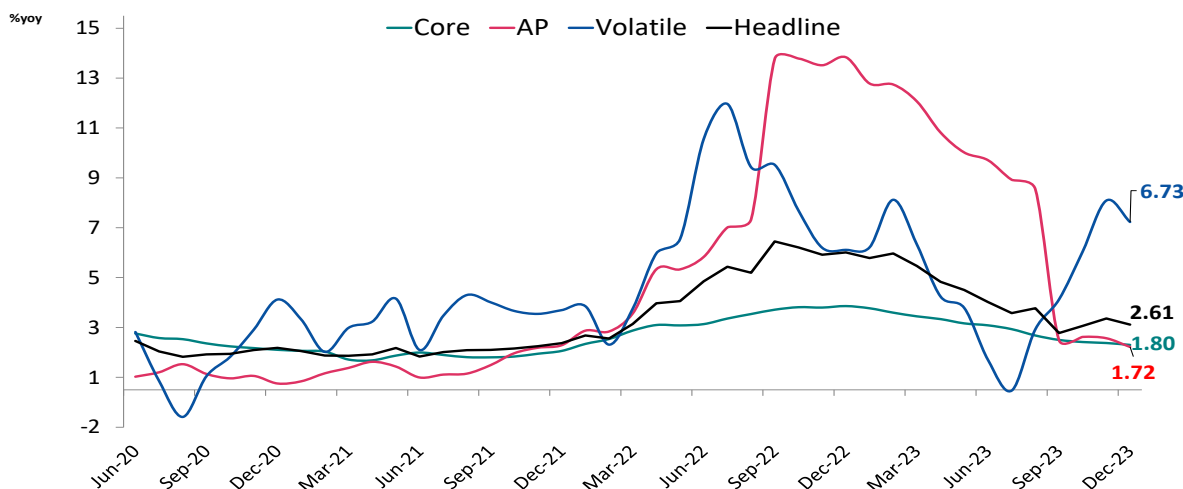
Economic Implication

- **We anticipate a modest increase in inflation in 2024.**
We project that inflation in 2024 will stay within the newly defined target range of 1.5% - 3.5%. However, we exercise caution regarding the potential impact of prolonged El Nino in the first half, and the implementation of excise duties on plastic and sweetened packaged beverages in the second half of 2024. According to our forecast, the inflation rate is expected to show a modest increase to 3.17% at the end of 2024. Despite this uptick, the predicted figure falls within the target range, allowing room for Bank Indonesia to contemplate reducing BI rate, particularly in the second half of 2024. Additionally, Statistics Indonesia will change the base year of inflation to 2022 from previously 2018, starting in Jan-24.

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Developments in Headline Inflation and Its Components



Source: Statistics Indonesia & Permata Institute for Economic Research

Main Drivers of Dec-23 Inflation Came from FBT

Changes in Consumer Price Index 2018 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
Food, Drink, and Tobacco	0.20	1.23	1.07	5.41	6.71	6.18
Clothing and Footwear	-0.04	-0.04	0.18	0.85	0.69	0.78
Housing, Water, Electricity, and Other Fuels	0.08	0.04	0.01	1.16	1.12	0.50
Equipment, Tools, and Household Maintenance	0.10	-0.03	0.10	1.89	1.63	1.58
Health	0.11	0.21	0.04	2.04	2.04	1.94
Transportation	0.55	0.07	0.45	1.20	1.27	1.27
Information, Communication, and Financial Services	-0.02	-0.02	0.07	0.11	0.07	0.20
Recreation, Sport, and Culture	0.08	0.10	0.54	1.50	1.38	1.69
Education	0.07	0.01	0.00	1.99	1.98	1.97
Food Service and Restaurant	0.10	0.07	0.03	2.21	2.18	2.07
Personal Care and Other Services	0.23	0.53	0.46	3.67	3.76	3.55
Headline	0.17	0.38	0.41	2.56	2.86	2.61

Source: Statistics Indonesia & Permata Institute for Economic Research

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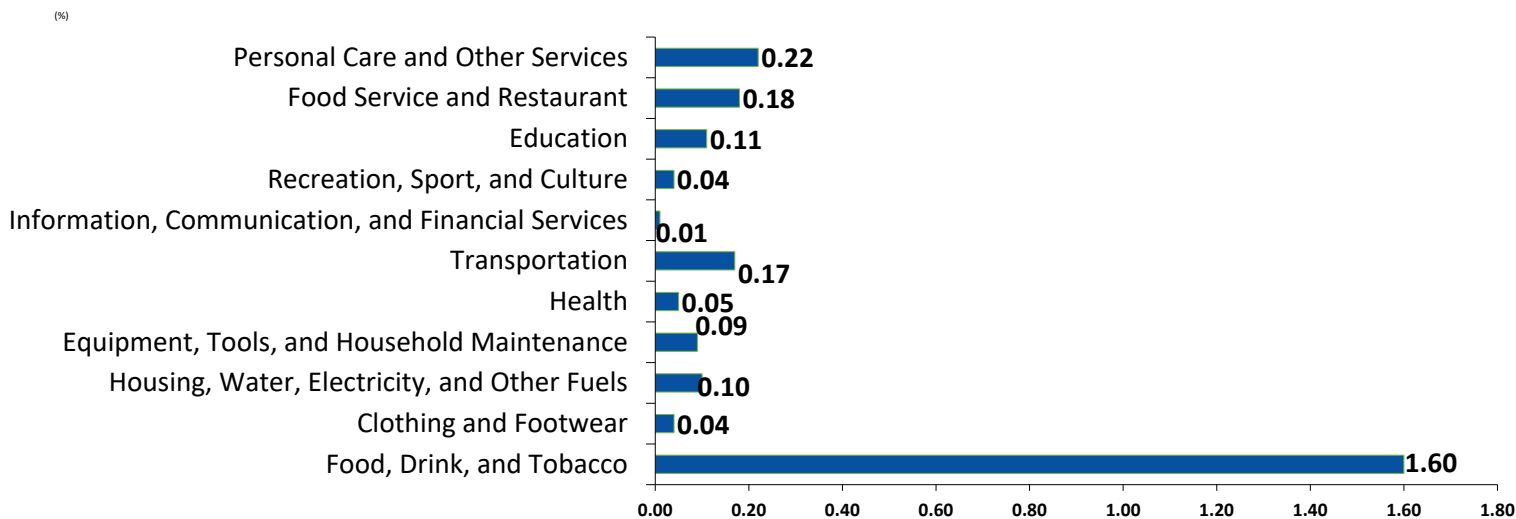
Volatile Price Inflation Still Posted More than 1% amid Food Supply Problem

Changes in Consumer Price Index 2018 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
Core	0.08	0.12	0.14	1.91	1.87	1.80
Administered	0.46	0.08	0.39	2.12	2.07	1.72
Volatile	0.21	1.72	1.42	5.54	7.59	6.73
Headline	0.17	0.38	0.41	2.56	2.86	2.61

Source : Statistics Indonesia & Permata Institute for Economic Research

Contributors to 2023 CPI (%)



Source: Statistics Indonesia & Permata Institute for Economic Research

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Macro Economic Indicator

Indicators	2018	2019	2020	2021	2022	2023F	2024F
Inflation (%YoY)	3.1	2.7	1.7	1.9	5.51	2.61	3.17
Exchange Rate Eop (Rp/US\$)	14,390	13,866	14,050	14,253	15,568	15,397	15,124
Curent Account (% GDP)	-3.0	-2.7	-0.4	0.28	1.00	-0.28	-1.75
Fiscal Balance (% GDP)	-1.8	-2.2	-6.1	-4.7	-2.4	-1.65	-2.3
BI Rate	6.00	5.00	3.75	3.50	5.50	6.00	5.50
Credit Growth (%)	11.8	6.1	-2.1	5.2	11.4	8.6	8.7
Deposit Growth (%)	6.4	6.5	11.1	12.2	9.0	5.7	5.9
Car Sales (1000 Units)	1,150	1,030	532	887	1,048	1,062	1,084
Car Sales Growth (%)	6.50	-10.61	-48.35	66.73	18.16	1.32	2.10
Motorcycle Sales (1000 Units)	6,383	6,487	3,663	5,057	5,221	5,997	6,169
Motorcycle Sales Growth (%)	8.45	1.63	-43.54	38.06	3.25	14.84	2.87
Unemployment Rate (%)	5.40	5.16	7.07	6.49	5.86	5.32	5.40
International Reserve (US\$ bn)	120.7	129.2	135.9	144.9	137.2	137.0	148.6
Fed Rate	2.50	1.75	0.25	0.25	4.50	5.50	4.75
GDP Growth (%)	5.17	5.02	-2.07	3.69	5.31	5.07	5.09

Note : the red numbers are forecast

Source : Permata Institute for Economic Research

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