

PIER Snapshot: Feb-24 CPI

01 March 2024

Feb-24 CPI: Rice Price Drove Higher Inflation

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CPI Review

- In Feb-24, the Consumer Price Index (CPI) inflation rate experienced a notable increase, rising from 0.04%mom to 0.37%mom. On an annual basis, the inflation rate also saw an uptick, climbing to 2.75%yoy compared to 2.57%yoy in Jan-24. The heightened inflation in Feb-24 was primarily attributed to volatile price inflation, particularly in the realm of food items. Despite this, core CPI exhibited mild inflation, and Administered Prices (AP) showed subdued inflation. The year-to-date (ytd) inflation for Jan – Feb-24 stood at 0.41%, remaining lower than the ytd inflation during the same period last year, which was 0.46%.
- The surge in volatile price inflation during Feb-24 was propelled by a significant increase in foodstuff prices, particularly rice. Rice prices escalated by 5.32%mom in Feb-24, contributing 0.21ppt to the headline inflation. The rise in rice prices was attributed to an increase in the cost of dry unhulled rice due to reduced production, influenced by the prolonged El-Nino phenomenon. Additionally, higher land rent and fertilizer prices further contributed to the increase in rice prices. Apart from rice, other food items such as eggs and chili also experienced price hikes. Red chili prices rose by 17.58%mom, contributing 0.09ppt to headline inflation, while chicken egg prices increased by 3.58%mom, contributing 0.04ppt. Volatile price inflation rose to 1.53%mom in Feb-24, a significant increase from the 0.01%mom recorded in Jan-24. On an annual basis, volatile price inflation strengthened to 8.47% yoy from 7.47% yoy.
- The AP index shifted from a deflation of 0.48%mom in Jan-24 to an inflation of 0.15%mom in Feb-24. Annually, AP inflation slightly eased to 1.67%yoy from 1.74%yoy. The rebound in AP inflation during Feb-24 was driven by higher prices of cigarettes and air transportation fares. Various types of cigarettes saw price increases after the adjustment for the new excise tariff, and air transportation fares rose marginally due to increased demand during the extended holiday in Feb-24.
- Core inflation for Feb-24 recorded a 0.14%mom increase, a slight decrease from the previous month's 0.20%mom. Annually, core inflation remained stable at 1.68%yoy. The primary contributor to core inflation was the higher price of passenger cars, which added 0.01ppt to headline inflation. The increase in car prices was primarily attributed to higher costs of car components and the imposition of a new tariff for transferring ownership tax.

Economic and Market Implication

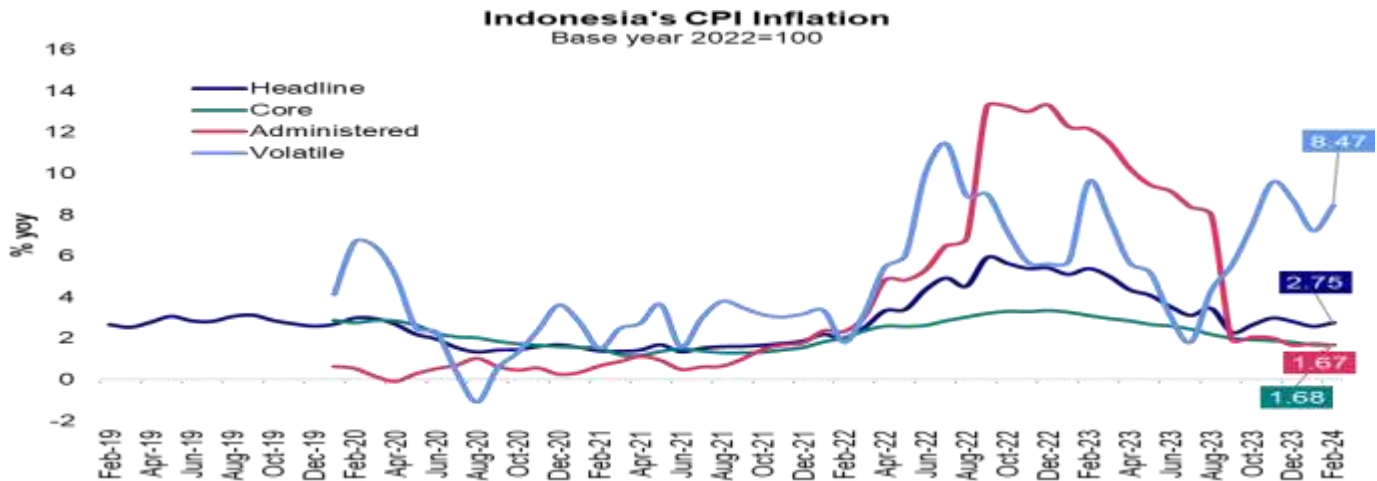
- **The short-term persistence of inflationary risk is likely.**

The increase in rice prices since Jul-23, attributed to supply issues, has contributed 0.67ppt to the annual headline inflation in Feb-24. The primary factor behind reduced rice production remains the El-Nino effect, leading to a 1.40% decline in rice production in 2023 compared to 2022, resulting in market scarcity. Anticipating ongoing supply challenges, especially in the first half of 2024, given the continued rise in the El-Nino index, compounded by increased demand during the March-April Ramadan and Eid al-Fitr festive season, we anticipate heightened inflationary pressure. Despite the short-term inflationary risks, we expect the overall inflation in 2024 to hover around 3%, falling within Bank Indonesia (BI)'s target range of 1.5 – 3.5%. This expectation is grounded in the anticipation that inflation will begin to ease in the latter half of 2024. Recognizing the elevated inflationary risk in the first half of 2024, we project that BI will maintain the BI-rate in the short term, before considering a policy rate cut in the second half of 2024. As per the latest statement from the BI, any shift in the monetary policy direction will be contingent on subdued inflationary risks both domestically and globally. Consequently, we maintain our forecast for BI to reduce the BI-rate by 50bps to 5.50% in the second half of 2024.

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Indonesia Headline Inflation and Its Components



Source: Statistics Indonesia & Permata Institute for Economic Research

Monthly Inflation was Driven by FBT Components

Changes in Consumer Price Index 2022 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
Food, Drink, and Tobacco	1.07	0.18	1.00	6.88	5.84	6.36
Clothing and Footwear	0.18	0.02	0.07	1.10	1.02	0.90
Housing, Water, Electricity, and Other Fuels	0.01	0.14	0.06	0.80	0.58	0.57
Equipment, Tools, and Household Maintenance	0.10	0.04	0.12	1.40	1.20	1.13
Health	0.04	0.49	0.22	1.79	1.88	1.95
Transportation	0.45	-0.87	0.17	0.82	1.11	1.40
Information, Communication, and Financial Services	0.07	-0.05	-0.03	-0.05	-0.11	-0.13
Recreation, Sport, and Culture	0.54	0.26	0.09	1.67	1.68	1.68
Education	0.00	0.03	0.02	1.66	1.57	1.55
Food Service and Restaurant	0.03	0.31	0.17	2.40	2.37	2.38
Personal Care and Other Services	0.46	0.37	0.21	3.50	3.01	3.09
Headline	0.41	0.04	0.37	2.81	2.57	2.75

Source: Statistics Indonesia & Permata Institute for Economic Research

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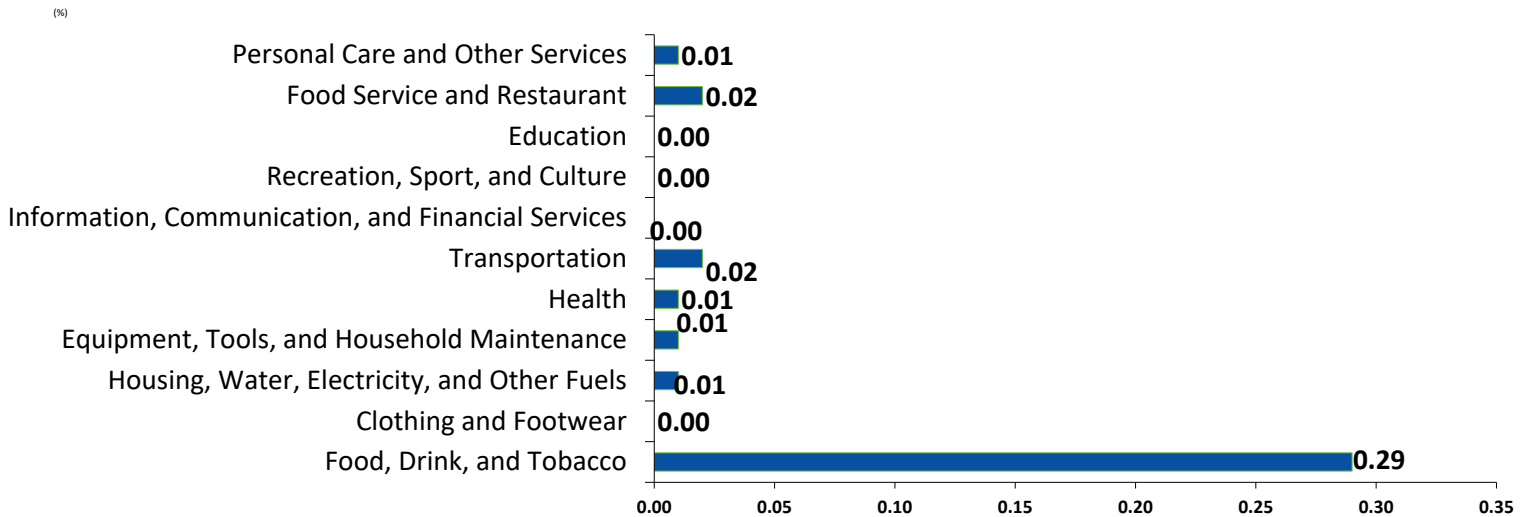
Volatile Price Surged due to Foodstuff Price

Changes in Consumer Price Index 2022 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
Core	0.14	0.20	0.14	1.82	1.68	1.68
Administered	0.39	-0.48	0.15	1.66	1.74	1.67
Volatile	1.42	0.01	1.53	8.71	7.22	8.47
Headline	0.42	0.04	0.37	2.81	2.57	2.75

Source: Statistics Indonesia & Permata Institute for Economic Research

Contributors to Feb-24 CPI (%)



Source: Statistics Indonesia & Permata Institute for Economic Research

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PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.10	5.11	5.05	5.00	5.07	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	5.18	5.20	5.15	5.05	5.14	5.10	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	5.05	4.79	4.81	5.05	4.93	5.52	6.09
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	4.58	4.23	5.13	5.11	4.78	5.83	6.62
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,485.18	5,656.44	5,727.52	5,731.41	22,600.55	24,479.95	26,548.14
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	355.01	366.11	374.25	378.60	1,473.98	1,641.11	1,807.17
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.97	3.10	3.15	3.07	3.07	3.15	3.18
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	3.18	3.12	3.08	3.08	3.25	3.15
Unemployment Rate (%)	5.18	7.07	6.49	5.86	5.32	5.14	5.14	5.28	5.28	5.28	5.14	4.91
Fiscal Condition												
Fiscal Balance (% of GDP)	-2.20	-6.14	-4.57	-2.35	-1.65	0.25	0.05	-0.75	-2.14	-2.14	-2.00	-2.04
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.62	6.65	6.33	6.26	6.26	6.04	5.63
External Sector												
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,451	15,450	15,304	15,138	15,336	14,918	14,691
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,468	15,444	15,241	15,093	15,093	14,783	14,565
Commodity Price												
Coal Price (USD/MT)	66.2	83.0	169.7	379.2	141.8	133.1	124.4	121.0	117.5	117.5	103.8	90.3
CPO Price (USD/MT)	763.7	1,016.4	1,270.3	940.4	797.8	805.8	813.7	821.7	829.6	829.6	818.0	808.3
Oil Price (USD/BBL)	65.85	49.87	74.31	80.90	77.9	77.8	77.7	79.0	80.3	80.3	84.1	85.4
Interest Rate												
Fed Funds Rate (%)	1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.25	4.75	4.75	3.75	2.75
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.00	6.00	5.50	5.50	4.50	4.00
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.28	9.23	9.21	9.15	9.15	8.55	8.00
Banking Sector												
Loan (% yoy)	6.08	-2.40	5.24	11.35	10.38	10.48	10.58	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	4.84	6.28	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.8	86.1	85.9	84.0	84.0	85.5	87.5
Real Sector												
Car Sales (Unit)	1,030,126	532,027	887,202	1,048,040	1,005,802	313,529	202,128	252,240	279,733	1,047,630	1,071,763	1,144,675
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-1.0	-9.7	1.2	25.4	4.2	2.3	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	2,144,597	1,026,925	1,604,918	1,502,065	6,278,505	6,300,894	6,436,790
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	17.6	-25.5	5.6	-0.9	0.7	0.4	2.2

Source: Permata Institute for Economic Research (PIER)

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