

**August 2016****C P I O U T L O O K****August 2016 Inflation Outlook: To Soften**

□ Inflation jumped again in July. In this month, consumer prices climbed 0.69 percent mom, after the 0.66 percent increase in June. Compared to July 2015, headline inflation reached 3.21 percent. Prices in both the foodstuffs and non-foodstuffs components continued to rise (+0.86 percent MoM and +0.60 percent MoM, respectively). The greater pressure on prices stemmed from the impact of the Idul Fitri festivities and the start of the new academic year.

□ All CPI components rose on a monthly basis. Prices in the transportation component increased the most (+1.22% mom), since many urban residents travel back to their hometowns during Lebaran. Prices also increased in the foodstuffs component (+1.12% mom), the prepared foods component (+0.54% mom), the education component (+0.51% mom), the clothing component (+0.44% mom), the medical care component (+0.37% mom), and the housing component (+0.24% mom).

□ For August, we predict milder inflation as the seasonal impact from the fasting month ends. As such, prices in the foodstuffs, prepared foods, clothing and transportation components will return to normal. Nonetheless, the new school year - which begins in the July-September period - will intensify pressures in the education component.

□ For August 2016, we forecast inflation of 0.06 percent MoM, translating into YoY inflation of 2.87 percent.

□ Bank Indonesia now uses the BI 7-Day RR Rate as its new policy rate to replace the BI Rate. At the central bank's latest meeting, the 7-Day Reverse Repo Rate (BI 7-Day RR Rate) was kept unchanged at 5.25 percent. Meanwhile, the Deposit Facility rate was unchanged at 4.50 percent and the Lending Facility rate cut by 100 bps to 6.00 percent. Amid the sluggish global economic recovery, we expect domestic inflation to remain benign, the rupiah to stay stable, and with a more manageable current account deficit over the short-term. As such, BI still appears to have room to lower its benchmark interest rate, a move which would help to give a boost to domestic demand.

**DRI Forecast for Aug 2016**

<b>Inflation</b>	
MoM (%)	0.06
YoY (%)	2.87

<b>7D Reverse R.</b>	
End of period (%)	5.25

**Forecast for 2016**

Inflation (%)	3.82
7D Reverse R. (%)	4.75

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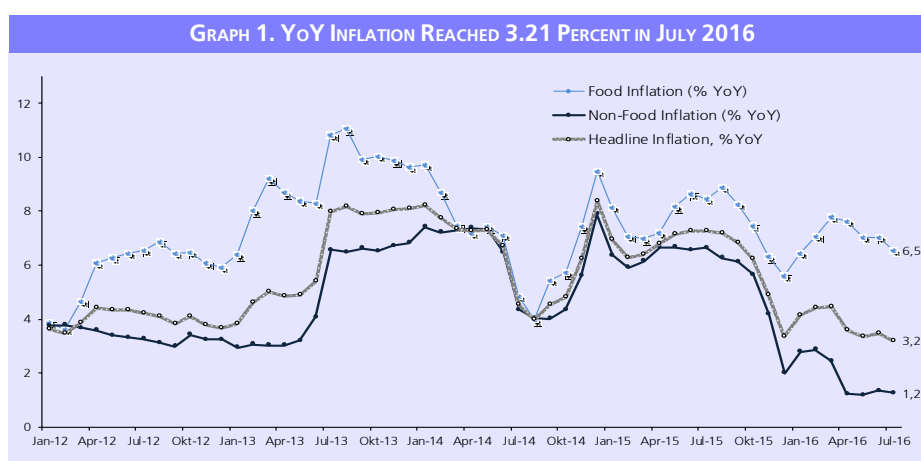
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Source : BPS,, Bank Indonesia

**TABLE 1. MoM FOODSTUFFS INFLATION**

	M-on-M changes			Y-on-Y changes			Jan-July		
	May-16	Jun-16	Jul-16	May-16	Mei-16	Jun-16	2014	2015	2016
FOODSTUFF	0,30	1,62	1,12	7,75	7,77	6,81	4,41	2,60	4,44
PREPARED FOOD	0,58	0,58	0,54	6,13	6,16	6,19	3,76	3,83	3,61
HOUSING	0,02	0,15	0,24	1,26	1,18	1,29	2,67	2,31	0,28
CLOTHING	0,44	0,70	0,44	3,80	4,24	4,30	2,24	2,44	3,30
MEDICAL CARE	0,27	0,34	0,37	4,37	4,39	4,40	3,24	3,13	2,23
EDUCATION	0,03	0,03	0,51	3,63	3,59	3,77	1,44	1,03	0,84
TRANSPORTATION	0,21	0,63	1,22	(1,50)	(0,99)	(1,49)	2,09	(1,08)	(1,03)
GENERAL	0,24	0,66	0,69	3,33	3,45	3,21	2,94	1,90	1,76
Food and Non-Food									
FOOD	0,43	1,15	0,86	7,01	7,04	6,53	4,11	3,15	4,07
NON-FOOD	0,14	0,35	0,60	1,17	1,35	1,25	2,33	1,14	0,40

Source : BPS

**TABLE 2. DRIVERS OF PRICE CHANGES IN JULY 2016**

Component	Change (%)	Drivers	Contribute (%)
Foodstuffs	1,12	Onion, chicken meat, fish, rice	0,23
Prepared foods, beverages and cigarettes	0,54	Sugar, cigarettes, filtered-flavored cigarettes	0,09
Housing	0,24	Electricity tariff, house rental	0,06
Clothing	0,44	Gold and jewelry	0,03
Medical care	0,37	Health care, medicine	0,02
Education, recreation and sports	0,51	Tuition cost	0,04
Transportation and communications	1,22	Air transport, train fare	0,22
<b>General</b>			<b>0,69</b>

Source : BPS

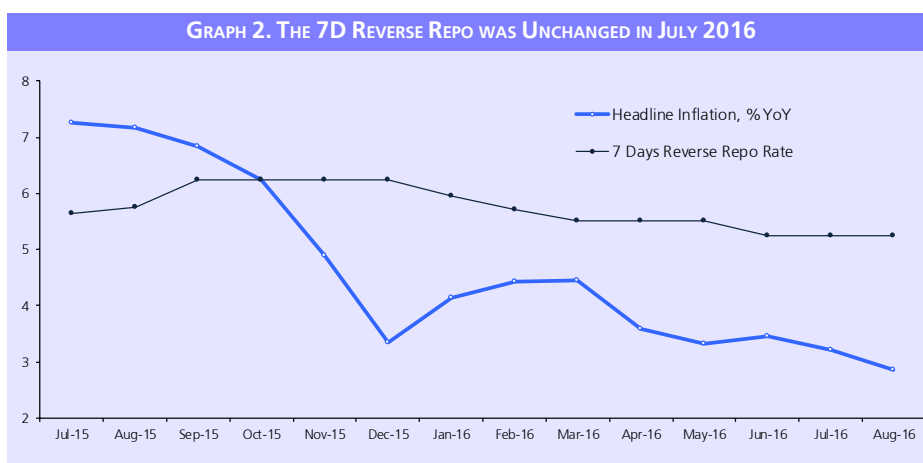
TABLE 3. AUGUST 2016 INFLATION FORECAST

	Agu-15	Sep-15	Okt-15	Nov-15	Des-15	Jan-16	Feb-16	Mar-16	Apr-16	Mei-16	Jun-16	Jul-16	Aug-16
MoM changes	0,39	(0,05)	(0,08)	0,21	0,96	0,51	(0,09)	0,19	(0,45)	0,24	0,66	0,69	<b>0,06</b>
YoY changes	7,18	6,83	6,25	4,89	3,35	4,14	4,42	4,45	3,60	3,33	3,45	3,21	<b>2,87</b>
Yearly*	6,98	6,66	6,11	4,81	3,31	4,07	4,34	4,37	3,55	3,29	3,41	3,17	<b>2,84</b>

\* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE 7D REVERSE REPO WAS UNCHANGED IN JULY 2016



Source : BPS, Bank Indonesia

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