

January 2016

CPI AND SBI OUTLOOK

January 2016 Inflation Outlook: Remaining High

- In December 2015, inflation reached 0.96 percent on a monthly comparison. This translated into 3.35 percent on an annual basis. By component, inflation was highest in the foodstuffs component at 1.97 percent MoM, while the non-foodstuffs component posted a more moderate increase of 0.33 percent MoM.
- Seasonal factors (the beginning of the planting season and the year-end holidays) created additional inflationary pressures in December. All 7 components of the CPI posted increases in December. The foodstuffs and prepared foods components rose the most: up by 3.20 percent and 0.50 percent, respectively. Among the other components, the transportation component climbed 0.45 percent, followed by the housing component (+0.40 percent MoM), the medical care component (+0.24 percent MoM), the clothing component (+0.09 percent MoM), and the education component (+0.06 percent MoM).
- In early 2016, the government announced new electricity tariffs and cut the prices of several fuel products. Non-subsidized electricity tariffs were reduced by around 8 percent (weighted average). Moreover, in response to the slump in global crude oil prices, the government also cut the retail prices of several fuel products (by between 1.7 and 15.7 percent) and lowered the price of non-subsidized LPG (by around 4.4 percent).
- In January 2016, the monthly inflation rate will remain high due to seasonal factors. However, we believe that the inflationary pressures may be less than usual (typically monthly inflation is around 1 percent in January). But the prices of basic foodstuffs are still likely to post significant increases due to tighter supply. By contrast, although the government's recent cuts in fuel prices will help to dampen inflationary pressures, transportation costs may not change much over the short term.
- For January 2016, we forecast inflation of 0.68 percent MoM, translating into YoY inflation of 4.30 percent.
- At its latest meeting, Bank Indonesia lowered the BI rate to 7.25 percent, with the Lending Facility and the Deposit Facility rate cut to 7.75 percent and 5.25 percent, respectively. This policy takes into consideration the stable outlook for inflation over the near term, possibly weak economic growth, and expectations of a more manageable CAD. In February 2016, we don't expect BI to lower rates further since: 1) the trade deficit may widen the Q4 2015 CAD, 2) the monthly inflation rate will be higher in January 2016, and 3) rupiah volatility remains high.

DRI Forecast for January 2016

Inflation	
MoM (%)	0.68
YoY (%)	4.30

SBI	
End of period (% p.a)	6.75

Forecast for 2016

Inflation (%)	4.50
SBI (% p.a)	6.75

DAMHURI NASUTION

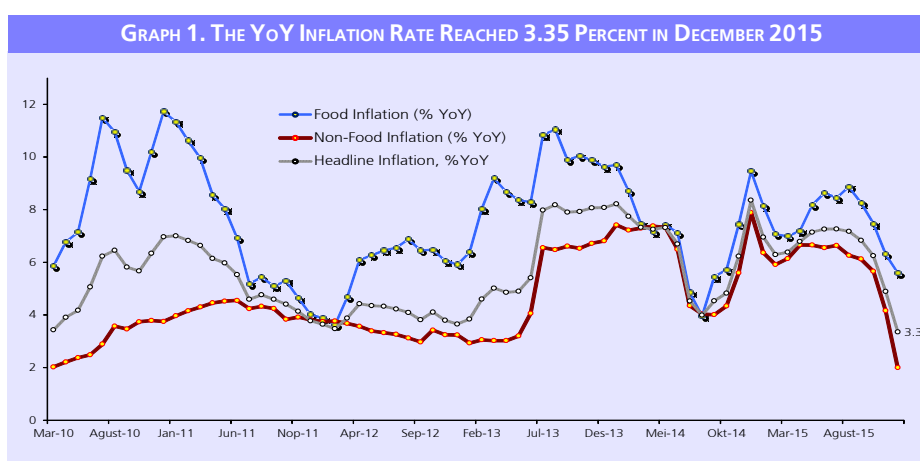
Head of Economic Research

(62-21) 29555777/ 888 ext 3600
damhuri@danareksa.com

HANDRI THIONO

Economist

(62-21) 29555777/ 888 ext 3606
handrit@danareksa.com



Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			Jan-Dec		
	Okt-15	Nop-15	Des-15	Okt-15	Nop-15	Des-15	2013	2014	2015
FOODSTUFF	(1.06)	0.33	3.20	6.85	4.96	4.93	11.71	10.57	4.93
PREPARED FOOD	0.40	0.47	0.50	8.23	7.97	6.42	7.20	8.11	6.42
HOUSING	0.09	0.15	0.40	4.78	4.42	3.34	6.16	7.36	3.34
CLOTHING	0.25	(0.23)	0.09	4.15	4.00	3.43	0.77	3.08	3.43
MEDICAL CARE	0.29	0.44	0.24	5.82	5.84	5.32	3.74	5.71	5.32
EDUCATION	0.16	0.05	0.06	4.31	4.28	3.97	3.27	4.44	3.97
TRANSPORTATION	0.02	0.06	0.45	7.84	3.47	(1.53)	12.35	12.14	(1.53)
GENERAL	(0.08)	0.21	0.96	6.25	4.89	3.35	8.08	8.36	3.35
Food and Non-Food									
FOOD	(0.40)	0.40	1.97	7.48	6.31	5.60	9.63	9.46	5.60
NON-FOOD	0.11	0.09	0.33	5.66	4.16	2.00	6.81	7.89	2.00

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN DECEMBER 2015

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	3.20	Red chili, onion, chicken meat, egg, fish	0.65
Prepared foods, beverages and cigarettes	0.50	Cigarettes, filtered-flavored cigarettes	0.09
Housing	0.40	Electricity, house rent	0.10
Clothing	0.09	Man and woman apparel	0.01
Medical care	0.24	Health care, medicine	0.01
Education, recreation and sports	0.06	Training cost, recreation	0.01
Transportation and communications	0.45	Air transport, train fare	0.09
General			0.96

Source : BPS

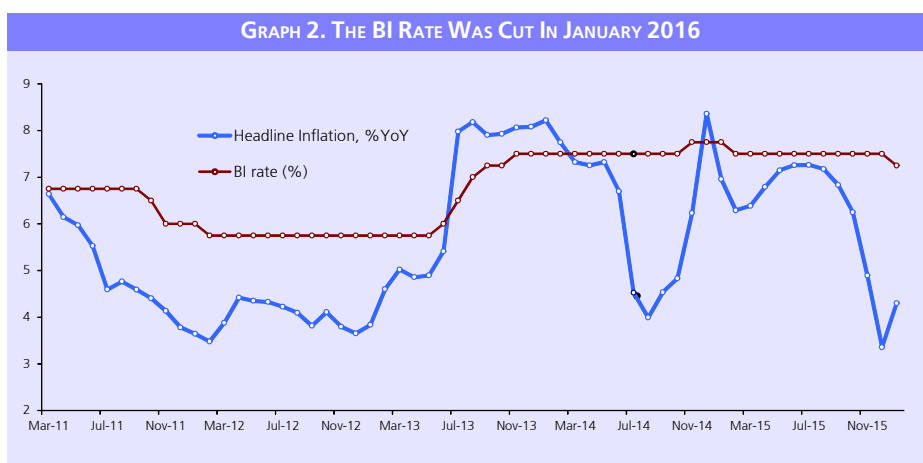
TABLE 3. JANUARY 2016 INFLATION FORECAST

	Jan-15	Feb-15	Mar-15	Apr-15	Mei-15	Jun-15	Jul-15	Agust-15	Sep-15	Okt-15	Nop-15	Des-15	Jan-16
MOM changes	(0.24)	(0.36)	0.17	0.36	0.50	0.54	0.93	0.39	(0.05)	(0.08)	0.21	0.96	0.68
YoY changes	6.96	6.29	6.38	6.79	7.15	7.26	7.26	7.18	6.83	6.25	4.89	3.35	4.30
Yearly*	6.77	6.15	6.24	6.62	6.95	7.06	7.06	6.98	6.66	6.11	4.81	3.35	4.24

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS CUT IN JANUARY 2016



Source : BPS,, Bank Indonesia

RESEARCH TEAM

Damhuri Nasution

Head of Economic Research
damhuri@danareksa.com

Asti Suwarni

Analyst
asti@danareksa.com

Darwin Sitorus

Economist / Database Officer
darwin@danareksa.com

Natalia Daisyana

Research Assistant
natalia@danareksa.com

Rika Pantjawati

Executive Secretary
rikap@danareksa.com

Kahlil Rowter

Chief Economist
kahlil.rowter@danareksa.com

Pramayanti Meitisari

Analyst
pramayanti@danareksa.com

Handri Thiono

Junior Economist
handrit@danareksa.com

Martin Jenkins

Editor
martin@danareksa.com

Danareksa Research Institute

Danareksa Building
Jl. Medan Merdeka Selatan 14
Jakarta, 10110
INDONESIA
Tel : (62-21) 29555777 / 888 (hunting)
Fax : (62 21) 3501709

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