

March 2016**CPI AND SBI OUTLOOK****March 2016 Inflation Outlook: To Ease Further**

- ❑ Consumer prices declined in February with deflation of 0.09 percent MoM. On a YoY comparison, headline inflation reached just 4.42 percent. By component, both the foodstuffs component (-0.04 percent MoM) and the non-foodstuffs component (-0.13 percent MoM) posted declines.
- ❑ Three components of the CPI posted monthly declines in February, namely the foodstuffs, housing and transportation components, which fell by 0.58 percent, 0.45 percent, and 0.15 percent, respectively. By contrast, prices in the clothing component (+0.64 percent MoM) and prepared foods component (+0.63 percent MoM) posted higher increases, while prices in the medical care component (+0.26 percent MoM) and education component (+0.06 percent MoM) posted lower increases.
- ❑ The downward pressure on prices owed largely to the harvesting season in February, which should continue into March. Big harvests in paddy producing areas of the country pushed rice prices down. In the March-April harvesting period, the Ministry of Agriculture expects rice production to reach 14.5 million tons. Targeted production of milled dry grain rice is 75.13 million tons for the full year of 2016. Furthermore, lower electricity tariffs and the reduced prices of several non-subsidized fuel products in March also helped to ease consumer living costs.
- ❑ However, a longer drought toward the end of 2015 led to delays in the harvesting of several horticultural commodities such as chili and onions. As a result, the pressure on prices remained high throughout March 2016. In this month, we forecast inflation of 0.19 percent MoM, translating into YoY inflation of 4.44 percent.
- ❑ At its March meeting, Bank Indonesia lowered its benchmark BI rate to 6.75 percent, with the Lending Facility and the Deposit Facility rates cut to 7.25 percent and 4.75 percent, respectively. This policy takes into consideration the reduced uncertainty on global financial markets, the outlook for benign inflation over the near term, the stronger rupiah, and attempts to increase domestic demand and bolster overall economic performance. Against this backdrop, we expect the BI rate to stay at 6.75 percent over the near term.

DRI Forecast for March 2016

Inflation	
MoM (%)	0.19
YoY (%)	4.44

SBI	
End of period (% p.a)	6.75

Forecast for 2016

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

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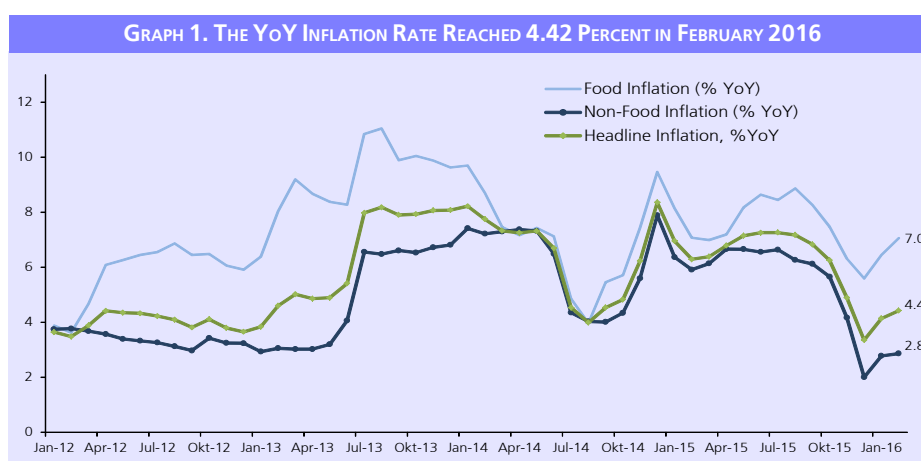
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Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			Jan-Feb		
	Dec-15	Jan-16	Feb-16	Dec-15	Jan-16	Feb-16	2014	2015	2016
FOODSTUFF	3.20	2.20	(0.58)	4.93	6.60	7.55	3.13	(0.88)	1.60
PREPARED FOOD	0.50	0.51	0.63	6.42	6.27	6.46	1.16	1.10	1.14
HOUSING	0.40	0.53	(0.45)	3.34	3.06	2.17	1.18	1.22	0.08
CLOTHING	0.09	0.26	0.64	3.43	2.83	2.96	1.12	1.37	0.91
MEDICAL CARE	0.24	0.36	0.26	5.32	5.00	4.87	1.01	1.05	0.62
EDUCATION	0.06	0.15	0.06	3.97	3.85	3.77	0.45	0.40	0.21
TRANSPORTATION	0.45	(1.11)	(0.15)	(1.53)	1.47	2.89	0.35	(5.51)	(1.26)
GENERAL	0.96	0.51	(0.09)	3.35	4.14	4.42	1.33	(0.61)	0.42
Food and Non-Food									
FOOD	1.97	1.44	(0.04)	5.60	6.45	7.06	2.24	0.01	1.39
NON-FOOD	0.33	(0.07)	(0.13)	2.00	2.78	2.86	0.81	(1.03)	(0.20)

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN FEBRUARY 2016

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	(0.58)	Red chili, onion, chicken meat, egg	(0.12)
Prepared foods, beverages and cigarettes	0.63	Cigarettes, filtered-flavored cigarettes	0.11
Housing	(0.45)	Electricity, house rent	(0.11)
Clothing	0.64	Gold and jewelry	0.04
Medical care	0.26	Health care, medicine	0.01
Education, recreation and sports	0.06	Training cost, recreation	0.01
Transportation and communications	(0.15)	Gasoline, air transport	(0.03)
General			(0.09)

Source : BPS

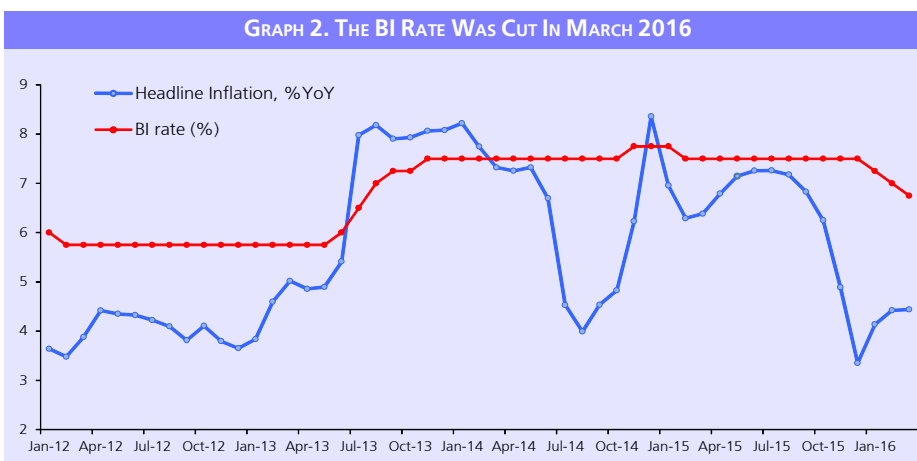
TABLE 3. MARCH 2016 INFLATION FORECAST

	Mar-15	Apr-15	Mei-15	Jun-15	Jul-15	Ags-15	Sep-15	Okt-15	Nop-15	Des-15	Jan-16	Feb-16	Mar-16
MoM changes	0.17	0.36	0.50	0.54	0.93	0.39	(0.05)	(0.08)	0.21	0.96	0.51	(0.09)	0.19
YoY changes	6.38	6.79	7.15	7.26	7.26	7.18	6.83	6.25	4.89	3.35	4.14	4.42	4.44
Yearly*	6.24	6.62	6.95	7.06	7.06	6.98	6.66	6.11	4.81	3.31	4.07	4.34	4.36

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS CUT IN MARCH 2016



Source : BPS,, Bank Indonesia

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