

August 2014**CPI AND SBI OUTLOOK****August 2014 Inflation Outlook: Easing Pressures**

- ❑ Inflationary pressures picked up in July on seasonal factors related to Ramadan and the Idul Fitri holidays. In July 2014, the MoM inflation rate reached 0.93 percent. YTD the inflation rate reached 2.94 percent, whilst on a YoY comparison inflation showed an easing trend, falling to 4.53 percent, reflecting the high base effect from last year's subsidized fuel price hikes.
- ❑ On a monthly comparison, prices in all components of the CPI increased. The foodstuffs and prepared foods components increased by 1.94 percent and 1.00 percent, respectively. At the same time, prices in the transportation component also increased (+0.88 percent), followed by the clothing component (+0.85 percent), the education component (+0.45 percent), the housing component (+0.45 percent), and the medical care component (+0.39 percent). In July, higher demand and increasing spending led to significant increases in the prices of foodstuffs and prepared foods. Transportation spending rose as urban citizens tended to visit their hometowns. Education costs also picked up because of the start of the new school year.
- ❑ For August, we predict that pricing pressures from foodstuffs and prepared foods will return to normal, and therefore ease. Nonetheless, prices in the education component will likely increase further due to the new academic year which begins in the July-September period.
- ❑ Against this backdrop, inflationary pressures are expected to ease in August 2014. We predict inflation of 0.24 percent MoM, translating into YoY inflation of 3.75 percent.
- ❑ In its August meeting, Bank Indonesia kept its benchmark BI rate unchanged at 7.5 percent, with the Lending Facility and Deposit Facility rates also stable at 7.50 percent and 5.75 percent, respectively. The central bank's tight monetary stance is likely to continue, we believe, given the latest macro developments with the current account still showing a large deficit. The current account deficit reached US\$ 9.1 bn (4.27 percent of GDP) in the second quarter of 2014, albeit down from a deficit of US\$ 10.1 bn (4.47 percent of GDP) in the same period last year. As such, despite the prospects of benign inflation over the near term, we predict that the central bank will maintain the BI rate at its present level.

DRI Forecast for August 2014

Inflation	
MoM (%)	0.24
YoY (%)	3.75

SBI	
End of period (% p.a)	7.50

Forecast for 2014

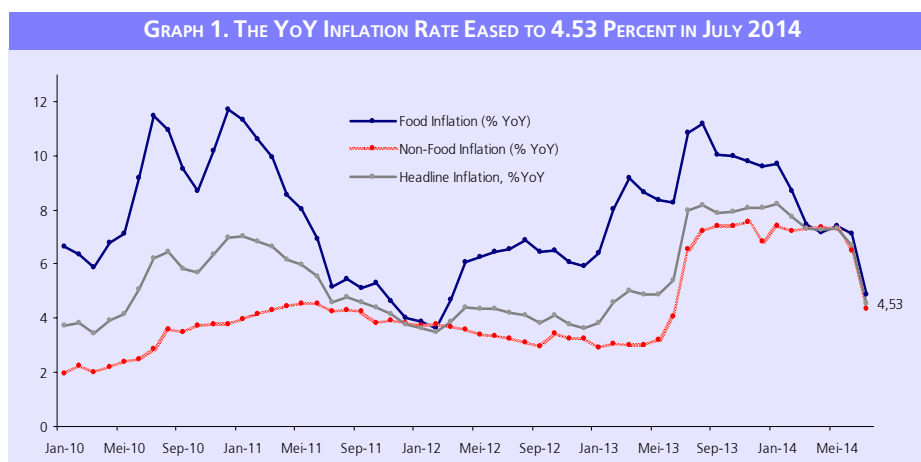
Inflation (%)	5.53
SBI (% p.a)	7.50

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**TABLE 1. CHANGES IN CONSUMER PRICE INDEX (PERCENT)**

	M-on-M changes			Y-on-Y changes			Jan-Jul		
	May-14	Jun-14	Jul-14	May-14	Jun-14	Jul-14	2012	2013	2014
FOODSTUFF	(0,15)	0,99	1,94	7,23	6,89	3,22	4,05	13,00	4,41
PREPARED FOOD	0,35	0,32	1,00	7,67	7,40	6,93	3,90	4,02	3,76
HOUSING	0,23	0,38	0,45	5,24	5,42	5,39	1,97	3,42	2,67
CLOTHING	0,12	0,30	0,85	4,21	4,50	5,06	1,18	(1,94)	2,24
MEDICAL CARE	0,41	0,36	0,39	4,65	4,77	4,80	1,86	2,20	3,24
EDUCATION	0,07	0,08	0,45	3,93	3,96	3,78	1,06	0,95	1,44
TRANSPORTATION	0,21	0,19	0,88	13,53	10,15	2,96	1,03	11,40	2,09
GENERAL	0,16	0,43	0,93	7,32	6,70	4,53	2,17	6,44	2,94
Food and Non-Food									
FOOD	0,08	0,69	1,52	7,43	7,12	4,85	4,01	8,85	4,11
NON-FOOD	0,20	0,28	0,62	7,32	6,49	4,35	1,48	4,74	2,33

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN JULY 2014

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	1.94	Fish, rice, meat	0.38
Prepared foods, beverages and cigarettes	1.00	Filtered-flavored cigarettes, fried chicken & fish	0.16
Housing	0.45	Electricity tariff, house rent	0.11
Clothing	0.85	Gold & Jewelry	0.05
Medical care	0.39	Health services	0.02
Education, recreation and sports	0.45	Tuition costs	0.04
Transportation and communications	0.88	Air transport and motorcycle	0.17
		General	0.93

Source : BPS

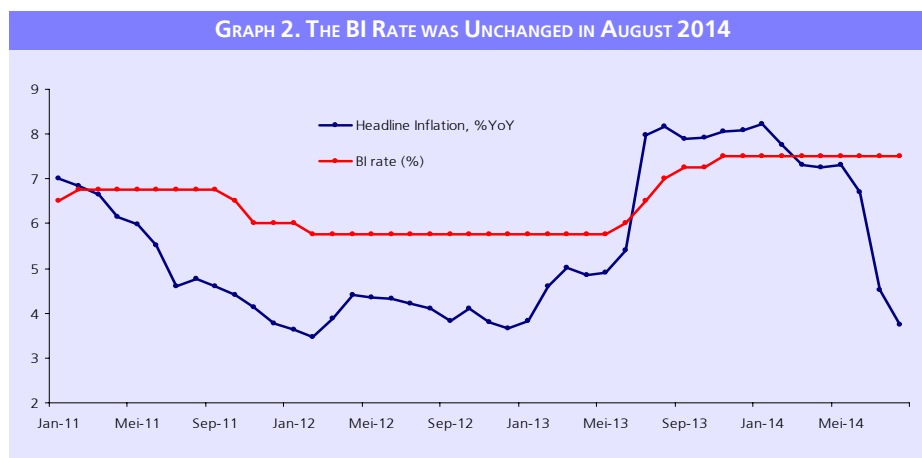
TABLE 4. AUGUST 2014 INFLATION FORECAST

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan'14	Feb'14	Mar'14	Apr-14	May-14	Jun-14	Jul -14	Aug-14
M-o-M changes	0,99	(0,25)	0,18	0,16	0,45	1,07	0,26	0,08	(0,02)	0,16	0,43	0,93	0,24
YoY changes	8,18	7,90	7,93	8,07	8,08	8,22	7,75	7,32	7,25	7,32	6,70	4,53	3,75
Yearly*	7,93	7,67	7,70	7,82	7,83	7,96	7,52	7,13	7,06	7,13	6,54	4,45	3,70

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN AUGUST 2014



Source : BPS, Bank Indonesia

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