

November 2014**CPI AND SBI OUTLOOK****November 2014 Inflation Outlook: To Head Higher on Fuel Price Hikes**

- ❑ Inflationary pressures began to rise in October. After posting benign inflation of 0.27 percent MoM in September, October's MoM inflation accelerated to 0.47 percent. Nonetheless, on a yearly basis, inflation reached only 4.83 percent. And cumulatively, in the January-October period, headline inflation only reached 4.19 percent, or far lower than last year's 7.42 percent.
- ❑ All CPI components rose in October. The housing component (+1.04 percent) and the medical care component (+0.60 percent) recorded the largest MoM increases. The other components also posted increases: the prepared foods component rose 0.43 percent, the foodstuffs component edged up 0.25 percent, the education component climbed 0.23 percent, the clothing component added 0.21 percent, and the transportation component rose 0.16 percent.
- ❑ In November, the government finally bit the bullet and hiked subsidized fuel prices to create a more sustainable state budget. Through this policy, the price of subsidized premium gasoline was raised from IDR 6,500/liter to IDR 8,500/liter, while the price of diesel fuel was upped from IDR 5,500/liter to IDR 7,500/liter. The price of subsidized kerosene was kept unchanged at IDR 2,500/liter. In our estimates, the government's decision to hike fuel prices by 32 percent on average will create additional inflation of 2.2 percent, meaning that the inflation rate will reach around 7.4 percent at the end of 2014.
- ❑ To cushion the impact of the fuel price hikes, the government provided social assistance to low income families through several social-protection cards, i.e. the Indonesia Health Card (KIS), the Indonesia Smart Card (KIP) and the Prosperous Family Card (KKS).
- ❑ For November, given the absence of seasonal factors, heightened inflationary pressures will be driven by the government's decision to hike subsidized fuel prices. Indeed, inflationary expectations already increased ahead of the fuel price hikes with the prices of several types of commodities heading higher. Then, after the announcement, increases in transportation fares and the prices of some goods followed. In our estimate, the full impact of the fuel price hikes will be seen in the December inflation figure.
- ❑ Against this backdrop, we predict inflation of 1.29 percent MoM in November, translating into YoY inflation of 6.01 percent.

DRI Forecast for November 2014

Inflation	
MoM (%)	1.29
YoY (%)	6.01

SBI	
End of period (% p.a)	7.75

Forecast for 2014

Inflation (%)	7.40
SBI (% p.a)	7.75

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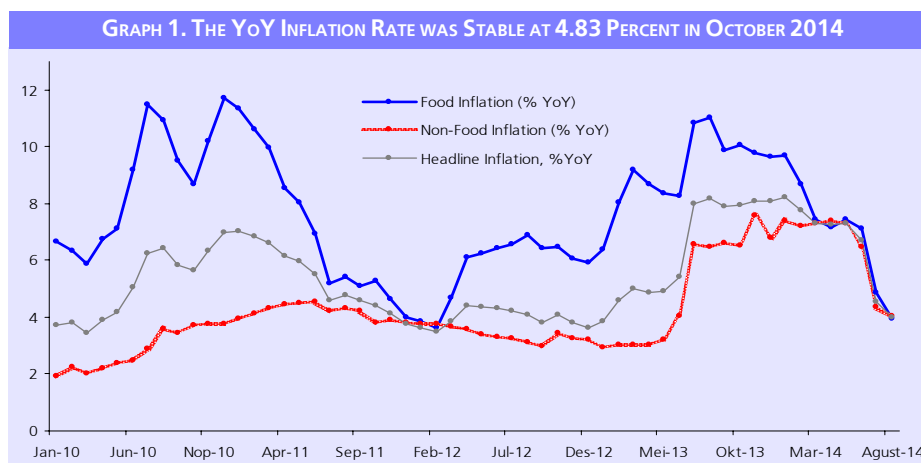
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- In response to the heightened inflationary pressures, Bank Indonesia increased its benchmark BI rate to 7.75 percent, with the Lending Facility increased to 8.00 percent and the Deposit Facility rate kept unchanged at 5.75 percent. Furthermore, the current account deficit remains a matter of concern for the central bank and will affect its monetary policy. For the remainder of the year, we predict that BI will maintain its benchmark BI rate at its current level.



Source : BPS,, Bank Indonesia

TABLE 1. CHANGES IN CONSUMER PRICE INDEX (PERCENT)

	M-on-M changes			Y-on-Y changes			Jan-Oct		
	Aug-14	Sep-14	Oct-14	Aug-14	Sep-14	Oct-14	2012	2013	2014
FOODSTUFF	0,36	(0,17)	0,25	1,78	4,59	5,19	4,16	11,37	4,87
PREPARED FOOD	0,52	0,51	0,43	6,76	6,53	6,36	5,59	6,12	5,29
HOUSING	0,73	0,77	1,04	5,40	5,57	6,37	3,02	5,09	5,31
CLOTHING	0,23	(0,17)	0,21	4,16	2,32	2,80	4,53	0,49	2,51
MEDICAL CARE	0,33	0,29	0,60	4,77	4,74	5,08	2,51	3,17	4,50
EDUCATION	1,58	0,68	0,23	4,24	4,21	4,13	4,09	3,12	3,97
TRANSPORTATION	(0,12)	(0,24)	0,16	2,05	2,39	2,25	1,70	11,94	1,88
GENERAL	0,47	0,27	0,47	3,99	4,53	4,83	3,16	7,42	4,19
Food and Non-Food									
FOOD	0,43	0,14	0,33	3,96	5,46	5,72	4,86	8,95	5,06
NON-FOOD	0,49	0,32	0,55	4,03	4,01	4,34	2,90	6,18	3,72

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN OCTOBER 2014

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	0.25	Red chili, rice, chicken meat	0.05
Prepared foods, beverages and cigarettes	0.43	Noodle, Filtered-flavored cigarettes	0.08
Housing	1.04	Electricity tariff, house rent	0.25
Clothing	0.21	Man and woman apparel	0.01
Medical care	0.60	Health services	0.03
Education, recreation and sports	0.23	Tuition costs	0.02
Transportation and communications	0.16	Air transport	0.03
		General	0.47

Source : BPS

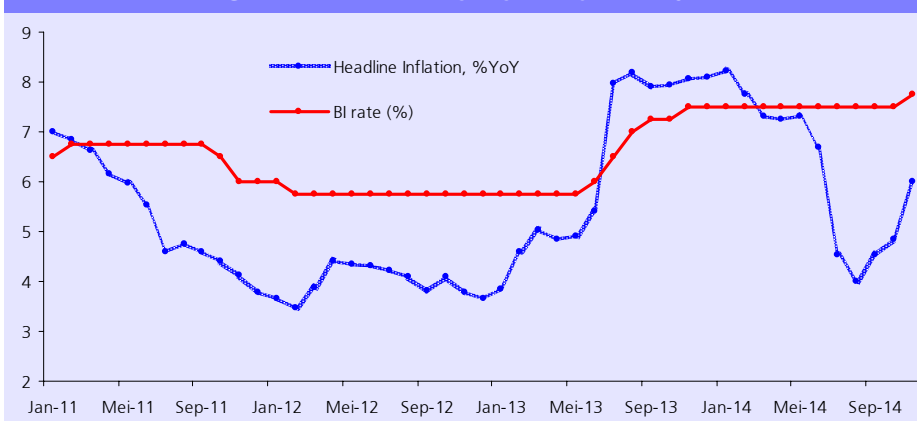
TABLE 4. NOVEMBER 2014 INFLATION FORECAST

	Nov-13	Dec-13	Jan'14	Feb'14	Mar'14	Apr-14	May-14	Jun-14	Jul -14	Aug-14	Sep-14	Oct-14	Nov-14
M-o-M changes	0,16	0,45	1,07	0,26	0,08	(0,02)	0,16	0,43	0,93	0,47	0,27	0,47	1,29
YoY changes	8,07	8,08	8,22	7,75	7,32	7,25	7,32	6,70	4,53	3,99	4,53	4,83	6,01
Yearly*	7,82	7,83	7,96	7,52	7,13	7,06	7,13	6,54	4,45	3,93	4,45	4,73	5,86

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS RAISED IN NOVEMBER 2014



Source : BPS, Bank Indonesia

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