

C P I O U T L O O K

January 2019 Inflation Outlook: Still High

December's headline inflation reached 0.62% mom, up from 0.27% mom in the previous month. On an annual basis, inflation was stable at 3.13% yoy compared to 3.23% yoy in November 2018. In more detail, prices in both the food component (+0.88% mom) and non food component (+0.47% mom) accelerated.

Increasing pressure stemmed from higher prices of basic foodstuffs (such as rice, chicken meat, onions, eggs, and chili), prepared foods, and transportation costs. Prices in the foodstuffs, prepared foods, and transportation components rose by 1.45% mom, 0.22% mom, and 1.28% mom, respectively. Higher demand during the year-end holidays and limited supply due to the planting season fueled the increases in foodstuff prices. Moreover, as people went on vacation or visited their hometowns, transportation costs (such as air fares and train fares) also increased. Prices in several other CPI components were generally stable. Prices in the housing component rose by 0.13% mom, followed by prices in the medical care component (+0.20% mom), prices in the education component (+0.10% mom) and prices in the clothing component (+0.08% mom).

In January 2019, we expect the monthly inflation rate to remain high. Tighter supply as a result of the planting season will put pressure on the prices of basic foodstuffs. Transportation costs will return to normal, however, since the holiday season is over. The reduction in non-subsidized fuel prices will help to ease the pressure on prices. For January 2019, we project inflation of 0.52 percent MoM, translating into YoY inflation of 3.03 percent.

At its January 2019 meeting, Bank Indonesia's Board of Governors kept the benchmark rate on hold. The 7-Day Reverse Repo (7DRR) Rate was also kept unchanged at 6.00 percent, with the Deposit Facility rate and the Lending Facility rate kept at 5.25 percent and 6.75 percent, respectively. This policy is consistent with the aim of attaining a manageable CAD and maintaining the attractiveness of domestic financial assets. Against this backdrop, we expect the benchmark 7D RR rate to be kept at its current level for the foreseeable future.

DRI Forecast

Inflation (Jan'19)

MoM (%)	0.52
YoY (%)	3.03

7D Reverse R.

Feb'19 (%)	6.00
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Forecast for 2019

Inflation (%)	3.80-4.20
7D Reverse R. (%)	6.00-6.50

DAMHURI NASUTION

Head of Economic Research

(62-21) 29555777/ 888 ext 3600

damhuri@danareksa.com

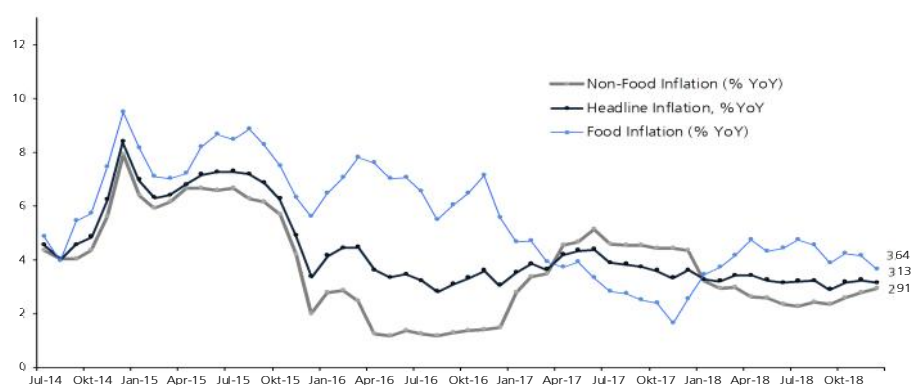
HANDRI THIONO

Research Specialist

(62-21) 29555777/ 888 ext 3606

handrit@danareksa.com

GRAPH 1. YoY INFLATION REACHED 3.13 PERCENT IN DECEMBER 2018



Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			YTD		
	Okt-18	Nov-18	Des-18	Okt-18	Nov-18	Des-18	2016	2017	2018
FOODSTUFF	0.15	0.24	1.45	4.38	4.25	3.41	5.69	1.26	3.41
PREPARED FOOD	0.27	0.20	0.22	4.03	4.00	3.91	5.38	4.10	3.91
HOUSING	0.42	0.25	0.13	2.35	2.47	2.43	1.90	5.14	2.43
CLOTHING	0.54	0.23	0.08	3.52	3.63	3.59	3.05	3.92	3.59
MEDICAL CARE	0.06	0.36	0.20	3.03	3.11	3.14	3.92	2.99	3.14
EDUCATION	0.09	0.05	0.10	3.18	3.13	3.15	2.73	3.33	3.15
TRANSPORTATION	0.26	0.56	1.28	2.14	2.62	3.16	(0.72)	4.23	3.16
GENERAL	0.28	0.27	0.62	3.16	3.23	3.13	3.02	3.61	3.13
Food and Non-Food									
FOOD	0.21	0.22	0.88	4.22	4.13	3.64	5.55	2.54	3.64
NON-FOOD	0.31	0.32	0.47	2.56	2.77	2.91	1.46	4.35	2.91

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN DECEMBER 2018

Component	Change (%)	Drivers	Contribute (%)
Foodstuffs	1.45	Eggs, chicken meat, onions	0.29
Prepared foods, beverages & cigarettes	0.22	Drink water, filtered clove cigarettes	0.04
Housing	0.13	Rental house fee, leasing house fee	0.03
Clothing	0.08	Man and woman apparel	0.00
Medical care	0.20	Health and cosmetic care	0.01
Education, recreation and sports	0.10	Course fee	0.01
Transportation and communications	1.28	Air freight and train fare	0.24
		General	0.62

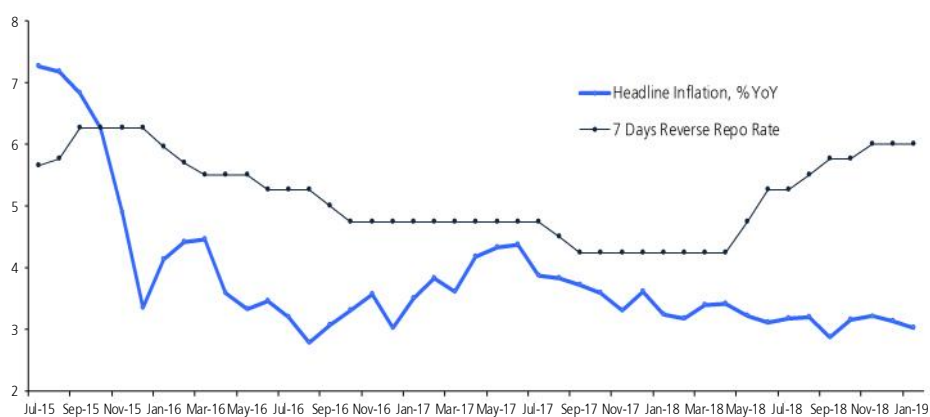
Source : BPS

TABLE 3. JANUARY 2019 INFLATION FORECAST

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
MoM changes	0.62	0.17	0.20	0.10	0.21	0.59	0.28	(0.05)	(0.18)	0.28	0.27	0.62	0.52
YoY changes	3.25	3.18	3.40	3.41	3.23	3.12	3.18	3.20	2.88	3.16	3.23	3.13	3.03
Yearly*	3.21	3.14	3.35	3.36	3.19	3.08	3.14	3.16	2.85	3.12	3.19	3.09	2.99

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE 7-DAY REVERSE REPO RATE WAS UNCHANGED IN JANUARY 2019

Source : BPS, Bank Indonesia

RESEARCH TEAM

Damhuri Nasution

Head of Economic Research
damhuri@danareksa.com

Handri Thiono

Research Specialist
handrit@danareksa.com

Darwin Sitorus

Research Specialist
darwin@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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