

C P I O U T L O O K

March 2019 Inflation Outlook: To Ease Further

□ In February 2019, consumer prices fell by 0.08% mom, following a 0.32% mom increase in the previous month. Annually, the headline inflation rate eased from 2.82% to 2.57%. In more detail, prices in the foodstuffs component declined (-0.46% mom), while prices in the non foodstuffs component rose (+0.18% mom).

□ The monthly deflation reflects falling prices in the foodstuffs component (-1.11% mom) and easing pressure on prices in several components such as the housing component (+0.25% mom), clothing component (+0.27% mom), and education component (+0.11% mom). Meanwhile, prices in the prepared foods component (+0.31% mom), medical care component (+0.36% mom), and transportation component (+0.05% mom) rose at a faster pace. The start of the harvesting season dampened pressure on the prices of several basic foodstuffs (chicken meat, red chili, eggs, onions, fish).

□ In March 2019, the prices of several basic foodstuffs such as rice, chicken meat and eggs are expected to fall further. The seasonal impact of large harvests in paddy-producing areas of the country will help to push rice prices down. Indeed, the Ministry of Agriculture expects national rice production to reach 14.3 million tons during the first quarter of 2019. All in all, we predict inflation of 0.06 percent MoM in March 2019, translating into YoY inflation of 2.43 percent.

□ The 7-Day Reverse Repo (7DRR) rate was kept unchanged in March, inline with market expectations. Bank Indonesia's Board of Governors kept the 7DRR rate on hold at 6.00 percent, with the Deposit Facility rate and the Lending Facility rate unchanged 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. It also takes into consideration the prospect of slower global economic growth and the need to maintain domestic demand growth momentum and price stability. Notably, in the latest FOMC, the benchmark FFR was kept unchanged at 2.25-2.50 percent and the Fed signaled no more rate hikes in the remainder of 2019. Against this backdrop, we expect the 7DRR rate to be kept at its current level for the foreseeable future.

DRI Forecast

Inflation (Mar'19)

| | |
|---------|------|
| MoM (%) | 0.06 |
| YoY (%) | 2.43 |

7D Reverse R.

| | |
|------------|------|
| Mar'19 (%) | 6.00 |
|------------|------|

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

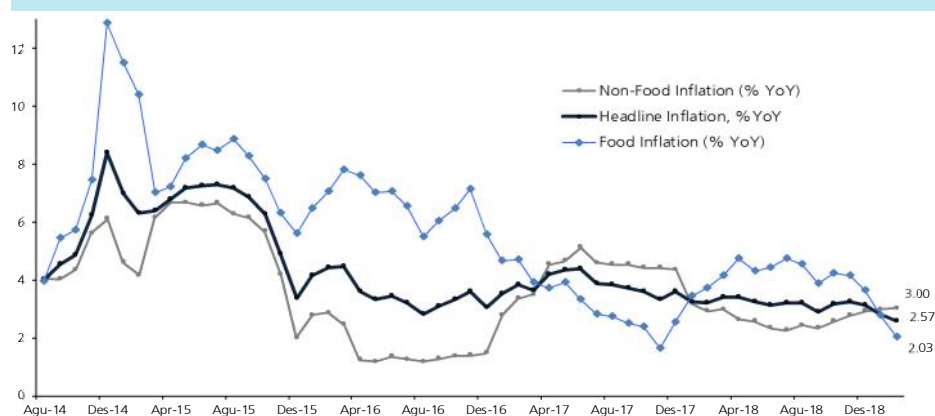
HANDRI THIONO

Research Specialist

(62-21) 29555777/ 888 ext 3606

handrit@danareksa.com

GRAPH 1. YoY INFLATION REACHED 2.57 PERCENT IN FEBRUARY 2019



Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

| | M-on-M changes | | | Y-on-Y changes | | | YTD | | |
|-------------------|----------------|--------|--------|----------------|--------|--------|------|--------|--------|
| | Dec-18 | Jan-19 | Feb-19 | Dec-18 | Jan-19 | Feb-19 | 2016 | 2017 | 2018 |
| FOODSTUFF | 1.45 | 0.92 | (1.11) | 3.41 | 1.98 | 0.72 | 0.35 | 2.47 | (0.20) |
| PREPARED FOOD | 0.22 | 0.27 | 0.31 | 3.91 | 3.75 | 3.62 | 0.86 | 0.86 | 0.58 |
| HOUSING | 0.13 | 0.28 | 0.25 | 2.43 | 2.48 | 2.51 | 1.85 | 0.45 | 0.53 |
| CLOTHING | 0.08 | 0.47 | 0.27 | 3.59 | 3.55 | 3.47 | 0.85 | 0.85 | 0.74 |
| MEDICAL CARE | 0.20 | 0.27 | 0.36 | 3.14 | 3.13 | 3.24 | 0.77 | 0.54 | 0.63 |
| EDUCATION | 0.10 | 0.24 | 0.11 | 3.15 | 3.24 | 3.28 | 0.20 | 0.22 | 0.35 |
| TRANSPORTATION | 1.28 | (0.16) | 0.05 | 3.16 | 3.28 | 3.32 | 2.51 | (0.26) | (0.11) |
| GENERAL | 0.62 | 0.32 | (0.08) | 3.13 | 2.82 | 2.57 | 1.21 | 0.79 | 0.24 |
| Food and Non-Food | | | | | | | | | |
| FOOD | 0.88 | 0.63 | (0.46) | 3.64 | 2.78 | 2.03 | 0.58 | 1.74 | 0.16 |
| NON-FOOD | 0.47 | 0.16 | 0.18 | 2.91 | 2.98 | 3.00 | 1.66 | 0.25 | 0.34 |

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN FEBRUARY 2019

| Component | Change (%) | Drivers | Contribute (%) |
|--|------------|--|----------------|
| Foodstuffs | (1.11) | Chicken meat, red chili, eggs, onions, fish | (0.24) |
| Prepared foods, beverages & cigarettes | 0.31 | Rice with side dishes, filtered clove cigarettes | 0.06 |
| Housing | 0.25 | Rental and leasing house fee, worker wage | 0.06 |
| Clothing | 0.27 | Man and apparel | 0.01 |
| Medical care | 0.36 | Health and cosmetic care | 0.01 |
| Education, recreation and sports | 0.11 | Course fee | 0.01 |
| Transportation and communications | 0.05 | Gasoline, air freight fare | 0.01 |
| | | General | (0.08) |

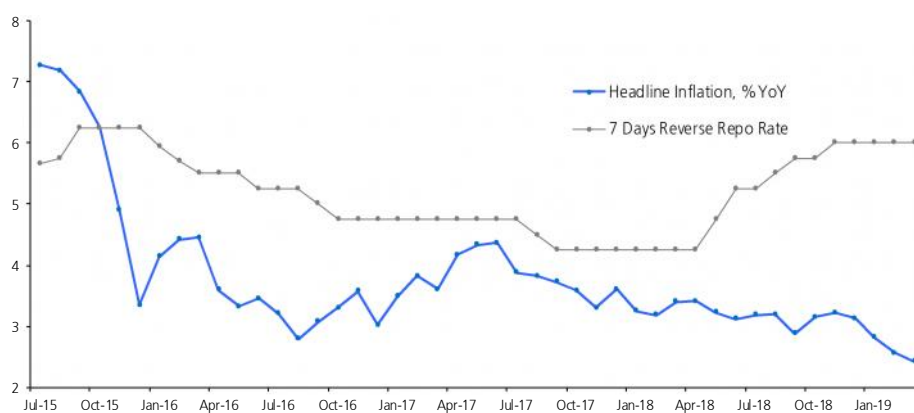
Source : BPS

TABLE 3. MARCH 2019 INFLATION FORECAST

| | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| MoM changes | 0.20 | 0.10 | 0.21 | 0.59 | 0.28 | (0.05) | (0.18) | 0.28 | 0.27 | 0.62 | 0.32 | (0.08) | 0.06 |
| YoY changes | 3.40 | 3.41 | 3.23 | 3.12 | 3.18 | 3.20 | 2.88 | 3.16 | 3.23 | 3.13 | 2.82 | 2.57 | 2.43 |
| Yearly* | 3.35 | 3.36 | 3.19 | 3.08 | 3.14 | 3.16 | 2.85 | 3.12 | 3.19 | 3.09 | 2.79 | 2.54 | 2.41 |

* 12-month cumulative

Source : BPS, Danareksa Research Institute

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