

July 2018

C P I O U T L O O K

July 2018 Inflation Outlook: Easing Pressure

- ❑ Consumer prices edged up in June 2018 by 0.59% mom (+3.12% yoy). Prices accelerated in all components. Prices rose by 0.24% mom in the core component (vs 0.21% mom in May 2018), by 1.38% mom in the administered goods component (vs 0.27% mom in May 2018), and by 0.90% mom in the volatile goods component (vs 0.19% mom in May 2018).
- ❑ Prices in most components rose at a brisker pace. Prices rose 1.50% mom in the transportation component as urban residents travelled back to their hometowns. Prices in the foodstuffs component (+0.88% mom), prepared foods component (+0.40% mom) and clothing component (+0.36% mom) accelerated on the back of stronger consumption. By comparison, prices in the other components were stable. Prices in the housing component rose by 0.13% mom, by 0.27% mom in the medical care component, and by 0.07% mom in the educational component.
- ❑ For July, we forecast easing inflationary pressures as the seasonal impact from Idul Fitri is over. Prices in the foodstuffs, prepared foods, clothing and transportation components will return to normal, and dampen the inflationary pressure. By contrast, other factors which may create additional pricing pressure are the new school year on educational costs, and increases in non-subsidized fuel prices. We estimate inflation of 0.17 percent MoM in July 2018, translating into YoY inflation of 3.08 percent.
- ❑ Bank Indonesia held its benchmark 7-day Reverse Repo rate in July's meeting at 5.25%, inline with market expectations. As such, the deposit facility rate and lending facility rate also stayed at 4.50% and 6.00%, respectively. Prospects of a global trade war coupled with more FFR hikes in the future created turbulence in the financial markets. As such, BI's policy is consistent with creating rupiah stability. The central bank believes that Indonesia's economic growth is still firm, supported by strong domestic demand. The inflation rate is expected to remain stable and the current account deficit more manageable. Against this backdrop, we project that Indonesia's benchmark rate will stay unchanged over the near future.

DRI Forecast for July 2018

Inflation	
MoM (%)	0.17
YoY (%)	3.08

7D Reverse R.	
End of period (%)	5.25

Forecast for 2018

Inflation (%)	3.20
7D Reverse R. (%)	5.25

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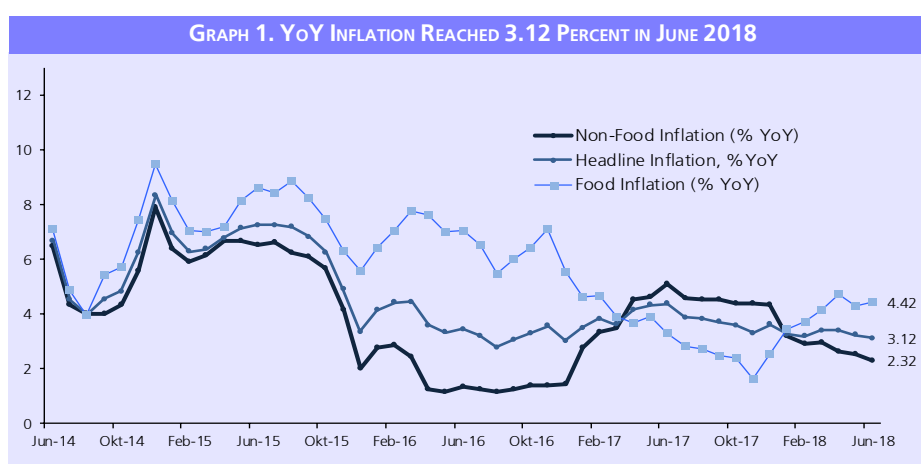
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Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			YTD		
	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18	2016	2017	2018
FOODSTUFF	(0.26)	0.21	0.88	5.15	4.47	4.67	3.29	0.10	3.47
PREPARED FOOD	0.24	0.31	0.40	4.19	4.12	4.12	3.04	2.06	2.08
HOUSING	0.16	0.19	0.13	2.66	2.50	1.87	0.04	4.24	1.00
CLOTHING	0.29	0.33	0.36	3.91	4.00	3.57	2.85	2.56	2.20
MEDICAL CARE	0.22	0.21	0.27	3.05	2.89	2.81	1.86	1.79	1.61
EDUCATION	0.04	0.09	0.07	3.34	3.40	3.40	0.32	0.42	0.48
TRANSPORTATION	0.19	0.18	1.50	1.75	1.70	1.93	(2.23)	4.20	1.90
GENERAL	0.10	0.21	0.59	3.41	3.23	3.12	1.06	2.38	1.90
Food and Non-Food									
FOOD	(0.04)	0.25	0.66	4.71	4.31	4.42	3.18	0.98	2.84
NON-FOOD	0.17	0.19	0.57	2.63	2.55	2.32	(0.21)	3.39	1.38

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN JUNE 2018

Component	Change (%)	Drivers	Contribute (%)
Foodstuffs	0.88	Fish, chicken meat, egg, red chili	0.19
Prepared foods, beverages and cigarettes	0.40	Red with side dishes, filtered clove cigarettes	0.08
Housing	0.13	Rental house fee	0.03
Clothing	0.36	Gold and jewelry	0.02
Medical care	0.27	Health and cosmetic care	0.01
Education, recreation and sports	0.07	Training and course fee	0.00
Transportation and communications	1.50	Air freight, inter-city transport fare, train fare	0.26
		General	0.59

Source : BPS

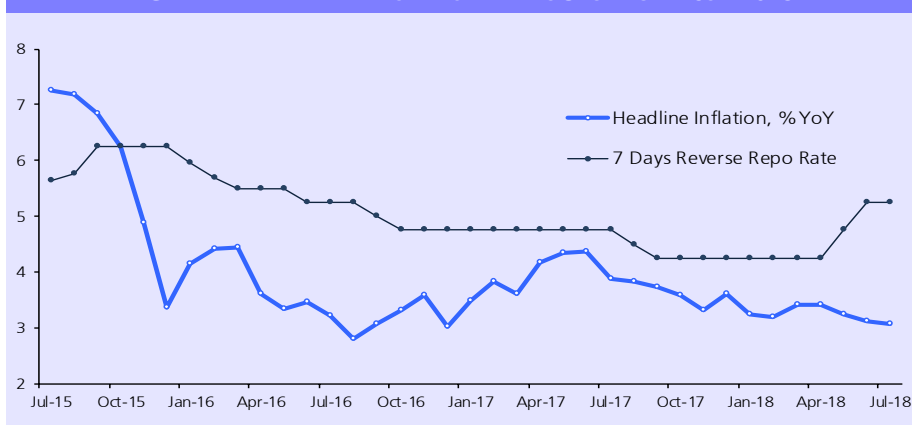
TABLE 3. JULY 2018 INFLATION FORECAST

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
MoM changes	0.22	(0.07)	0.13	0.01	0.20	0.71	0.62	0.17	0.20	0.10	0.21	0.59	0.17
YoY changes	3.88	3.82	3.72	3.58	3.30	3.61	3.25	3.18	3.40	3.41	3.23	3.12	3.08
Yearly*	3.81	3.76	3.67	3.53	3.26	3.55	3.21	3.14	3.35	3.36	3.19	3.08	3.04

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE 7-DAY REVERSE REPO RATE WAS UNCHANGED IN JULY 2018



Source : BPS, Bank Indonesia

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