

October 2018

C P I O U T L O O K

October 2018 Inflation Outlook: Modest Increase Expected

- ❑ The prices of goods and services fell further in September (-0.18% mom, +2.88% yoy) following the monthly deflation in the previous month of 0.05% mom (+3.20% yoy). Prices in the foodstuffs component slumped 0.75% mom, whereas prices in the non-food component rose 0.19% mom. In more detail, prices in the volatile components dropped by 1.83% mom, while prices in the administered goods component were flat (+0.00% mom). Prices in the core component rose but at a slower rate (+0.28% mom).
- ❑ The deflation owed to falling prices of foodstuffs (-1.62% mom) and lower prices in the transportation component (-0.05% mom). Prices rose in the prepared foods, housing, and education components at a slower pace of 0.29% mom, 0.21% mom, and 0.54% mom, respectively. By contrast, prices in the clothing and medical care components rose at a faster pace of 0.27% mom and 0.41% mom, respectively.
- ❑ In October, the prices of several foodstuffs (such as onions, chicken meat, eggs) may continue to decline. By contrast, we expect increases in the prices of non subsidized fuel (Pertamax and Dex series) to put additional pressure on prices. Given a lack of seasonal drivers, we expect monthly inflation to reach 0.10 percent MoM in October, translating into YoY inflation of 2.98 percent.
- ❑ Following the Fed rate hikes of 25 bps to 2%-2.25% at the FOMC meeting in September 2018, BI's Board of Governors increased the 7-day Reverse Repo rate further by 25 bps to 5.75% in September 2018. The deposit facility and lending facility rates were raised to 5.00% and 6.50%, respectively. In October's meeting, the benchmark 7DRR rate was then kept unchanged. Among other things, BI's policy stance is intended to maintain investor confidence in the domestic financial market, bringing the CAD to a safer level and stabilizing the rupiah. BI also sees that Indonesia's economic growth in Q3 2018 may fall short of expectations. Since further FFR hikes are likely, we believe that Indonesia's benchmark rate may be raised again in the near future.

DRI Forecast for October 2018**Inflation**

MoM (%)	0.10
YoY (%)	2.98

7D Reverse R.

End of period (%)	5.75
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Forecast for 2018

Inflation (%)	3.20
7D Reverse R. (%)	5.75

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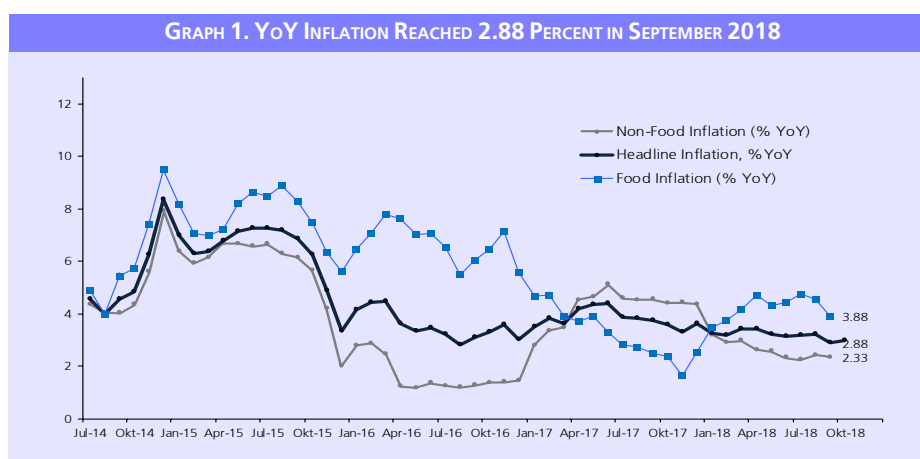
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GRAPH 1. YoY INFLATION REACHED 2.88 PERCENT IN SEPTEMBER 2018



Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			YTD		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18	2016	2017	2018
FOODSTUFF	0.86	(1.10)	(1.62)	5.35	4.90	3.75	3.66	(0.90)	1.54
PREPARED FOOD	0.45	0.35	0.29	4.00	4.10	4.04	4.39	3.26	3.20
HOUSING	0.16	0.25	0.21	1.97	2.12	2.11	0.99	4.64	1.63
CLOTHING	0.29	(0.07)	0.27	3.80	3.41	3.15	3.86	3.48	2.71
MEDICAL CARE	0.27	0.20	0.41	2.93	2.93	3.18	2.98	2.31	2.50
EDUCATION	0.83	1.03	0.54	3.62	3.76	3.25	2.55	2.99	2.91
TRANSPORTATION	(0.65)	(0.15)	(0.05)	1.34	1.80	1.74	(1.86)	3.50	1.03
GENERAL	0.28	(0.05)	(0.18)	3.18	3.20	2.88	1.97	2.66	1.94
Food and Non-Food									
FOOD	0.67	(0.44)	(0.75)	4.73	4.53	3.88	3.99	0.97	2.30
NON-FOOD	0.02	0.19	0.19	2.24	2.42	2.33	0.74	3.79	1.78

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN SEPTEMBER 2018

Component	Change (%)	Drivers	Contribute (%)
Foodstuffs	(1.62)	Egg, chicken meat, onion, red chili	(0.35)
Prepared foods, beverages and cigarettes	0.29	Rise with side dishes, filtered clove cigarettes	0.05
Housing	0.21	Rental house fee	0.05
Clothing	0.27	Gold and jewelry	0.02
Medical care	0.41	Health and cosmetic care	0.02
Education, recreation and sports	0.54	Elementary school fee, junior & senior high school fee	0.04
Transportation and communications	(0.05)	Air freight fare	(0.01)
		General	(0.18)

Source : BPS

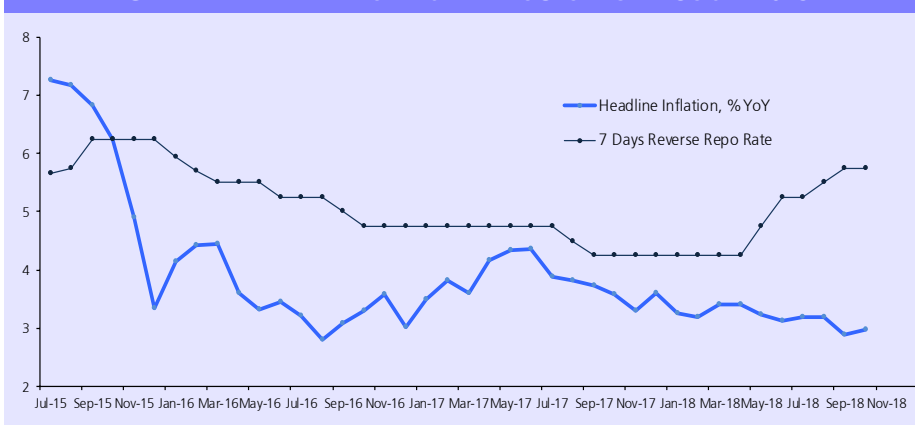
TABLE 3. OCTOBER 2018 INFLATION FORECAST

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
MoM changes	0.01	0.20	0.71	0.62	0.17	0.20	0.10	0.21	0.59	0.28	(0.05)	(0.18)	0.10
YoY changes	3.58	3.30	3.61	3.25	3.18	3.40	3.41	3.23	3.12	3.18	3.20	2.88	2.98
Yearly*	3.53	3.26	3.55	3.21	3.14	3.35	3.36	3.19	3.08	3.14	3.16	2.85	2.94

* 12-month cumulative

Source : BPS, Danareksa Research Institute

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



Source : BPS, Bank Indonesia

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