

## September 2018

## C P I O U T L O O K

## September 2018 Inflation Outlook: Remaining Stable

- ❑ In August 2018, Indonesia recorded monthly deflation of 0.05% mom (+3.20% yoy), following 0.28% mom inflation in the previous month (+3.18% yoy). Prices in the food component fell 0.44% mom, whereas prices in the non-food component rose 0.19% mom. In more detail, prices in the volatile and administered goods components fell by 1.24% mom and 0.06% mom, respectively. Core component prices, however, were stable (+0.30% mom).
- ❑ The decline in consumer prices stemmed from lower prices of foodstuffs (-1.10% mom), clothing (-0.07% mom), and transportation (-0.15% mom). Prices in the education component accelerated by 1.03% mom. Prices in the other components tended to normalize. Prices in the prepared foods, housing, and medical care components rose by 0.35% mom, 0.25% mom, and 0.20% mom, respectively.
- ❑ In September, we expect prices in the education component to increase at a slower pace than in August since the new academic year is already underway. Prices in the volatile components, such as the foodstuffs and prepared foods components, are expected to remain steady. In our estimate, deflation will reach -0.08 percent MoM in September, translating into YoY inflation of 2.99 percent.
- ❑ BI's Board of Governors decided to raise its benchmark 7-day Reverse Repo rate further by 25 bps to 5.50% in August 2018. In addition, the deposit facility rate and the lending facility rate were increased to 4.75% and 6.25%, respectively. This tightening of BI's monetary policy is intended to maintain investor confidence in the domestic financial market; keep the CAD within a safe level; and bring about rupiah stability. The central bank believes that Indonesia's economic growth will still be firm going forward, supported by strong household consumption, investment and exports. The inflation rate is expected to remain benign. In the US, however, the Fed hikes rates by 25 bps to 2%-2.25% during FOMC September 2018, or inline with market expectations. Given this backdrop, we predict that Indonesia's benchmark rate will be raised in the near future.

## DRI Forecast for September 2018

<b>Inflation</b>	
MoM (%)	(0.08)
YoY (%)	2.99

<b>7D Reverse R.</b>	
End of period (%)	5.75

## Forecast for 2018

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

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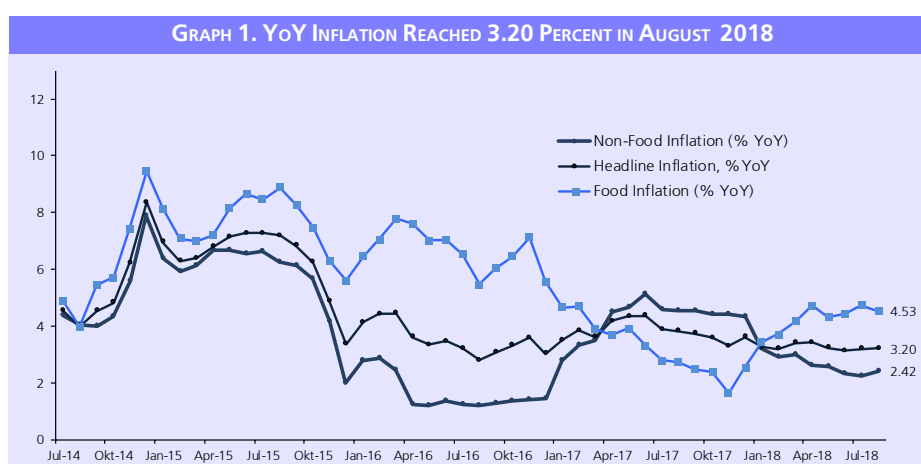
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**TABLE 1. MoM FOODSTUFFS INFLATION**

	M-on-M changes			Y-on-Y changes			YTD		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	2016	2017	2018
FOODSTUFF	0.88	0.86	(1.10)	4.67	5.35	4.90	3.74	(0.37)	3.21
PREPARED FOOD	0.40	0.45	0.35	4.12	4.00	4.10	4.03	2.91	2.90
HOUSING	0.13	0.16	0.25	1.87	1.97	2.12	0.70	4.41	1.41
CLOTHING	0.36	0.29	(0.07)	3.57	3.80	3.41	3.72	2.94	2.43
MEDICAL CARE	0.27	0.27	0.20	2.81	2.93	2.93	2.63	2.15	2.09
EDUCATION	0.07	0.83	1.03	3.40	3.62	3.76	2.02	1.94	2.36
TRANSPORTATION	1.50	(0.65)	(0.15)	1.93	1.34	1.80	(2.04)	3.49	1.08
GENERAL	0.59	0.28	(0.05)	3.12	3.18	3.20	1.74	2.53	2.13
Food and Non-Food									
FOOD	0.66	0.67	(0.44)	4.42	4.73	4.53	3.87	1.10	3.07
NON-FOOD	0.57	0.02	0.19	2.32	2.24	2.42	0.46	3.50	1.59

Source : BPS

**TABLE 2. DRIVERS OF PRICE CHANGES IN AUGUST 2018**

Component	Change	Drivers	Contribute
	(%)		(%)
Foodstuffs	(1.10)	Egg, chicken meat, onion, red chili	(0.24)
Prepared foods, beverages and cigarettes	0.35	Rise with side dishes, filtered clove cigarettes	0.06
Housing	0.25	Rental house fee	0.06
Clothing	(0.07)	Gold and jewelry	0.00
Medical care	0.20	Health and cosmetic care	0.01
Education, recreation and sports	1.03	Elementary school fee, junior & senior high school fee	0.08
Transportation and communications	(0.15)	Air freight fare	(0.02)
		<b>General</b>	<b>(0.05)</b>

Source : BPS

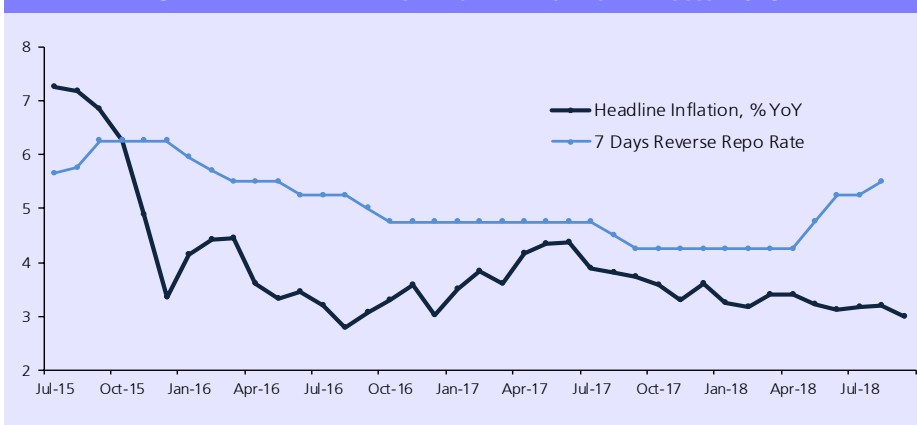
TABLE 3. SEPTEMBER 2018 INFLATION FORECAST

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
MoM changes	0.13	0.01	0.20	0.71	0.62	0.17	0.20	0.10	0.21	0.59	0.28	(0.05)	(0.08)
YoY changes	3.72	3.58	3.30	3.61	3.25	3.18	3.40	3.41	3.23	3.12	3.18	3.20	2.99
Yearly*	3.67	3.53	3.26	3.55	3.21	3.14	3.35	3.36	3.19	3.08	3.14	3.16	2.95

\* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE 7-DAY REVERSE REPO RATE WAS RAISED IN AUGUST 2018



Source : BPS, Bank Indonesia

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