

January 2014

CPI AND SBI OUTLOOK

January 2014 Inflation Outlook: To Increase Significantly

- ❑ MoM inflation reached 0.55 percent in December 2013, translating into YoY inflation of 8.38 percent. By component, the food component recorded inflation of 0.76 percent MoM, while the non food component climbed 0.38 percent MoM.
- ❑ All components of the CPI posted increases. In particular, the gains in the foodstuffs and clothing components contributed to the high headline inflation figure. Prices rose most in the foodstuffs component (+0.79 percent MoM), followed by the prepared foods component (+0.73 percent), the transportation component (+0.56 percent MoM), the housing component (+0.44 percent MoM), the clothing component (+0.17 percent MoM), the medical care component (+0.16 percent MoM), and the education component (+0.06 percent MoM).
- ❑ The higher inflation in December owed to the seasonal impact from Christmas and the New Year holiday season. Strong demand for foodstuffs and prepared foods, coupled with the new planting season, pushed up prices.
- ❑ In January, we believe that prices of basic foodstuffs will record significant increases. The new planting season and tightening of supply will keep prices high. Furthermore, heavy rains in some areas, which led to severe flooding and disrupted land transportation, hampered the distribution of some goods. For January 2014, we predict inflation of 0.88 percent MoM, translating into YoY inflation of 8.22 percent.
- ❑ In early January 2014, Bank Indonesia decided to maintain its benchmark BI rate at 7.5 percent, with the Lending Facility and Deposit Facility rates kept at 7.50 percent and 5.75 percent, respectively. The benchmark BI rate has been kept at its current level for three consecutive months in light of easing inflationary pressures and improvements in the trade balance. Given the stable outlook for inflation over the near term, we remain confident that the BI rate will be kept at its current level.
- ❑ In the latest developments, the Central Bureau of Statistics will set the new base year for measuring Indonesia's CPI (2012=100). The new calculation will be based on the 2012 Living Cost Survey, which reduces the weighting for the food component (down from 36.12 percent to 35.04 percent) and increases the weighting for the non food component (up from 63.88 percent to 64.96 percent). According to our calculation, the new base year for CPI, will result of -0.1 percent to 2013 inflation.

DRI Forecast for January 2014

Inflation	
MoM (%)	0.88
YoY (%)	8.22

SBI	
End of period (% p.a)	7.50

Forecast for 2014

Inflation (%)	5.02
SBI (% p.a)	7.50

DAMHURI NASUTION
 Head of Economic Research
 (62-21) 350 9777 ext 3602
 damhuri@danareksa.com

HANDRI THIONO
 Economist
 (62-21) 350 9777 ext 3606
 handrit@danareksa.com

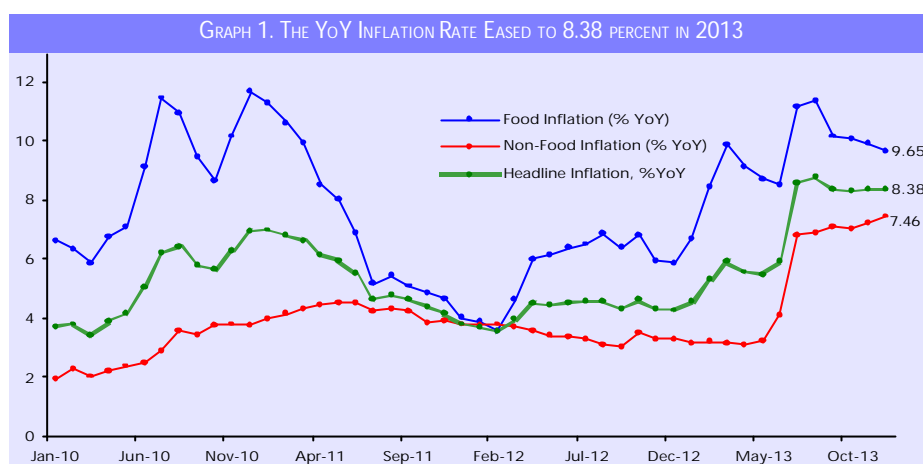


TABLE 1. MoM FOODSTUFFS INFLATION

Changes in Consumer Price Index (percent)

	M-on-M changes			Y-on-Y changes			YTD (Jan-Dec)		
	Oct-13	Nov-13	Dec-13	Oct-13	Nov-13	Dec-13	2011	2012	2013
FOODSTUFF	(0.62)	(0.47)	0.79	12.62	12.24	11.35	3.64	5.68	11.35
PREPARED FOOD	0.55	0.27	0.73	6.90	6.98	7.45	4.51	6.11	7.45
HOUSING	0.26	0.68	0.44	5.37	5.94	6.22	3.47	3.35	6.22
CLOTHING	(0.56)	(0.03)	0.17	0.52	0.59	0.52	7.57	4.67	0.52
MEDICAL CARE	0.33	0.34	0.16	3.58	3.72	3.70	4.26	2.91	3.70
EDUCATION	0.31	0.11	0.06	3.85	3.90	3.91	5.16	4.21	3.91
TRANSPORTATION	0.53	0.02	0.56	15.26	15.02	15.36	1.92	2.20	15.36
GENERAL	0.09	0.12	0.55	8.32	8.37	8.38	3.79	4.30	8.38
Food and Non-Food									
FOOD	(0.13)	(0.15)	0.76	10.12	9.94	9.65	4.02	5.87	9.65
NON-FOOD	0.25	0.32	0.38	7.06	7.26	7.46	3.81	3.28	7.46

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN DECEMBER 2013

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	0.79	Fish, rice, egg, tomato	0.20
Prepared foods, beverages	0.73	Rice with side dishes, Filtered-flavored cigarettes	0.12
Housing	0.44	Household fuels	0.10
Clothing	0.17	Men's and women's apparel	0.01
Medical care	0.16	Health services, medicine	0.01
Education, recreation and sports	0.06	Training and other education costs	0.01
Transportation and communications	0.56	Communication and delivery cost,	0.10
		General	0.55

Source: BPS

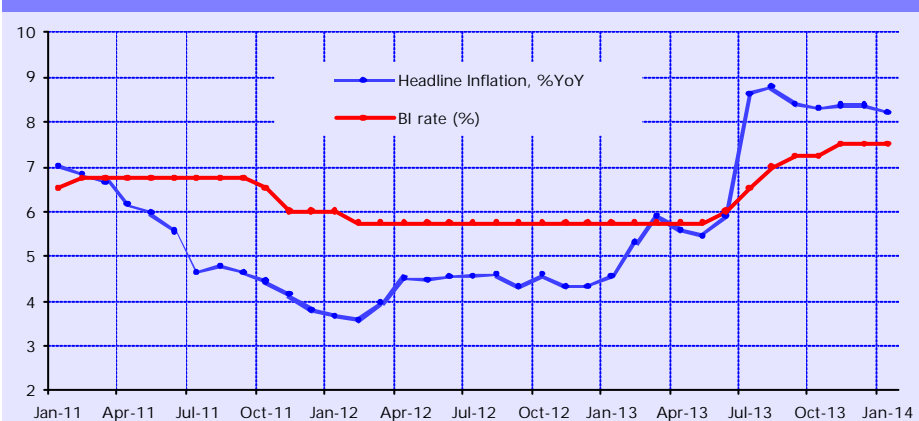
TABLE 4. JANUARY 2014 INFLATION FORECAST

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan'14
M-on-M changes	1.03	0.75	0.63	(0.01)	(0.03)	1.03	3.29	1.12	(0.35)	0.09	0.12	0.55	0.88
YoY changes	4.57	5.31	5.90	5.57	5.47	5.90	8.61	8.79	8.40	8.32	8.37	8.38	8.22
Yearly*	4.48	5.19	5.75	5.44	5.35	3.35	8.34	8.50	8.14	8.07	8.12	8.12	7.98

* 12-month cumulative

Source: BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN JANUARY 2014



Source: BPS, Bank Indonesia

RESEARCH TEAM

Damhuri Nasution

Head of Economic Research
damhuri@danareksa.com

Asti Suwarni

Analyst
asti@danareksa.com

Darwin Sitorus

Economist / Database Officer
darwin@danareksa.com

Natalia Daisyana

Research Assistant
natalia@danareksa.com

Pramayanti Meitisari

Analyst
pramayanti@danareksa.com

Handri Thiono

Junior Economist
handrit@danareksa.com

Yun Hariadi

Analyst
yunh@danareksa.com

Martin Jenkins

Editor
martin@danareksa.com

Danareksa Research Institute

Danareksa Building
Jl. Medan Merdeka Selatan 14
Jakarta, 10110
INDONESIA
Tel : (62-21) 350 9777 / 888 (hunting)
Fax : (62 21) 3501709

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