

March 2014**CPI AND SBI OUTLOOK****March 2014 Inflation Outlook: Easing Pressures**

- ❑ After prices rose 1.07 percent MoM in January, inflation eased to 0.26 percent in February. The YoY headline inflation fell to 7.75 percent from 8.22 percent.
- ❑ On a MoM comparison, prices in most CPI components rose only modestly. The clothing component posted a 0.57 percent increase, followed by the prepared foods component (+0.43 percent MoM) and the foodstuffs component (+0.36 percent MoM). The other components posted lower increases: the medical care component (+0.28 percent MoM), the housing component (+0.17 percent MoM), the education component (+0.17 percent MoM), and the transportation component (+0.15 percent MoM).
- ❑ The harvesting season began in March. Based on historical patterns seen in the last three years, the harvesting of crops (especially rice) peaks in April, meaning higher supply and consequently lower prices. For 2014, the government targets 76.5 million tons of milled dry grain rice production, or up around 8.0 percent.
- ❑ For March 2014, we predict deflation of 0.03 percent MoM, translating into YoY inflation of 7.20 percent.
- ❑ In March 2014, Bank Indonesia maintained its benchmark rate at 7.5 percent, with the Lending Facility and Deposit Facility rates held at 7.50 percent and 5.75 percent, respectively. BI's monetary policy not only focuses on keeping inflation within target but is also aimed at bringing the current account deficit under control. As such, we expect the BI rate to be maintained at its current level over the near future.

DRI Forecast for March 2014

Inflation	
MoM (%)	(0.03)
YoY (%)	7.20

SBI	
End of period (% p.a)	7.50

Forecast for 2014

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

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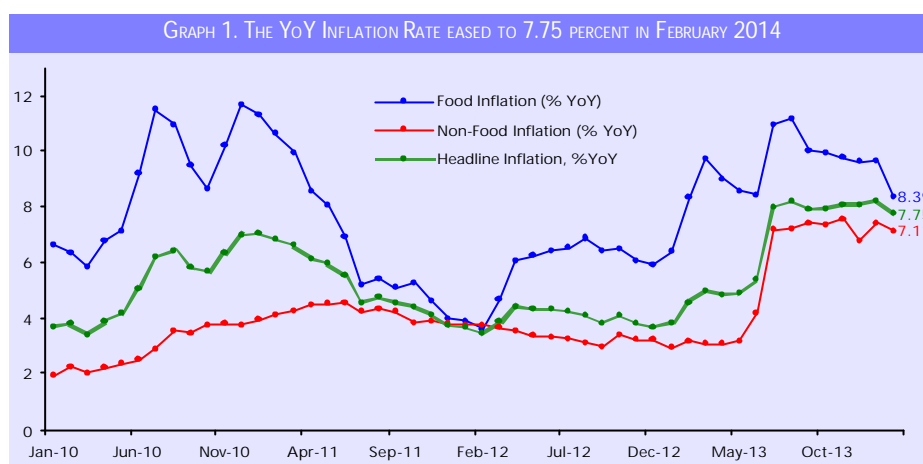


TABLE 1. CHANGES IN CONSUMER PRICE INDEX

Changes in Consumer Price Index (percent)

	M-on-M changes			Y-on-Y changes			Jan-Feb		
	Dec-13	Jan-14	Feb-14	Dec-13	Jan-14	Feb-14	2012	2013	2014
FOODSTUFF	1.12	2.77	0.36	11.71	11.43	9.16	1.11	5.54	3.13
PREPARED FOOD	0.50	0.72	0.43	7.20	7.63	7.44	1.00	0.93	1.16
HOUSING	0.38	1.01	0.17	6.16	6.59	5.95	0.81	1.38	1.18
CLOTHING	0.42	0.55	0.57	0.77	1.81	2.25	1.14	(0.34)	1.12
MEDICAL CARE	0.20	0.72	0.28	3.74	4.30	3.90	0.65	0.85	1.01
EDUCATION	(0.55)	0.28	0.17	3.27	3.75	3.49	0.23	0.24	0.45
TRANSPORTATION	(2.07)	0.20	0.15	12.35	13.11	12.97	0.30	(0.20)	0.35
GENERAL	0.45	1.07	0.26	8.08	8.22	7.75	0.72	1.64	1.33
Food and Non-Food									
FOOD	0.84	1.84	0.39	9.63	9.70	8.39	1.09	3.41	2.24
NON-FOOD	(0.51)	0.60	0.21	6.81	7.42	7.11	0.61	0.54	0.81

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN FEBRUARY 2014

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	0.36	Rice, fish, chili	0.04
Prepared foods, beverages and cigarettes	0.43	Noodle, rice with side dishes, filtered-flavored cigarettes	0.08
Housing	0.17	Household fuels, house rent	0.04
Clothing	0.57	Gold & Jewelry	0.04
Medical care	0.28	Health services, medicine	0.01
Education, recreation and sports	0.17	Training and course	0.02
Transportation and communications	0.15	Air transportation cost	0.03
		General	0.26

Source: BPS

TABLE 4. MARCH 2014 INFLATION FORECAST

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan'14	Feb'14	Mar'14
M-on-M changes	0.47	0.05	0.10	1.02	3.02	0.99	(0.25)	0.18	0.16	0.45	1.07	0.26	(0.03)
YoY changes	5.02	4.86	4.90	5.41	7.98	8.18	7.90	7.93	8.07	8.08	8.22	7.75	7.20
Yearly*	4.91	4.76	4.79	5.29	7.74	7.93	7.67	7.70	7.82	7.83	7.96	7.52	7.02

* 12-month cumulative

Source: BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN MARCH 2014



Source: BPS, Bank Indonesia

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