

## September 2014

## CPI AND SBI OUTLOOK

## September 2014 Inflation Outlook: Remaining Stable

- ❑ Inflationary pressures eased in August. The MoM inflation rate reached 0.47 percent, or lower than July's 0.93 percent. Compared to August last year, inflation reached 3.99 percent. This is lower than July's YoY inflation rate of 4.53 percent. Cumulatively, in the first 8 months of the year, headline inflation reached 3.42 percent, or far lower than the 7.49 percent recorded in the corresponding period of last year.
- ❑ Price increases in most CPI components moderated compared to last month. The education component rose the most (+1.58 percent MoM), followed by the housing component (+0.73 percent), the prepared foods components (+0.52 percent), the foodstuffs component (+0.36 percent), the medical care component (+0.33 percent), and the clothing component (+0.23 percent). By contrast, prices in the transportation component fell 0.12 percent. Further increases in educational costs reflected the start of the new academic year which began in the July-September period. Inflationary pressures in other components of the CPI normalized following Ramadan and the Idul Fitri holidays.
- ❑ For September, we don't expect prices in the foodstuffs and prepared food components to show significant increases. Furthermore, prices in the education component will also tend to normalize as the new academic year is already underway. Against this backdrop, we predict inflation of 0.40 percent MoM, translating into YoY inflation of 4.66 percent.
- ❑ Bank Indonesia held its benchmark policy rate at 7.5 percent, with the Lending Facility and Deposit Facility rates also kept unchanged at 7.50 percent and 5.75 percent, respectively. The outlook for inflation and the current account deficit will remain the major factors influencing central bank policy in the near term. Hence, we predict that the BI rate will stay at its current level going forward.

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**DRI Forecast for September 2014**

<b>Inflation</b>	
MoM (%)	0.40
YoY (%)	4.66

<b>SBI</b>	
End of period (% p.a)	7.50

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**Forecast for 2014**

Inflation (%)	5.53
SBI (% p.a)	7.50

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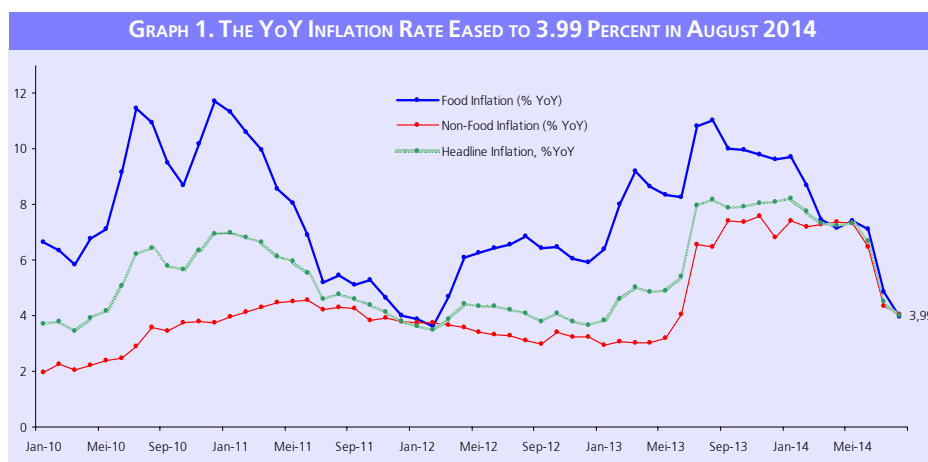
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**TABLE 1. CHANGES IN CONSUMER PRICE INDEX (PERCENT)**

	M-on-M changes			Y-on-Y changes			Jan-Aug		
	Jun-14	Jul-14	Aug-14	Jun-14	Jul-14	Aug-14	2012	2013	2014
FOODSTUFF	0,99	1,94	0,36	6,89	3,22	1,78	5,58	15,01	4,78
PREPARED FOOD	0,32	1,00	0,52	7,40	6,93	6,76	4,60	4,73	4,29
HOUSING	0,38	0,45	0,73	5,42	5,39	5,40	2,23	4,17	3,42
CLOTHING	0,30	0,85	0,23	4,50	5,06	4,16	2,05	(0,87)	2,47
MEDICAL CARE	0,36	0,39	0,33	4,77	4,80	4,77	2,11	2,56	3,58
EDUCATION	0,08	0,45	1,58	3,96	3,78	4,24	2,78	2,08	3,04
TRANSPORTATION	0,19	0,88	(0,12)	10,15	2,96	2,05	2,54	12,26	1,96
GENERAL	0,43	0,93	0,47	6,70	4,53	3,99	2,99	7,49	3,42
Food and Non-Food									
FOOD	0,69	1,52	0,43	7,12	4,85	3,96	5,16	10,26	4,56
NON-FOOD	0,28	0,62	0,49	6,49	4,35	4,03	2,37	5,58	2,83

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN AUGUST 2014

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	0.36	Fish, rice, meat	0.07
Prepared foods, beverages and cigarettes	0.52	Noodle, Filtered-flavored cigarettes	0.09
Housing	0.73	Electricity tariff, house rent	0.18
Clothing	0.23	Man & woman apparel	0.01
Medical care	0.33	Health services	0.02
Education, recreation and sports	1.58	Tuition costs	0.12
Transportation and communications	(0.12)	Land and air transport	(0.02)
		<b>General</b>	<b>0.47</b>

Source : BPS

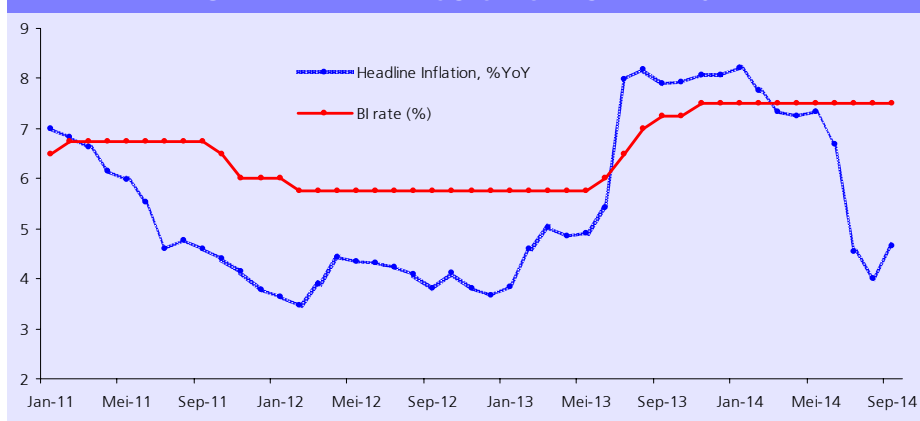
TABLE 4. SEPTEMBER 2014 INFLATION FORECAST

	Sep-13	Oct-13	Nov-13	Dec-13	Jan'14	Feb'14	Mar'14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
M-o-M changes	(0,25)	0,18	0,16	0,45	1,07	0,26	0,08	(0,02)	0,16	0,43	0,93	0,47	<b>0,40</b>
YoY changes	7,90	7,93	8,07	8,08	8,22	7,75	7,32	7,25	7,32	6,70	4,53	3,99	<b>4,66</b>
Yearly*	7,67	7,70	7,82	7,83	7,96	7,52	7,13	7,06	7,13	6,54	4,45	3,93	<b>4,58</b>

\* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN SEPTEMBER 2014



Source : BPS, Bank Indonesia

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