

April 2015

CPI AND SBI OUTLOOK

April 2015 Inflation Outlook: Stable

- Following deflation in two consecutive months, the prices of goods and services rose again in March. On a MoM basis, headline inflation reached 0.17 percent. This translated into YoY inflation of 6.38 percent. On a monthly comparison, prices in the food components declined by 0.13 percent, while prices in the non food components rose 0.40 percent.
- Prices in the foodstuffs component were dragged down 0.73 percent MoM as a result of the harvesting season in several producing areas while prices in the clothing component declined more moderately by 0.08 percent MoM. By contrast, prices rose the most in the transportation component (+0.77 percent), followed by the medical care component (+0.64 percent), the prepared foods component (+0.61 percent), the housing component (+0.29 percent), and the education component (+0.10 percent MoM).
- In March, fuel prices were hiked on two separate occasions. In the first increase on March 1, 2015, the price of premium fuel was raised by 3.0 percent to IDR 6,800/liter, while the prices of diesel fuel and kerosene were kept unchanged. Later, as a result of the persistent rupiah depreciation, the government again chose to raise fuel prices further at the end of the month. On this occasion, the prices of premium and diesel fuel were increased by 7.3 percent on average to IDR 7,300/liter and IDR 6,900/liter, respectively. Besides this, the retail prices of non-subsidized LPG were also raised again (following a 3.9 percent hike in early March, the price of LPG in 12kg canisters was raised 6 percent to IDR 142,000). Although the impact of the fuel and LPG price increases will be reflected in April's inflation figures, we believe that inflationary pressures will remain benign, largely thanks to stable food prices (due to the impact of the harvesting season). Nonetheless, we don't foresee deflation in April (unlike in April 2014 when there was MoM deflation of 0.02 percent).
- We predict inflation in April 2015 of 0.38 percent MoM, translating into YoY inflation of 6.81 percent.
- At BI's latest meeting, the benchmark BI rate was kept unchanged at 7.50 percent, with the Deposit Facility rate and the Lending Facility rate unchanged at 5.50 percent and 8.00 percent, respectively. It appears that the central bank has continued to adopt a relatively tight monetary policy stance given its aim of trying to bring about a healthier current account (at 2.5-3.0 percent of GDP). On the back of weaker demand for imports - which has outpaced the decline in exports - the country recorded a larger trade surplus in the first quarter of the year. In this period, Indonesia's trade surplus reached US\$ 2.54 bn, or twice that in the corresponding period of 2014 when a surplus of US\$ 1.07 bn was recorded. Going forward, we still believe there is room for further cuts in the BI rate given the benign outlook for inflation over the near-term.

DRI Forecast for April 2015

Inflation	
MoM (%)	0.38
YoY (%)	6.81

SBI	
End of period (% p.a)	7.50

Forecast for 2015

Inflation (%)	5.04
SBI (% p.a)	7.50

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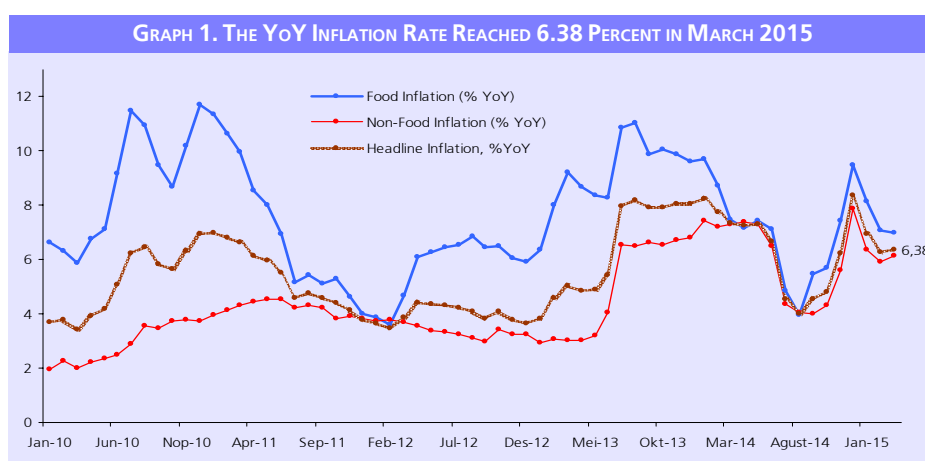
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Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			Jan-Mar		
	Jan-15	Feb-15	Mar-15	Jan-15	Feb-15	Mar-15	2013	2014	2015
FOODSTUFF	0,60	(1,47)	(0,73)	8,24	6,28	5,96	6,86	2,68	(1,60)
PREPARED FOOD	0,65	0,45	0,61	8,04	8,06	8,25	1,21	1,59	1,72
HOUSING	0,80	0,41	0,29	7,14	7,40	7,55	1,62	1,34	1,51
CLOTHING	0,85	0,52	(0,08)	3,38	3,33	3,17	(1,09)	1,20	1,29
MEDICAL CARE	0,66	0,39	0,64	5,64	5,76	6,00	1,14	1,43	1,70
EDUCATION	0,26	0,14	0,10	4,42	4,38	4,34	0,04	0,60	0,50
TRANSPORTATION	(4,04)	(1,53)	0,77	7,40	5,59	6,16	(0,17)	0,59	(4,78)
GENERAL	(0,24)	(0,36)	0,17	6,96	6,29	6,38	2,13	1,41	(0,44)
Food and Non-Food									
FOOD	0,62	(0,61)	(0,13)	8,15	7,07	6,99	4,25	2,19	(0,12)
NON-FOOD	(0,82)	(0,22)	0,40	6,37	5,91	6,14	0,55	1,00	(0,64)

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN MARCH 2015

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	(0.73)	Red chili, chicken meat, egg, fish, tomato	(0.16)
Prepared foods, beverages and cigarettes	0.61	Filtered-flavored cigarettes, bottled water	0.09
Housing	0.29	Electricity tariff, house rent	0.07
Clothing	(0.08)	Gold and jewelry	(0.01)
Medical care	0.64	Doctor tariff	0.03
Education, recreation and sports	0.10	Education cost	0.01
Transportation and communications	0.77	Gasoline, air transport cost	0.14
		General	0.17

Source : BPS

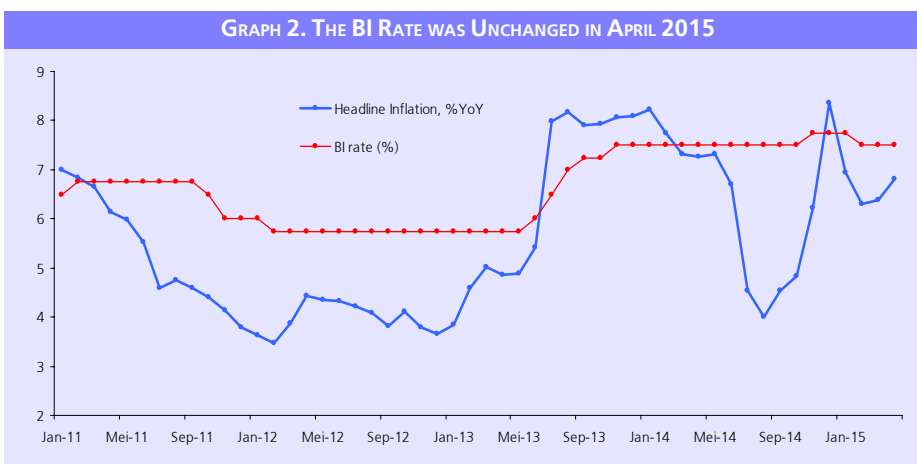
TABLE 3. APRIL 2015 INFLATION FORECAST

	Apr-14	May-14	Jun-14	Jul -14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
MoM changes	(0,02)	0,16	0,43	0,93	0,47	0,27	0,47	1,50	2,46	(0,24)	(0,36)	0,17	0,38
YoY changes	7,25	7,32	6,70	4,53	3,99	4,53	4,83	6,23	8,36	6,96	6,29	6,38	6,81
Yearly*	7,06	7,13	6,54	4,45	3,93	4,45	4,73	6,07	8,08	6,77	6,15	6,24	6,64

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN APRIL 2015



Source : BPS,, Bank Indonesia

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