

CPI AND SBI OUTLOOK

July 2015 Inflation Outlook: Higher Pressure during the Festivities

- ❑ After rising 0.5 percent MoM in May, consumer prices posted a 0.54 percent increase in June. On a YoY basis, headline inflation edged up to 7.26 percent from 7.15 percent. Prices rose more briskly in the food components (+1.12 percent MoM), whereas prices in the non food components were relatively more stable (+0.18 percent MoM). The June inflation figure was lower than our projection of 0.62 percent MoM and also below the median market consensus of 0.65 percent MoM.
- ❑ In June, prices in the foodstuffs component rose significantly (+1.60 percent MoM). By comparison, prices in the other components did not increase so much. On a monthly basis, the prepared foods component rose by 0.54 percent, followed by the medical care component (+0.32 percent), the clothing component (+0.28 percent), the housing component (+0.23 percent), the transportation component (+0.11 percent), and the education component (+0.07 percent).
- ❑ Looking at the supply side, BPS has forecast lower production of some crops in the May-August period when compared to production during the peak harvesting season (January-April). In the May-August 2015 period, the production of dry milled grain and corn are predicted to reach 24.9 mn tons (-24.3 percent) and 6.2 mn tons (-35.1 percent), respectively. However, the output of dried soybeans is expected to rise 33.6 percent to 328 thousand tons. For these crops, full year production is projected to show an increase, boosted by a larger harvesting area and improved productivity.
- ❑ In July, seasonal factors related to the fasting month of Ramadan and Idul Fitri are predicted to lift consumer prices. Strong demand during Idul Fitri (especially for basic foodstuffs, prepared foods, and clothing) will keep prices high compared to the previous month. Moreover, as residents of urban areas travel back to their hometowns, transportation costs and spending will also go up.
- ❑ We predict inflation in July 2015 of 0.82 percent MoM, translating into YoY inflation of 7.14 percent.
- ❑ The benchmark rate was kept at its current level of 7.50 percent, with the Deposit Facility rate and the Lending Facility rate also kept unchanged at 5.50 percent and 8.00 percent, respectively. Given the heightened inflationary pressures over the near term and the central bank's goal of keeping the current account deficit in check, we see that the BI rate is likely to be maintained at its current level over the short term.

DRI Forecast for July 2015

Inflation	
MoM (%)	0.82
YoY (%)	7.14

SBI	
End of period (% p.a)	7.50

Forecast for 2015

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

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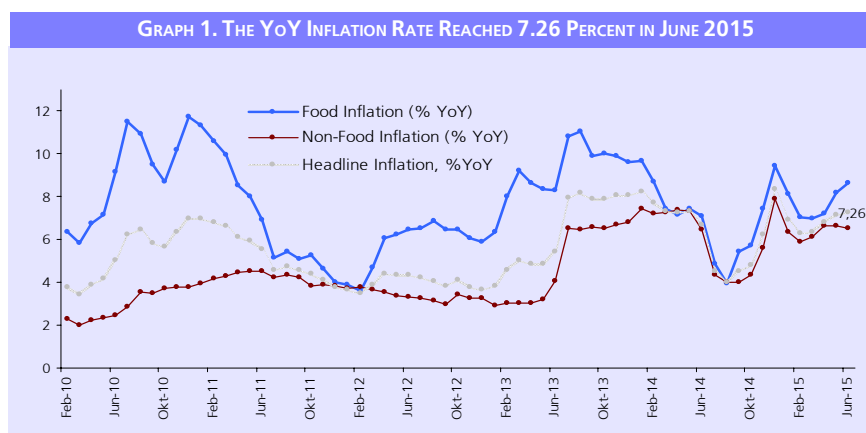


TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			Jan-Jun		
	Apr-15	May-15	Jun-15	Apr-15	May-15	Jun-15	2013	2014	2015
FOODSTUFF	(0,79)	1,39	1,60	6,29	7,92	8,58	7,04	2,42	0,57
PREPARED FOOD	0,50	0,50	0,55	8,30	8,47	8,71	2,54	2,73	3,30
HOUSING	0,22	0,20	0,23	7,52	7,49	7,33	2,92	2,21	2,18
CLOTHING	0,24	0,23	0,28	3,67	3,78	3,76	(2,24)	1,37	2,05
MEDICAL CARE	0,38	0,34	0,32	5,76	5,68	5,63	1,82	2,84	2,76
EDUCATION	0,05	0,06	0,07	4,15	4,15	4,13	0,31	0,98	0,69
TRANSPORTATION	1,80	0,20	0,11	7,85	7,84	7,75	3,22	1,20	(2,77)
GENERAL	0,36	0,50	0,54	6,79	7,15	7,26	3,32	1,99	0,96
Food and Non-Food									
FOOD	(0,20)	0,98	1,12	7,20	8,17	8,64	4,96	2,56	1,79
NON-FOOD	0,70	0,20	0,18	6,66	6,65	6,56	2,00	1,70	0,44

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN JUNE 2015

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	1.60	Red chili, chicken meat, rice, egg	0.33
Prepared foods, beverages and cigarettes	0.55	Sugar, filtered-flavored cigarettes	0.09
Housing	0.23	Electricity tariff, house rent	0.06
Clothing	0.28	Man and woman apparel	0.01
Medical care	0.32	Medicine, health care	0.02
Education, recreation and sports	0.07	Training costs, recreation	0.01
Transportation and communications	0.11	Air freight cost, gasoline	0.02
		General	0.54

Source : BPS

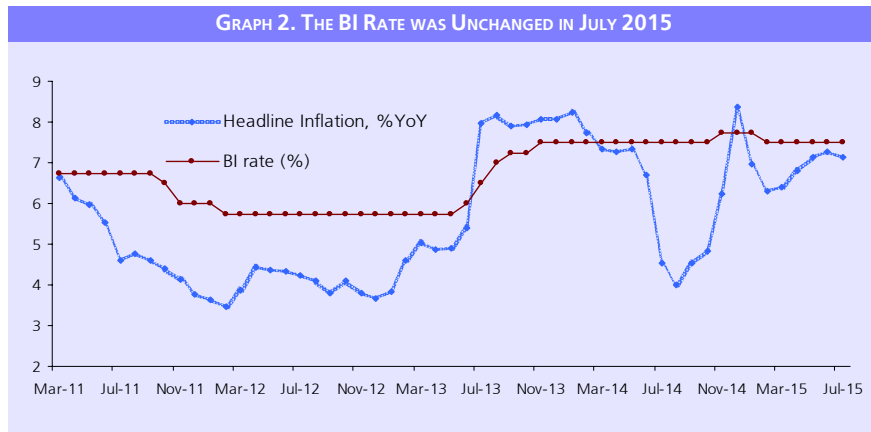
TABLE 3. JULY 2015 INFLATION FORECAST

	Jul -14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
MOM changes	0,93	0,47	0,27	0,47	1,50	2,46	(0,24)	(0,36)	0,17	0,36	0,50	0,54	0,82
YoY changes	4,53	3,99	4,53	4,83	6,23	8,36	6,96	6,29	6,38	6,79	7,15	7,26	7,14
Yearly*	4,45	3,93	4,45	4,73	6,07	8,08	6,77	6,15	6,24	6,62	6,95	7,06	6,95

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN JULY 2015



Source : BPS, Bank Indonesia

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