

March 2015**CPI AND SBI OUTLOOK****March 2015 Inflation Outlook: Continuing to Ease**

- In line with our earlier projection, the headline inflation rate fell further in February 2015. On a MoM comparison, the CPI showed higher deflation of 0.36 percent MoM, or translating into YoY inflation of 6.29 percent. By component, the food and non-food components declined by 0.61 percent and 0.22 percent, respectively.
- Prices rose in all CPI components except the foodstuffs and transportation component. In the foodstuffs component, prices fell 1.47 percent due to the start of the harvesting season while in the transportation component prices fell 1.53 percent MoM, largely driven by the impact of the government's move to cut retail prices of fuel in January. By contrast, prices in the clothing component rose the most (up 0.52 percent), followed by the prepared foods component (+0.45 percent MoM), the housing component (+0.41 percent MoM), the medical care component (+0.39 percent MoM), and the education component (+0.14 percent MoM).
- In March, seasonality from the harvesting season will result in downward pressures on prices in the foodstuffs component. The harvesting of crops (especially those grown in paddy fields) will drive rice prices down. March average rice prices remain above the February average level, but shows a declining trend. From the production side, the government targets 73.4 million tons of milled dry grain rice production in 2015, or 3.7 percent higher than last year's production.
- The price of several commodities tend to increase such as red onions, cooking oil, and flour. At the same time, the collapse in global oil prices will help to keep domestic fuel prices stable. Hence, we predict March inflation of 0.16 percent MoM, translating into YoY inflation of 6.38 percent.
- In the latest development, Bank Indonesia maintained its benchmark BI rate at 7.50 percent, with the Deposit Facility rate and the Lending Facility rate unchanged at 5.50 percent and 8.00 percent, respectively. The BI's goal of achieving a healthier current account (2.5-3.0 percent of GDP) was one of the main factors behind BI's move to keep the BI rate at its current level. However, we continue to believe that there is still scope for further cuts in the benchmark rate given the benign outlook for inflation over the near-term.

DRI Forecast for March 2015

Inflation	
MoM (%)	0.16
YoY (%)	6.38

SBI	
End of period (% p.a)	7.50

Forecast for 2015

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

DAMHURI NASUTION**Head of Economic Research**

(62-21) 29555777/ 888 ext 3602

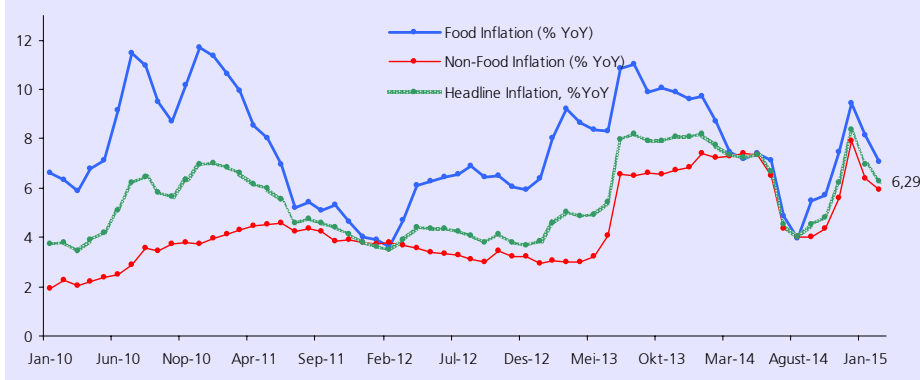
damhuri@danareksa.com

HANDRI THIONO**Economist**

(62-21) 29555777/ 888 ext 3606

handrit@danareksa.com

GRAPH 1. THE YOY INFLATION RATE REACHED 6.29 PERCENT IN FEBRUARY 2015



Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

	M-on-M changes			Y-on-Y changes			Jan-Feb		
	Dec-14	Jan-15	Feb-15	Dec-14	Jan-15	Feb-15	2013	2014	2015
FOODSTUFF	3,22	0,60	(1,47)	10,57	8,24	6,28	5,10	3,13	(0,88)
PREPARED FOOD	1,96	0,65	0,45	8,11	8,04	8,06	0,80	1,16	1,10
HOUSING	1,45	0,80	0,41	7,36	7,14	7,40	1,43	1,18	1,22
CLOTHING	0,64	0,85	0,52	3,08	3,38	3,33	(0,75)	1,12	1,37
MEDICAL CARE	0,74	0,66	0,39	5,71	5,64	5,76	0,77	1,01	1,05
EDUCATION	0,36	0,26	0,14	4,44	4,42	4,38	(0,04)	0,45	0,40
TRANSPORTATION	5,55	(4,04)	(1,53)	12,14	7,40	5,59	(0,31)	0,35	(5,51)
GENERAL	2,46	(0,24)	(0,36)	8,36	6,96	6,29	1,64	1,33	(0,61)
Food and Non-Food									
FOOD	2,66	0,62	(0,61)	9,46	8,15	7,07	3,11	2,24	0,01
NON-FOOD	2,46	(0,82)	(0,22)	7,89	6,37	5,91	0,43	0,81	(1,03)

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN FEBRUARY 2015

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	(1.47)	Red chili, chicken meat, egg, tomato	(0.32)
Prepared foods, beverages and cigarettes	0.45	Filtered-flavored cigarettes	0.07
Housing	0.41	Electricity tariff, house rent	0.10
Clothing	0.52	Gold and jewelry	0.03
Medical care	0.39	Hospital services	0.01
Education, recreation and sports	0.14	Training and course	0.01
Transportation and communications	(1.53)	Gasoline, diesel fuel, inner city transport	(0.26)
		General	(0.36)

Source : BPS

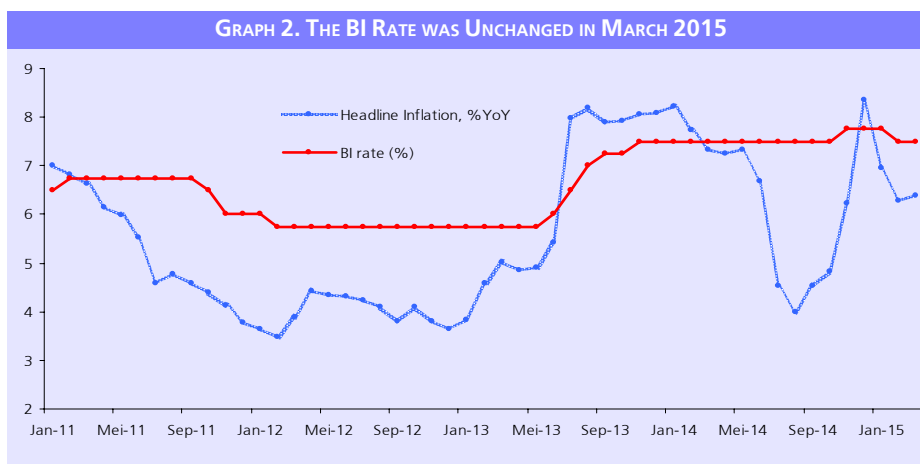
TABLE 3. MARCH 2015 INFLATION FORECAST

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

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN MARCH 2015



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) 29555777 / 888 (hunting)
Fax : (62 21) 3501709

All rights reserved. No part of this publication may be reproduced, stored in retrieval systems, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Danareksa Research Institute.

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue hereof. We have no responsibility to update this report in respect of events and circumstances occurring after the date of this report. We expressly disclaim any responsibility or liability (express or implied) of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, actions, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in this report and any liability in respect of this report or any inaccuracy herein or omission herefrom which might otherwise arise is hereby expressly disclaimed. Accordingly, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement or omission in any information contained in this report. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report.