

May 2014**CPI AND SBI OUTLOOK****May 2014 Inflation Outlook: To Ease Further**

- ❑ Significant declines in foodstuff prices helped reduce the headline inflation rate in April. On a monthly comparison, Indonesia saw deflation of 0.02 percent, bringing down the YoY inflation rate to 7.25 percent. Year-to-date, inflation reached 1.39 percent.
- ❑ On a MOM comparison, prices in the foodstuffs and clothing components both fell, although prices in the other components still increased. The foodstuffs component dropped 1.09 percent, and the clothing component was down by 0.25 percent. By comparison, prices in the medical care component rose 0.61 percent, followed by the prepared foods component (+0.45 percent), the housing component (+0.25 percent), the education component (+0.24 percent), and the transportation component (+0.20 percent).
- ❑ The abundant supply of several main commodities (red chilies, rice, onions) in April helped push down prices. Usually, the harvesting of rice and corn reaches its peak in March-April and ends in May-June. Thus, prices may still decline in May, although not as much as in April. Historically for instance, in May 2013, basic foodstuff prices fell 0.3 percent MoM after a 0.6 percent decline in April.
- ❑ As such, inflationary pressure is expected to ease further in May 2014. We foresee deflation of 0.01 percent MoM, translating into YoY inflation of 7.14 percent.
- ❑ In its latest meeting, Bank Indonesia kept its benchmark BI rate unchanged at 7.5 percent, with the Lending Facility and Deposit Facility rates held at 7.50 percent and 5.75 percent, respectively. This decision took into account two main factors: the trend of easing inflation and the aim of reining in the current account deficit. Nonetheless, with the Indonesian economy continuing to slow, we don't expect rate hikes in the near future. Rather, we expect BI to maintain its benchmark rate at its current level.

DRI Forecast for May 2014

Inflation	
MoM (%)	(0.01)
YoY (%)	7.14

SBI	
End of period (% p.a)	7.50

Forecast for 2014

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

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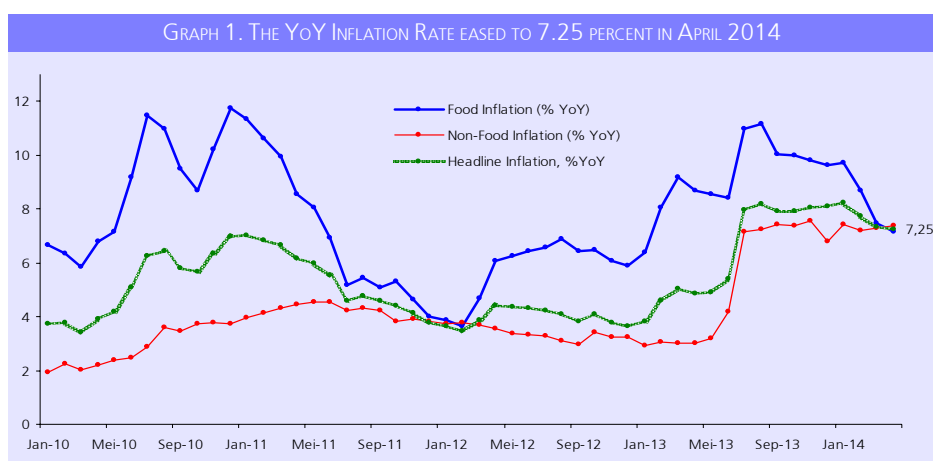


TABLE 1. CHANGES IN CONSUMER PRICE INDEX

Changes in Consumer Price Index (percent)

	M-on-M changes			Y-on-Y changes			Jan-Apr		
	Feb-14	Mar-14	Apr-14	Feb-14	Mar-14	Apr-14	2012	2013	2014
FOODSTUFF	0,36	(0,44)	(1,09)	9,62	7,34	6,76	0,90	6,28	1,56
PREPARED FOOD	0,43	0,43	0,45	7,59	7,60	7,67	2,09	1,60	2,05
HOUSING	0,17	0,16	0,25	5,89	5,86	5,72	1,26	2,01	1,59
CLOTHING	0,57	0,08	(0,25)	2,67	3,11	3,45	0,83	(1,67)	0,95
MEDICAL CARE	0,28	0,41	0,61	3,99	4,03	4,43	1,04	1,37	2,05
EDUCATION	0,17	0,14	0,24	3,78	3,85	3,93	0,36	0,20	0,83
TRANSPORTATION	0,15	0,24	0,20	13,10	13,20	13,39	0,61	(0,14)	0,79
GENERAL	0,26	0,08	(0,02)	7,75	7,32	7,25	1,00	2,17	1,39
Food and Non-Food									
FOOD	0,39	(0,05)	(0,40)	8,70	7,46	7,17	1,48	4,12	1,78
NON-FOOD	0,21	0,19	0,20	7,22	7,30	7,38	0,89	0,68	1,21

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN APRIL 2014

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	(1.09)	Red chili, rice, spinach	(0.22)
Prepared foods, beverages and cigarettes	0.45	Cracker, rice with side dishes, filtered-flavored cigarettes	0.07
Housing	0.25	Home rent, leasing	0.06
Clothing	(0.25)	Gold & Jewelry	(0.02)
Medical care	0.61	Health services	0.03
Education, recreation and sports	0.24	Recreation	0.02
Transportation and communications	0.20	Train fare, gasoline	0.04
		General	(0.02)

Source : BPS

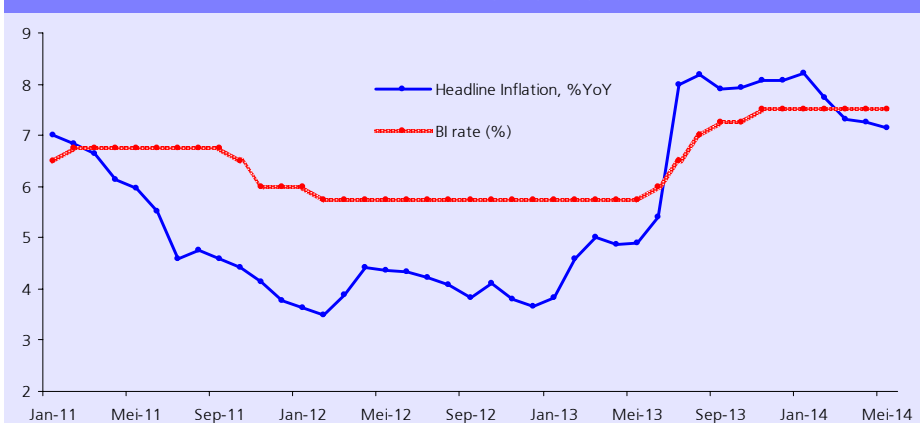
TABLE 4. MAY 2014 INFLATION FORECAST

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan'14	Feb'14	Mar'14	Apr-14	May-14
M-on-M changes	0.10	1.02	3.02	0.99	(0.25)	0.18	0.16	0.45	1.07	0.26	0.08	(0.02)	(0.01)
YoY changes	4.90	5.41	7.98	8.18	7.90	7.93	8.07	8.08	8.22	7.75	7.32	7.25	7.14
Yearly*	4.79	5.29	7.74	7.93	7.67	7.70	7.82	7.83	7.96	7.52	7.13	7.06	6.96

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN MAY 2014



Source : BPS, Bank Indonesia

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