

**November 2015****CPI AND SBI OUTLOOK****November 2015 Inflation Outlook: In a Downtrend**

- ❑ Consumer prices fell further in October. After the 0.05 percent deflation in September, the prices of goods and services dropped by 0.08 percent in October. As a result, inflation slowed to 6.25 percent on an annual basis and to just 2.16 percent on a year-to-date basis.
- ❑ October's deflation owed to falling prices in the foodstuffs component (-1.06 percent MoM) and easing pressures in the other components. The prices of prepared foods rose the most by 0.40 percent, followed by prices in the medical care component (+0.29 percent), the clothing component (+0.25 percent) and the education component (+0.16 percent). Meanwhile, prices in the housing and transportation components eased by 0.09 percent and 0.02 percent, respectively.
- ❑ The benign inflationary pressures in October were supported by a lack of seasonality drivers in addition to the impact of the government's third economic policy package (which included reductions in the prices of some fuel products as well as cuts to industrial electricity tariffs). For November, we predict easing monthly inflationary pressures and a significant drop in the annual inflation rate. As noted, the government hiked subsidized fuel prices back in November 2014 in an effort to create a more sustainable state budget. However, the impact of this move should disappear in November 2015 and bring down the inflation rate. On the other hand, El Nino phenomenon effect creates an increasing pressure of several foodstuffs price such as chili and vegetables.
- ❑ Given the absence of major seasonal events coupled with the high base effect, we predict inflation in November 2015 of 0.14 percent MoM, translating into YoY inflation of 4.83 percent.
- ❑ Bank Indonesia maintained its benchmark policy rate at 7.5 percent, with the Lending Facility and Deposit Facility rates also unchanged at 8.0 percent and 5.50 percent, respectively. As the annual inflation rate will decline significantly whilst the CAD is also predicted to become more manageable, BI will have the opportunity to lower its policy rate. However, uncertainty in regard to when the Fed will finally hike rates means that BI has less room to lower interest rates. In December, we expect the BI rate to be kept at its current level.

**DRI Forecast for November 2015**

<b>Inflation</b>	
MoM (%)	0.14
YoY (%)	4.83

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

**Forecast for 2015**

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

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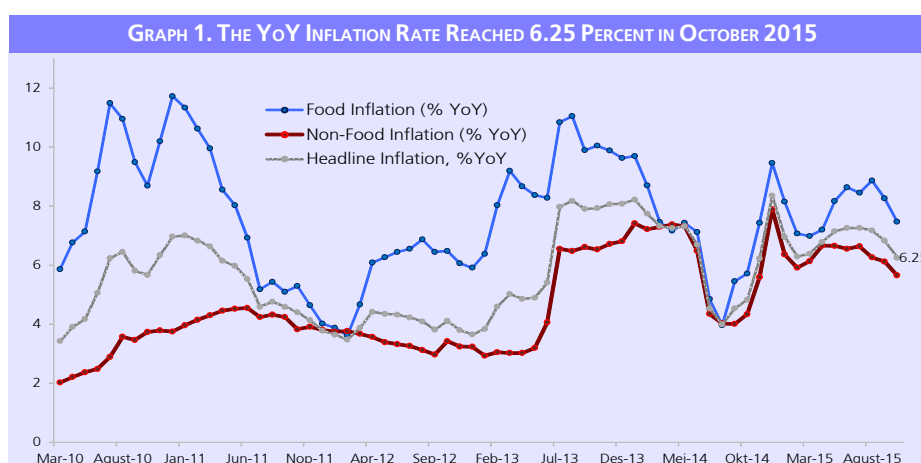
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**TABLE 1. MoM FOODSTUFFS INFLATION**

	M-on-M changes			Y-on-Y changes			Jan-Oct		
	Aug-15	Sep-15	Oct-15	Aug-15	Sep-15	Oct-15	2013	2014	2015
FOODSTUFF	0.91	(1.07)	(1.06)	9.26	8.26	6.85	11.37	4.87	1.34
PREPARED FOOD	0.71	0.39	0.40	8.39	8.26	8.23	6.12	5.29	5.39
HOUSING	0.16	0.20	0.09	6.38	5.78	4.78	5.09	5.31	2.78
CLOTHING	0.01	0.83	0.25	3.06	4.10	4.15	0.49	2.51	3.57
MEDICAL CARE	0.70	0.44	0.29	5.99	6.15	5.82	3.17	4.50	4.60
EDUCATION	1.72	0.89	0.16	4.17	4.39	4.31	3.12	3.97	3.85
TRANSPORTATION	(0.58)	(0.40)	0.02	8.17	8.00	7.84	11.94	1.88	(2.03)
GENERAL	0.39	(0.05)	(0.08)	7.18	6.83	6.25	7.42	4.19	2.16
Food and Non-Food									
FOOD	0.82	(0.42)	(0.40)	8.87	8.26	7.48	8.95	5.06	3.15
NON-FOOD	0.14	0.18	0.11	6.27	6.12	5.66	6.18	3.72	1.58

Source : BPS

**TABLE 2. DRIVERS OF PRICE CHANGES IN OCTOBER 2015**

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	(1.06)	Red chili, chicken meat, rice, tomato	(0.22)
Prepared foods, beverages and cigarettes	0.40	Noodle, filtered-flavored cigarettes	0.07
Housing	0.09	Electricity, house rent	0.02
Clothing	0.25	Man and woman apparel, jewelry	0.02
Medical care	0.29	Health care, cosmetics	0.01
Education, recreation and sports	0.16	Tuition costs	0.01
Transportation and communications	0.02	Car, gasoline	0.01
		<b>General</b>	<b>(0.08)</b>

Source : BPS

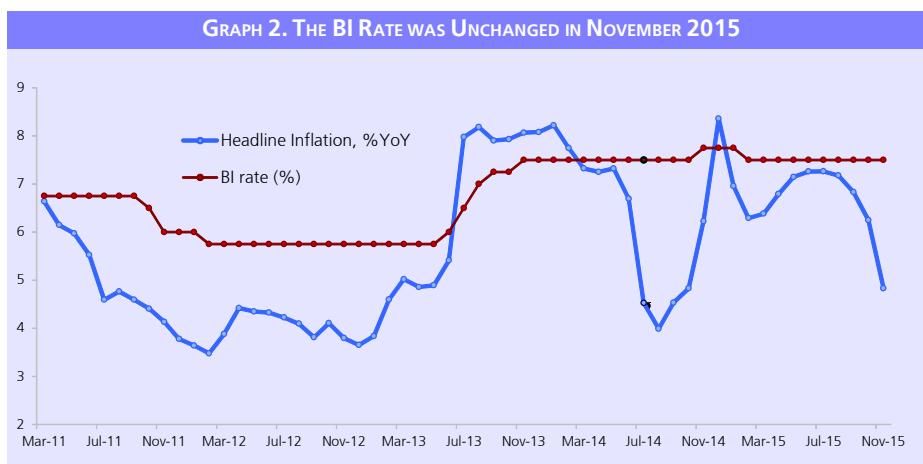
TABLE 3. NOVEMBER 2015 INFLATION FORECAST

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
MOM changes	1.50	2.46	(0.24)	(0.36)	0.17	0.36	0.50	0.54	0.93	0.39	(0.05)	(0.08)	<b>0.14</b>
YoY changes	6.23	8.36	6.96	6.29	6.38	6.79	7.15	7.26	7.26	7.18	6.83	6.25	<b>4.83</b>
Yearly*	6.07	8.08	6.77	6.15	6.24	6.62	6.95	7.06	7.06	6.98	6.66	6.11	<b>4.75</b>

\* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS UNCHANGED IN NOVEMBER 2015



Source : BPS,, Bank Indonesia

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