

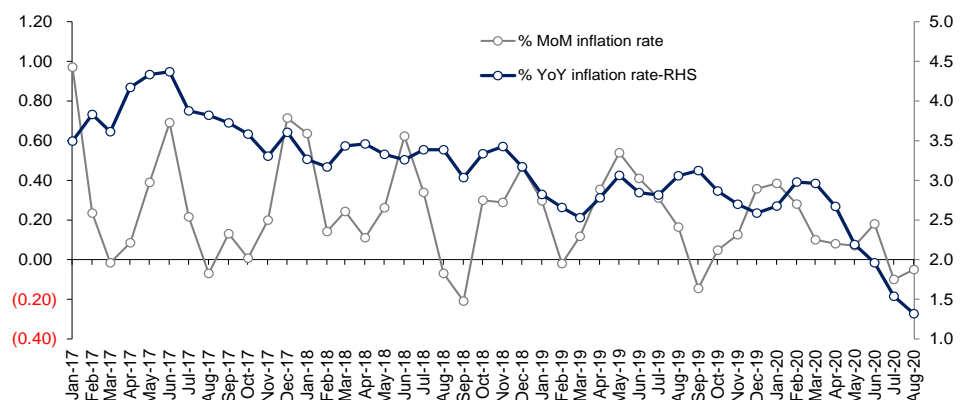
August 2020 Inflation Update: Remaining weak

Forecast for 2020

Inflation (%)	2.00 – 2.60
7D Reverse Repo (%)	4.00 – 4.50

- Consumer prices in August 2020 posted -0.05% mom deflation, after -0.10% mom deflation in the previous month. August’s deflation compares to the median market consensus of +0.01% mom inflation and our estimate of +0.02% mom inflation. The deflation in August was caused by lower prices of goods with volatile prices and it depicts an anemic purchasing power amid the Covid-19 outbreak in Indonesia since March 2020 despite the loosening of the government’s large-scale social distancing restrictions.
- On an annual basis, inflation in Indonesia continued to decline amid the Covid-19 outbreak. The consumer price index showed a smaller increase (+1.32% yoy) in August 2020 compared to the same month in 2019 (+3.49% yoy). This is the second lowest annual inflation rate since May 2000 (+1.2% yoy).
- In more detail, prices in the core component increased (+0.29% mom). On an annual basis, core inflation weakened to 2.03% yoy. The low core inflation indicates that the people’s purchasing power is still lethargic after the relaxation of the large-scale social distancing restrictions and the realization of government stimulus to encourage household consumption. By comparison, the administered goods component and the volatile goods component both posted declines (-0.02% mom and -1.44% mom).
- Compared to July, the deflation in August was still driven by the food, beverages and tobacco component (-0.86% mom) with a share of -0.22%. The decline in this component reflects price falls of shallots, chicken, eggs and some fruits. By contrast, the prices of cooking oil and some cigarettes increased. Meanwhile, the other component that posted deflation in July was the transportation component (-0.14% mom) with a share of -0.02%. Decreasing air fares was one of the main factors driving deflation in the transportation component. Prices in some other CPI components rose at a faster pace including the personal care and other services component (+0.22% mom) with a share of 0.13%. The increasing threat of a second wave of Covid-19 prompted investors to turn again to safe haven assets such as gold which recorded a price increase of 8.53% mom in August 2020.

Graph 1. YoY Inflation Only Reached 1.32 Percent in August 2020



Source : BPS

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Table 1. Consumer Price Index Changes

	M-on-M changes			Y-on-Y changes			YTD
	Jun-20	Jul-20	Aug-20	Jun-20	Jul-20	Aug-20	Aug-20
Food, Beverage, and Tobacco	0.47	(0.73)	(0.86)	3.03	1.73	0.79	1.31
Clothing and Footwear	0.02	0.09	0.07	1.27	1.13	1.14	0.76
Housing	(0.04)	(0.01)	0.02	1.12	0.93	0.64	0.33
Household and Equipment	(0.03)	0.10	0.08	1.66	1.52	1.55	0.75
Health	0.13	0.29	0.06	4.16	4.20	3.65	1.96
Transportation	0.41	(0.17)	(0.14)	(0.95)	(0.71)	(0.13)	(1.14)
Information, Communication and Financial Service	(0.06)	0.02	0.03	(0.30)	(0.31)	(0.24)	(0.33)
Recreation, Sport and Culture	0.13	0.15	0.05	1.42	1.26	1.16	0.68
Education	0.00	0.16	0.57	3.66	2.66	1.61	0.62
Food and Beverage Provision	0.28	0.15	0.13	2.96	2.57	2.45	1.55
Personal Care and Other Service	(0.08)	0.93	2.02	5.66	6.05	7.47	6.20
GENERAL	0.18	(0.10)	(0.05)	1.96	1.54	1.32	0.93
Food and Non-Food							
FOOD	0.42	(0.50)	(0.61)	3.01	1.94	1.22	1.37
NON-FOOD	0.06	0.10	0.24	1.42	1.33	1.38	0.71

Source: BPS

Table 2. Drivers of Price Changes in August 2020

Component	Change (%)	Drivers	Contribution (%)
Food, Beverage, and Tobacco	(0.86)	chicken, shallot, eggs and some of fruits	(0.22)
Clothing and Footwear	0.07	man and woman apparel	0.00
Housing	0.02	rent and house contract	0.01
Household and Equipment	0.08	housing equipment	0.01
Health	0.06	medicine & health product	0.00
Transportation	(0.14)	air fares	(0.02)
Information, Communication and Financial Service	0.03	information and communication equipment	0.00
Recreation, Sport and Culture	0.05	recreation, sport and cultural services	0.00
Education	0.57	scholl fees	0.03
Food and Beverage Provision	0.13	food and beverage services	0.01
Personal Care and Other Service	2.02	gold jewelry	0.13
		General	(0.05)

Source: BPS

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