

PIER Snapshot: Jul-24 CPI

01 August 2024

Jul-24 CPI: Food prices continued to normalize, leading to a third straight month of deflation

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CPI Review

- The monthly headline CPI recorded 0.18%mom deflation in Jul-24, a notable deepening compared to the previous month's deflation of 0.08%mom. This was primarily driven by a sharper deflation in the Volatile Price (VP) Index. The deflation aligned with our forecast of 0.07%mom decline. However, a broader range of food commodities registered deflation than we had anticipated in our estimates. On an annual basis, headline CPI inflation eased from 2.51%yoy in Jun-24 to 2.13%yoy in Jul-24, falling short of our 2.24%yoy forecast. This resulted in Year-to-Date (YTD) inflation of 0.89% for the period from Jan – Jul-24, significantly lower than the 1.56% YTD inflation recorded during the same period last year.
- The monthly deflation in the VP Index intensified from 0.98%mom in Jun-24 to 1.92%mom in Jul-24, largely due to the ongoing decline in prices for various food commodities. Significant price decreases were reported for red chillies and shallots, which fell by 14.10%mom and 19.77%mom, respectively, contributing 0.09ppt and 0.11ppt to overall deflation. Other food commodities experiencing considerable deflation included tomatoes, chicken meat, garlic, and certain vegetables. The primary driver behind the lower food prices was an abundant harvest, which increased the supply of these food items. Conversely, rice and bird's eye chili were among the few food items that recorded inflation. Annually, the VP Index dropped from 5.96%yoy to 3.63%yoy in Jul-24.
- The Administered Price (AP) Index saw only a slight change in Jul-24, registering 0.11%mom inflation, which corresponds to 1.47%yoy inflation. Most components of this index remained stable, as the government made no adjustments to energy prices, and air transportation fees had already normalized. The primary contribution to the monthly inflation in the AP Index came from the Housing, Water, Electricity, and Other Fuel expenditure group.
- Monthly core CPI inflation edged up from 0.10%mom in Jun-24 to 0.18%mom in Jul-24, driven by a seasonal increase in the education component and a rise in domestic gold prices. On an annual basis, core CPI inflation also saw a modest increase, rising from 1.90%yoy to 1.95%yoy, slightly above our forecast of 1.90%yoy. Education was the main contributor to core inflation, adding 0.04ppt to the monthly headline CPI inflation. The uptick in education inflation was largely seasonal, coinciding with the start of the new academic year. Gold prices continued to register slight inflation in Jul-24, although the increase was more limited, partly due to a modest rise in global gold prices and the appreciation of the Rupiah.

Economic and Market Implication

OUR PIERpective: We expect that inflation could fall below 3% by the end of 2024.

- We forecast inflation to remain within Bank Indonesia (BI)'s target range of 1.5 – 3.5% for this year. In 2H24, upward risks may emerge from the introduction of excise duties on plastic and sweetened packaged beverages. However, there is a possibility that the government might delay these measures to support consumer purchasing power and economic growth, which could temper inflation expectations. On the other hand, downside risks could stem from reduced imported inflation as the Rupiah appreciates, driven by the likelihood of the Fed cutting policy rates earlier, which could enhance risk-on sentiment and attract capital inflows. Currently, we project the inflation rate at the end of 2024 to be approximately 3.08% (vs. 2.61% in 2023 using the base year 2018=100 or 2.81% in 2023 using the base year 2022=100). However, should the government decide to postpone the implementation of excise duties on plastic and sweetened packaged beverages, we anticipate the inflation rate could fall below 3% by the end of 2024.

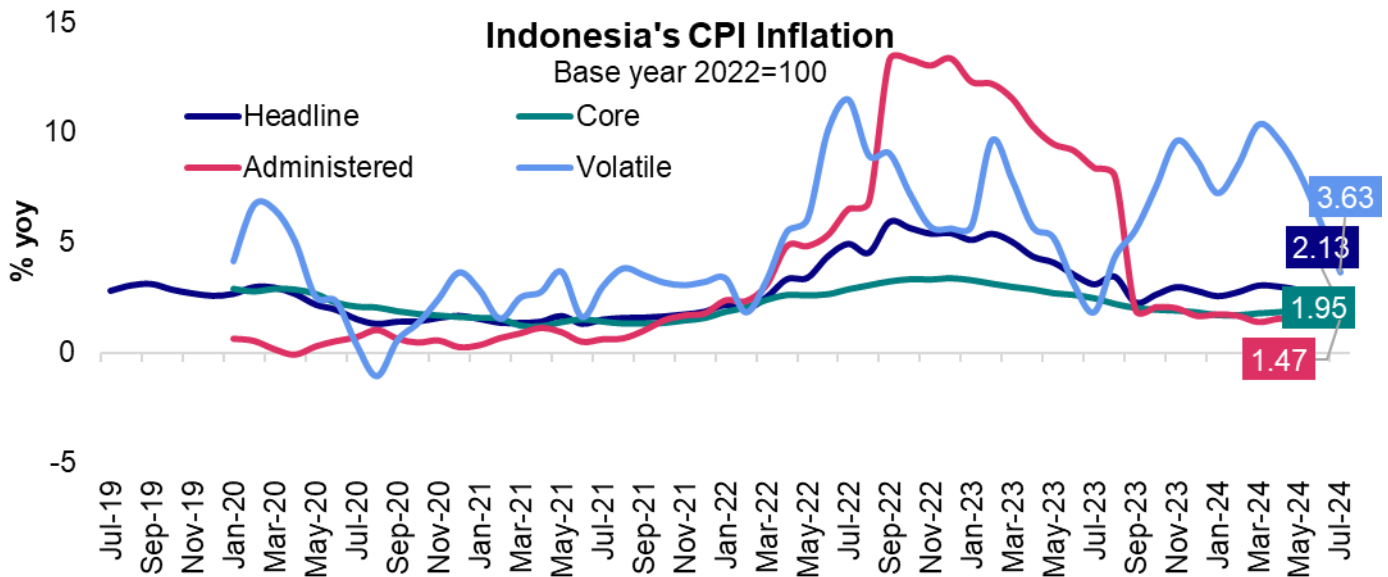
Lower inflation rate increases the likelihood of an earlier BI-rate cut.

- Observing the current trajectory of headline and core inflation, we recognize an increasing potential for further downward pressure on inflation. This trend enhances the prospects for BI to implement a BI-rate cut in 2H24, particularly as the Fed has signaled the likelihood of multiple policy rate cuts this year, potentially starting in Sep-24, contingent on favorable US economic indicators. While we currently anticipate that BI will maintain the BI-rate at 6.25% through the end of 2024, we are now considering the possibility of an earlier rate cut if both external and domestic conditions evolve in line with expectations.

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Indonesia's Headline Inflation and Its Components



Source: Statistics Indonesia & Permata Institute for Economic Research

Monthly Headline CPI Posted Deflation for the Third Consecutive Months

Changes in Consumer Price Index 2022 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Food, Drink, and Tobacco	-0.29	-0.49	-0.97	6.18	4.95	3.66
Clothing and Footwear	-0.04	0.02	0.11	1.10	1.09	0.99
Housing, Water, Electricity, and Other Fuels	0.08	0.04	0.05	0.54	0.47	0.50
Equipment, Tools, and Household Maintenance	0.05	0.21	0.12	0.85	0.95	1.05
Health	0.04	0.05	0.08	2.06	1.89	1.77
Transportation	-0.36	0.11	0.03	1.34	1.61	1.22
Information, Communication, and Financial Services	-0.05	-0.02	0.00	-0.16	-0.18	-0.16
Recreation, Sport, and Culture	0.10	0.09	0.29	1.60	1.50	1.49
Education	0.00	0.01	0.69	1.71	1.69	1.90
Food Service and Restaurant	0.26	0.09	0.16	2.51	2.31	2.28
Personal Care and Other Services	0.87	0.27	0.35	4.99	5.24	5.59
Headline	-0.03	-0.08	-0.18	2.84	2.51	2.13

Source: Statistics Indonesia & Permata Institute for Economic Research

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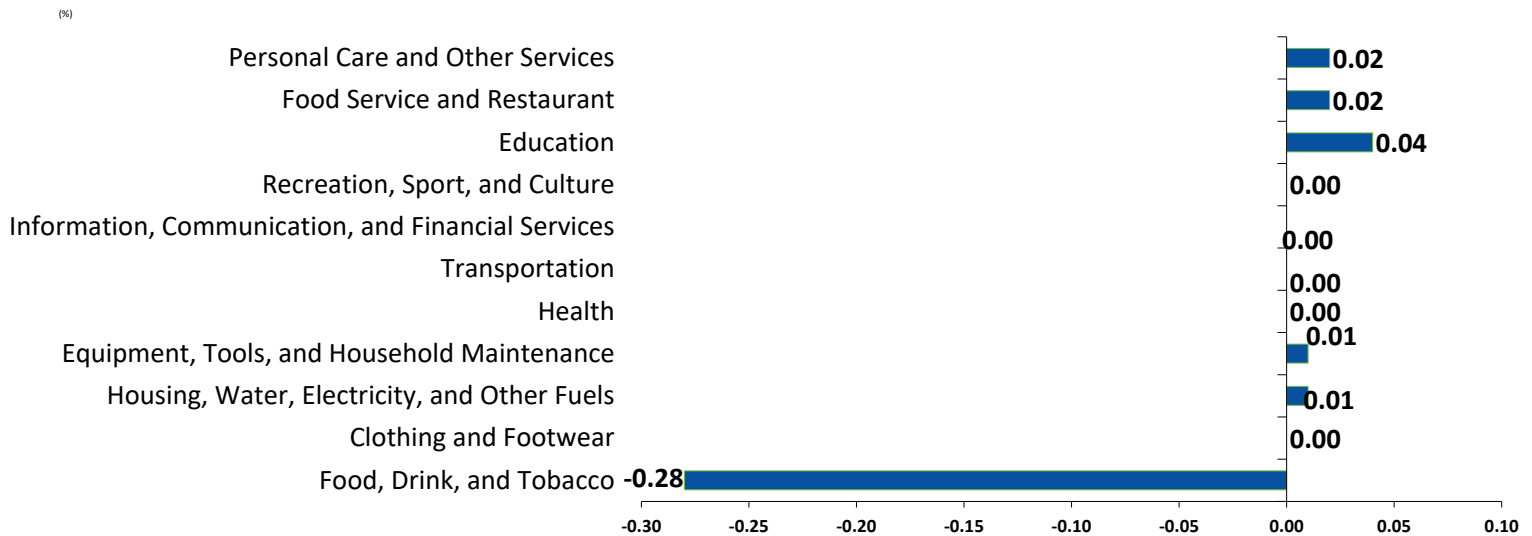
Deflation in VP Continued amid Abundance of Harvest Season

Changes in Consumer Price Index 2022 Base Year (percent)

	M-on-M changes			Y-on-Y changes		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Core	0.17	0.10	0.18	1.93	1.90	1.95
Administered	-0.13	0.12	0.11	1.52	1.68	1.47
Volatile	-0.69	-0.98	-1.92	8.14	5.96	3.63
Headline	-0.03	-0.08	-0.18	2.84	2.51	2.13

Source: Statistics Indonesia & Permata Institute for Economic Research

Contributors to Jul-24 CPI (%)



Source: Statistics Indonesia & Permata Institute for Economic Research

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PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.11	5.10	5.05	5.00	5.07	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	4.91	4.88	4.95	5.00	4.93	5.10	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	19.90	6.89	4.81	5.05	8.07	5.49	6.08
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	3.79	3.63	3.79	4.89	4.04	5.83	6.62
Real Export (% yoy)	-0.48	-8.42	17.95	16.28	1.32	0.50	-1.09	1.27	4.95	1.50	9.61	10.41
Real Import (% yoy)	-7.13	-17.60	24.87	14.75	-1.65	1.77	-0.95	2.88	6.36	2.60	11.80	12.63
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,288.29	5,655.74	5,727.73	5,731.44	22,403.21	24,266.91	26,317.21
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	337.70	346.45	353.39	354.71	1,392.25	1,534.97	1,732.43
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.79	2.78	3.15	3.07	2.95	3.15	3.18
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	2.51	3.12	3.08	3.08	3.25	3.15
Unemployment Rate (%)	5.18	7.07	6.49	5.86	5.32	4.82	4.82	4.94	4.94	4.94	5.03	4.93
Fiscal Condition												
Fiscal Balance (% of GDP)	-2.20	-6.14	-4.57	-2.35	-1.65	0.04	-0.34	-0.75	-2.18	-2.18	-2.56	-2.84
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.73	7.07	7.16	7.10	7.10	6.39	5.87
External Sector												
Trade Balance (USD bn)	-3.59	21.62	35.42	54.46	36.91	7.41	8.03	5.44	6.52	27.40	23.41	17.22
Goods Balance (USD bn)	3.51	28.30	43.81	62.67	46.45	9.82	8.13	7.44	7.84	33.23	31.44	25.24
Current Account (USD bn)	-30.28	-4.43	3.51	13.22	-1.88	-2.16	-3.97	-3.91	-3.06	-13.10	-18.67	-26.63
Current Account (% of GDP)	-2.71	-0.42	0.30	1.00	-0.14	-0.64	-1.15	-1.11	-0.86	-0.94	-1.22	-1.54
Foreign Reserves (USD bn)	129.18	135.90	144.91	137.23	146.38	140.39	140.18	132.52	140.42	140.42	140.77	144.21
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,783	16,053	16,208	16,158	16,119	15,817	15,201
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,855	16,375	16,245	16,121	16,121	15,595	14,897
Commodity Price												
Coal Price (USD/MT)	66.2	83.0	169.7	379.2	141.8	131.5	135.1	121.0	117.5	117.5	103.8	90.3
CPO Price (USD/MT)	763.7	1,016.4	1,270.3	940.4	797.8	942.9	873.7	821.7	829.6	829.6	818.0	808.3
Oil Price (USD/BBL)	65.85	49.87	74.31	80.90	77.9	85.5	82.6	80.7	80.3	80.3	78.9	82.0
Interest Rate												
Fed Funds Rate (%)	1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.50	5.25	5.25	4.50	3.75
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.25	6.25	6.25	5.50	4.75
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.25	9.25	9.40	9.41	9.41	8.97	8.30
Banking Sector												
Loan (% yoy)	6.08	-2.40	5.24	11.35	10.38	12.40	12.36	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	7.44	8.45	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.2	85.8	85.9	84.0	84.0	85.5	87.5
Real Sector												
Car Sales (Unit)	1,030,126	532,027	887,202	1,048,040	1,005,802	215,068	192,836	252,240	279,733	939,877	1,071,763	1,144,675
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-23.9	-13.9	1.2	25.4	-6.6	2.3	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	1,735,090	1,435,904	1,604,918	1,502,065	6,277,976	6,300,894	6,436,790
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	-4.9	4.2	5.6	-0.9	0.7	0.4	2.2

Note:

: quarterly realization

Source: Permata Institute for Economic Research (PIER)

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