

Inflation edges up slightly

Thursday, May 02, 2019

Highlights

- **Headline inflation for April came out at 2.83% yoy whilst core inflation was stable at 3.05% yoy.**
- **The main driver of the higher headline inflation was due to a pick-up in price increases for the food category.**
- **We expect headline inflation to continue to edge up higher as we enter the festive season and the entire 2019 average to hit our forecast of 3.20% yoy.**
- **Overall, we see inflation is no constraint to monetary policy decisions and expect BI may still cut the benchmark rate by 50bps in 4Q 2019.**

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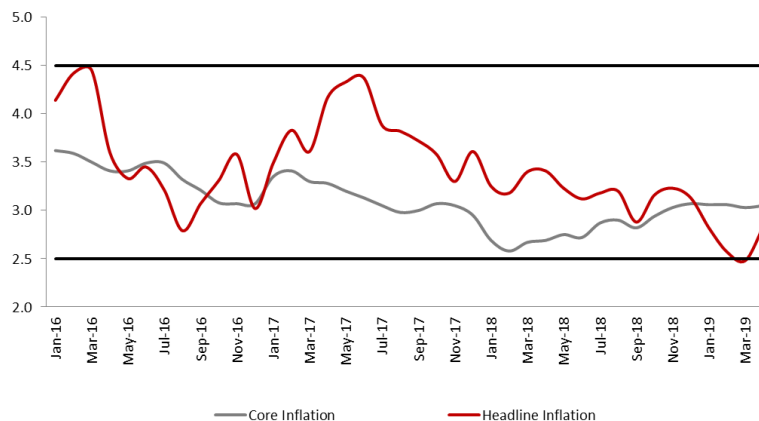
Headline inflation edged up slightly higher at 2.83% yoy whilst core inflation remained stable at around 3.05% yoy for the month of March. The headline inflation level remains well within Bank Indonesia's (BI) range of 2.5 – 4.5% whilst the core inflation provides some indication of underlying economic steadiness.

The rise in headline inflation was mainly driven by a larger price increase in the food category (see chart 2). It is likely that going forward, higher price increases for the food category will continue to drive headline inflation higher especially as the country is now entering the festive Ramadan and Hari Raya season. Meanwhile, the price increase in the transportation, communications and finance category (a high weightage category) remained high compared to 2018 levels at ~3.2% yoy as a result of possibly high airfare prices. The Transportation Ministry had earlier in April issued two regulations to try to control airfare prices and the Transport Minister had also warned of further regulation unless airlines lower prices. It remains to be seen how effective the measures would be given the risk of sustained higher oil prices. The festive season may naturally also see higher demand putting pressure on airfare prices. Other categories continued to show steady price increases. **We still expect that headline inflation is set to hit our forecast of 3.2% yoy for 2019 whilst May headline inflation could possibly be at 3.2% yoy.**

Overall, we see that inflation remains no constraint to monetary policy decisions and may likely remain within BI's target range. Hence, we continue to expect that BI could possibly cut the benchmark rate by 50bps in 4Q 2019.

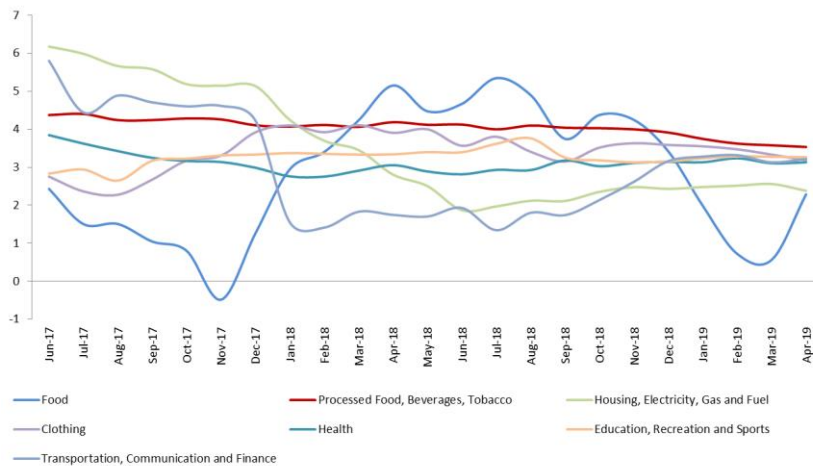
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Chart 1: Headline and Core Inflation, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 2: Growth of CPI categories, % yoy



Source: CEIC, Bloomberg and OCBC

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