

Headline edged up slightly as core softened

Alan Lau

Economist

Malaysia & Indonesia

+65 6530 5949

AlanLau@ocbc.com

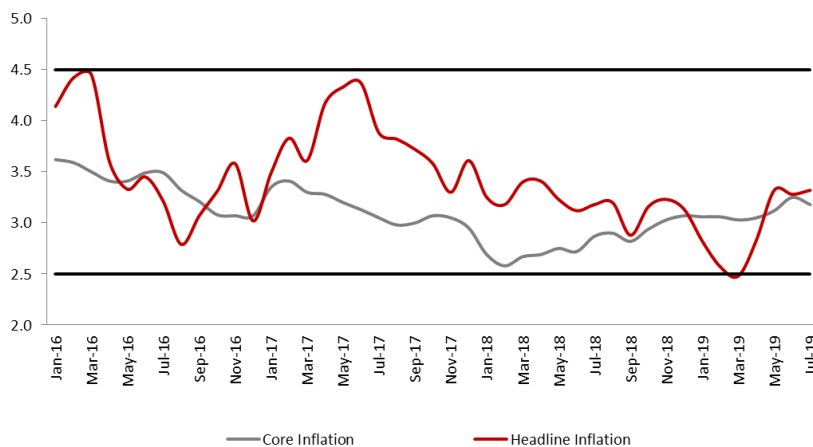
- **Headline inflation was slightly higher at 3.32% yoy in July (June: 3.28% yoy) whilst core inflation softened to 3.18% yoy (June: 3.25% yoy).**
- **The difference in movement between the two was due to a faster pace of price increase on a year on year basis for administered items.**
- **Despite the headline inflation uptick, we don't see any concerning signs that it will rise above Bank Indonesia's (BI) target range of 2.5% - 4.5%.**
- **Hence, inflation should not be a constraint to monetary easing and we still expect BI to cut the benchmark rate by another 25bps this year.**

Headline inflation was slightly higher at 3.32% yoy for July, which was an increase from the prior month at 3.28% yoy. This was also above our own forecast at 3.20% yoy. Core inflation meanwhile softened to 3.18% yoy from 3.25% yoy in June. The difference in movement between headline and core was due to the price of administered items rising at a faster pace on a year on year basis.

The faster rate of headline inflation was driven mainly by higher price increases for the transport and the clothing categories. The food category meanwhile saw a slower pace of price increase at 4.85% yoy, compared to 4.91% yoy in June. However, the increase was still rather elevated and it was faster than our expectations causing our overall headline inflation forecast to fall out of line. The processed food, beverages and tobacco category at the same time saw a price increase of 3.77% yoy. These increases happened even as the festive season had come to an end. The price increase for the transport category meanwhile was still rather moderate at 2.21% yoy and on a month-on-month basis, there was actually a fall of 0.36%. This though was in line with our expectations. This moderate price increase year-on-year for transportation can possibly be explained by government measures to control airfare prices and the higher base last year.

Despite the slight uptick in headline inflation for July, there are no concerning signs immediately to make us believe that the current trajectory of price increases for the various categories will lead overall headline inflation to rise above Bank Indonesia's (BI) range of 2.5% - 4.5%. If anything, the 3.32% yoy July print continues to sit comfortably just below the mid-point of BI's range. We are still expecting the entire 2019 headline inflation to average around 3.2% yoy. **Hence, inflation should not be a constraint to monetary policy easing and we are expecting BI to cut by another 25bps this coming year, making it a total easing of 50bps by end 2019.**

Chart 1: Headline and Core Inflation, % yoy



Source: OCBC and Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Strategy & Research*LingSSSelena@ocbc.com**Emmanuel Ng***Senior FX Strategist*NqCYEmmanuel@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand, Korea & Commodities*HowieLee@ocbc.com**Alan Lau***Malaysia & Indonesia*AlanLau@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*TreasuryResearch@ocbc.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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