

Indonesia

2 January 2024

Benign Inflation to Close 2023

- Headline CPI eased to 2.6% YoY in December from 2.9% in November, bringing the full-year 2023 average CPI to 3.7% from 4.2% in 2022.
- Food and utilities inflation were the main drivers of slower inflation. However, we note that certain food prices remained elevated.
- We continue to expect Bank Indonesia (BI) to maintain its policy rate at 6.00% in 1Q24 before starting its easing cycle in 2Q24.

Headline CPI eased more-than-expected to 2.6% in December from 2.9% in November (Consensus: 2.7%, OCBC: 2.8%), within BI's 2-4% target range.

The main drivers were lower food and utilities inflation. Food inflation eased to 6.2% YoY in December from 6.7% in November but the details underscore price stickiness. Prices of key staples such as red chili peppers (63% YoY), cayenne pepper (52%), garlic (41%), and sugar (17.6%) remained elevated. Similarly, although rice inflation eased in December, it remains sticky (14.7% YoY). Meanwhile, utilities inflation eased to 0.5% YoY in December from 1.2% as base effects turned more favourable. Core inflation also eased, albeit to a lesser extent, to 1.8% YoY from 1.9% YoY in November.

There was a modest uptick in the 'clothing & footwear,' 'recreation, sports & culture' inflation components – due to seasonal increases during religious festivities and holiday seasons. The 'transportation' component remained steady at 1.3%.

For 4Q23, average headline CPI eased to 2.7% YoY from 2.9% in 3Q23 and for 2023, headline inflation eased to 3.7% from 4.2% in 2022. Similarly, the full-year core CPI eased to 2.5% YoY from 2.8% in 2022. Looking ahead, we maintain our full-year 2024 average headline CPI forecast of 3.1%, with monthly figures expected to stay within BI's lower 1.5% to 3.5% target (versus 2.0% - 4.0% target in 2023).

Relatively benign inflationary pressures and contained external pressures will allow BI to maintain its policy rate at 6.00% in 1Q24 before cutting its policy rate by a cumulative 125bp starting in 2Q24.

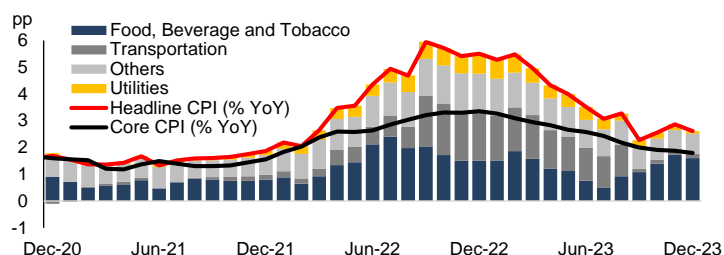
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Both Headline and Core CPI Eased in December 2023, but Foodstuff Inflation Remains High



Note: Others = Combined value of 'clothing and footwear', 'household equipment & routine maintenance', 'health', 'information, comm & financial service', 'recreation, sports, and culture', 'education', 'restaurant', & 'personal care and other services'.
Source: Statistics Indonesia; CEIC; OCBC.

Drivers of inflation, % YoY	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Headline CPI inflation	5.3	5.5	5.0	4.3	4.0	3.5	3.1	3.3	2.3	2.6	2.9	2.6
Food, Beverage and Tobacco	5.8	7.2	6.1	4.6	4.3	2.8	1.9	3.5	4.2	5.4	6.7	6.2
Clothing and Footwear	1.1	1.2	1.2	1.8	1.5	1.5	1.4	1.1	1.0	0.8	0.7	0.8
Housing, Water, Electricity & Other Fuel	3.6	3.4	2.7	2.5	2.5	2.5	2.0	1.4	1.3	1.2	1.1	0.5
Household Eqpmnt & Routine Maintenance	4.3	4.0	3.7	3.3	3.0	2.6	2.4	2.2	2.0	1.9	1.6	1.6
Health	3.0	2.9	2.7	2.6	2.5	2.6	2.7	2.7	2.1	2.0	2.0	1.9
Transportation	13.9	13.6	13.7	12.0	10.6	10.2	9.6	9.6	1.0	1.2	1.3	1.3
Information, Comm & Financial Service	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	0.1	0.1	0.1	0.2
Recreation, Sports, and Culture	2.9	2.6	2.5	2.4	2.2	2.2	2.0	1.9	1.6	1.5	1.4	1.7
Education	2.8	2.8	2.7	2.7	2.7	2.7	3.1	2.1	2.1	2.0	2.0	2.0
Food and Beverage Provision/Restaurant	4.5	4.1	4.0	3.8	3.4	3.3	3.1	2.9	2.4	2.2	2.2	2.1
Personal Care and Other Services	6.1	5.6	4.7	4.7	4.5	4.3	4.0	3.8	3.7	3.7	3.8	3.6
Core CPI inflation	3.3	3.1	2.9	2.8	2.7	2.6	2.4	2.2	2.0	1.9	1.9	1.8

Source: Statistics Indonesia, CEIC, OCBC

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