

Indonesia

2 May 2024

Stable Inflation in April

- Headline inflation remained unchanged at 3.0% YoY in April, similar to March. Similarly, core inflation was also steady at 1.8%.
- The main drivers of April CPI were lower ‘food, beverages, and tobacco,’ which offset the higher inflation in the ‘transportation’ and ‘personal care’ components.
- Notwithstanding well contained inflation, BI will remain focussed on IDR stability. Our baseline remains for BI to only begin its rate cutting cycle in 4Q24.

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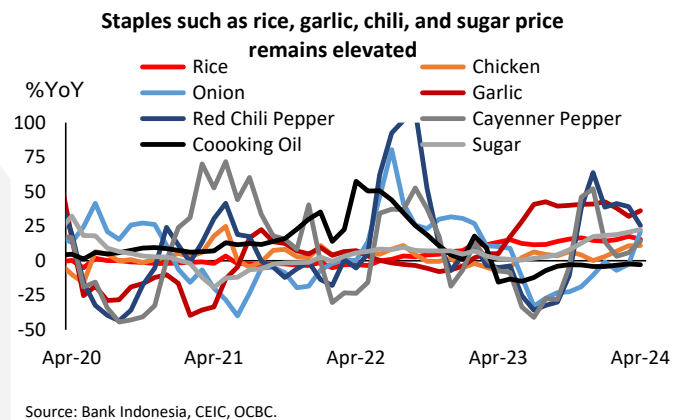
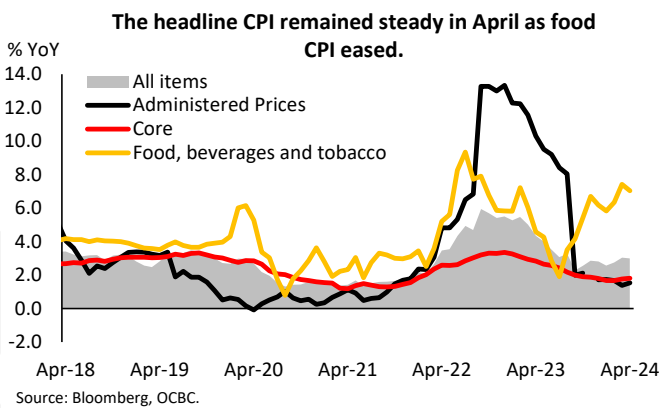
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Headline inflation remained unchanged at 3.0% YoY in April, similar to March and was below our forecast (OCBC: 3.2%, Consensus: 3.1%). Similarly, the core inflation also steadied at 1.8% in April. The main drivers of April CPI were lower ‘food, beverages, and tobacco,’ which offset the higher inflation in the ‘transportation’ and ‘personal care’ components.

Specifically, ‘food, beverages, and tobacco’ inflation eased to 7.0% YoY in April compared to 7.4% in March and was the miss relative to our forecasts. That said, a closer look at domestic food prices suggests that price pressures still elevated, albeit easing relative to March. Specifically, price gains of rice (15.9% YoY in April, down from 20.1% in March), red chili pepper (19.9% versus 45.9%), and eggs slowed while garlic and onion prices picked up more sharply in March. Statistics Indonesia (BPS) noted that the harvest season has already begun for staples like rice and corn, and this could reduce the pressure on these key food prices in the coming months, in our view.



Meanwhile, the transportation CPI picked up to 1.3% YoY in April from 1.0% in March, largely due to higher airfares and intercity transportation fares amid Eid al-

Fitr celebrations. Similarly, 'personal care' inflation also increased to 4.3% YoY in April from 3.6% in March.

The April headline CPI print brings year-to-date average inflation to 2.9%, compared to 4.6% in 4Q23. Looking ahead, we maintain our 2024 CPI forecast of 3.1%, suggesting a modest pickup in inflation for the rest of the year, while remaining within BI's 1.5-3.5% target range.

Notwithstanding, the well contained inflation outlook, BI will remain focussed on IDR stability. While we cannot rule out further rate hikes, our baseline is for BI to remain on hold in the near-term. Moreover, the incoming activity data for 1Q24 has been mixed, with consumer spending remaining resilient but investment spending and export growth likely worsening. Our tracking estimate indicates that GDP growth could ease to 4.7% YoY in 1Q24 versus 5.0% in 4Q23, with full-year 2024 growth at 4.8% (2023: 5%).

As such, our baseline is for BI to only begin its rate cutting cycle in 4Q24, with a cumulative 75bp cut, followed by another 50bp cut in 1H25.

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