Note issued: December 1st, 2021

CPI: The threat remains

Executive Summary:

- **Indonesia's consumer price index (CPI) increased by 1.75% YoY (+0.37% MoM) in November, driven largely by foodstuffs.**
- **Although fundamental demand appears to be more muted, we may see a rise in demand-pull inflation if credit growth continues to recover next year.**
- **On the supply-side, the government would have to decide on whether or not to adjust energy prices in 2022 since prices of commodities such as coal and oil will likely remain elevated in the medium-term.**
- **Despite the outbreak of omicron, it is too early to say whether the new Covid variant will alter the economic narrative.**

- **Indonesia's Consumer Price Index (CPI) registered a 1.75% YoY (0.37% MoM) increase in November,** not far from the expectations of most analysts.
- **The largest driver of inflation last month was foodstuffs, contributing to more than half of the inflation figure.** Considering the onset of heavy rainfall due to La Nina, it is not surprising that the prices for fresh produce are rising due to seasonal supply shortages (***Chart 2***). Apart from fresh produce, cooking oil also saw a significant gain in prices as prices for CPO – a key raw material in cooking oil – remain high. Overall, the prices of foodstuffs have generally remained under control since the price of rice (an Indonesian staple food) is relatively low compared to corn and wheat.
- **Beyond these seasonal changes, fundamental demand appears to be more muted.** For instance, core inflation's YoY growth rate still remains relatively stable despite an increase in consumer and business activities -- our internal data indicates that consumer transactions have continued to rise past pre-pandemic levels while recently released PMI figures show that manufacturing activity, though slightly diminished compared to October, remain robust. However, if credit growth recovers in the coming year, we may see a rise in demand-pull inflation.
- Another question is whether inflated commodities prices from the global energy crunch is behind us. As mentioned in our previous report (see "Trade: Going from strength to strength"), the Chinese government has taken steps to reduce coal prices by encouraging domestic production in state-owned enterprises and introducing price controls for coal. In addition, the US government, along with other major energy-consuming nations, have pledged to release their strategic oil reserves in an effort to gain an upper-hand in rising oil prices.
- However, members of the OPEC+ group may retaliate and pause their oil production increases in the coming months to curb excess oil supply. In addition, the interest rate is still behind inflation, resulting in a negative real rate. As a result, we still expect to see elevated oil prices in the medium-term (6 months to a year). **In either case, the Indonesian government has a major decision in their hands in 2022 whether or not to adjust energy prices, especially with regard to Domestic Market Obligation (DMO) and coal – and that decision would directly translate to the cost of electricity generated by companies like PLN (*Chart 1*).**
- The emergence of the new Omicron variant may further muddle the picture. For one, the geographical spread of Omicron may also lead to divergent outcomes. For instance, if Omicron-related lockdowns remain concentrated in the manufacturing hubs of East Asia, inflation may worsen as supply chains are further disrupted. Should the hammer fall on the developed West however, we may see the reverse as global demand contracts. Finally, it should be noted that while Omicron appears to be more transmissible, the latest reports suggest that the vast majority of patients appear to be mildly or even asymptomatic, in sharp contrast to Delta. In other words, there is a very real chance that Omicron may merely be the latest torchbearer of Covid's newly-endemic nature: transmissible yes, but unlikely to trigger anything more serious than a cold.
- It is perhaps this high degree of uncertainty over Omicron and its economic effects that explains markets' relatively muted response over its effect on interest rates. Indeed, Fed Funds rate futures only registered a slight wobble as news of Omicron began to circulate. **Until more detailed studies on Omicron's health effects are released, it remains too early to make bold predictions of**

whether Omicron may dramatically alter the current economic narrative. As such, our view of a gradual monetary unwind by BI (starting H2-22) still holds for now.

Chart 1. The cost of subsidizing energy is expected to increase next year.

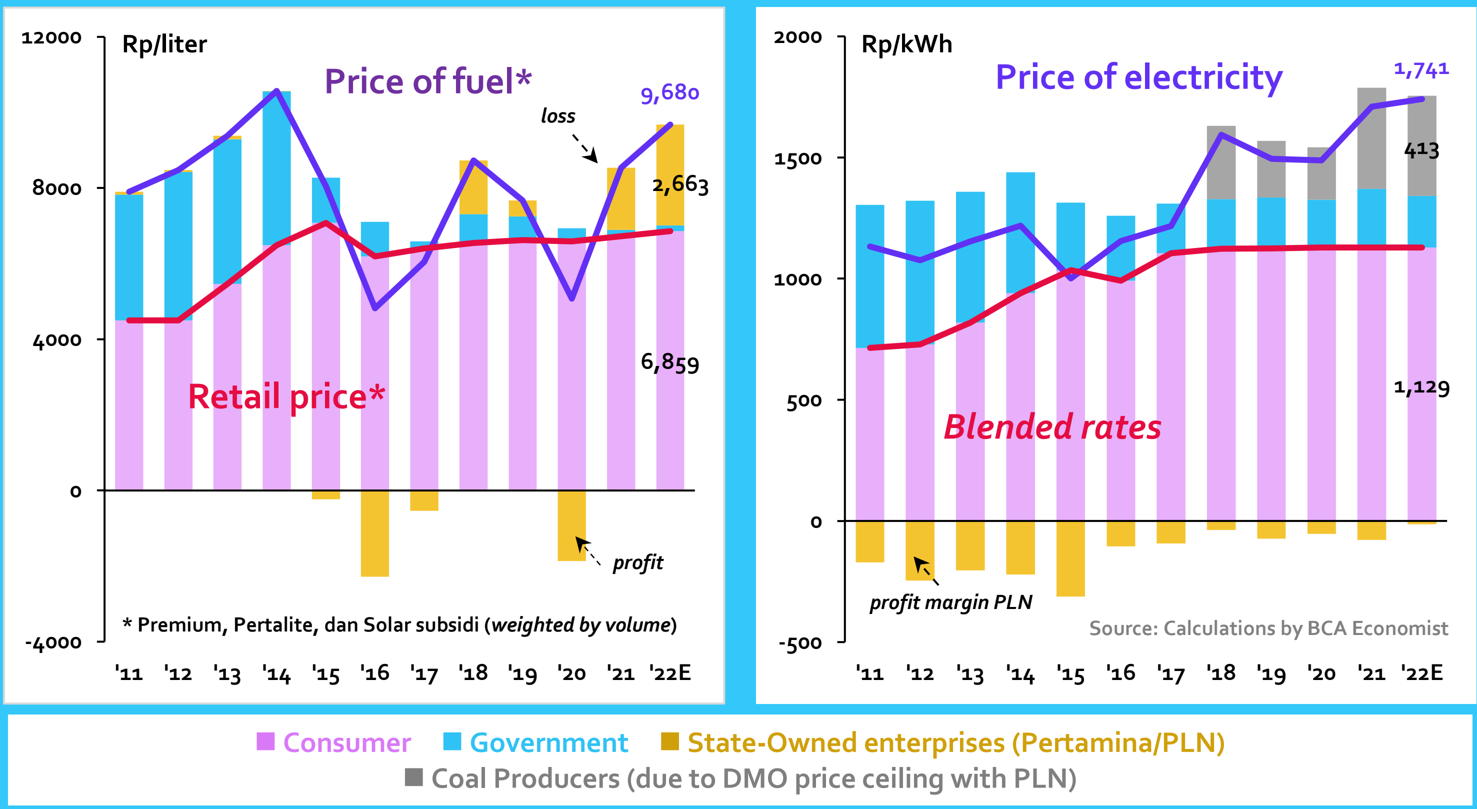
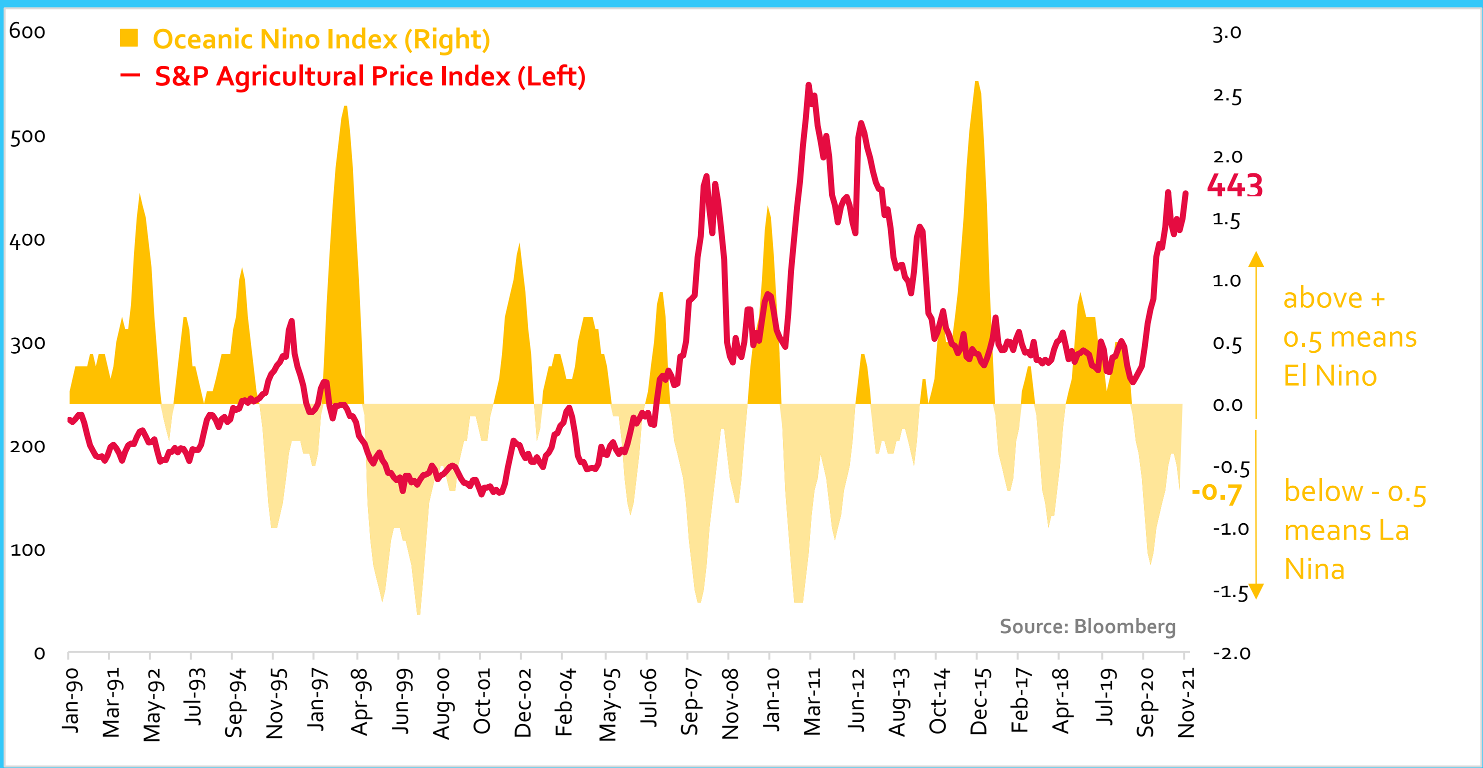


Chart 2. Prices of agricultural products are increasing due to La Nina



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	0.25	Mar-20	-5.95
UK	0.10	Mar-20	-4.10
EU	0.00	Mar-16	-4.90
Japan	-0.10	Jan-16	-0.20
China (lending)	4.35	Oct-15	2.85
Korea	1.00	Aug-21	-2.20
India	4.00	May-20	-0.48
Indonesia	3.50	Feb-21	1.75
Money Mkt Rates	**30-Nov**	**-1 mth**	**Chg (bps)**
SPN (1M)	3.31	2.57	73.6
SUN (10Y)	6.09	6.03	5.1
INDONIA (O/N, Rp)	2.79	2.80	-0.7
JIBOR 1M (Rp)	3.55	3.56	-1.0
Bank Rates (Rp)	**Aug**	**Jul**	**Chg (bps)**
Lending (WC)	8.92	9.00	-7.37
Deposit 1M	3.31	3.39	-8.15
Savings	0.76	0.75	1.02
Currency/USD	**30-Nov**	**-1 mth**	**Chg (%)**
UK Pound	0.752	0.731	-2.80
Euro	0.882	0.865	-1.90
Japanese Yen	113.2	114.0	0.69
Chinese RMB	6.364	6.406	0.65
Indonesia Rupiah	14,323	14,168	-1.08
Capital Mkt	**30-Nov**	**-1 mth**	**Chg (%)**
JCI	6,533.9	6,591.3	-0.87
DJIA	34,483.7	35,819.6	-3.73
FTSE	7,059.5	7,237.6	-2.46
Nikkei 225	27,821.8	28,892.7	-3.71
Hang Seng	23,475.3	25,377.2	-7.49
Foreign portfolio ownership (Rp Tn)	**Nov**	**Oct**	**Chg (Rp Tn)**
Stock	2,233.2	2,248.9	-15.79
Govt. Bond	921.5	949.3	-27.77
Corp. Bond	22.4	23.1	-0.69

Trade & Commodities	30-Nov	-1 mth	Chg (%)
Baltic Dry Index	3,018.0	3,519.0	-14.2
S&P GSCI Index	522.4	588.2	-11.2
Oil (Brent, $/brl)	70.6	84.4	-16.4
Coal ($/MT)	137.6	138.2	-0.4
Gas ($/MMBtu)	4.52	5.42	-16.6
Gold ($/oz.)	1,774.5	1,783.4	-0.5
Copper ($/MT)	9,515.5	9,808.5	-3.0
Nickel ($/MT)	20,005.0	19,556.0	2.3
CPO ($/MT)	1,241.7	1,259.9	-1.4
Rubber ($/kg)	1.74	1.74	0.0
External Sector	**Oct**	**Sep**	**Chg (%)**
Export ($ bn)	22.03	20.61	6.9
Import ($ bn)	16.29	16.23	0.4
Trade bal. ($ bn)	5.73	4.37	31.1
Central bank reserves ($ bn)	145.5	146.9	-0.96
Prompt Indicators	**Oct**	**Sep**	**Aug**
Consumer confidence index (CCI)	113.4	95.5	77.3
Car sales (%YoY)	54.1	73.2	123.5
Motorcycle sales (%YoY)	#N/A	22.0	48.2
Cement sales (%YoY)	5.3	3.7	-1.0
Manufacturing PMI	**Nov**	**Oct**	**Chg (bps)**
USA	#N/A	60.8	0
Eurozone	58.6	58.3	30
Japan	54.5	53.2	130
China	49.9	50.6	-70
Korea	50.9	50.2	70
Indonesia	53.9	57.2	-330

Source: Bloomberg, BI, BPS
Notes:
*Previous data
For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation
***For PMI, **> 50** indicates economic expansion, **< 50** indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.0
GDP per Capita (US$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.215
Trade Balance (US$ billion)	8.8	11.8	-8.5	-3.2	21.7	32.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	0.4

** Estimation of Rupiah's fundamental exchange rate

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