

Monthly Inflation: “Remain Manageable”

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CPI Review

Consumer Price Index (CPI) in July 2018 increased due to the rising prices of foodstuffs and tuition fees. Monthly inflation in July reached 0.28% m-o-m, lower from 0.59% m-o-m in the preceding month. Based component, the inflation was posted by the foodstuffs component increased by 0.86 m-o-m, the prepared food component rose by 0.45% m-o-m, and the education component rose by 0.83% m-o-m. Furthermore, the housing component experienced rose by 0.16% compared to preceding month, the clothing component rose by 0.29% m-o-m, and the medical care component increased by 0.27% m-o-m. Meanwhile, the deflation was posted by the transportation, communication and financial services component fell by 0.65% m-o-m.

Inflation in the foodstuffs component in July 2018 mainly stemmed from higher prices of eggs, chicken meat, chili, long bean, tomato, spinach, "jengkol", kale, and oranges. We believe the price increase in these products were mainly due to

- a. Lower domestic supply
- b. Higher domestic demand

Meanwhile, inflation in the prepared foods component in July 2018 mainly stemmed from higher prices of "lontong sayur", rice with meal, cigarette, white cigarette, and filter cigarette. Inflation in the housing component in July 2018 still came primarily from higher prices of housing rents and housing contracts.

Furthermore, inflation in the education, recreation and sports component in July 2018 mainly stemmed from higher prices of tuition fees for elementary, junior, and senior high school. Inflation in the medical care component in July 2018 still came primarily from higher price of medicines sub-sector. Inflation in the clothing component in July 2018 still came primarily from higher prices of children's clothing sub sector.

Meantime, deflation in the transportation, communication, and financial services component in July 2018 came primarily from lower prices of air freight fares, inter-city transport tariff, and train tariff.

On a yearly basis, inflation remains in check with the upward trend still intact, as the inflation slightly increased to 3.18% y-o-y in July 2018 compare 3.12% y-o-y in the previous month. However, year to date inflation in January-July 2018 reached 2.18% lower than 2.60% for the same time frame in 2017.

CPI Outlook

We expect inflationary pressure to remain manageable in August 2018 amid the weakening Rupiah. Inflationary pressures this month still stem from rising education costs. Furthermore, the impact of the new school year still raises the cost of education for academy and university. In addition, the weakening of Rupiah also raised imported inflation. Meanwhile, the increasing pressure of inflation also comes from the rising tariff of air freight. The condition of foodstuffs prices this month is mixed. Some foodstuffs prices experienced an increase such as rice, chili, red pepper, cooking oil, eggs, fish, and vegetables. On the other hand, several prices of foodstuffs experienced a decline such as onion, garlic, and chicken meat. Meantime, the price of gold jewelry is relatively stable this month. Based on these factors, we expect the consumer price index in August 2018 will reach 0.08% m-o-m, lower than 0.28% m-o-m in July 2018. However, we expect the yearly inflation rate in August 2018 will increase to 3.34% y-o-y from 3.18% y-o-y in July 2018. Looking ahead, we also expect inflation may reach 3.50% y-o-y by the end of 2018.

Meanwhile, we also expect core inflationary pressures also remain manageable in August 2018. The pressure still comes from the increase in price of tuition fees, car prices, housing rent, housing contract, servant wages, and the weakening of Rupiah. We expect core inflation in August 2018 will reach 0.30% m-o-m, lower than 0.41% m-o-m in July 2018. Furthermore, we expect the yearly core inflation in August 2018 may increase to 2.89% y-o-y from 2.87% y-o-y in the previous month. Forward looking, we also expect core inflation may reach 3.00% by the end of 2018.

Changes in Consumer Price Index (Percent)

	M-on-M changes			Y-on-Y changes			YTD (Jan-Jul)		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18	2016	2017	2018
FOODSTUFF	0.21	0.88	0.86	4.47	4.67	5.35	4.44	0.31	4.36
PREPARED FOOD	0.31	0.40	0.45	4.12	4.12	4.00	3.61	2.65	2.54
HOUSING	0.19	0.13	0.16	2.50	1.87	1.97	0.28	4.31	1.16
CLOTHING	0.33	0.36	0.29	4.00	3.57	3.80	3.30	2.62	2.50
MEDICAL CARE	0.21	0.27	0.27	2.89	2.81	2.93	2.23	1.94	1.89
EDUCATION	0.09	0.07	0.83	3.40	3.40	3.62	0.84	1.04	1.32
TRANSPORTATION	0.18	1.50	-0.65	1.70	1.93	1.34	-1.03	4.12	1.23
GENERAL	0.21	0.59	0.28	3.23	3.12	3.18	1.76	2.60	2.18
Food and Non-Food									
FOOD	0.25	0.66	0.67	4.31	4.42	4.73	4.07	1.36	3.53
NON-FOOD	0.19	0.57	0.02	2.55	2.32	2.24	0.12	0.32	0.01

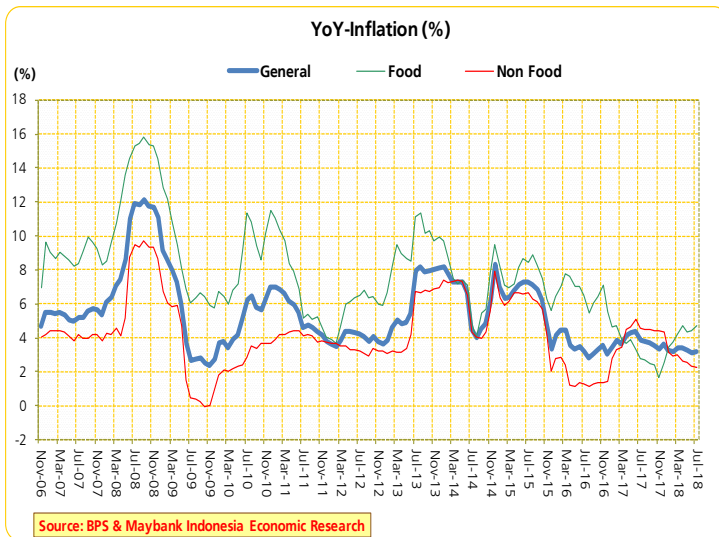
Source : BPS & Maybank Indonesia Economic Research

Main Driven of Inflation by Component

Component	Change (%)	Drivers	Contribute (%)
Foodstuffs	0.86	Eggs, chicken meat, chili, long bean, tomato, spinach, "jengkol", kale, and oranges	0.18
Prepared foods, beverages and cigarettes	0.45	"Lontong sayur", rice with meal, cigarette, white cigarette, and filter cigarette	0.09
Housing	0.16	Servant wages, housing rents, and housing contracts	0.04
Clothing	0.29	Children's clothing sub-sector	0.02
Medical Care	0.27	Medicines sub-sector	0.01
Education, recreation and sports	0.83	Tuition fees for elementary, junior, and senior high school	0.07
Transportation and Communications	-0.65	Air freight fares, inter-city transport tariff, and train tariff	-0.13
Total			0.28

Source : BPS & Maybank Indonesia Economic Research

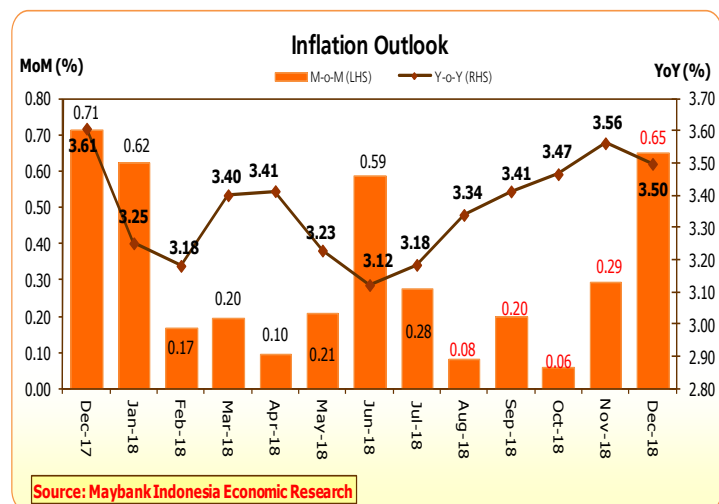
Year on year Inflation



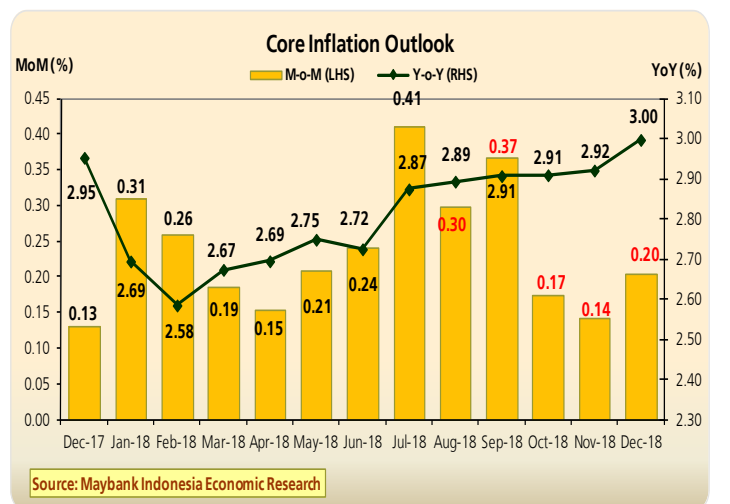
Share of the Component Inflation



Inflation Outlook 2018



Core Inflation Outlook 2018



Macro Economic Indicators

INDICATORS	2014	2015	2016	2017	2018F
Inflation (% YoY)	8.36	3.35	3.02	3.61	3.50
Inflation (% avg)	6.42	6.38	3.53	3.81	3.36
Core Inflation (% YoY)	4.93	3.95	3.07	2.95	3.00
Core Inflation (% avg)	4.53	4.89	3.35	3.15	2.80
Exchange Rate Eop (Rp/US\$)	12440	13795	13436	13548	14012
Exchange Rate Avg (Rp/US\$)	11885	13458	13330	13397	14076
Current Account (% GDP)	-3.09	-2.03	-1.82	-1.70	-2.70
Fiscal Balance (% GDP)	-2.20	-2.80	-2.46	-2.46	-2.20
Interest Rate					
BI 7-Day (Reverse) Repo Rate (% p.a)	5.86	6.25	4.75	4.25	5.75
Time Deposit 3 month (% p.a)	8.95	7.99	6.69	6.11	6.93
Lending rate working capital (% p.a)	12.81	12.46	11.36	10.68	11.15
Credit					
Growth (% YoY)					
Property Credit	17.29	11.86	14.98	13.05	13.90
Consumer credit	11.51	9.09	8.76	11.04	11.84
Working Capital Credit	10.83	9.04	6.93	8.48	9.67
Investment Credit	13.16	14.69	8.65	4.82	8.52
Total Credit	11.58	10.44	7.87	8.24	10.00
Deposit	12.29	7.26	9.60	9.35	9.89
NPL Commercial Banks (%)	2.16	2.49	2.93	2.59	2.48
Car Sales (1000 Units)	1208	1013	1062	1080	1129
Car Sales Growth (%)	-1.78	-16.12	4.79	1.69	4.57
Motorcycle Sales (1000 Units)	7867	6480	5931	5886	6316
Motorcycle Sales Growth (%)	1.59	-17.63	-8.47	-0.76	7.31
Unemployment Rate (%)	5.94	6.18	5.61	5.50	5.30
International Reserve (US\$ bn)	111.9	105.9	116.4	130.2	122.8
GDP Growth (%)	5.01	4.88	5.03	5.07	5.21

Note : the red numbers are forecast

Source : Maybank Indonesia Economic Research

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