

Monthly Inflation: “Still Controlled”

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CPI Review

Consumer Price Index (CPI) in June 2018 increased due to the rising prices of foodstuffs and transportation tariff. Monthly inflation in June reached 0.38% 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 0.88 m-o-m, the prepared food component rose by 0.40% m-o-m, and the transportation, communication and financial services component rose by 1.50% m-o-m. Furthermore, the housing component experienced rose by 0.13% compared to preceding month, the clothing component rose by 0.36% m-o-m, the education component rose by 0.09% m-o-m, and the medical care component increased by 0.27% m-o-m.

Inflation in the foodstuffs component in June 2018 mainly stemmed from higher prices of fish, chicken meat, beef, salted fish, long bean, tomato, onion, chili, and coconut. We believe the price increase in these products were mainly due to

- a. Lower domestic supply
- b. Higher domestic demand (Lebaran effect)

Meanwhile, inflation in the prepared foods component in June 2018 mainly stemmed from higher prices of rice with meal, cigarette, white cigarette, and filter cigarette. Inflation in the transportation, communication, and financial services component in June 2018 came primarily from higher prices of air freight fares, inter-city transport tariff, and train tariff.

Furthermore, inflation in the housing component in June 2018 still came primarily from higher prices of housing rents and housing contracts. Inflation in the education, recreation and sports component in June 2018 mainly stemmed from higher prices of education equipment sub-sector.

Moreover, inflation in the medical care component in June 2018 still came primarily from higher price of body care sub-sector. Inflation in the clothing component in June 2018 still came primarily from higher prices of children’s clothing sub sector.

On a yearly basis, inflation remains in check with the downward trend still intact, as the inflation slightly decreased to 3.12% y-o-y in June 2018 compare 3.23% y-o-y in the previous month. However, year to date inflation in January-June 2018 reached 1.90% lower than 2.38% for the same time frame in 2017.

CPI Outlook

We expect inflationary pressures still controlled in July 2018. Inflationary pressure this month stems from the rise in prices of some foods such as chicken, beef, eggs, fish, chili, red pepper, and vegetables. In addition, the weakening of Rupiah also raised imported inflation. Furthermore, the impact of the new school year raises the cost of education for kindergarten, elementary, junior high and high school. Meanwhile, the rise in non-subsidized BMM prices also added to inflationary pressure this month. However, the decline in transportation tariffs including train fares, air freight fares, and inter-city transport tariffs will withstand the inflation spike this month. Meantime, the price of gold jewelry is relatively stable this month. Based on these factors, we expect the consumer price index in July 2018 will reach 0.38% m-o-m, lower than 0.59% m-o-m in June 2018. However, we expect the yearly inflation rate in July 2018 will increase to 3.29% y-o-y from 3.12% y-o-y in June 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 remain manageable in July 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 July 2018 will reach 0.28% m-o-m, higher than 0.24% m-o-m in June 2018. Furthermore, we expect the yearly core inflation in July 2018 may increase to 2.74% y-o-y from 2.72% 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-Jun) | | |
|--------------------------|----------------|-------------|-------------|----------------|-------------|-------------|---------------|-------------|-------------|
| | Apr-18 | May-18 | Jun-18 | Apr-18 | May-18 | Jun-18 | 2016 | 2017 | 2018 |
| FOODSTUFF | -0.26 | 0.21 | 0.88 | 5.15 | 4.47 | 4.67 | 3.29 | 0.10 | 3.47 |
| PREPARED FOOD | 0.24 | 0.31 | 0.40 | 4.19 | 4.12 | 4.12 | 3.04 | 2.06 | 2.08 |
| HOUSING | 0.16 | 0.19 | 0.13 | 2.66 | 2.50 | 1.87 | 0.04 | 4.24 | 1.00 |
| CLOTHING | 0.29 | 0.33 | 0.36 | 3.91 | 4.00 | 3.57 | 2.85 | 2.56 | 2.20 |
| MEDICAL CARE | 0.22 | 0.21 | 0.27 | 3.05 | 2.89 | 2.81 | 1.86 | 1.79 | 1.61 |
| EDUCATION | 0.04 | 0.09 | 0.07 | 3.34 | 3.40 | 3.40 | 0.32 | 0.42 | 0.48 |
| TRANSPORTATION | 0.19 | 0.18 | 1.50 | 1.75 | 1.70 | 1.93 | -2.23 | 4.20 | 1.90 |
| GENERAL | 0.10 | 0.21 | 0.59 | 3.41 | 3.23 | 3.12 | 1.06 | 2.38 | 1.90 |
| Food and Non-Food | | | | | | | | | |
| FOOD | -0.04 | 0.25 | 0.66 | 4.71 | 4.31 | 4.42 | 3.18 | 0.98 | 2.84 |
| NON-FOOD | 0.17 | 0.19 | 0.57 | 2.63 | 2.55 | 2.32 | 0.10 | 0.12 | 0.32 |

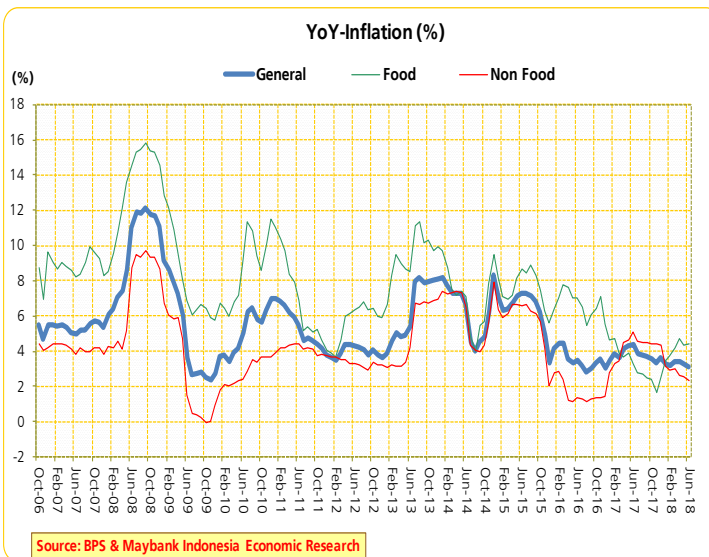
Source : BPS & Maybank Indonesia Economic Research

Main Driven of Inflation by Component

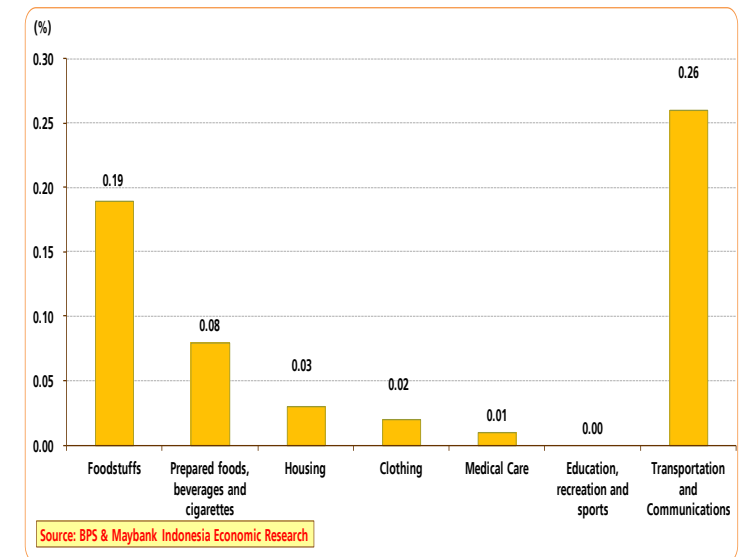
| Component | Change (%) | Drivers | Contribute (%) |
|--|------------|---|----------------|
| Foodstuffs | 0.88 | Fish, chicken meat, beef, salted fish, long bean, tomato, onion, chili, and coconut | 0.19 |
| Prepared foods, beverages and cigarettes | 0.40 | Rice with meal, cigarette, white cigarette, and filter cigarette | 0.08 |
| Housing | 0.13 | Housing rents and housing contracts | 0.03 |
| Clothing | 0.36 | Children's clothing sub-sector | 0.02 |
| Medical Care | 0.27 | Body care sub-sector | 0.01 |
| Education, recreation and sports | 0.07 | Education equipment sub-sector | 0.00 |
| Transportation and Communications | 1.50 | Air freight fares, inter-city transport tariff, and train tariff | 0.26 |
| Total | | | 0.59 |

Source : BPS & Maybank Indonesia Economic Research

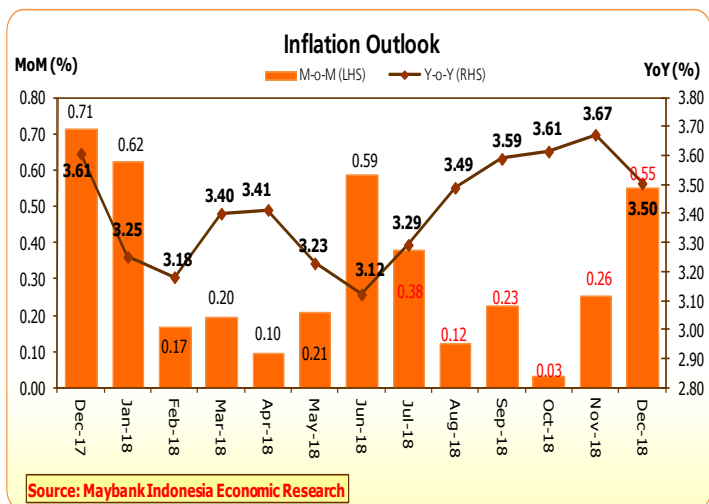
Year on year Inflation



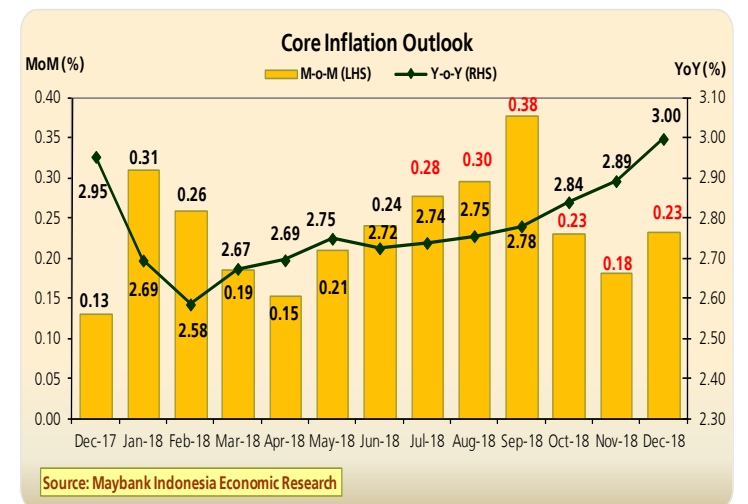
Share of the Component Inflation



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 | 3.40 |
| Core Inflation (%YoY) | 4.93 | 3.95 | 3.07 | 2.95 | 3.00 |
| Core Inflation (% avg) | 4.53 | 4.89 | 3.35 | 3.15 | 2.76 |
| Exchange Rate Eop (Rp/US\$) | 12440 | 13795 | 13436 | 13548 | 13700 |
| Exchange Rate Avg (Rp/US\$) | 11885 | 13458 | 13330 | 13397 | 13905 |
| Curent Account (% GDP) | -3.09 | -2.03 | -1.82 | -1.70 | -2.20 |
| Fiscal Balance (% GDP) | -2.20 | -2.80 | -2.46 | -2.46 | -2.50 |
| Interest Rate | | | | | |
| BI 7-Day (Reverse) Repo Rate (% p.a) | 5.86 | 6.25 | 4.75 | 4.25 | 5.25 |
| Time Deposit 3 month (% p.a) | 8.95 | 7.99 | 6.69 | 6.11 | 6.75 |
| Lending rate working capital (% p.a) | 12.81 | 12.46 | 11.36 | 10.68 | 11.14 |
| 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 | 128.7 |
| 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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