

01 April 2020

### Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.04	4.50
Inflation (%YoY)	2.72	2.50
BI rate (% Year-end)	5.00	4.00
IDR/USD (Year-end)	14,155	15,000
CA balance (% of GDP)	2.82	2.51
Fiscal balance (% of GDP)	2.21	4.75

## Mar20 CPI: benign CPI due to weaker economic activity

- Mar20 headline inflation came at 0.1% mom or 2.96% yoy, a tad higher than consensus and our estimates of 0.13% mom or 2.92% yoy.
- Driver of inflation in March were food (6.15% yoy vs. 6.02% yoy in Feb), but offset by benign transport costs (-1.09% yoy vs. -0.43% yoy in Feb).
- BI rate will likely be held unchanged in the next meeting, however we see a potential 50bp cut in the 2H20 to 4%.

### Rising food and health care prices

Rising food and health care prices contributed the most towards Mar CPI figure at 6.15% yoy and 4.04% yoy from 6.02% yoy and 3.99% yoy respectively in Feb. The increase in both categories was mostly due to shortage, in our view. By food type, sugar prices were among the biggest contributor, which has increased by roughly 13% mom. Meanwhile, garlic prices that contributed quite high in Feb20 CPI have started to ease due to supply normalization. In addition, prices of beef and chicken are also in declining mode, partially due to soft demand. On the other hand, prices of transportation declined by -1.09% yoy in March from -0.31% in Feb amidst social distancing and work from home measures.

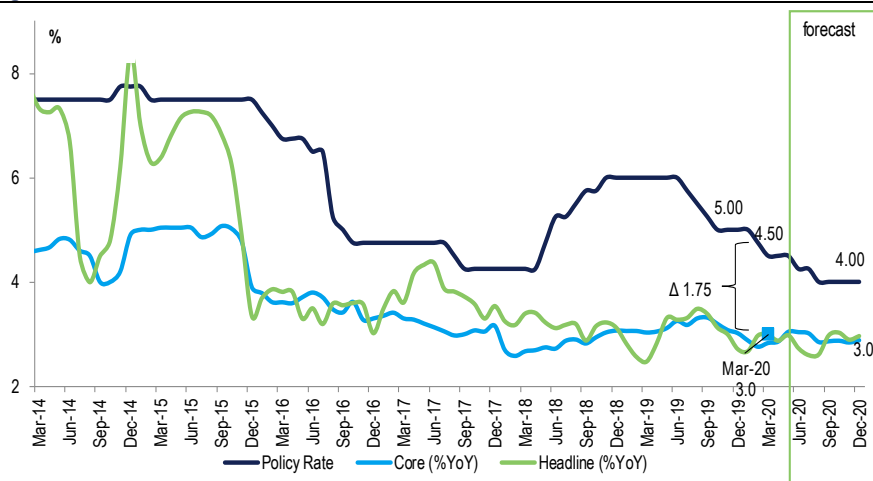
### Higher core inflation amidst rising gold price

Core inflation rebounded to 2.87% yoy from 2.76% yoy in Feb. The increase in core inflation was contributed by gold and jewellery, following the higher global gold prices. In addition, we see that the weaker household purchasing power might also play a role in benign core inflation. We are on the view that government policy such as the cash transfer program and probably downward adjustment in fuel price may help to boost purchasing power.

### BI rate will likely kept unchanged; but we see a room for 50bp cut in 2H

Going forward, we are on the view that inflation in 2020 will remain benign from the weaker economic activity. This and currency volatility prompted us to believe that BI will likely to keep its policy rate unchanged during the next meeting (13-14 Apr); this is imperative to guard macroeconomic stability, in our view. Nevertheless, we see a room for 50bp policy rate cut in 2H to 4% in order to help the economy to restart back to its normal rate.

Fig. 1: Low and tame inflation in 2020



Sources: BPS, BI, IndoPremier

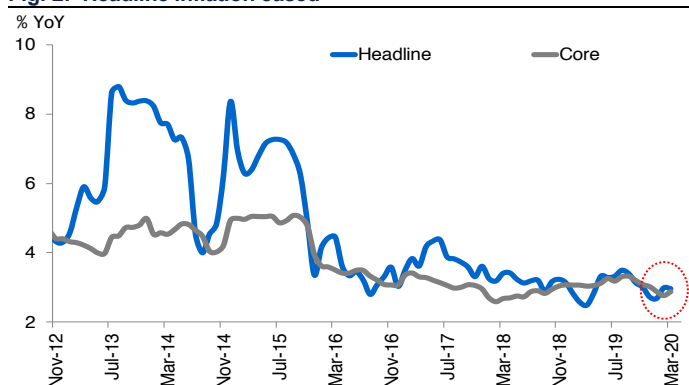
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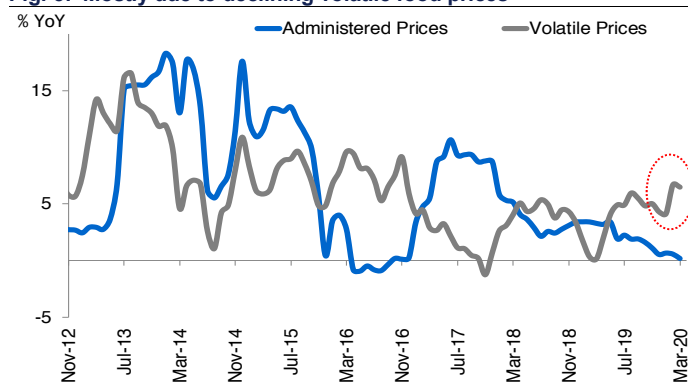
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**Fig. 2: Headline inflation eased**



Source: BPS, CEIC, Indo Premier

**Fig. 3: Mostly due to declining volatile food prices**



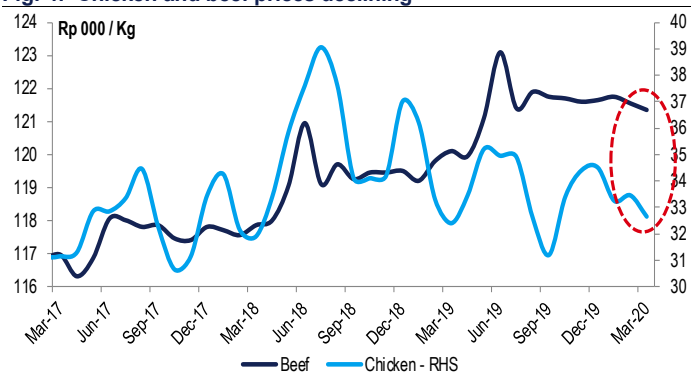
Source: BPS, CEIC, Indo Premier

**Fig. 4: Transportation cost slides**

	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20	2019	2020
	% mom			%yoy			% YoY average	
<b>Consumer Price Index</b>	<b>0.38</b>	<b>0.28</b>	<b>0.10</b>	<b>2.68</b>	<b>2.98</b>	<b>2.96</b>	<b>3.03</b>	<b>2.87</b>
Food, Beverages, Tobacco	1.61	0.95	0.10	4.30	6.02	6.15	3.73	5.49
Clothing & Footware	0.12	0.21	0.12	2.42	2.45	2.44	3.76	2.44
Housing, Electricity, Gas and Fuel	0.13	0.09	0.02	1.60	1.38	1.32	2.28	1.44
Household utilities	0.09	0.06	0.28	2.81	2.71	2.62	4.22	2.71
Health	0.42	0.34	0.21	3.87	3.99	4.04	3.22	3.96
Transportation	-0.89	-0.37	-0.43	0.05	-0.31	-1.09	3.25	-0.45
Information, Communication & Financial Services	0.04	-0.01	-0.09	-0.11	-0.06	-0.12	2.24	-0.10
Recreation, sports & cultural	0.17	0.07	0.02	1.80	1.73	1.61	na	1.72
Education	-0.13	0.02	0.00	3.81	3.77	3.77	na	3.78
Restaurant	0.19	0.17	0.36	3.96	3.79	4.01	na	3.92
Personal services & Other services	0.46	0.41	0.99	4.71	4.64	5.40	na	4.92
<b>By component</b>								
Core	0.18	0.14	0.29	2.88	2.76	2.87	3.14	2.84
Administered	-0.28	-0.11	-0.19	0.64	0.54	0.16	2.30	0.44
Volatile	1.94	1.27	-0.38	4.13	6.68	6.48	3.65	5.76

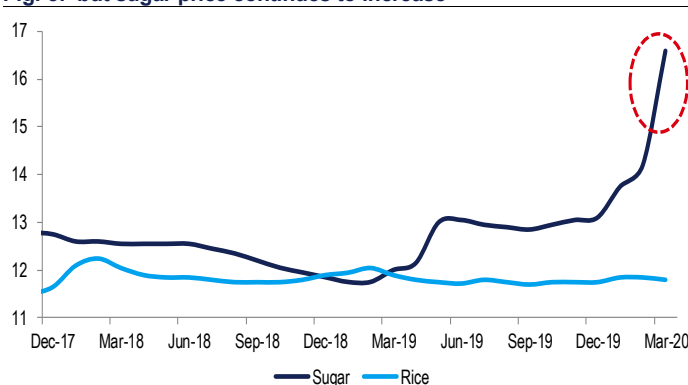
Source: MoF, Indo Premier

**Fig. 4: Chicken and beef prices declining**



Source: PIHPS, Indo Premier

**Fig. 5: but sugar price continues to increase**



Source: PIHPS, Indo Premier

## **ANALYSTS CERTIFICATION**

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