

Monthly inflation in Sep-23 increased due to higher food and fuel prices

The monthly Consumer Price Index (CPI) registered an increase due to higher food prices and fuel prices. Yet on a year-on-year basis, inflation significantly declined due to high base effect of last year's fuel price hike.

- In Sep-23, the CPI experienced an inflation of 0.19% mom, a notable increase from the -0.02% mom deflation observed in Aug-23. This increase was due to the seasonally higher food prices and an uptick in fuel prices (BBM) implemented by government in Sep-23.
- Inflation in food, beverages, & tobacco group showed an acceleration, increasing from a deflation of -0.25% mom in Aug-23 to 0.35% mom in Sep-23. This increase contributed 0.09 ppt to the headline inflation, mainly attributed to a higher rice price due to a seasonal supply shortage in the month of September, as the harvest season has ended.
- Transportation group experienced inflation of 0.29% mom in Sep-23 (vs. -0.02% mom in Aug-23), as government increased the price of non-subsidized fuel for the Pertamina, Pertamina Turbo, Dexcelite and Pertamina Dex types in early Sep-23. Consequently, this group contributed 0.04 ppt to the monthly annual inflation. However, the adjustment of higher fuel prices (BBM) in Sep-23 have had a lower effect on inflation than last year. In Sep-22, inflation for transportation group skyrocketed to 8.88% mom.
- Another group which showed a higher inflation was the information, communication, and financial service. This group witnessed an inflation of 0.25% mom in Sep-23 (vs. -0.01% mom in Aug-23). The contribution was 0.04 ppt to headline inflation.
- When considering the cumulative inflation from Jan – Sep-23, the year-to-date (ytd) inflation rate stood at just 1.63%, significantly lower than the inflation rate recorded during the same period last year, which amounted to 4.84% ytd.

The annual inflation rate significantly decreased due to high-base effect from last year. Hence, it remained within the Bank Indonesia's target range of 2 – 4%.

- The annual headline inflation rate witnessed a significant decline from 3.27% yoy in Aug-23 to 2.28% yoy in Sep-23. This was mainly attributed to the high-base effect from last year, when the government decided to increase the price of fuel price (BBM) in the same month last year, amid rising global oil prices as a result of geopolitical tension between Russia and Ukraine.
- Core inflation, on the other hand, continued its deceleration, declining from 2.18% yoy in Aug-23 to 2.00% yoy in Sep-23, which may give early indication of moderating domestic demand. Yet, the softer growth of core inflation may also due to the normalization of higher-education cost and declining gold price. On its monthly basis, core inflation also recorded a slightly lower growth from 0.13% mom in Aug-23 to 0.12% mom in Sep-23.
- Administered price inflation showed an acceleration, increasing from a deflation of -0.02% in Aug-23 to 0.19% yoy in Sep-23. Rising global oil price impacted the adjustment of the non-subsidized fuel prices (BBM).
- Volatile price inflation witnessed an increase, rising from -0.02% yoy in Aug-23 to 0.19% yoy in Sep-23.

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

Key Rates (%)	Dec-22	Oct-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.89
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.50
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 2-Oct-23

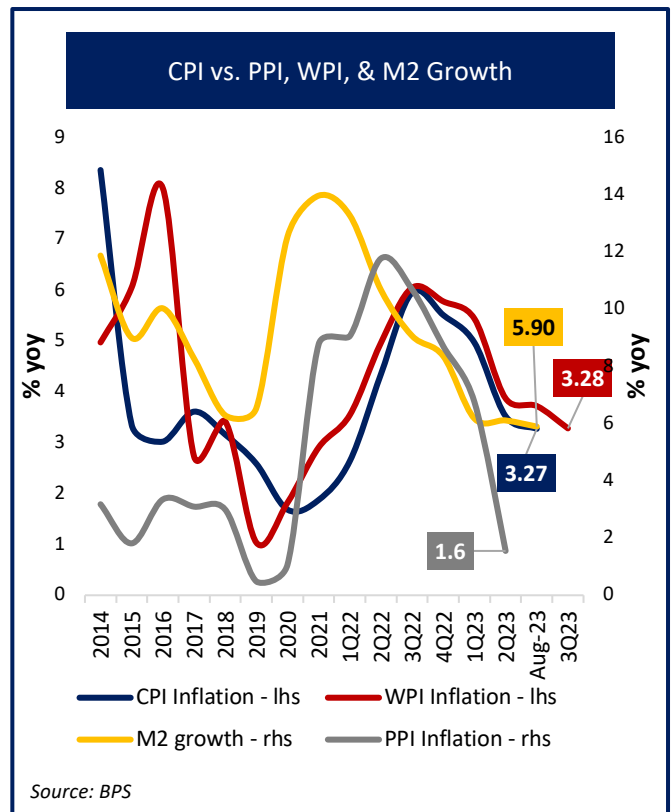
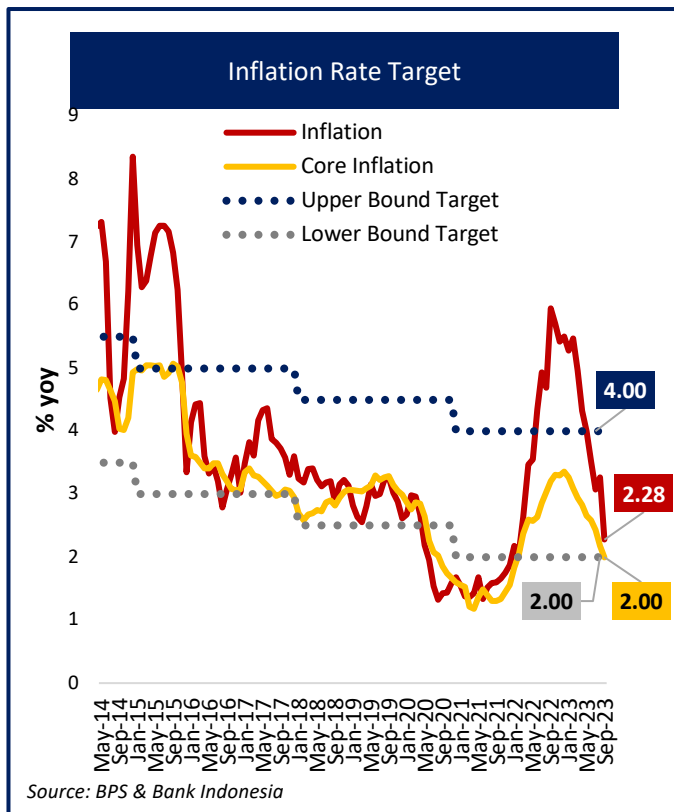
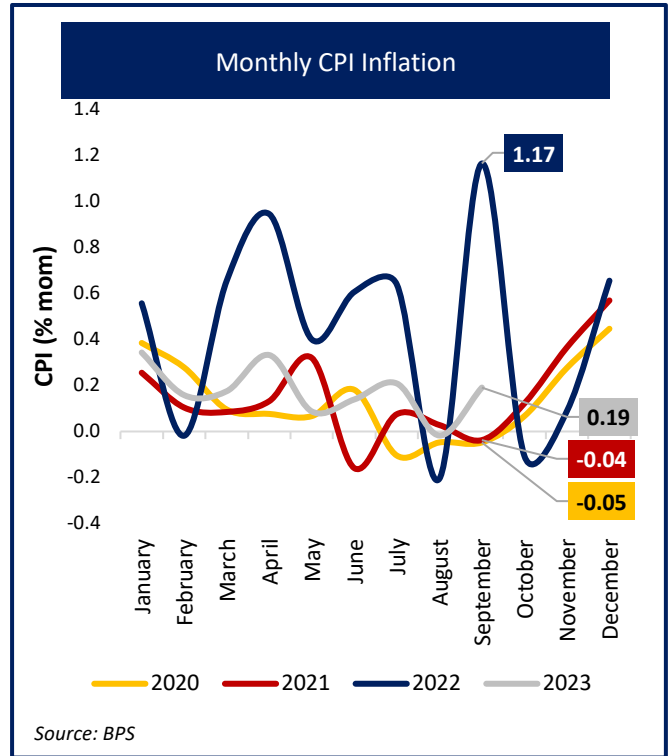
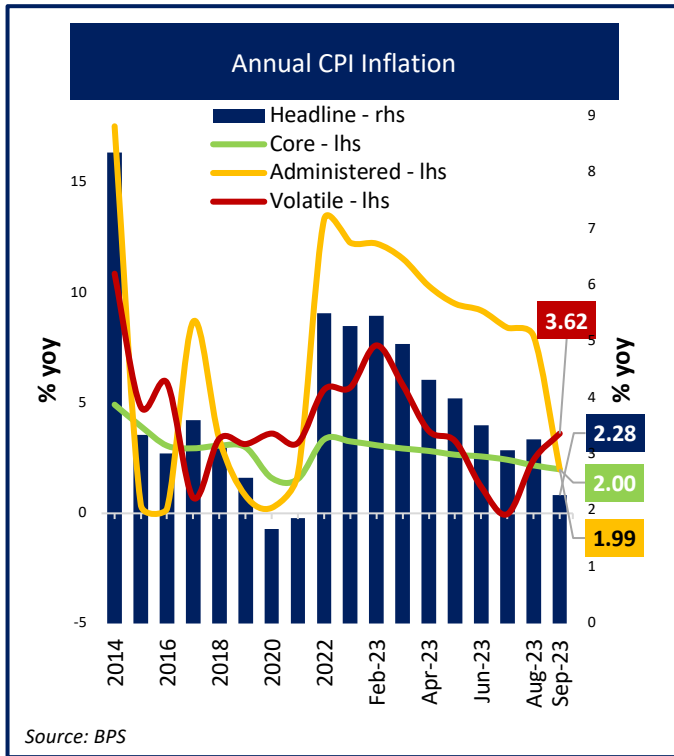
Source: Bloomberg

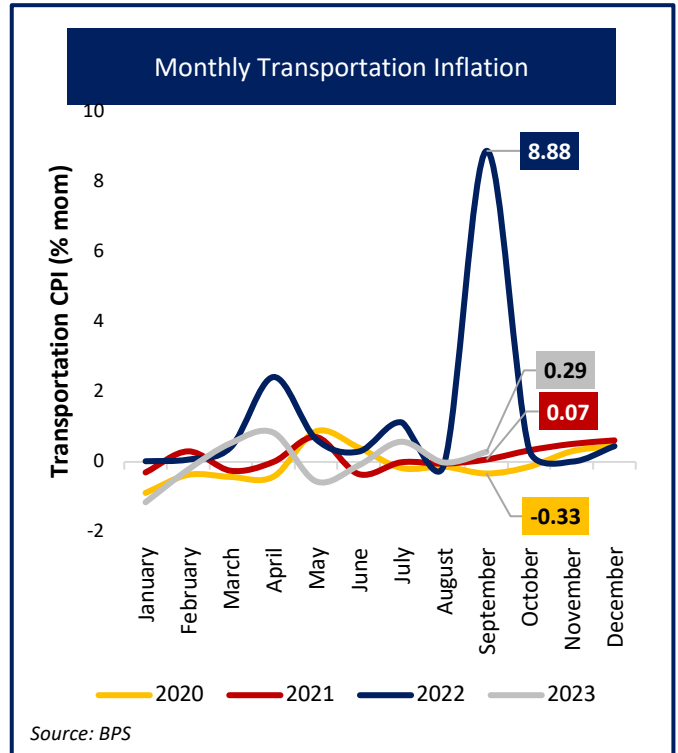
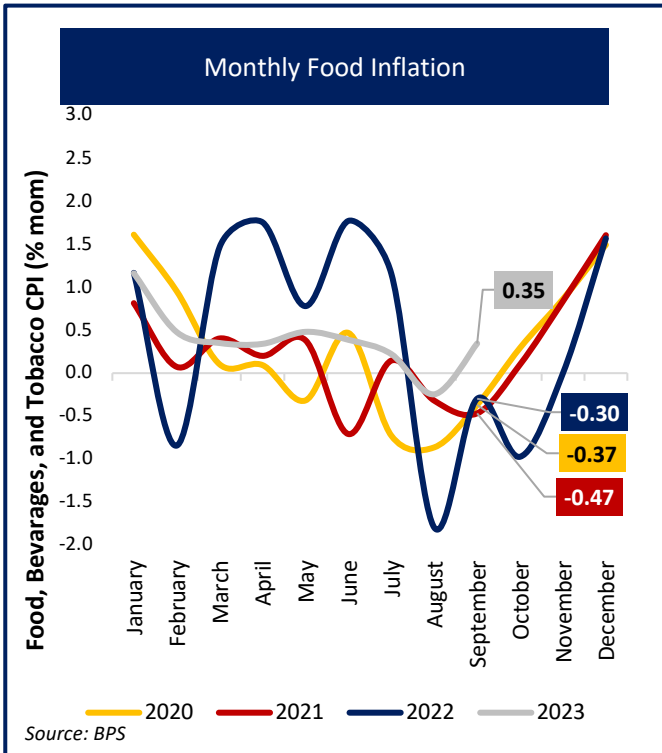
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OUR VIEW: We uphold our forecast that inflation could consistently decrease until the end of 2023. Yet, we still need to be cautious of possible effect of higher food and energy prices.

- Our stance remains that domestic annual inflation will show a deceleration until the end of 2023. This will be resulted from a manageable food and energy prices, and influenced by a high base effect from last year.
- We acknowledge there are several upside risks that may still arise, but those negative impacts might be cancelled out by government's effort to overcome them. **(1)** El Nino is seen to have started since Jul-23 and might occur until the first half of 2024, potentially will have impact in the form of distorted domestic food harvests, including rice. ***If EL Nino persisted, we see that the increase in food inflation amid El Nino could contributed 0.27 until 0.88 ppt to headline inflation.*** To overcome this issue, government has initiated effort to control rice prices by implementing a higher import. Cumulatively in Jan–Aug-23, government has imported 1.59 million tons of rice, significantly higher than import of 241 thousand tones in the same period in last year.
- **(2)** In the global market, the supply cut plan by OPEC+ have raised concerns on the potentially rising global oil prices which could influence to higher inflation. Yet, we see that this phenomenon may have small impact to the domestic fuel price, due to the ample fiscal room for the government to still maintain the fuel subsidy. Furthermore, the recent increase in global oil price is still broadly in line with government's oil price assumptions in the budget, and the government can still also utilize its ample cash balance if it is needed. ***Based on our calculation, every 10% increase in Peralite/liter will result to a higher headline inflation by 0.27 ppt; meanwhile, for every 10% increase of Pertamina and its equivalent product, it will result to a higher headline inflation of 0.04 ppt. To give context, oil brent as of Jan–Aug-23 is USD 82.6/barrel, still lower than government assumption of USD 90/barrel.***
- From the exchange rate side, Bank Indonesia has also launched several policy instruments to stabilize the Rupiah exchange rate, and furtherly control the impact of imported inflation.
- *In conclusion, we project that CPI inflation could reach 3.00% by the end of 2023, if the government effectively manages food prices and supply chains.*





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