

Indonesia: Core inflation heats up

Indonesia’s headline inflation slipped below forecast but price pressures are building



Inflation in Indonesia will likely pick up this year

2.0%

Core inflation

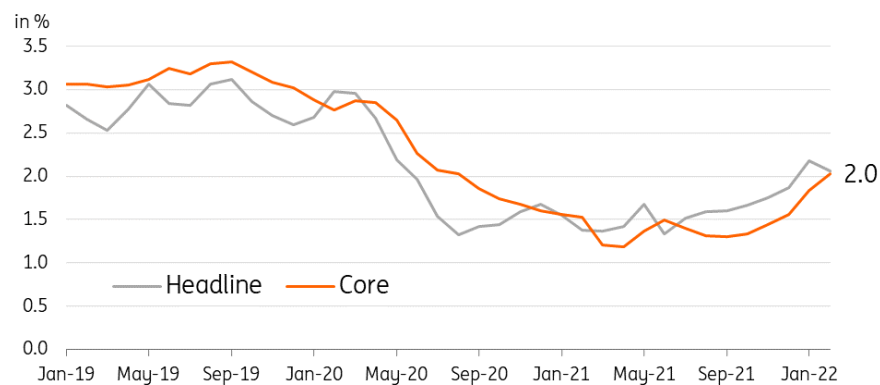
5th month of acceleration

Higher than expected

February inflation at 2.1%, core inflation rises to 2%

Indonesia’s headline inflation settled at 2.1%, slightly below market expectations and slower than last month’s 2.2% increase. Food and transport inflation slowed in February but picked up for all other sectors - showing a broad-based rise in prices given improving domestic demand conditions. Core inflation notched its fifth straight month of acceleration and rose to 2%, up from the previous month’s 1.8%. Going forward we expect price pressures to continue to build, especially as geopolitical developments drive up the price of both food items and energy. We expect both headline and core inflation to trend higher in the coming months, with full year inflation forecast to hit 3.4%.

Core inflation up for a fifth straight month



Source: Badan Pusat Statistik

Bank Indonesia monitoring the core inflation picture

Bank Indonesia (BI) has retained its accommodative stance this year, opting to keep rates steady while tweaking reserve requirements. BI Governor, Warjiyo, has hinted at a potential reversal in stance however should inflation become a “concern”. With inflation slated to tick higher in the coming months we could see a potential rate hike by BI as early as 2Q. Pressure to finally adjust the main policy rate will likely stem from faster inflation (likely energy and food price spikes), coupled with a weaker currency.