

Indonesia: Inflation dips in June, could slow further as the country ponders stricter curbs

June inflation in Indonesia dipped to 1.3%, below market estimates as food price pressures faded



Source: Shutterstock

1.3%

June CPI inflation

13th month below target

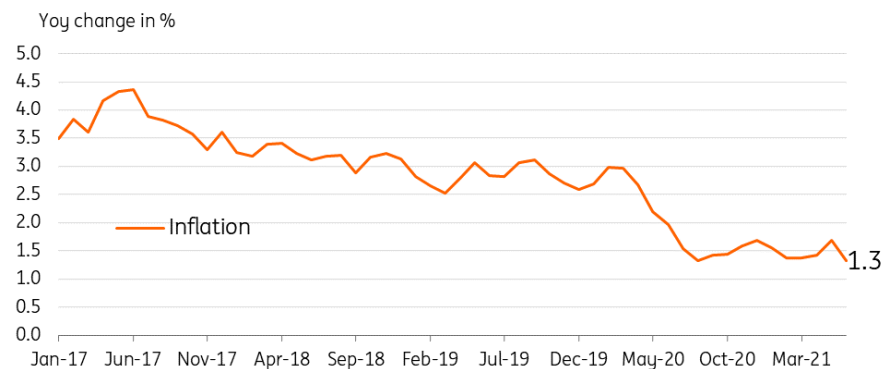
Lower than expected

June inflation slows to 1.3%

Price pressures faded in June as the holiday-induced pressure on food inflation faded as overall demand remains subdued with the economic downturn. Food inflation slowed to 1.9% in June from 3.1% in the previous month, offset by an acceleration in inflation for personal care and other services (+3.5% from 3.1% previously) and household equipment (+1.8% from 1.6% previously).

Inflation has stayed below the central bank’s 2-4% inflation target for more than a year and we expect price pressure to stay soft in the coming months with President Jokowi considering tighter lockdown measures to deal with a recent surge in Covid-19 infections. The extended partial lockdowns and the prospect of even tighter measures will only sap more from economic momentum, resulting in subdued inflation in the second half of the year.

Inflation below target for more than a year, on soft domestic demand



Source: Badan Pusat Statistik

Bank Indonesia likely to hold rate for balance of the year

Bank Indonesia (BI) recently signaled that it would consider a reversal in its current accommodative stance should inflation accelerate and with price pressures staying tame. We expect Governor Warjiyo to keep policy rates at historically low levels to help bolster the floundering economic recovery. With growth momentum to take a hit given the resurgence of Covid-19 infections in the country, the monetary authorities would want to help provide as much stimulus as they can and for as long as possible. However, recent pressure on IDR due to anxiety over the virus resurgence will likely prevent BI from cutting rates further in the near term, with BI expected to keep rates unchanged for the balance of the year.