

Indonesia: Inflation remains subdued as recession bites

Price pressures remain muted with inflation below target for a ninth straight month



Source: t-bet

1.4% February CPI inflation

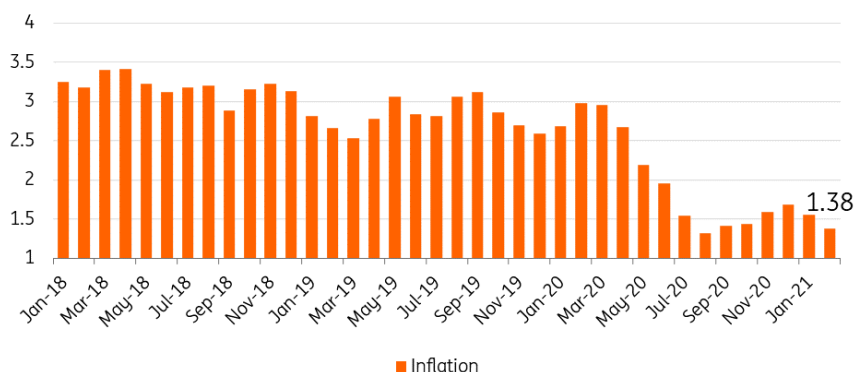
As expected

February inflation at 1.4%

Sagging growth momentum kept price pressures in check in February with Indonesia's CPI inflation reading settling at 1.4%, in line with market expectations. Elevated Covid-19 cases forced partial lockdown measures to be extended in Java and Bali, hampering economic activity which in turn muted demand side pressures on prices. Decreased economic activity was also on display in the latest PMI manufacturing reading which dipped to 50.9 in February from 52.2 in January. Growth is expected to be subdued in the near term with authorities announcing a GDP forecast of 4.5-5.3%

for the year, we expect inflation to pick up only modestly in the coming months with base effects and higher energy prices nudging the headline rate higher.

Below target for nine months now



Source: Badan Pusat Statistik

Ninth month below target but don't expect action from BI

February represents the ninth month where inflation stayed below the central bank's 2-4% inflation target band, which shows the heavy toll the current recession has had on aggregate demand. Despite price pressures staying subdued in early 2021, we do not expect Bank Indonesia (BI) to follow on from last month's rate cut with additional easing given Governor Perry Warjiyo's comments suggesting he is done cutting for now. Warjiyo indicated that space for additional rate cuts was now "limited" and we expect BI to be on hold in the near term, with inflation only modestly inching higher in the coming months.