

Indonesia: Inflation data keeps door open for more rate cuts

December inflation settled at 2.7% from 3.0% in November, affording Bank Indonesia (BI) Governor Perry Warjiyo scope to ease policy further



Source: t-bet

2.7% December CPI inflation

Lower than expected

December inflation remains subdued

Price pressures remained in check in Indonesia with the December inflation report showing a 2.7% increase from last year, although recent flooding could exert marginal upward pressure in the coming months. A slight acceleration in food items pushed headline prices slightly higher but in general inflation remains well-behaved as core inflation fell below expectations to 3.0% compared to median forecasts for a 3.1% gain.

Door for additional central bank easing remains open

The December inflation print falls below the midpoint of Bank Indonesia's (BI) inflation target of 2.5-4.5%, which should give Governor Warjiyo ample scope to ease policy rates further if growth numbers continue to disappoint. Also reported on Thursday was official PMI manufacturing data, which showed a slight improvement (49.5 in December vs 48.2 previously) however growth momentum appears to be in need of a boost. We expect BI to retain its accommodative stance and unleash another round of easing should fourth quarter growth numbers disappoint and external conditions allow.