

Indonesia: March inflation surprise is only the beginning

Inflation quickened to 2.6% in March. Expect price pressures to mount in the coming months



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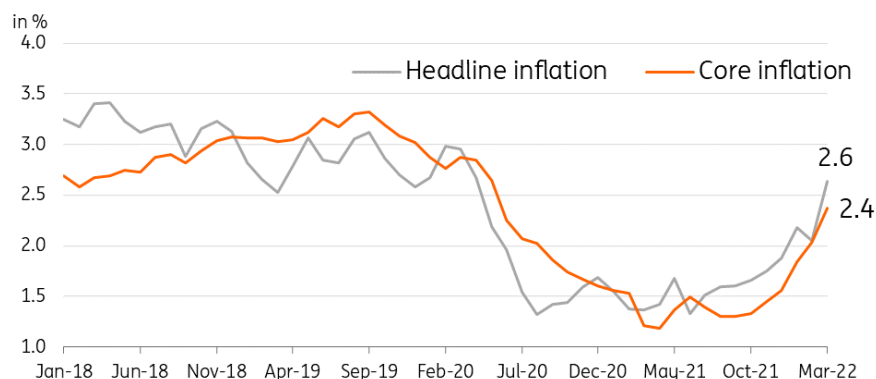
2.4% Core inflation

Higher than expected

Across the board

Indonesia's March headline inflation rose to 2.6%, edging out market expectations for a 2.5% gain. Faster inflation was noted across all subcategories as the fallout from the recent commodity price spike filtered through the economy. The biggest contributor to the March acceleration was the 3.6% pickup in food, beverage and tobacco items while transport costs rose 2.4%. Meanwhile, core inflation quickened to 2.4%, up from 2.0% last month. Bank Indonesia (BI) Governor Perry Warjiyo indicated that he would be monitoring core inflation in the coming months.

Up up and away? Fuel price adjustments to spark even more inflation



Source: Badan Pusat Statistik

Fuel price adjustment to spark more price pressure

The bigger development today is the announced price hike in domestic fuel starting next week. For the first quarter of 2022, Indonesia managed to sidestep the impact of expensive crude oil prices as subsidies kept domestic pump prices stable. With fuel prices headed higher, we can expect a quick acceleration in inflation in the coming months especially as the conflict in Ukraine continues into April.

We believe both headline and core inflation will heat up considerably in the near term and we can expect the central bank to be on alert. A stark pickup in core inflation in the second quarter may be enough to prod Warjiyo to push through with our expected rate hike before the end of the quarter. A rate hike may do little to stem inflationary pressures but it should work to anchor inflation expectations and shore up the Indonesian rupiah ahead of the next Federal Reserve policy meeting.