

Understanding Indonesia's City-level consumer price formation: Implications for price stability

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Abstrak

Using the Consumer Price Index (CPI) data of 82 Indonesian cities, we propose the hypothesis of heterogeneity in the cities' contribution to the aggregate Indonesian CPI. Using a price discovery model fitted to monthly data, we discover that (1) of the 23 cities in the province of Sumatera, five contribute 44% and nine contribute 66.7% to price changes, and (2) of the 26 cities in Java, four alone contribute 41.6% to price changes. Even in smaller provinces, such as Bali and Nusa Tenggara, one city alone dominates the change in aggregate CPI. From these results, we draw implications for maintaining price stability.