Turkey: continued uptrend in core inflation

Annual inflation jumped from 13.0% in November, and maintained the uptrend of the previous three months. Core inflation is at its highest of the current inflation series.

Source: Shutterstock

13%

Worse than expected

November inflation

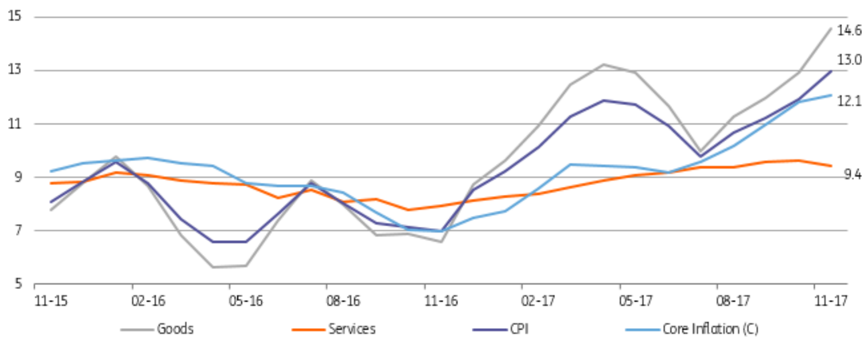
(YoY)

Broad-based pricing pressures

With a 1.5% reading in November, annual inflation rose from 11.9% in October to 13.0%, its highest since the inception of the 2003=100 series and above both our expectation (12.2%) and consensus (12.7% YoY). The continuation of the uptrend in goods prices has contributed the most to the monthly reading, mainly driven by a spike in oil prices adding further pressure on transportation prices, a pick up in food inflation despite the favourable impact of changing the weighting scheme, and the impact of TRY depreciation. Services inflation apart from rent turned out to be relatively benign, with the first decline in the annual rate in more than a year.

The Domestic Producer Price Index (D-PPI), on the other hand, rose by 2.02%, while annual inflation remained broadly unchanged at 17.3%, its highest level since Jul-08. Recent increases in commodity/oil prices and continuing TRY weakness provided significant contributions to the monthly reading, while utilities turned out to be the only group that reduced the headline in November. Widespread price increases in almost all PPI groups showed that producer-driven cost pressures remained elevated.

Evolution of Annual Inflation (%)



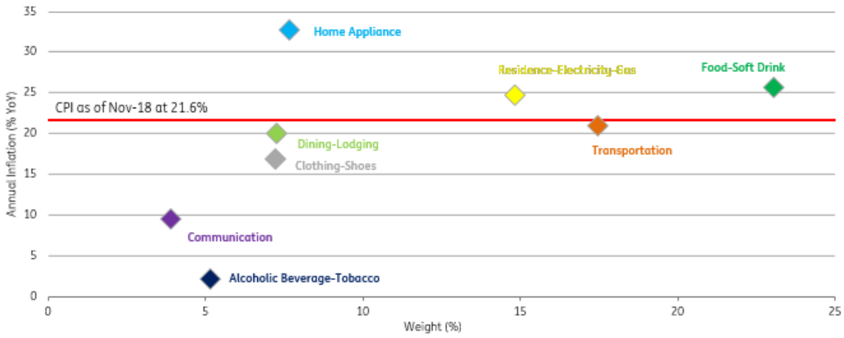
Source: TurkStat, ING Bank

Unprocessed food prices as the major contributor

In the CPI breakdown, given that all groups had positive contributions to monthly CPI and more than 70% of items in the CPI basket faced price increases in November, the broad-based rise in inflation continues. Among the positive drivers, the food group stood out as the major contributor with at 46bp, pulling annual inflation in this group up to 15.78%. Despite the favourable technical adjustment due to a change in the weighting scheme, pressure in this group is attributable to unprocessed foods, especially fresh fruits and vegetables which saw a jump in annual inflation from 11.7% a month ago to 28.5%.

The transportation group followed at plus 33bp, reflecting exchange rate developments and increases in energy prices, while annual inflation in this group turned out to be 18.6% as of November, the highest of all groups. Other factors contributing to higher inflation are clothing (+28bp), utilities (+19bp), and home appliances (7bp) showing a combination of direct/indirect effects from exchange rate developments, seasonality, and inflation indexation. With the exception of communication, annual inflation in all groups remains elevated at close to or above the 10% threshold.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

The highest core figure of the current inflation series

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 1.07% change in November, pulling annual inflation up to 12.08%, the highest of the current inflation series. The data show continuation of the impact from the currency and strong economic activity, as core figures stay elevated with no clear sign of downtrend yet.

> The November reading would likely impact rate expectations in the market and add further pressure on monetary policy implementation. Looking at the near term, inflation should start falling in December given the large base effects but it would likely be the highest year-end figure in the current series. Thanks to further supportive base effects, we see continuation of the decline in inflation in 1Q18, though it should remain close to double digit levels given that the expected decline seems to be shorter and shallower than envisaged earlier, with ongoing currency weakness.

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