

Turkey: Annual inflation dives in January

Consumer prices surprised on the downside this time, while yearly inflation fell sharply to 10.35%. In our view, the central bank is likely to maintain the current policy mix as long as the TRY remains relatively stable



Source: Shutterstock

10.35%

 Annual inflation in January

Better than expected

Base effects driven improvement in CPI

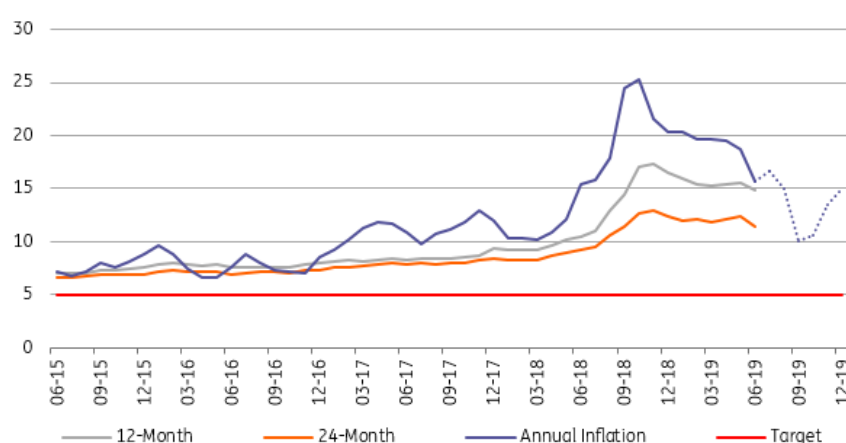
Consumer prices increased by 1.02% in January, lower than median market consensus at 1.28% and our call at 1.2%, while annual inflation that turned direction in the last December from its highest since the inception of the 2003=100 series, dropped further to 10.35% with supportive base effects. Improvement in goods inflation has contributed the most to the monthly reading, mainly driven by easing base effects on unprocessed food and transportation prices. Services

inflation, on the other hand, has been mildly improving, though remaining elevated given strong demand in some groups and sticky pricing behaviour.

Sharp drop in PPI inflation in the last two months

The Domestic Producer Price Index (D-PPI), on the other hand, rose by 0.99%, while annual inflation fell to 12.14% from 15.47% a month ago, contributed by sharp price decline in heavy weight utilities, turning annual price change in this group deeply negative at -12.13%. Additionally, the PPI drop in the last two months from its highest level since Jul-08 at 17.30% is mainly base-effect-driven. In January, with the exception of utilities, pricing pressures in PPI groups remained widespread with sustained increases in almost all groups, showing that producer-driven cost factors remained noteworthy.

Evolution of Annual Inflation (%)



Source: TurkStat, ING Bank

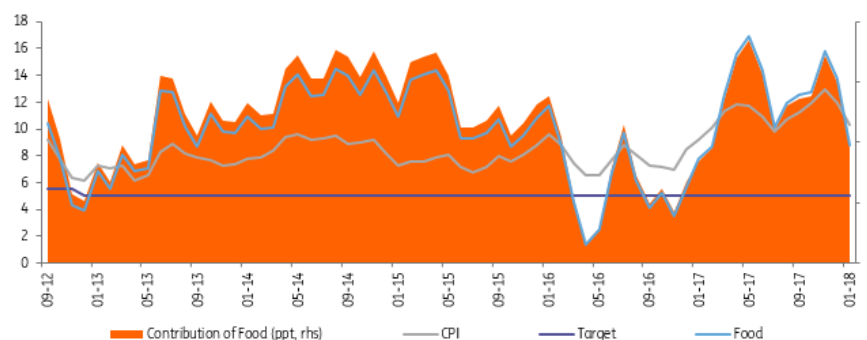
Base effects more pronounced food and transportation

In the CPI breakdown:

- Among the positive drivers of the monthly reading, the food group stood out as the major contributor at 38bp, though annual inflation in this group fell to 8.76% from 13.79% with the favourable base effects in unprocessed foods, while processed food prices witnessed some pressure likely because of the change in the basis weight of bread.
- The transportation provided +23bp, reflecting exchange rate developments on auto prices, spike in energy prices and adjustment in bridge fares, while annual inflation in the group turned out to be 16.0% recording a drop on monthly basis due to the base effect in January, albeit still the highest of all groups.
- Housing and utilities pulled the monthly reading up by 35bp on the back of significant electricity price hike.
- Other factors contributing to higher inflation are home appliances (+19bp), other goods & services (14bp), catering (7bp), health (6bp) showing a combination of direct/indirect effects from exchange rate developments, seasonality, inflation indexation etc.
- As an additional note, the excise tax hikes for tobacco that are normally implemented in January and July every year were not applied this year, offsetting the impact of price hikes alcoholic drinks.

- On the flip side, clothing reduced the headline by 43bp, showing the impact of the seasonality, along with -4bp impact from communication.
- With the exception of communication and alcoholic beverages & tobacco, annual inflation in all groups remain above of the target range and mostly in the double digits.

Food inflation vs CPI (%)



Source: TurkStat, ING Bank

Limited decline in annual core inflation

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 0.47% change in January, pulling annual inflation down for the first time since mid-2017 to 12.18% from 12.30%, the peak in the current inflation series. The data show continuation of the impact from the currency and robust economic activity. Given the continuing impact of recent TRY weakness, and deterioration in expectations and pricing behaviour, core inflation is likely to remain in double digits in the near term.

Overall, the January data show a further fall in the headline inflation with the easing base effects that will continue to support outlook until April. Downside surprises on the food inflation and continuing TRY strength may support ongoing disinflation in the near term, while turning of global risk appetite to negative with raising volatility in the currency, additional increase in oil prices and further deterioration in pricing behaviour can weigh on the outlook. The CBT will maintain the current policy as long as TRY remains relatively stable, in our view.

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