Turkey: Price pressures remain high, as expected

Inflation in May turned out to be slightly higher than the consensus while annual inflation hit 12.15%. With the weakening of the lira, a spike in oil prices and unsupportive base effects until July, we expect inflation to surpass 14%

Source: Shutterstock

1.62% May inflation

(MoM)

Higher than expected

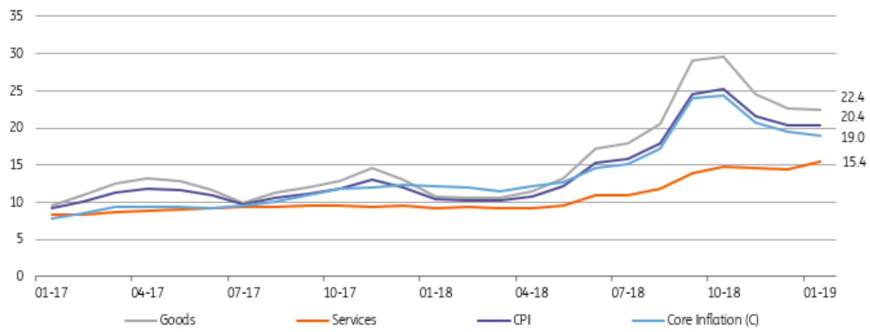
Inflation was up by 1.62% in May, right in between the median market consensus according to a Reuters survey at 1.45% and our call of 1.7%.

Annual inflation changed direction again in April and jumped further to 12.15% from 10.85% a month ago, contributed by deterioration in goods inflation driven by energy and core goods, though processed food inflation showed some decline on an annual basis with a relatively benign reading.

> *With the plunge in currency, the spike in oil prices and unsupportive base effects until July, we expect inflation to continue to rise exceeding 14%*

On the other hand, sticky services inflation rose further close to the 10% threshold given price increases in FX-sensitive items and food group related products as well as worsening expectations, and deteriorating pricing behaviour. Though, on a positive note, rent inflation remained flat.

Evolution of Annual Inflation (%)



Source: TurkStat, ING Bank

On the other hand, domestic producer price index (D-PPI) was up by 3.79% in May contributed in particular by food products, commodities and textiles, while annual inflation rose to 20.16% the highest since the inception of the series, from 16.37% a month ago.

The PPI that changed direction in February has been in an uptrend, as pricing pressures in PPI groups remained widespread with sustained increases in all groups last month. This shows further increase producer-driven cost factors.

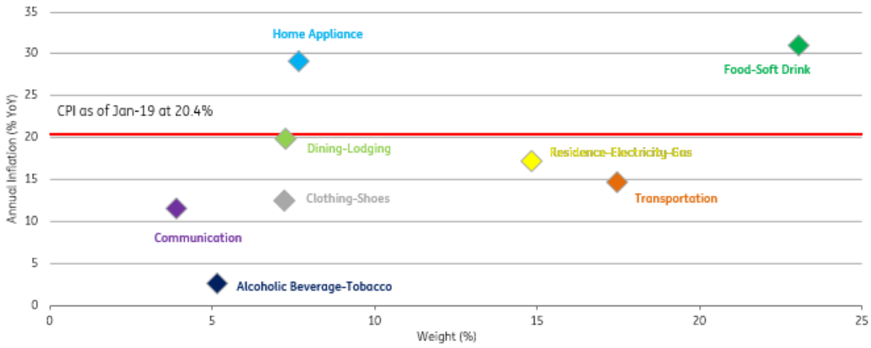
All groups were positive drivers for the monthly CPI reading, which include:

- Transportation provided 41bp, reflecting exchange rate developments and upward pressure in energy prices. Annual inflation in the group exceeded 20%, the highest among the CPI groups. This was the case despite the government's decision to absorb some of the price shock from the weak currency and oil price spike via automatic tax adjustment on gasoline prices.
- The clothing group was the second major contributor to 36bp mainly due to the seasonality, though the monthly outcome was close to the lowest May figure in the current inflation series.
- The food group stood out with a 34bp contribution, while annual inflation reverted to the

double digits again with a jump in unprocessed foods, despite limited fall in the processed foods though remained high.

- All remaining groups provided positive contributions to the headline showing that inflationary pressures have been strong.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 1.7% change in May, pulling annual inflation up to 12.64% (the highest reading in 2003=100 series) from 12.24%.

The data shows that the reviving impact from the FX pass-through has taken a toll and pressure on the core inflation will remain in the near term given ongoing currency weakness.

> Overall, the recent inflation data show deteriorating pricing behaviour, likely further weighing on the headline and the inflation expectations.
>
> Recent rise in import prices on the back of TRY depreciation and upward pressure on energy prices were the major reasons for the ongoing uptrend.
>
> Looking ahead, we expect inflation to continue to rise with the plunge in currency, spike in oil prices and unsupportive base effects until July, exceeding 14%, and change direction after that, though in the near-term upside risks are likely to remain.

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