

Turkey: Annual inflation broadly unchanged in January

CPI inflation was close to the market consensus in January at 1.06% while the annual figure came in at 20.35% vs 20.3% a month ago. The data shows the impact of food inflation despite price drops in clothing and housing



Source: Flickr

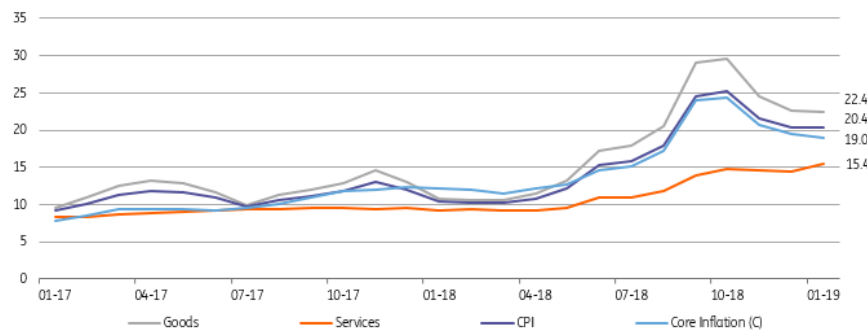
1.06% January Inflation
(MoM)

As expected

After two months of decline, January CPI inflation data was broadly aligned with the market consensus (1.0%), coming in at 1.06%, while the annual figure inched up slightly to 20.35% from 20.3% a month ago. On a monthly basis, a benign reading in transportation and sharp drop in housing and clothing were offset by a jump in food inflation. Accordingly, we saw:

1. A slight drop in goods inflation from 22.7% a month ago to 22.4% with contributions from core goods, unprocessed foods and a significant impact from energy despite a considerable increase in unprocessed food prices.
2. A rise in sticky services inflation to 15.4% from 14.5% showing the effect of hikes in rents and communication services. Following a more broad-based disinflationary trend in December, January data showed a pause on this front.

Evolution of Annual Inflation (%)

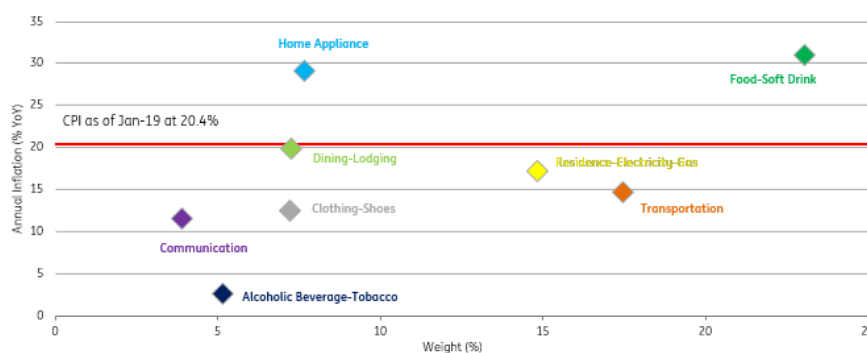


Source: TurkStat, ING Bank

Annual core inflation has continued to recover from a peak of 24.3% in October, standing at 18.8% last month, as we saw continued price declines. This shows not only the impact of recent government actions i.e. a continuation of tax cuts in consumer durables and administrative price adjustments but also FX pass through running its course, with sharp strength in the Turkish lira in recent months.

The Domestic Producer Price Index (D-PPI), on the other hand, stood at 0.45%, pulling annual inflation down further to 32.9% from 33.6% a month ago. PPI, which has fallen from a peak of 46.2% in September, shows continued improvement though still remains elevated.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

Among 12 major expenditure groups:

- The volatile food group provided a +149bp contribution, mainly driven by fresh fruit and vegetables which pushed annual inflation in this group up to 31.0% from 25.1% in

December.

- On the flip side, clothing stood out with the largest negative contribution, at -57bp, thanks to seasonal price cuts. This was followed by housing, which had a -47bp impact on the headline rate due to government price cuts in electricity, natural gas and water.
- The recent favourable trend in oil, Turkish lira strength and tax cuts resulted in a benign reading in transportation inflation, with a mere 3bp contribution to the monthly figure, while annual inflation in this group dropped further to 14.7% from 16.0% in December.

Overall, January data shows that weak domestic demand, a stable currency and lower oil prices support the inflation outlook, though the annual figure has remained above the 20% threshold due to food prices. The risks to inflation remain tilted to the upside in the near term given the marked deterioration in pricing behaviour and the upcoming elections, which are fuelling concerns about fiscal policy while a pronounced drop will be observed in the second half of this year due to supportive base effects.

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