

## 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%

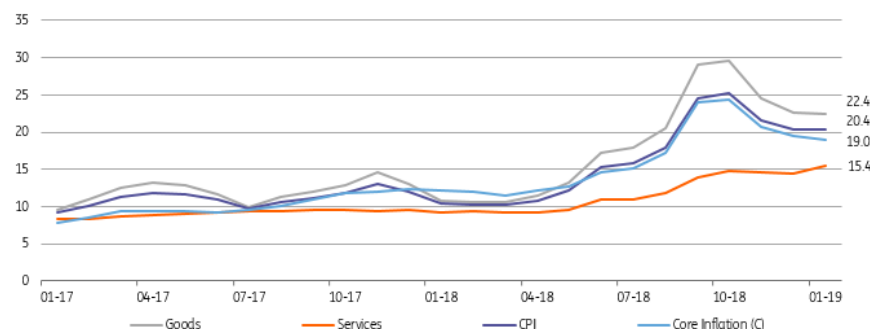
January Inflation  
(MoM)

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 (%)

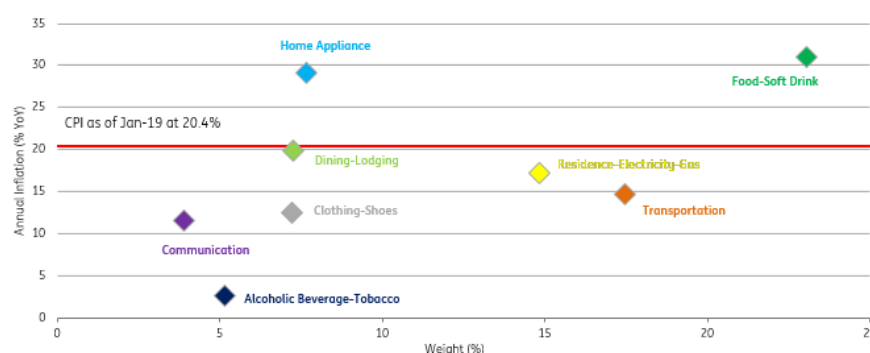


Source: TurkStat, ING Bank

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.

## Author

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).