

December inflation jumps in Turkey

The December data show the impact of exchange rate developments, while a broad-based deterioration in pricing behaviour, high trend inflation and increase in FX pass-through point to further challenges in inflation dynamics



Open-air food market in Ankara, Turkey

13.6%

December CPI, MoM%

(36.1% YoY)

Higher than expected

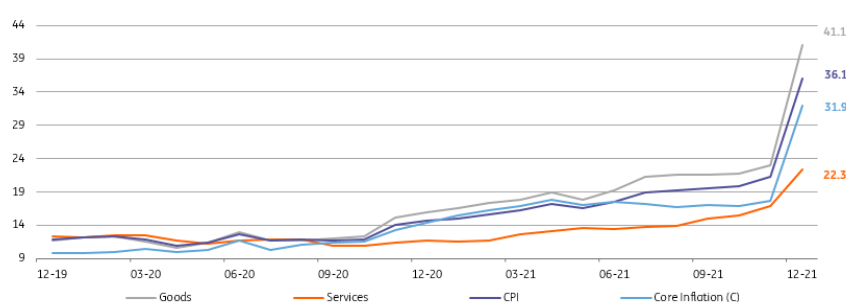
December CPI rose sharply by 13.58% vs market consensus at 9% while the diversion between the actual outcome and market consensus is likely attributable to excessive FX volatility, making inflation forecasting quite hard for the last month. Accordingly, annual inflation recorded a jump to 36.1%, the highest in the last two decades, from 21.3% in the previous month. When we look at the core inflation indicators, both B (excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) indices moved up to 34.9% and 31.9%, respectively, with the underlying trend for both indicators showing a rapid deterioration.

In the breakdown of the CPI, we see 1) goods inflation moving up to 41.1% with the impact of currency weakness and 2) services inflation showing acceleration to 22.3% reflecting exchange rate pass-through and deteriorating pricing behaviour, despite the relatively slow pace in rent and telecommunication services

The December Domestic Producer Price Index (D-PPI) recorded the highest monthly increase at 19.1% and pulled annual figure up to 79.9%, an all-time in the current inflation series. The difference between CPI and PPI is now at a record level, 43.8 percentage points, indicating record-high cost-push pressures.

Evolution of Annual Inflation (%)

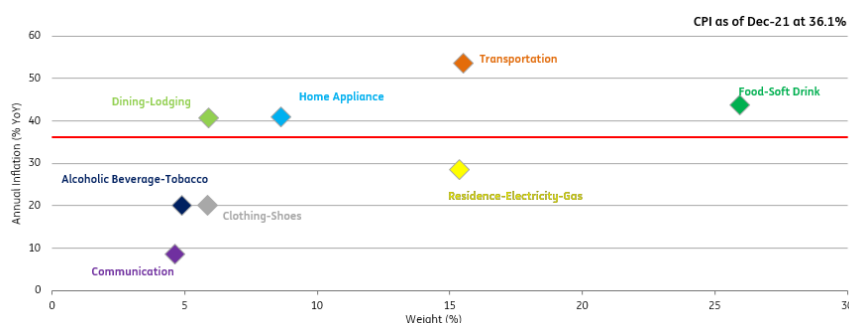
(Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold)



Source: TurkStat, ING

Regarding the main expenditure groups, all recorded positive contributions to the headline with across-the-board price increases last month. In particular, transportation and food prices provided the biggest contribution to the headline at above of 4ppt, each. For transportation, large adjustments in automotive and energy prices pulled the annual inflation in this group up to 53.7%. Annual food inflation on the other hand stood at 43.8% with the major impact to the headline coming from processed food prices. Household equipment, driven mainly by white goods and furniture, utilities and dining & lodging were other major determinants of the December inflation.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, the December data show the impact of exchange rate developments, while a broad-based deterioration in pricing behaviour, high trend inflation and increase in FX pass-

through point to further challenges in inflation dynamics. Given the latest hikes in electricity, gasoline and natural gas prices, inflation will likely remain under further pressure in the near term and above of the latest reading until late 2022, before showing some moderation into year-end 2022 with the support of large base effects.

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