

## Turkey: Headline inflation drops, core continues to rise

Annual inflation dropped in March with supportive energy prices, while underlying price developments reflect the impact of currency movements.



Source: Shutterstock

# 11.9%

March inflation

(YoY)

As expected

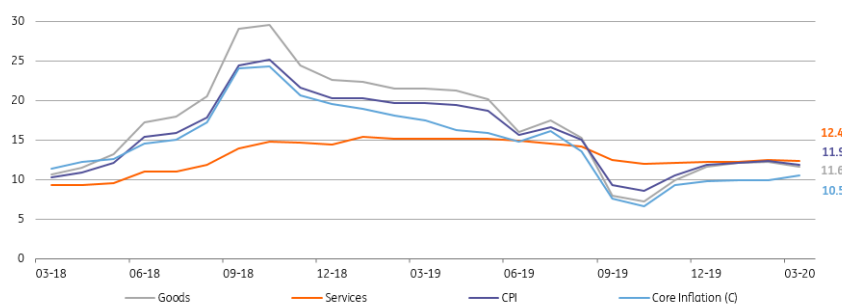
March inflation came in at 0.57%, in line with market consensus, though higher than our call of 0.1%, pulling the annual figure down to 11.9% from 12.4% a month ago after four months of consecutive increase. However, annual core inflation has remained on an upward track with a further move to 10.5%, as the impact of currency weakness was evident especially in the price increases in certain sensitive items of the CPI basket like white goods, automobiles.

The breakdown shows a decline in annual goods inflation to 11.6% driven by food prices and energy given the large drop in oil prices last month, while core goods pulled the headline up attributable to FX pass through and services inflation remaining broadly unchanged over the previous month at elevated levels.

The Domestic Producer Price Index (D-PPI) also changed direction and went down to 8.5% from 9.3% a month ago. Despite more than 1 percentage point impact from price drops in energy-related products, monthly D-PPI change stood at 0.9% due to pricing sensitivity currency weakness.

## Evolution of Annual Inflation (%)

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

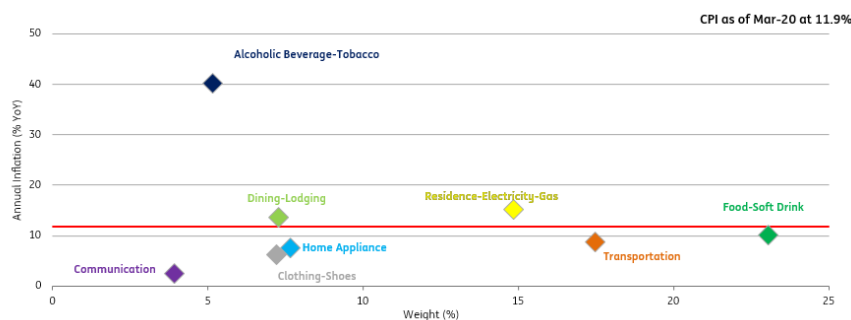


Source: TurkStat, ING

Regarding the main expenditure groups, among the positive drivers, food group stood out as the major driver lifting the headline by 47bp. However, the monthly change remained below of long-term March average thanks to benign fresh food prices, pulling the annual inflation in this group to 10.1% from 10.6% a month ago. Health group, likely because of increasing demand with spreading coronavirus cases, recorded 2.8% MoM rise, contributing to the headline 8bp.

As expected, among the negative drivers, transportation, the only group with a monthly price decline dragged the headline by -29bp, thanks to the oil effect, though price increases in automobiles with TRY weakness limited the extent of drop in the group inflation.

## Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, we see a fall in March annual inflation with supportive energy prices, while underlying price developments also show the impact of currency movements.

Going forward, exchange rate performance is likely to remain a key variable for the inflation outlook as we have already seen the impact on the last month's data, though FX pass-through should be limited during the slowdown. On the flip side, softer domestic demand conditions given the hit from the coronavirus outbreak will support disinflation.

Last month, in the unscheduled MPC meeting, the central bank pointed out growing downside risks and signalled further cut(s) with a shift of focus to financial stability from price stability.

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