

## Turkey: Positive surprise on July inflation

Consumer prices in Turkey came in lower than the consensus in July at 0.55%. But that still pushed yearly inflation further north, to 15.85%, amid continuing price pressures and an unsupportive base effect



Source: Shutterstock

**0.55%** CPI inflation  
Consensus (0.9%)

Lower than expected

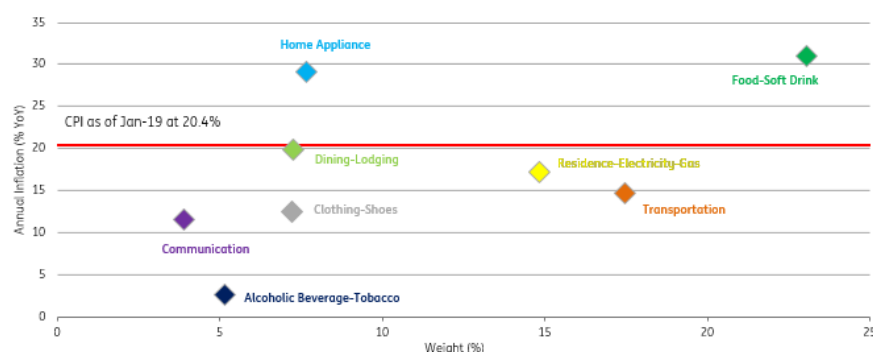
### Core goods maintain uptrend

Consumer prices- already at the highest level since 2003- were up by 0.55% in July, better than the median market consensus and our call at 0.9%. However, annual inflation went up further to 15.85% from 15.39% a month ago, due to:

1. A continuing deterioration in goods inflation, especially core goods given the ongoing impact of exchange rate pass-through

2. Sticky services inflation, which continued its uptrend though at a slower pace amid a price drop in telecommunication services. Services inflation surged in June to double-digit levels for the first time since the global financial crisis
3. Unsupportive base effects

## Evolution of Annual Inflation (%)

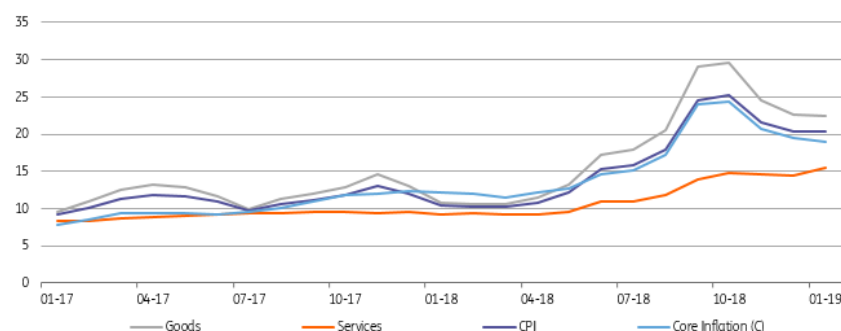


Source: TurkStat, ING Bank

## D\_PPI portends continued pressure on CPI inflation

The Domestic Producer Price Index (D-PPI), on the other hand, was up by 1.77% last month due to contributions from food products, commodities and textiles, while annual inflation rose to 25%, another new peak in the current 2003=100 series, from 23.7% a month ago. The PPI, which has been on an uptrend since February, shows that persistent producer price-driven cost pressures proved strong again in July with widespread pricing pressures in PPI groups.

## Contributions to annual inflation



Source: TurkStat, ING Bank

## Clothing is behind the surprise

In the CPI breakdown:

- Transportation contributed 19 basis points mainly due to exchange rate developments. There was no impact from oil prices given the government's decision to absorb some of the price shock via its automatic tax adjustment on gasoline prices. Annual inflation in the group exceeded 24%, the highest among the CPI groups.
- Other strong drivers are utilities, dining and lodging and home appliances, showing the combined impact of Turkish lira weakness, seasonality, inflation indexation, spike in food

prices and strength in the tourism sector etc.

- Clothing stood out as the major group that pulled the headline down (by -21 basis points) because of seasonality and is responsible for the diversion from expectations as monthly inflation is the lowest of July readings since the inception of the inflation series with -3.1%.
- Food and non-alcoholic beverages inflation dropped 0.3%, pulling the monthly reading down by 7 basis points because of seasonal factors as well as a price reversal in some food products after a jump in June on the back of supply problems. However, annual inflation in this group was 19.4% vs the 13% estimate of the CBT for end-2018.

## FX pass-through feeds into prices

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 0.93% change in July, pulling annual inflation up to 15.1% (another peak in 2003=100 series) from 14.6%, as FX pass-through continues to feed into prices. Core inflation will likely peak in 3Q and moderate thereafter though gradually.

### Inflation to maintain uptrend until September

Overall, July data showed a further worsening in prices despite a positive surprise from clothing, while elevated levels of inflation and ongoing deterioration in inflationary expectations continue to pose further risks to pricing behaviour. Looking ahead, we expect inflation to increase until September with the continuing impact of the FX pass-through as well as unsupportive base effects. We expect it to change direction thereafter until the end of this year, though TRY performance and food prices will remain key risk factors, despite an ongoing slowdown in demand pressures.

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