Turkey's annual inflation continues to decline

CPI inflation in June came in at 0.03% maintaining the downtrend with the annual figure dropping to 15.7% - the lowest in a year, while core inflation remains on a recovery track

Source: istock

0.03%

June inflation

(MoM)

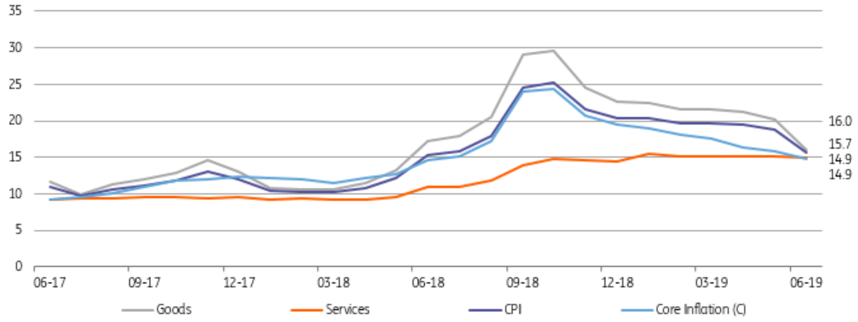
As expected

Consumer prices in Turkey rose just 0.03% in June - in line with consensus at 0.05% according to the Reuters survey and shows a continuation of the falling trend in annual inflation to 15.7% from 18.7% a month ago. The large base effects helps too, given that the 2018 figure was the highest June number since the start of the current CPI series in 2003.

We saw a further drop in annual goods inflation to 16.01% from 20.13%, thanks to a fall in energy prices and especially the contribution of more pronounced base effects in food prices. There was also a slight decline in annual services inflation to 14.9% from 15.15% reflecting inertia in this group.

Evolution of annual Inflation (%)

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



Source: TurkStat, ING Bank

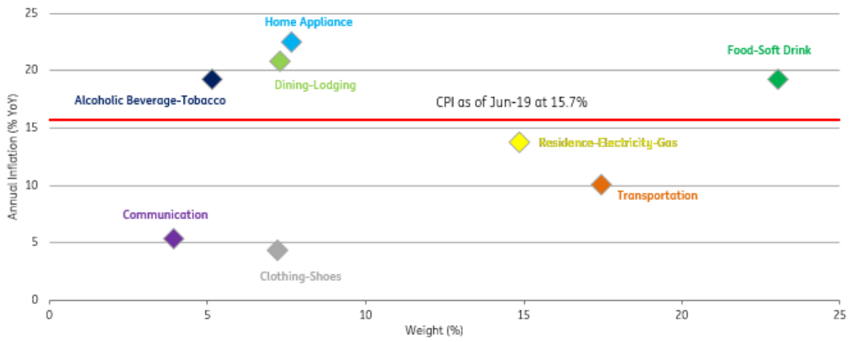
Annual core inflation stood at 14.86% last month - the lowest since June 2018, as we saw a continuation of recovery thanks to the tight central bank of Turkey stance and weak domestic demand.

On the other hand, the domestic producer price Index (D-PPI) stood at a mere 0.1%, on the back falling commodity prices and relative strength in the currency. Accordingly, annual inflation maintained its downtrend, which has been in place since October and went down to 25.0% from 28.7% a month ago. This implies an improvement in producer-price-driven cost pressures.

The breakdown shows food group recorded a -1.65% month on month change, close to the average of June readings in the current inflation series, though annual inflation fell down to 19.2% from 28.4% in May, showing the extent of supportive base (more pronounced in unprocessed food with a decline to 15.3% from 35.3%) and providing -40bp contribution to the headline.

However, monthly processed food inflation recorded the highest June reading since 2003 with an increase in annual inflation to 23.4% from 22%, signalling still elevated pricing dynamics in this group. 2) Another group that reduced the headline in June was clothing with a -10bp contribution thanks to the seasonality 2) Catering provided +21bp contribution with an all-time high reading in the current series, standing out as an another indicator of inertia in services and relatively high cost factors despite sluggish domestic demand. 3) Among others, recent cuts in tobacco and gasoline prices in addition to a weaker TRY were the major factors, providing a range of 0-10bp contributions.

Contributions to annual inflation



Source: TurkStat, ING Bank

Overall, the June data shows the downtrend in both headline and core inflation with a marked drop in goods inflation thanks to energy prices and base effects.

For July, the expiring special consumption tax cuts and electricity price hikes hint at another likely uptick. Going forward, we expect inflation to drop to low double digits in October and close the year at around 14-15%, given the substantial base effects from September onwards. High inertia, likely indirect tax, administrative price adjustments and exchange rate volatility will remain key upside risks.

However, the downtrend in inflation with a downside surprise in recent months, reflecting the weakness in domestic demand and the CBT's tight policy, despite the volatile course of the exchange rate and still high services inflation.

Not only better than expected inflation outlook so far but more accommodative policy signals from the global central banks and lira strengthening with a contribution of declining geopolitical risk anticipation may encourage the central bank to start the easing cycle earlier. Markets are already pricing larger easing towards the end of the year. The current cyclical opportunity should provide a window for more rate cuts from the central bank.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer