Turkey: Annual inflation drops in February

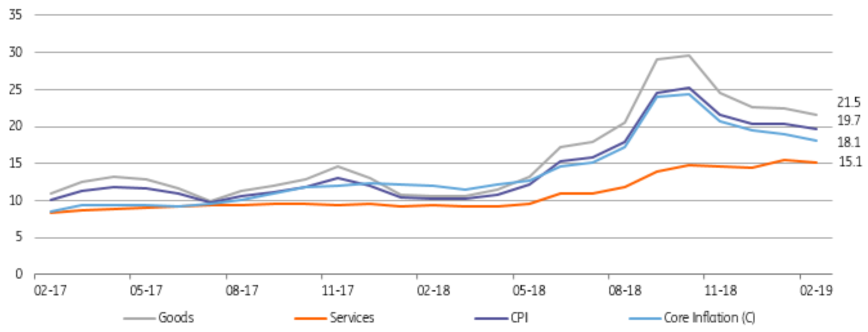
CPI inflation was better than the market consensus in February at 0.16%, pulling the yearly figure down to 19.67% vs 20.35% in January. The data shows the impact of benign food prices and seasonality in clothing, despite higher energy inflation

Source: Flickr

In February, CPI inflation was better than the market consensus (and our call) at 0.4%, coming in at 0.16%, while the annual figure dropped to 19.67% from 20.35% a month ago. Benign readings in food, utilities and home appliance prices, and seasonality in clothing were major drivers for the monthly reading. Accordingly, we saw:

1. A drop in annual goods inflation to 21.5% from 22.4% in January, with contributions from core goods and foods (both processed and unprocessed), despite higher energy inflation.
2. A slight decline in annual services inflation to 15.1% from 15.4% mainly driven by transportation services. A key indicator, rent inflation, remained practically unchanged at 10.2% year-on-year.

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 18.1% in February vs 19.0% in January. This downtrend shows the impact of government action i.e. tax cuts in consumer durables and administrative price adjustments. It also reflects sharp Turkish lira strength since October as well as tight policy and weakening domestic demand.

The Domestic Producer Price Index (D-PPI) stood at 0.09%, pulling annual inflation further down to 29.6% from 32.9% in January. The PPI has fallen from a peak of 46.2% year-on-year in September, showing continued improvement in producer-price-driven cost pressures due to exchange rate developments and softer commodity prices, though prices remain elevated with cumulative effects realised in 2018.

Contributions to annual inflation (ppt)

Source: TurkStat, ING Bank

The breakdown

1. The food group saw a 0.9% month-on-month change, much lower than the average of February readings in the current inflation series, at 1.9%. This likely reflects the indirect impact of regulated food sales by municipalities. Providing a +22 basis point contribution to the headline rate, annual inflation in this group fell to 29.25% last month from 31% in January.
2. Among others, clothing stood out with the largest negative contribution at -37 basis points, thanks to seasonal price cuts.

3. Utilities and home appliances remained below long-term averages in February, contributing to the favourable monthly figure.
4. Transportation inflation plunged from 36.6% in September to 14.7% in January on the back of a favourable trend in oil, strength in the Turkish lira and bigger tax cuts. Prices in this category rose 15.2% in February, adding +7 basis points to the headline rate, due to higher oil prices.

Overall, February data pulled the annual figure below the 20% threshold given weak domestic demand, a stable currency and tight stance from the central bank. However, the risks to inflation remain tilted to the upside in the near term, given the marked deterioration in pricing behaviour and inflation expectations, as well as uncertainties surrounding cost factors. We expect a pronounced drop in the second half of this year due to supportive base effects.

Author

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

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