Snap | 4 March 2019 Turkey

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



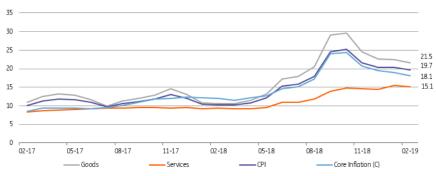
Source: Flickr

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.

Snap | 4 March 2019

Evolution of annual inflation (%)

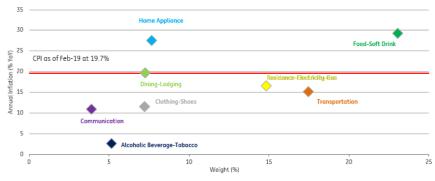


Source: TurkStat, ING Bank

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.

Snap | 4 March 2019

- 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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Snap | 4 March 2019 3