

Turkish inflation comes in higher than expected

Despite a range of administrative and tax measures, monthly inflation in Turkey came in higher than expected in January, maintaining the uptrend



Source: Shutterstock

12.2%

January Inflation

(YoY)

Higher than expected

Turkish inflation in the first month of the year was higher than expected at 1.35% month on month (vs market consensus at 1.1% and our call at 0.8%), pulling the annual figure up to 12.15% from 11.8% at the end of 2019.

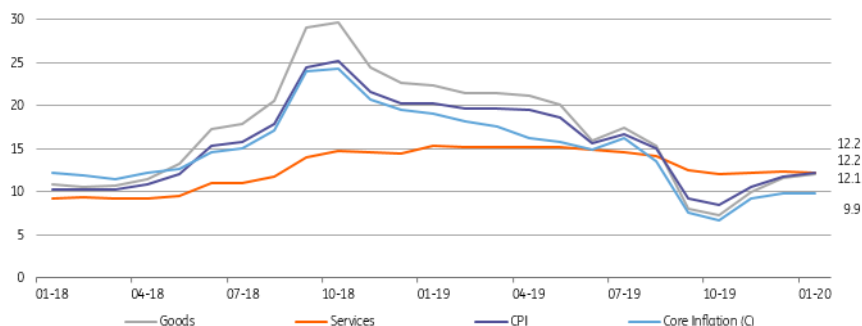
The breakdown indicates a modest increase in annual goods inflation to 12.1% while there are base effects working in the opposite direction for food group reducing annual inflation despite

significant monthly price changes and for energy group leading to a jump in the annual figure 2) flat services inflation at 12.2%.

Annual core inflation that changed direction in November and increased since then inched up in January to 12.9% from 12.8% a month ago. The monthly figure was benign at 0.1%, showing that underlying price developments have remained relatively subdued.

Evolution of Annual Inflation (%)

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



Source: TurkStat, ING

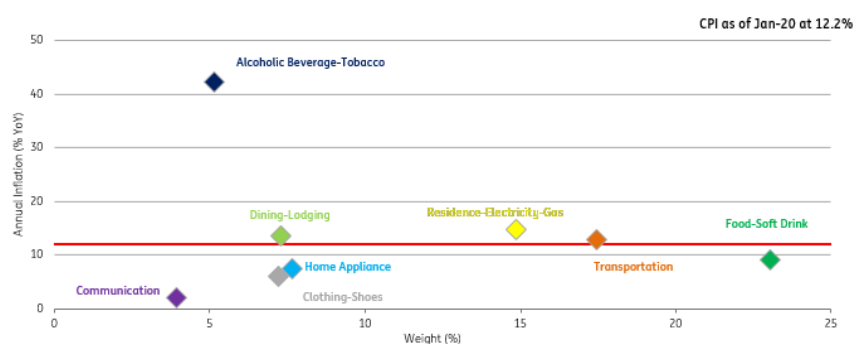
The Domestic producer price Index (D-PPI) has maintained uptrend and went up to 8.8% from 7.4%, while it was at 1.7% a few months ago in November, the lowest since early 2013.

The rapid increase in the last three months reflects large negative base effects, though producer-price-driven cost pressures have remained manageable and the gap between PPI and CPI inflation closed with reduced pass-through pressures.

Regarding the main expenditure groups, clothing reduced the monthly headline by -0.46ppt thanks to seasonality, followed by home appliances at -0.11ppt on the back of VAT cut on furniture. On the flip side, the increase in food was the main driver behind the rise in the headline figure, contributing 1.06ppt to the overall rise in headline inflation in monthly terms. However, annual food inflation dropped from 10.9% in December to 9.0% in January, while unprocessed food inflation plunged to 2.2% from 6.1% (vs an increase in the processed food inflation to 16.1% from 15.4%), suggesting a significant base effect on this group. Transport inflation rose to 13% from 12.2% a month ago, driven by the increase in fuel price inflation on the back of a weaker currency despite relatively lower oil prices globally while the TRY weakness also led to higher vehicle purchase prices.

Finally, the TurkStat made usual revisions to the CPI basket with cutting the weights of transportation, food, utilities and home appliances groups and adding to alcoholic beverages & tobacco, catering and health groups. Accordingly, the weight of the food group still remains the highest at 22.8%, followed by transportation at 15.6% and utilities at 14.3%.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, despite a range of administrative price and tax measures, monthly inflation turned higher than expected in January and maintained the uptrend.

Going forward, any reversal in unprocessed food inflation which was one of the major drivers of the disinflation process last year should be a risk factor, while exchange rate developments will remain key for the inflation outlook. The latest data along with low real rate buffer and geopolitical risks should further contribute to the central bank's cautious stance.

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