Turkey: August inflation as expected

CPI inflation came in at 2.3% in August, pushing the annual figure up to 17.9% as the general upward pressure across various sub-components remains alive. In light of this, the central bank has signalled a revision in its stance

Source: Shutterstock

2.3%

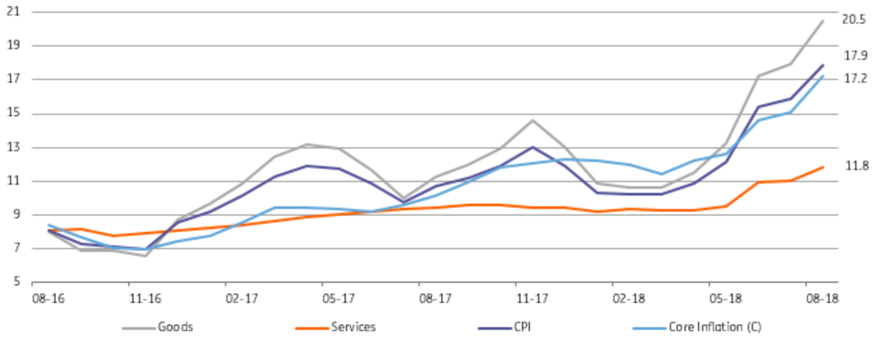
August inflation

(MoM, %)

As expected

Consumer prices that have already reached the highest since the inception of the current series were up by 2.3% in August, almost aligned with the median market consensus. Annual inflation jumped to 17.9% from 15.39% a month ago, contributed by the continuing deterioration in goods inflation, especially energy and core goods gave the ongoing impact of exchange rate pass-through and administrative adjustment and continuing rise in sticky services inflation with across the board pressure in sub-items including rent.

Evolution of Annual Inflation (%)

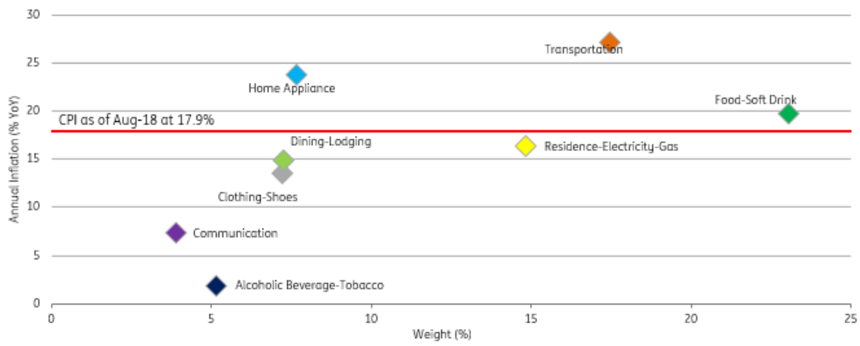


Source: TurkStat, ING Bank

Annual core inflation also soared this month from 15.1% in July to 17.2% in August, while the rise was broad-based, with all major categories registering increases as FX pass-through continues to feed into prices.

The Domestic Producer Price Index (D-PPI), on the other hand, was up by 6.6% last month, the highest monthly increase since 2003, showing persisting and strengthening producer-price-driven cost pressures. Annual inflation jumped to 32.1% from 25% a month ago. The PPI that has been on an uptrend since February show current widespread pricing pressures in almost all groups.

Contributions to annual inflation



Source: CBT, ING Bank

The breakdown

- Transportation provided an 80bp contribution to the monthly reading mainly due to the impact of exchange rate developments. It should also be noted that a price compensation system, guaranteeing maximum diesel and gas oil prices to users at the price levels prevailing in mid-May is put in place with an objective of offsetting any changes in international oil prices and the exchange rate by symmetrical cuts in special oil taxes. Last month, the government allowed some of the accumulated price increases in recent months to be reflected in gasoline prices to ease some of the fiscal burdens on that in return pushed already high transportation inflation further up.
- Other strong drivers are utilities (56bp), home appliances (36bp) and dining and lodging

(14bp) showing a combination of impacts from exchange rate developments, seasonality, inflation indexation, administrative price adjustments etc.

- Clothing stood out as the major group that pulled the headline down (by -11bp) because of seasonality, though the monthly figure in this group is the highest of August readings since the start of the inflation series with -1.6%.

Overall, August data shows the inflation outlook remains poor with further worsening in the price dynamics driven by cost factors, while the evolution of the exchange rate and food prices will likely determine the inflation evolution given ongoing slowdown in demand pressures.

The central bank, which didn't hike rates in July started liquidity tightening again last month with currency volatility pulling effective cost of funding up by 150bp to 19.25%. Today, it signalled a revision in its stance to stop TRY slide and restore price stability given the bank stated that "it would take the necessary actions to support price stability. Accordingly, monetary stance will be adjusted at the September meeting in view of the latest developments."

Author

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

Disclaimer