

Turkey: Both headline and core inflation shoot up in June

Consumer prices came in well above consensus at 2.61%, pushing yearly inflation to 15.39%. Core inflation surged in the second quarter with the impact of FX pass through, maintaining the uptrend



Source: Shutterstock

2.61%

Consumer price index

Consensus (1.4%)

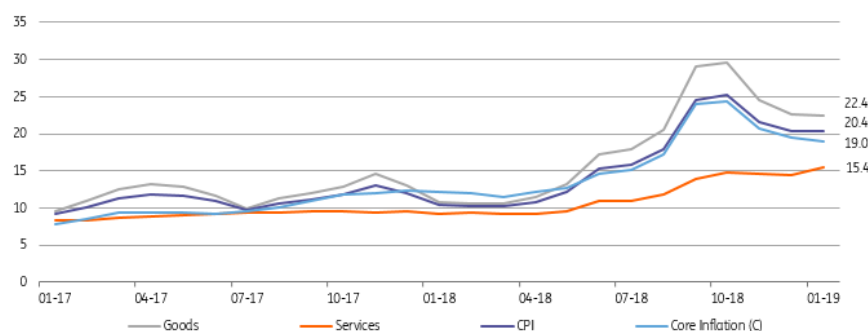
Higher than expected

Consumer prices went up by 2.61% in June, well above the median market consensus at 1.4%.

Accordingly, annual inflation jumped further to 15.39% from 12.15% a month ago, contributed by across the board deterioration in goods inflation, especially unprocessed foods, while sticky services inflation showed an acceleration on an annual basis with a penetration to double-digit levels for the first time since the global crisis. Transportation services, among other things mainly

drove this. Low base effects accompanied by exchange rate movements also contributed to the monthly reading.

Evolution of Annual Inflation (%)



Source: TurkStat, ING Bank

On the other hand, the Domestic Producer Price Index (D-PPI), was up by 3.03% last month contributed in particular by food products, commodities and textiles, while annual inflation rose to 23.71%, another new peak in the current 2003=100 series, from 20.16% a month ago.

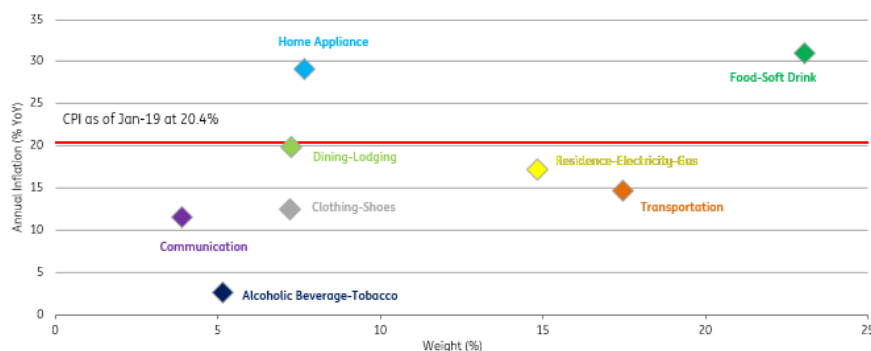
The PPI that changed direction in February has been in an uptrend, as pricing pressures in PPI groups remained widespread with sustained increases in all groups. Persisting producer-price-driven cost pressures proved strong again in June.

In the inflation breakdown, all groups, except for clothing, were positive drivers for the monthly reading. These include:

- The food group stood out with 139bp contribution given price hikes in unprocessed foods well above of the seasonal averages, while pressure on the processed foods also continued. Accordingly, annual inflation in this group hit 18.9% from 11% a month ago.
- The transportation provided 47bp mainly due to the impact of exchange rate developments. Annual inflation in the group exceeded 24%, the highest among the CPI groups. Despite the government's decision to absorb some of the price shocks from the weak currency and oil price spike via automatic tax adjustment on gasoline prices, inflationary pressures in this group have remained high.
- Other groups provided positive contributions to the headline in the range of 2-to-17bp showing that the cost pressures from the TRY weakness and second-round effects continued to weigh on the pricing behaviour.
- The only item that reduced the headline inflation by -8bp was a higher than expected seasonal drop in clothing, remaining below of June average in previous years under the current inflation series. This is likely attributable to softening demand conditions with the negative confidence shock from the significant TRY depreciation.

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 1.81% change in June, pulling annual inflation up to 14.6% (the highest reading in 2003=100 series) from 12.64%. The data shows that the FX pass-through has taken a toll and pressure on core inflation and this will remain in the near term.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

Overall, June data showed further worsening in the price dynamics driven by cost factors despite softening demand conditions lately, while elevated levels of inflation and ongoing deterioration in inflationary expectations (24-month expectations likely to reach the double-digit level in the period ahead) continue to pose further risks to the pricing behaviour.

Looking ahead, we expect inflation to further increase in the third quarter with the continuing impact of the FX pass through as well as unsupportive base effects and change direction after that until the end of this year. Though lira's performance and food price dynamics will remain as key risk factors.

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 <http://www.ing.com>.