

Turkey: Core inflation returns to single digits

Annual inflation dropped in April thanks to lower energy prices and moderating demand, despite higher FX volatility. Annual core inflation also changed direction, falling into single digits

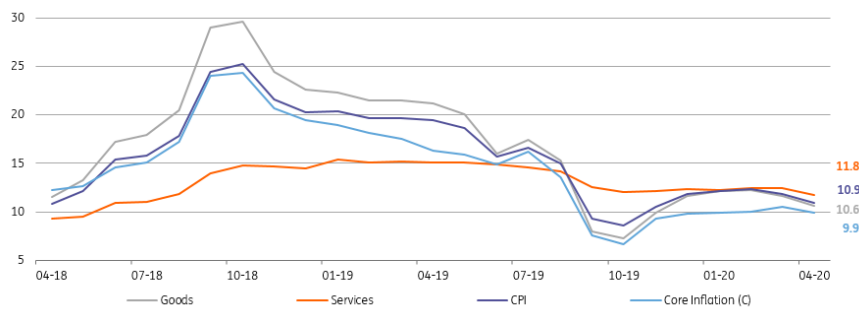


Source: Flickr

In April, monthly inflation came in at 0.85%, slightly higher than the consensus and our call (0.75% and 0.7%, respectively), pulling the annual figure down to 10.9% from 11.9% a month ago. More importantly, despite higher FX volatility impacting certain sensitive items of the CPI basket like white goods and automobiles, annual core inflation also changed direction and fell into single digits at 9.9% from 10.5% a month ago, likely on the back of deteriorating demand conditions.

Evolution of Annual Inflation (%)

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



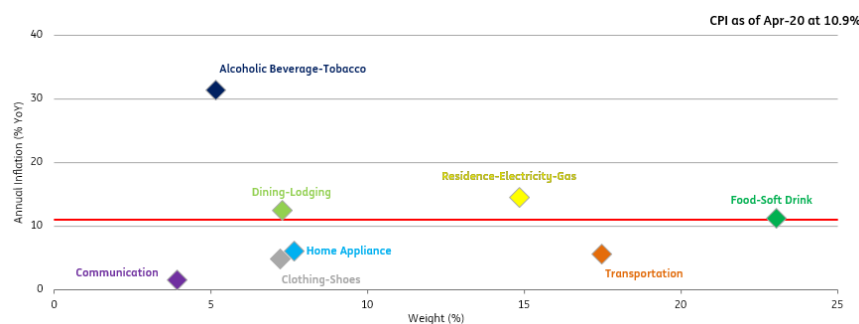
Source: TurkStat, ING

In the breakdown, we see 1) a decline in annual goods inflation to 10.6%, driven by energy as a result of the large drop in oil prices last month and core goods 2) services inflation, on the other hand, moderated to the lowest level since mid-2018, at 11.8%, with across the board weakness in subgroups, showing the impact of shutdowns and quarantine measures.

Regarding the main expenditure groups, among the positive drivers:

- The food group stood out as the major driver lifting the headline by 61 basis points. Also, the monthly change was significantly above the long-term April average, reflecting increasing demand under lockdown conditions and short curfews imposed at the weekends. Accordingly, we saw higher increases in both unprocessed and processed food prices.
- Another major contributor was the clothing group, with a 25bp impact on the monthly reading, though the monthly price change was very low in comparison to earlier years.
- On the flip side, as expected, transportation dragged the headline down by -27bp, thanks to the oil effect, though price increases in automobiles amid weakness in the Turkish lira limited the extent of the drop.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, we saw a fall in annual inflation in April amid supportive energy prices, while underlying price developments also showed an improvement despite the impact of currency movements on certain items. Going forward, softer domestic demand conditions

will remain supportive for disinflation, along with lower oil prices and the second round effects. On the other hand, exchange rate developments will be one of the major determinants of the inflation outlook, though FX pass-through should be relatively limited during the slowdown. Given the downside revision to end-year inflation forecasts and the central bank's determination to contain the adverse impact of the coronavirus shock on the economy, the bank will likely maintain its easing bias and announce with further cut(s).

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.