Benign food prices help Turkey's disinflation path

Turkey's December inflation numbers came out better than expected, implying an improvement in the underlying trend

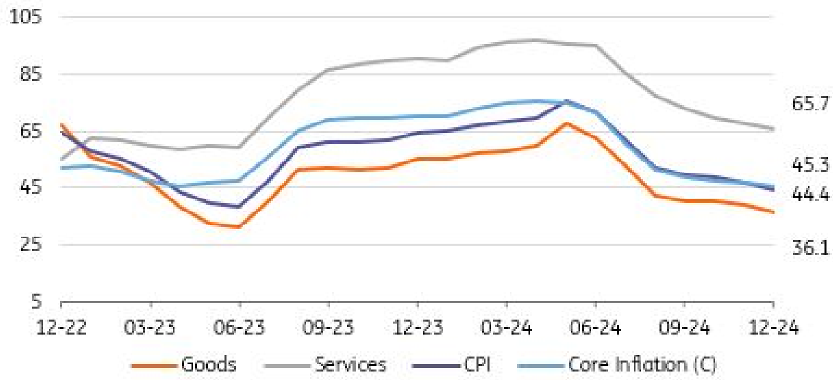
Shoppers in Istanbul

Turkey's monthly inflation figure has come out at 1.0%. That's below the consensus call of 1.6% and our 1.4% call. Annual inflation in 2024 turned out to be 44.4% YoY (vs the CBT forecast in the latest inflation report of 44%), and that's a drop from 47.1% a month ago. While there was an increase of 2.9% in December 2023, the average of December months of the 2003-based index for the last ten years was 1.0%, indicating that the base effect was favourable for this year.

PPI stood at 0.4% MoM, showing a drop to 28.5% YoY versus a month ago, driven by utility prices. The data implies a notable weakening in cost pressures in the second half of last year, which is also attributable to supportive currency developments, global commodity prices, and particularly oil prices in the current geopolitical backdrop, which will likely remain the key determinant of the PPI trend in the period ahead.

Core inflation (CPI-C) came in at 1.1% MoM, the lowest monthly reading since the second half of 2021, moving down to 45.3% on an annual basis, supported by the relatively slow-moving FX basket and increasingly benign PPI outlook. Going forward, pricing behaviour and inertia in services have remained key risk factors for the pace of the current disinflation process. The TurkStat will release seasonally adjusted (sa) headline CPI and core indicators on Monday. An early analysis reveals that the underlying trend, which the central bank monitors closely, seems to have improved significantly in December for headline and core inflation.

Inflation outlook (%)



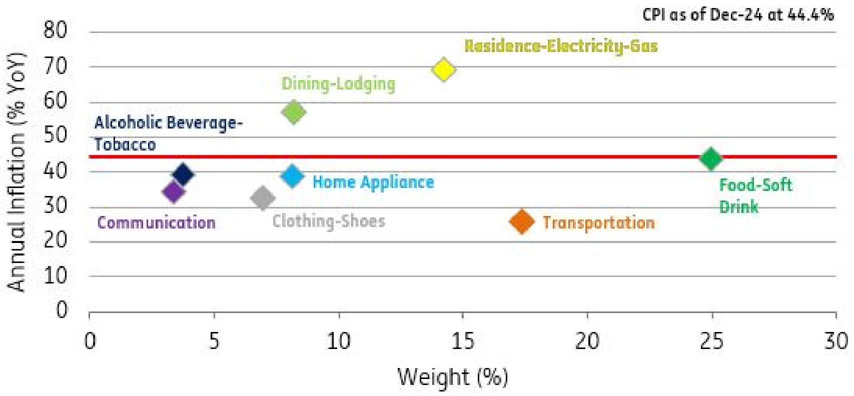
Source: TurkStat, ING

In the breakdown:

- The food group turned out to be the major contributor to the headline again, with 0.3ppt. As pointed out by the CBT in the December rate-setting note, unprocessed food inflation moderated after an elevated course in the previous two months despite continuing pressure on processed food. Accordingly, with fresh fruit and vegetable price increases turning negative, the unprocessed food reading was benign with 0.9%, below the long-term December average, contributing to the better-than-expected inflation turnout last month.
- This was followed by housing, with a 0.3ppt contribution reflecting the continuing impact of rent in addition to coal prices. However, the pace of monthly rent increases further decelerates.
- Household equipment, pulling the headline up by 0.21ppt, was the third contributor, driven by furniture and white goods.
- On the flip side, clothing and transportation reduced the headline figure.

As a result, goods inflation inched down to 36.1% YoY, while core goods inflation, a better indicator of the trend, fell to 27.4% YoY. Services, which are less sensitive to currency movements but more impacted by domestic demand and minimum wage increases, maintained a downtrend to 65.7% YoY, the lowest since mid-2023, with continuing signs of improvement.

Annual inflation in expenditure groups



Source: TurkStat, ING

> Overall, the food group was the reason for lower-than-expected inflation in December after a strong contribution in the previous two months; the downtrend in annual inflation has remained in place. The underlying inflation trend may show a temporary increase in the coming few months despite the government's measured adjustments in the minimum wage and the fuel Special Consumption Tax - it could have been much higher - which are supportive of the current disinflation trend. However, disinflation will likely continue this year, given the CBT's signal that it will maintain its tight stance despite the start of interest rate cuts, the ongoing real TRY appreciation and improvement in services inflation. We expect inflation to fall below 30% by the end of 2025.

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