

Turkey: Headline inflation resumes the uptrend

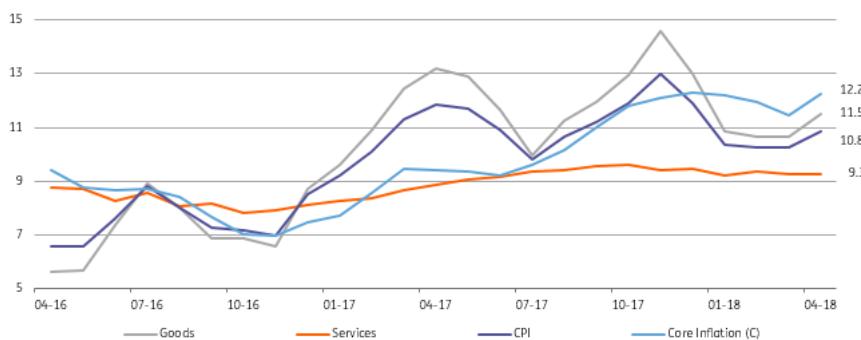
Consumer prices turned out to be higher than consensus in April at 1.87%, while yearly inflation rose to 10.85%. Core inflation also surged showing the impact of FX pass through



Consumer prices increased by 1.87% in April, above of the median market consensus at 1.6%. Annual inflation that showed a downtrend in 1Q18 changed direction again and jumped to 10.85% from 10.23% a month ago.

The deterioration in goods inflation was driven by energy and core goods though food inflation showed some decline with the easing base. On the other hand, the inflation in services remained broadly the same but remained elevated given price increases in FX-sensitive items, strong demand in some groups, worsening expectations, and sticky pricing behaviour.

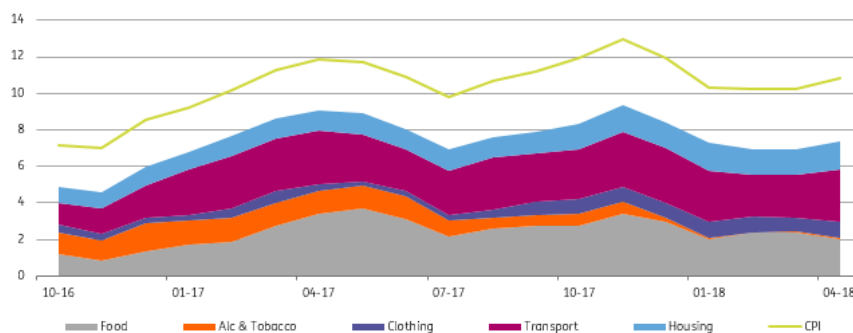
Evolution of annual inflation (%)



Source: TurkStat, ING Bank

The Domestic Producer Price Index (D-PPI), on the other hand, was up by 2.60% in April. Food products, commodities and textiles were the main contributors while annual inflation rose to 16.37% - the highest since the global crisis, from 14.28% 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 last month. This shows continuing producer-driven cost factors that have been already high.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

The CPI breakdown was as follows:

- Among the positive drivers of the monthly reading, clothing was the major contributor with 66bp mainly due to seasonality that was broadly aligned with an average of Aprils months in the previous years.
- Transportation provided 62bp, reflecting exchange rate developments on auto prices and ongoing upward pressure in energy prices. Annual inflation in the group turned out to be 16.45%, the second highest after the home appliances.
- Administered energy prices that with a 2.7% rise in electricity tariffs exerted pressure on utility group with a 19bp contribution to the headline, followed by 16bp addition from housing appliances.
- The food group stood out as the only negative contributor with -5bp, while annual inflation reverted to the single digits with a further drop in unprocessed foods to the lowest levels and limited fall in the processed foods though remained high.
- All remaining groups provided positive contributions to the headline showing that inflationary pressures have remained strong.

2.63% Core inflation
(April, MoM)

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 2.63% change in April, pulling annual inflation up to 12.24% (close to the highest reading in 2003=100 series, realized at end-2017) from 11.44%. The data show that the improvement from the peak in the current inflation series has ended with

reviving impact from the FX pass through and pressure on the core inflation will remain in the near term given ongoing currency weakness and deteriorating inflation expectations weighing on pricing behaviour.

Overall, recent inflation data shows a significant reversal in the recovery trend we saw in the first quarter with a shallower than envisaged pace. The recent rise in import prices on the back of TRY depreciation and upward pressure on energy prices were the major reasons for reversal.

Looking ahead, we expect inflationary pressures to continue given the recent TRY depreciation to further weigh on the outlook for core goods, likely rise in the energy inflation with unsupportive base effects from the last year, and upward pressure from domestic PPI dynamics.

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>.