

Turkey: Rising inflation challenges in June

Annual inflation in June increased further due to the continued upward move in oil prices, the impact from fresh food, higher clothing inflation and adjustments to restaurant and hotel prices. This reading suggests that reaching the central bank's latest end-2020 estimate could be difficult



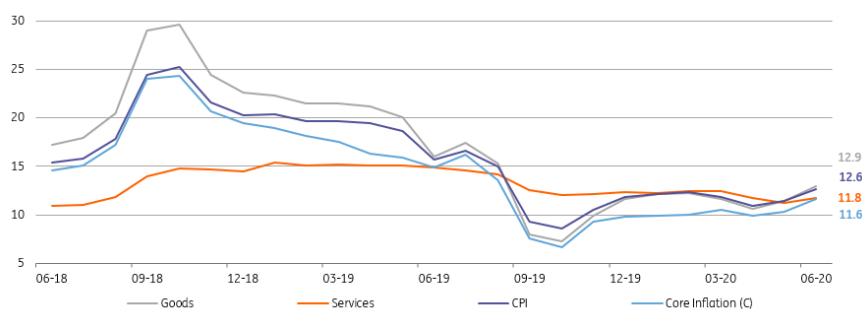
Shoppers in Istanbul

June inflation, which was significantly higher than expected at 1.1%, further increased on an annual basis to 12.6% from 11.4% a month ago.

Annual core inflation also recorded a jump to 11.6% on the back of the monthly reading, which was well above the long-term June average. This suggests further pricing pressures despite weak demand conditions.

Inflation Outlook (%)

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



Source: TurkStat, ING

In the breakdown, we see 1) an increase in annual goods inflation to 12.9% driven by energy, as oil prices continued to rise last month, while core goods saw across-the-board increases in sub-items such as clothing and durables 2) services inflation has remained in check since February, rising to 11.8% despite relatively benign rent inflation which recorded another decline in June.

The Domestic Producer Price Index (D-PPI) also changed direction and went up to 6.2% from 5.5% a month ago, mainly reflecting the impact from commodities. The data still implies lower producer-price-driven cost effects, but risks are also building on that front.

Regarding the main expenditure groups:

- As expected, transportation pulled the headline up by 67 basis points, thanks to a continuing recovery in energy prices, while price increases in automobiles also contributed to the increase in this group's monthly figure. As a result, inflation here jumped to 11% from a markedly low level of 6.7%.
- Another key contributor was restaurants and hotels, providing a 24bp contribution to the headline, as prices rose 2.83% in June, a record since the inception of the series. After benign readings in recent months due to transitory conditions arising from the pandemic, we see a marked adjustment in June.
- The food group turned out to be the only item that dragged the headline down, by 39bp, though a pick-up in fresh fruit and vegetables, as well as unfavourable base effects from last year, limited the extent of the drop.
- Among the remaining groups, contributions to the headline floated in a 5-to-10bp range, showing broad-based price increases last month, while clothing stands out with a 1.2% month-on-month change. This is close to the highest level seen in previous June readings, with an 8bp impact, pulling annual inflation in this group from 7.7% to 10.7%.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, we see broad-based increases in price pressures. This is due to a) the continued upward move in oil prices and its impact on transportation inflation; b) elevated food inflation due to the impact of fresh food; c) higher clothing prices and d) price adjustments in restaurants and hotels. This reading suggests that reaching the Central Bank of Turkey's latest end-2020 estimate will be difficult. Exchange rate developments and the extent of the impact from increasingly supportive economic policies point to a challenging inflation outlook in the remainder of the year. This is the backdrop which will likely lead the CBT to end its long easing cycle this month.

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>.