Turkey sees record high CPI inflation in July

With a near double-digit monthly increase, annual inflation jumped again in July, ending a deceleration phase which started in October

Prices are rising quickly again throughout Turkey

9.5%

Turkey CPI inflation in July

47.8% annual jump

Higher than expected

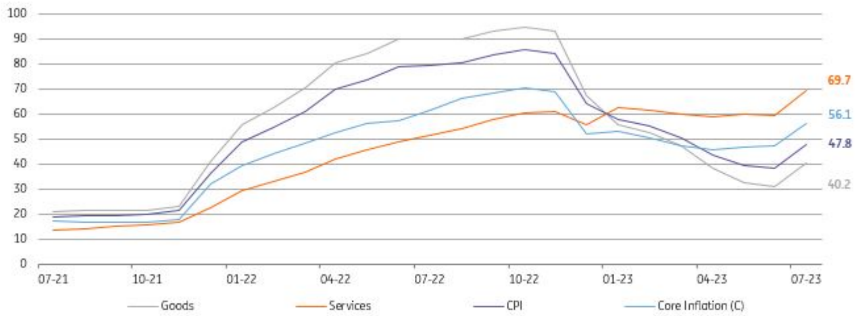
Turkey's CPI inflation rate jumped to 9.49% in July against a consensus of 9.1%. It's the highest July figure since the current series began in 2003. Annually, consumer prices have jumped to 47.8% from 38.2% a month ago, marking the first increase since October. That's despite supportive base effects, as the monthly inflation was much higher than the long-term average of previous July readings. With the July data, cumulative inflation in the first seven months of this year reached 31.1% (vs 58% CBT forecast for the whole year in the latest inflation report).

Core inflation (CPI-C) came in at 9.61% MoM, rising to 56.1% on an annual basis. After prolonged support from major inflation drivers to core inflation indicators, FX passthrough with the recent currency weakness has started impacting the inflation outlook again, along with large tax and administrative price adjustments. Durable goods prices rose by 12.5% MoM, while core goods inflation increased to 44.3% YoY. Accordingly, the underlying trend (as measured by 3M-MA, annualised percentage change, based on seasonally adjusted series) for all inflation indicators markedly rose compared to the previous month.

After a sharp increase in June, PPI showed a further acceleration in July, with a monthly reading of 8.2%, reflecting the impact of exchange rate volatility and higher commodity prices. The data imply that cost pressures have been accelerating again, and companies are able to pass these pressures to consumers, given that domestic demand is still strong.

Inflation outlook (%)

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

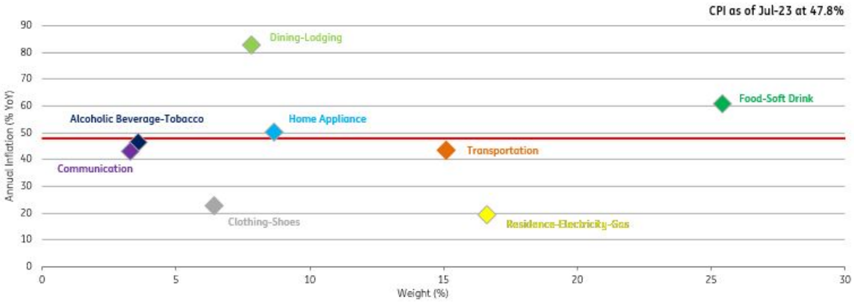


Source: TurkStat, ING

Breaking it all down, all main expenditure groups positively impacted the headline numbers. Among them, transportation was the major contributor, with 2.77 percentage points attributable to weaker TRY, higher oil prices and the government's large SCT adjustment on gasoline. This was followed by food with 2.1ppt driven by both processed and unprocessed food products. Among non-food groups, double-digit hikes were recorded in health, transportation, restaurants & hotels and alcoholic beverages & tobacco. Significant price increases were observed in goods sensitive to exchange rate developments and domestic demand, including household textiles, appliances, and medical products.

As a result, goods inflation jumped to 40.2% YoY, while annual inflation in services stood at 69.7% YoY, reaching a new peak in the current inflation series as it was significantly affected by domestic demand and hence accelerated with across-the-board pricing pressures.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, inflation has started rising again. This trend will likely continue until the second quarter of next year, given that all major inflation drivers are becoming less supportive with pressures from FX-related effects, administered prices and wages. The Central Bank of Turkey envisages a transition heading towards the disinflation and stabilisation period and expects inflation to peak at around 60% in the second quarter of 2024 and adopt a declining trend thereafter. In this environment, while the CBT has taken the initial steps towards normalisation in interest rates and exchange rate policy after the elections, the equilibrium point of exchange rates and interest rates will be key issues watched by the markets, along with the policy moves related to macro-prudential regulations and publicly determined prices.

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