

Snap | 3 May 2019

TURKEY

Turkish annual inflation drops in April

In April, CPI inflation came in much better than market consensus, pulling the annual figure down to 19.5% while core inflation maintained its downtrend



Source: Shutterstock

1.7%

CPI inflation

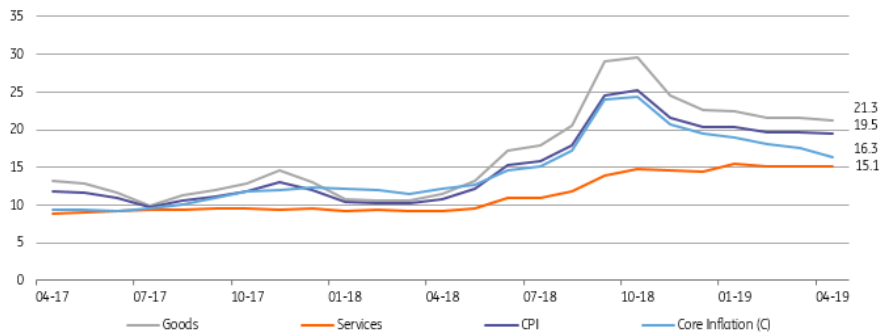
(in April)

Lower than expected

CPI inflation came in at 1.7% in April, which was better than consensus at 2.4% and our call of 2.2% while the annual figure slightly dropped to 19.5% vs 19.71% a month ago.

Despite supply-side factors weighing on the reading, weak domestic demand has kept price pressures contained. Accordingly, we saw annual goods inflation coming down to 21.25% from 21.53%, though support from base effects remains high and a marginal change in annual services inflation to 15.15% from 15.21% on the back of solid increases in rent reflect inertia, transportation services and hotels, cafes, restaurants.

Annual Inflation (%)



Source: TurkStat, ING Bank

Annual core inflation came in at 16.3% last month vs 17.53% in March, as we saw the continuation of the downtrend - in place since October 2018 - on the back of tight policies and weak domestic demand. However, this trend can easily reverse after the recent currency depreciation.

On the other hand, the domestic producer price index (D-PPI) came in at 2.98% - the highest monthly figure since last September, reflecting the weakening currency in recent weeks. Accordingly, annual inflation stopped its downtrend in place for the last six months and rose to 30.12% from 29.64% a month ago. The monthly PPI shows across the board price increases in all subsectors (with the exception of beverages and wood products) while food and basic metals made the largest contributions.

On the back of exchange rate developments and higher energy prices, we expect to see a further deterioration in producer-price-driven cost pressures in April.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

CPI breakdown

The food group recorded a 1.4% month on month change, remaining well above the average of April readings in the current inflation series, though a drop in fresh fruits and vegetables (by -3.7%) than the usual seasonality limited pricing pressures in this group to a certain extent. However, a sharp increase in unprocessed foods and above average price changes in processed foods are a signal of elevated pricing dynamics in this subset. Providing +35 basis points contribution to the headline, annual inflation in the food group stood at 31.9% last month, up from 29.8% in March.

Clothing contributed +33bp to inflation in April, however, the monthly change in this group at 5.4% shows that the new season price hikes remained below those of last year. Finally, recent hikes in tobacco and gasoline prices added +29bp to the headline while pressures in home appliances and transportation groups on the back of weaker TRY and energy prices provided +22bp and +20bp contributions, respectively.

Overall, contrary to expectations, April data pulled the annual inflation figure downwards while core inflation maintained the downwards trend, thanks to a supportive base and weak domestic demand.

However, we shouldn't rule out the likely impact from marked deterioration in pricing behaviour, structural problems in the food sector and probable tax and administrative price adjustments in the period ahead, while fragile currency outlook and the resulting FX pass-through will remain key upside risks for the inflation outlook.

Given the central bank's emphasis on tight policies as outlined in the recent inflation report meeting, on the risk of further lira weakening and the dollarisation in the economy, the Bank is likely to avoid premature easing.

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