

Economic Watch

# Turkey: August inflation surprised on the downside

Adem Ileri / Serkan Kocabas / Seda Guler Mert / Alvaro Ortiz

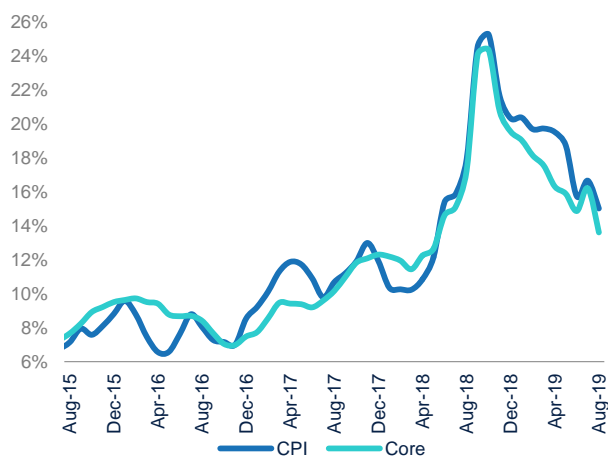
03 September 2019

Consumer prices increased by 0.86% mom in August, far below the consensus and ours (1.3% Bloomberg vs. 1.4% BBVA Research). Annual inflation decreased from 16.65% in July to 15%, the lowest level in the last 15 months as the favorable base effect, ongoing normalization in unprocessed food prices and easing in core prices outweighed the tobacco and natural gas prices hikes (direct impact 1.1pp). The seasonal effect, diminishing exchange rate pass-thru and recent stabilization in currency led annual core inflation to decline sharply from 16.2% in July to 13.6%. In absence of shocks and given the current positive disinflation momentum, further easing in cost push factors, the favorable base effect and still weak demand (i.e. negative output gap) would result in the annual inflation to decrease one-digit level in October and put downside risk on our year-end forecast of 15%. However, still far from anchored expectations in the medium term, high inertia, uncertainties stemming from global factors and geopolitics and still high risk premium should prevent aggressive rate cuts to maintain a cushion with an attractive real rate.

## Easing in core inflation and negative food inflation led better headline figure

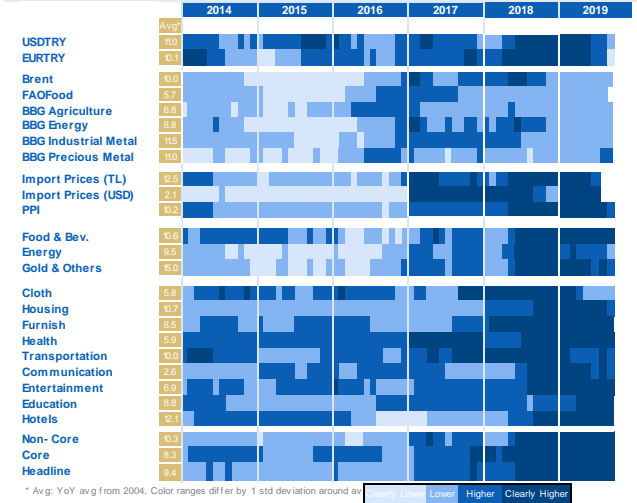
Food prices continued to normalize as it fell by 0.93% mom thanks to the negative unprocessed food inflation (-2.3% mom) and low processed food inflation (0.6% mom), leading the annual inflation to decrease further from 18.2% in July to 17.2%. Also, annual energy inflation has eased from 13.2% in July to 7.8% thanks to the base effect and low oil prices despite the natural price hikes. Besides, clothing and shoes prices decreased by 1.1% mom especially on seasonal effect while the prices of purchase of vehicles surprised by a decline of 2.7% mom. The seasonal effect, diminishing pass-thru on the back of the weak demand and recent currency stabilization resulted in core inflation to increase only by 0.1% mom. Hence, annual core inflation decreased sharply from 16.2% in July to 13.6%. On the other hand, inertia led by backward-looking indexation is still alive as the annual services inflation retreated marginally from 14.6% in July to 14.2%. According to our calculation, recent price hikes in natural gas and transportation services could have total effect (direct and indirect) around 0.8-0.9 pp on inflation in coming months. On the other hand, there was a sharp decline in cost-push factors as annual domestic PPI retreated further to 13.4% from 21.7% in July on low oil prices and especially base effect. Looking ahead, the favorable base effects from now onwards till November, easing in cost-push factors, stabilization in the currency and poor demand could provide inflation to decrease one digit level at October before returning close to 15% at the year end with downside risks.

Chart 1. Core Inflation and CPI (YoY)



Source: BBVA Research Turkey, Turkstat

Chart 2. Inflation Heat Map

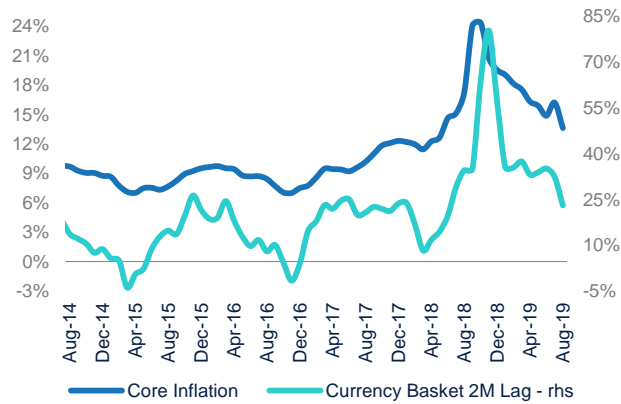


Source: BBVA Research Turkey & Turkstat

## Current inflation reinforced the position of the CBRT to continue the easing

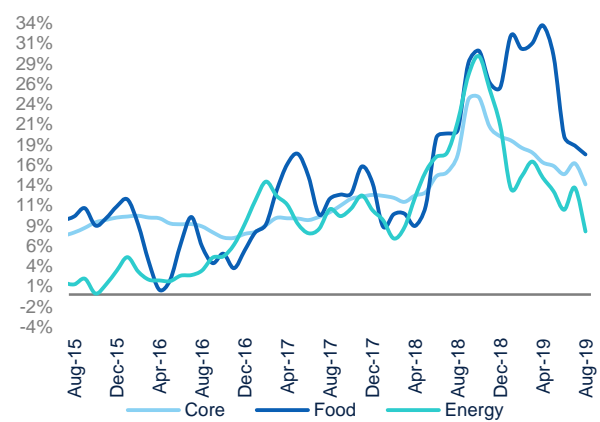
Inflation could decrease faster in the near future based on better than expected current inflation momentum, negative output gap, diminishing pass-thru, easing in cost push factors and favorable base effect. Still the CBRT should decrease policy rate with cautious steps, maintaining a reasonable ex-ante real rate to cushion local and global uncertainties.

Chart 3. Core Inflation and Currency Baskets, YoY



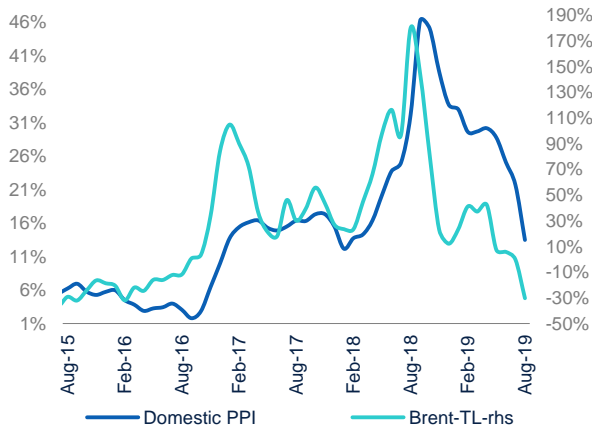
Source: BBVA Research Turkey, Turkstat,

Chart 4. CPI Components, YoY



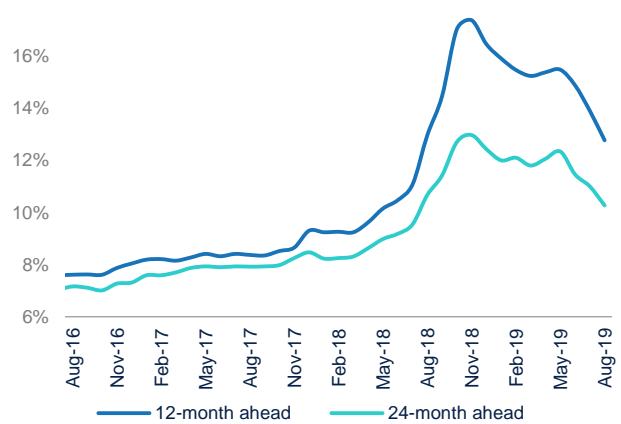
Source: BBVA-Research Turkey, Turkstat,

Chart 5. Domestic PPI and Oil Prices in TL YoY



Source: BBVA Research Turkey, Turkstat

Chart 6. Inflation expectations, YoY



Source: BBVA Research Turkey, Turkstat

Chart 7. CPI in Subcomponents

	MoM	YoY
<b>Total</b>	<b>0.9%</b>	<b>15.0%</b>
Food & Non-alcoholic beverages	-0.8%	17.2%
Beverage & Tobacco	19.1%	41.4%
Clothing & Textile	-1.1%	4.7%
Housing	2.0%	14.0%
Household Equipment	0.2%	20.1%
Health	0.5%	17.5%
Transportation	-1.9%	6.7%
Communication	0.0%	3.6%
Recreation & Culture	0.5%	15.1%
Education	4.3%	17.6%
Restaurants & Hotels	0.8%	18.5%
Misc. Goods & Services	0.9%	21.0%

Source: BBVA Research Turkey & Turkstat

Chart 8. Domestic PPI in Subcomponents

	MoM	YoY
<b>Total</b>	<b>-0.6%</b>	<b>13.4%</b>
Mining & Quarrying	0.7%	14.9%
Manufacturing	-1.0%	10.6%
Food Products	-1.4%	19.4%
Textiles	-1.1%	9.4%
Wearing Apparel	-0.3%	2.5%
Coke & Petroleum Products	-7.7%	-19.8%
Chemicals	-1.9%	8.7%
Other Non-Metallic Mineral	0.2%	16.2%
Basic Metals	-1.9%	-4.3%
Metal Products	-0.9%	8.3%
Electrical Equipment	-0.1%	14.9%
Electricity, Gas, Steam	4.3%	55.8%

Source: BBVA Research Turkey & Turkstat

## DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).  
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25  
bbvaresearch@bbva.com www.bbvaresearch.com

