

Economic Watch

Turkey: Consumer inflation at 14% in November

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Consumer prices increased by 2.30% in November, sizably higher than expectations (1.35% BBVA Research, 1.05% Consensus), leading the annual inflation to reach 14.03% up from 11.9% in October. Our main deviation stemmed from both seasonally high food prices and core inflation, which showed a higher than expected exchange rate pass-thru. The pending impact of the previous three months seemed to weigh more despite the most recent ease in the exchange rate. Besides, cost push factors continued to weigh on the upside as domestic producer prices rose by 4% mom and resulted in an annual inflation of 23.1%. The second-round price effects also worsened the outlook as the diffusion index signaled a more broad-based deterioration. Following the recent gains in the currency led by the strong commitment messages of the new economy management, we expect the exchange rate pass-thru to calm down in the next months which could also be supported by the expected deceleration in domestic demand; though cost push pressures, inertia on deteriorated expectations and unfavorable base effects till April 2021 will keep the headline increasing to around 15% in April 2021 before a gradual disinflation path thereafter. After today's spike, we forecast inflation to end 2020 at near 14% and maintain our 2021 year-end forecast at 11%.

Higher than expected pass-thru, increased cost push factors worsen the outlook

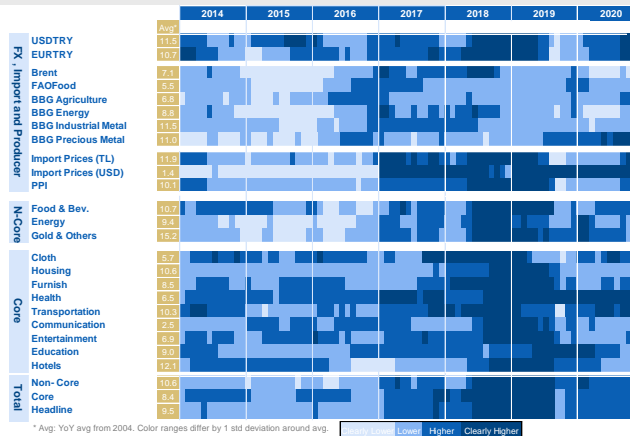
One of the main factors behind today's upside surprise was the seasonally high food prices which rose by 4.4%, the highest November level in the series going back to 2003. Shortages in supply due to seasonal factors (ahead of greenhouse production) and also potential risk of drought seemed to result in a high increase of 6.2% in unprocessed food prices, while processed food prices continued to increase by 2.3%, reflecting the exchange rate pass-thru. Therefore, annual food inflation rose to 21.7% up from 16.7% in October. Seasonal factors and recent confinement measures could keep risks on food prices on the upside in near future. Second, the pending exchange rate pass-thru became obvious in certain sub-items sensitive to both demand and exchange rate (automobiles, recreation, personal care etc.), reflecting a broad-based worsening. Also, services prices showed a deterioration led by second-round price effects as annual services inflation accelerated to 11.4%. Therefore, annual core C inflation rose to 13.3% from 11.5%. Cost push factors also fueled the upside pressures on consumer inflation as domestic producer prices (4% mom) jumped up by 23.1% in annual terms. On the other hand, energy prices was the balancing factor, keeping its annual inflation at near 4% on favorable base effects. All in all, a more broad-based deterioration in sub-segments (Chart 3) and the recent upsurge in trend inflation (Chart 5) hinted again the need for a longer and -if needed- tighter monetary stance to maintain stabilization in the currency and therefore increase room of maneuver to anchor inflation expectations.

Chart 1. Core Inflation and CPI (YoY)



Source: BBVA Research Turkey, Turkstat

Chart 2. Inflation Heat Map

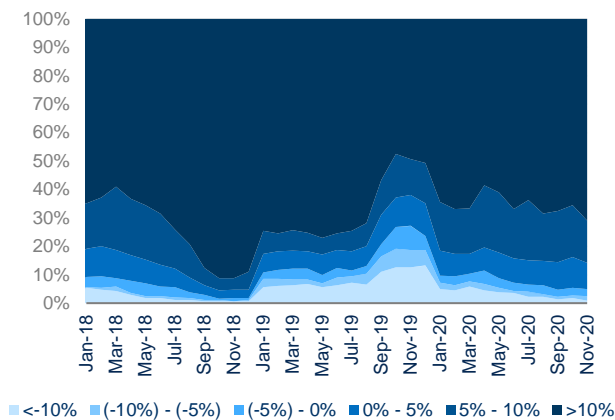


Source: BBVA Research Turkey & Turkstat

A more broad-based deterioration in the inflation outlook

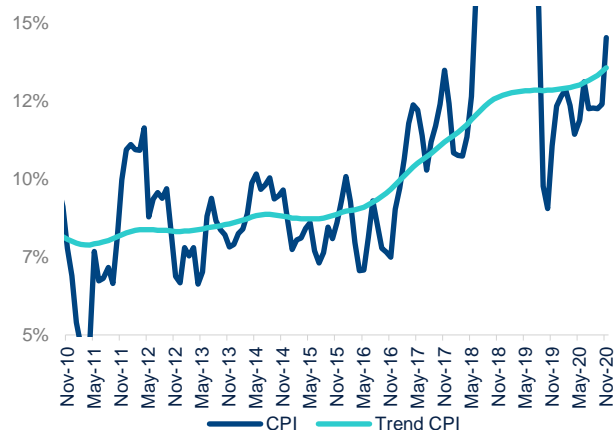
Following the recent gains in the currency, we expect the exchange rate pass-thru to calm down, which could also be supported by the expected deceleration in domestic demand; though increasing cost push pressures, high inertia and unfavorable base effects will keep the headline increasing till May 2021 before a gradual disinflation path thereafter. After today's spike, we now forecast consumer inflation to end the year at near 14% and maintain our 2021 year-end forecast at 11%.

Chart 3. **Consumer Inflation Diffusion Map, YoY**



Source: BBVA Research Turkey, Turkstat,

Chart 5. **CPI and Trend Inflation, YoY**



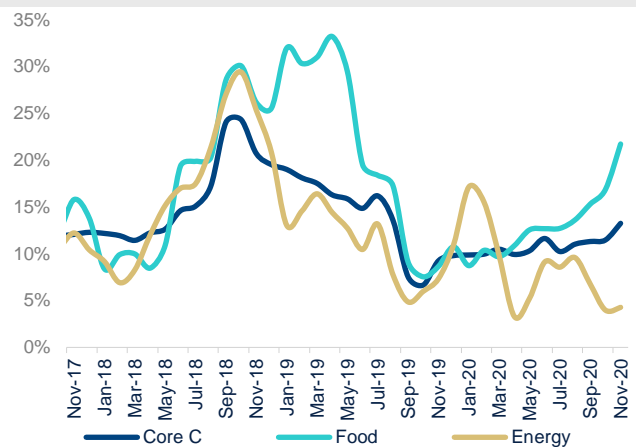
Source: BBVA Research Turkey UCSV-MA Model, Turkstat

Chart 7. **CPI in Subcomponents**

	MoM	YoY
Total	2.30%	14.03%
Food & Non-alcoholic beverages	4.2%	21.1%
Beverage & Tobacco	0.0%	0.7%
Clothing & Textile	1.5%	1.0%
Housing	1.0%	9.1%
Household Equipment	1.7%	14.2%
Health	0.8%	16.2%
Transportation	4.5%	18.7%
Communication	0.1%	5.2%
Recreation & Culture	1.5%	10.2%
Education	-0.2%	7.0%
Restaurants & Hotels	1.1%	12.6%
Misc. Goods & Services	1.1%	29.4%

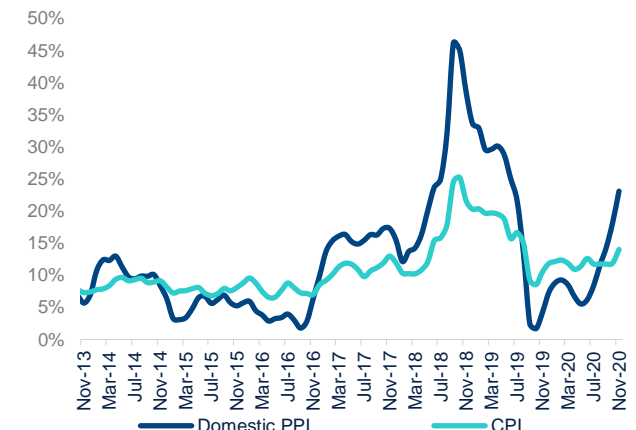
Source: BBVA Research Turkey & Turkstat

Chart 4. **CPI Components, YoY**



Source: BBVA-Research Turkey, Turkstat,

Chart 6. **CPI vs PPI, YoY**



Source: BBVA Research Turkey, Turkstat

Chart 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	4.08%	23.11%
Mining & Quarrying	2.2%	19.6%
Manufacturing	4.3%	25.0%
Food Products	6.4%	24.9%
Textiles	2.6%	25.1%
Wearing Apparel	1.6%	6.9%
Coke & Petroleum Products	5.3%	-3.5%
Chemicals	3.2%	24.4%
Other Non-Metallic Mineral	3.3%	12.2%
Basic Metals	7.4%	48.9%
Metal Products	1.6%	30.0%
Electrical Equipment	4.5%	27.7%
Electricity, Gas, Steam	1.7%	0.6%

Source: BBVA Research Turkey & Turkstat

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