

Economic Watch

# Turkey: May CPI surprised on the downside

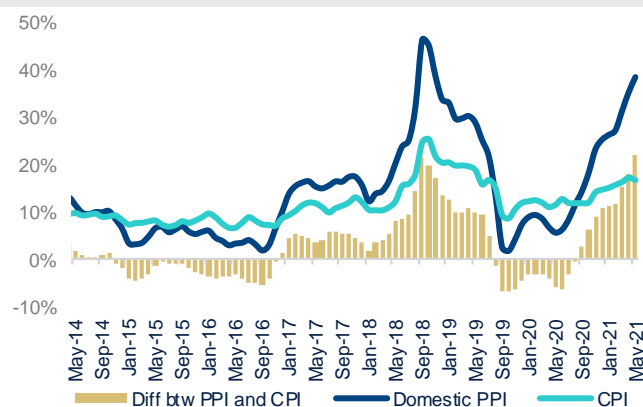
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3 June 2021

Consumer prices increased by 0.89% in May, sizably lower than expectations (BBVA Research, Consensus 1.3%), resulting in an annual inflation of 16.59% (down from 17.14% the month before). The weaker than expected figure seems to reflect the impact of the stricter lock-down measures in May since TURKSTAT was not able to collect prices especially in clothing, entertainment and restaurant groups (showing price changes sizably lower than their historical averages). Therefore, given the potential adjustments once the economy has started to reopen, this weakness might be temporary and result in a new peak in CPI in the coming months in a period of deepening cost-push factors as domestic producer price inflation once again surprised on the upside with 3.9% mom increase implying an annual inflation of 38.3%. Since domestic demand still doesn't show a clear sign of deceleration despite tighter financial conditions and inflation expectations remain deteriorating led by the increasing uncertainty in domestic policies and other supply-side problems, risks are still tilted to the upside. Even in a gradual currency depreciation pattern, we expect consumer inflation to hover around 17% till November and end the year at near 15% with the help of positive base effects on food inflation in the last two months of the year.

## A temporary impact which will likely reverse with the reopening in the economy

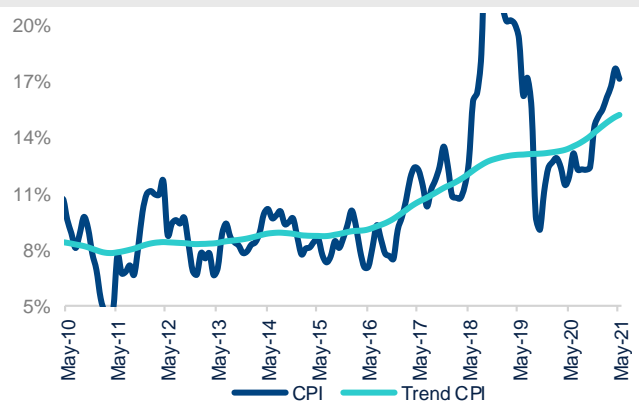
Food inflation was materialized as 0.2% mom led by seasonally low unprocessed food prices (-0.3% mom) and still a mild increase in processed food prices (1% mom), resulting in a steady level of annual food inflation at 17.4%. Although energy inflation accelerated to 1.5% mom mostly on the recent increase in special consumption tax on fuel prices, energy prices annual inflation still declined to 17.7% on base effects. Therefore, the main downside surprise came from the weaker than expected core inflation being realized at 1% mom, led by the seasonally much lower realizations in certain subgroups such as clothing (1.8% vs. 6% in 5 years avg.) and entertainment (-1.3% vs. 1.4% seasonal). Also, a weaker reading in restaurants all implied the impact of the stricter lock-down measures. On the other hand, higher price adjustments in certain services groups such as transportation (5% mom) and communication (1% mom) prevented a further weakness. With this, annual core C inflation came down to 17% from 17.8% in April, mainly helped by the decline in basic goods annual inflation down to 20.8% from 23.1%; but annual services inflation continued to increase and reached 13.6%. Besides, domestic producer prices rose by 3.9% mom (vs our exp. 3.5% mom), resulting in an annual figure of 38.3% and a wider gap between producer and consumer prices (Figure 1). Last but not least, if excluded by seasonal and cyclical factors, we calculate a trend inflation level of near 14.5% (Figure 2). Therefore, if the potential impact of the reopening in the economy is considered, we believe the uncertainty on inflation outlook increased further, given the delayed demand and supply-side factors.

Figure 1. CPI vs Domestic PPI, YoY



Source: Garanti BBVA Research, Turkstat

Figure 2. CPI and Trend Inflation, YoY

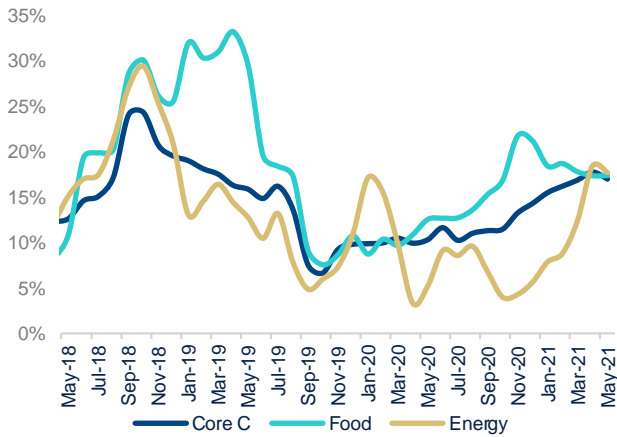


Source: Garanti BBVA Research, Turkstat

## ... which will require the CBRT to keep prudence

The deepening cost push factors, continuing exchange rate pass-thru and uncertainties in price adjustments once the economy is reopened might still result in a worsening inflation in the coming months. We maintain our year-end inflation forecast at 15% and expect the CBRT to start an easing cycle only very gradually in September.

Figure 3. **CPI Components, YoY**



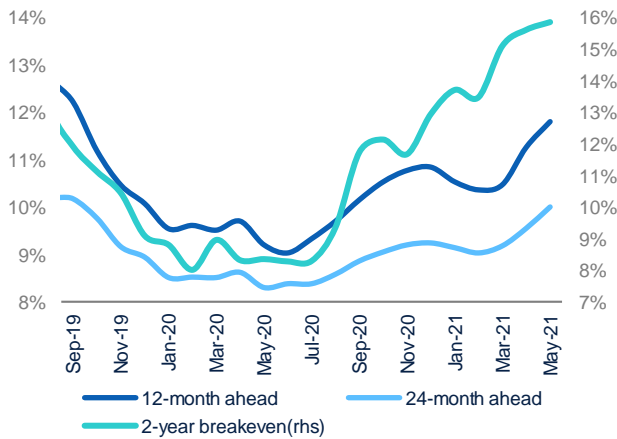
Source: Garanti BBVA Research, Turkstat

Figure 4. **CPI Components, YoY**



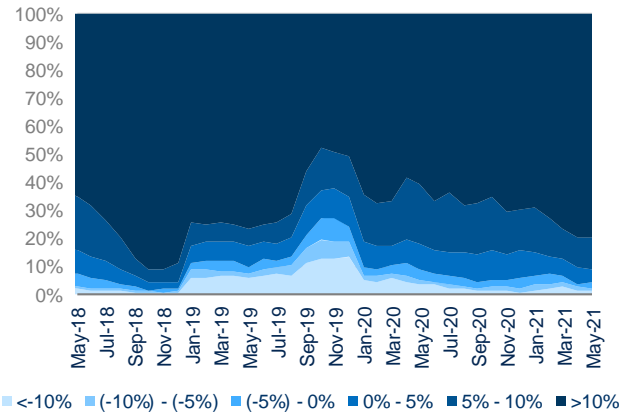
Source: Garanti BBVA Research, Turkstat, Bloomberg

Figure 5. **Inflation Expectations, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 6. **Consumer Inflation Diffusion Map, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 7. **CPI in Subcomponents**

	MoM	YoY
<b>Total</b>	<b>0.89%</b>	<b>16.59%</b>
Food & Non-alcoholic beverages	0.3%	17.0%
Beverage & Tobacco	0.0%	2.9%
Clothing & Textile	1.8%	5.7%
Housing	0.8%	14.1%
Household Equipment	0.7%	21.8%
Health	0.3%	19.3%
Transportation	2.6%	28.4%
Communication	0.6%	8.1%
Recreation & Culture	-1.3%	10.0%
Education	0.6%	10.6%
Restaurants & Hotels	0.9%	17.7%
Misc. Goods & Services	1.6%	17.9%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
<b>Total</b>	<b>3.92%</b>	<b>38.33%</b>
Mining & Quarrying	2.8%	32.9%
Manufacturing	3.9%	41.3%
Food Products	2.0%	30.1%
Textiles	4.5%	33.5%
Wearing Apparel	0.8%	8.6%
Coke & Petroleum Products	8.0%	167.1%
Chemicals	3.9%	44.0%
Other Non-Metallic Mineral	2.5%	34.1%
Basic Metals	1.1%	84.7%
Metal Products	5.8%	35.7%
Electrical Equipment	4.2%	36.8%
Electricity, Gas, Steam	4.6%	6.6%

Source: Garanti BBVA Research, Turkstat

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