

Turkey: Consumer inflation reached 18.95% in July

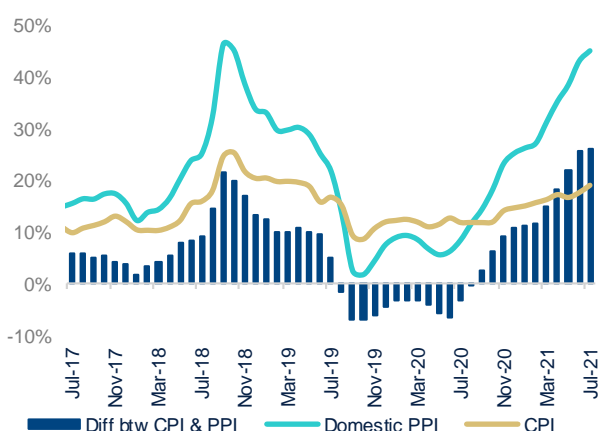
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3 August 2021

Consumer prices increased by 1.80% in July, again being realized above expectations (BBVA Research 1.67%, Consensus 1.57%). Annual consumer inflation rose to 18.95% up from 17.53% in June. Higher than expected positive food inflation in contrast to its seasonally negative level and a mixed picture in core prices resulted in our deviation. Some core prices still reflected the adjustments after the reopening in the economy in a period of deepening cost-push factors as domestic producer prices rose by 2.5% (44.9% in annual terms). Though, some others showed weaknesses, which might be temporary since deceleration in domestic demand is still limited and inflation expectations remain deteriorating led by the uncertainty in domestic policies and other supply-side problems. Potential volatility in food inflation due to this year's drought besides losses on still continuing fires, and deepened cost-push factors will keep the risks on the upside for inflation outlook in the near term. Even in a gradual currency depreciation pattern, we expect consumer inflation to stay close to 18.5-19% till November and end the year at 16% with the help of positive base effects on food inflation in the last two months of the year.

Upside surprise of food inflation and utility price hikes weighed on July CPI

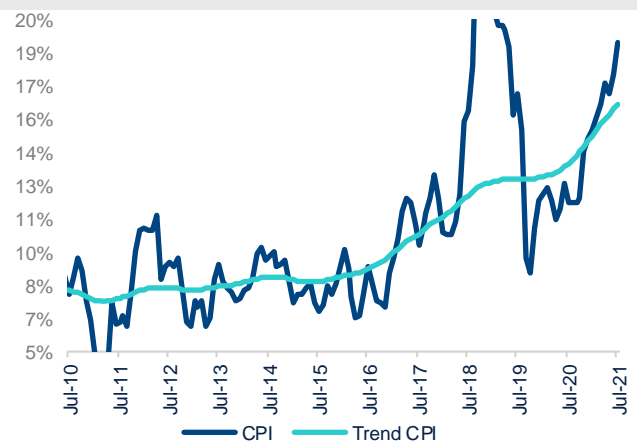
Food inflation surprised again on the upside with 2.85% mom stemming from not only 5.6% increase in unprocessed food prices despite its negative seasonal average (near -6%) but also processed food inflation of 2.6%. Therefore, annual food inflation rose to 25.5% from 20.4% the month before. Energy prices were also boosted by the recent natural gas and electricity price hikes (10% and 15%, respectively), and LPG and gas tube price increases (10% and 12%, respectively), which resulted in an 6.2% mom increase in energy prices (leading to 21.5% in annual terms up from 17.3%). On the other hand, core C inflation was realized relatively weaker with 0.62% mom increase, indicating an annual level of 17.22% (down from 17.47% in June). Some core prices still reflected the adjustments after the reopening in the economy, especially in services (1.3% mom, worsening to an annual figure of 13.75%) but others especially sensitive to both exchange rate and demand factors showed some weaknesses such as furniture (-4.1% mom) and automobile prices (0.4% mom). Given this mixed picture, core inflation might still increase in the coming months as cost push factors continued to deepen as domestic producer prices still rose by 2.5% mom with an annual figure of 44.9%, showing that the difference between consumer and producer prices reached a new peak (Figure 1). Also, inflation expectations remain deteriorating and experience even higher levels in recent surveys (Figure 5). Last but not least, the trend CPI (adjusted from cyclical and seasonal factors) keeps deteriorating with a new level of above 16% (Figure 2).

Figure 1. **CPI vs Domestic PPI, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 2. **CPI and Trend Inflation, YoY**

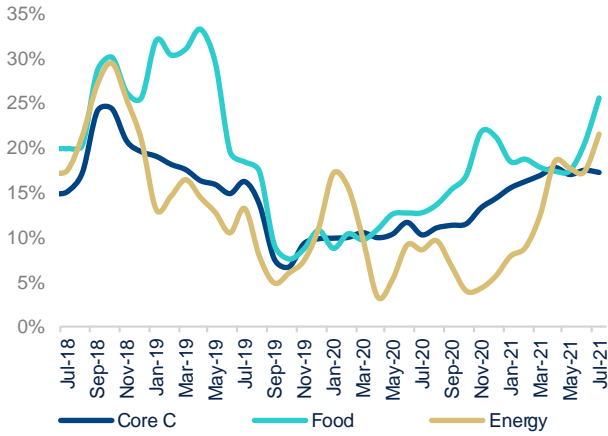


Source: Garanti BBVA Research, Turkstat

Risks remain tilted to the upside on inflation outlook

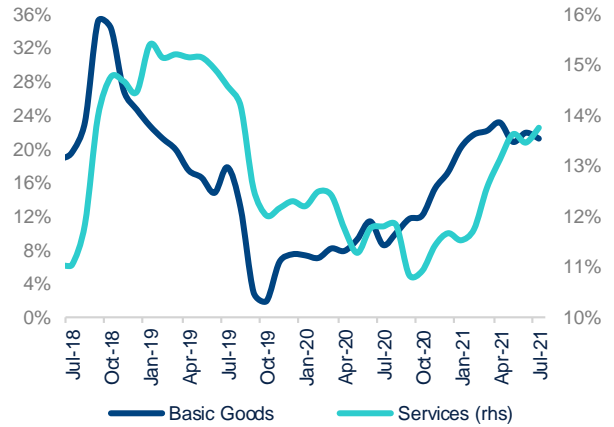
Cost push factors on strong commodity prices and supply side problems, pressures from the exchange rate pass thru, still growing domestic demand and worsening inflation expectations maintain uncertainties over the inflation outlook. We expect consumer inflation to realize 16% at the end of the year, which could provide only very limited room for an easing from the CBRT starting from October as the CBRT communication also highlights.

Figure 3. **CPI Components, YoY**



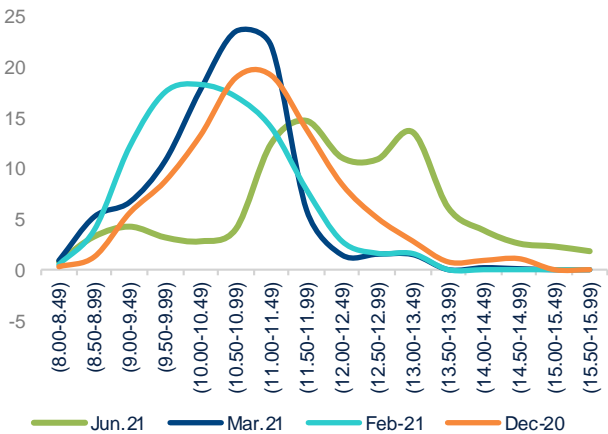
Source: Garanti BBVA Research, Turkstat

Figure 4. **Basic Goods and Services Inflation, YoY**



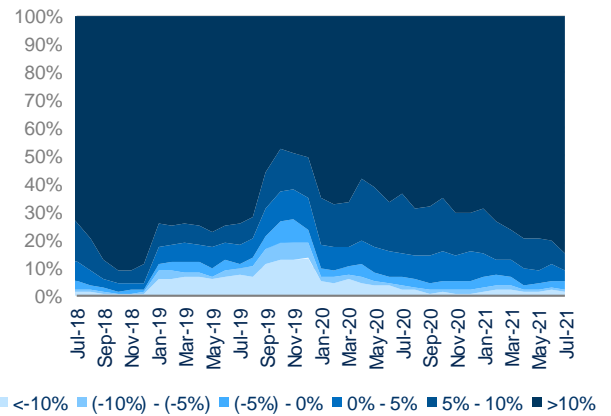
Source: Garanti BBVA Research, Turkstat, Bloomberg

Figure 5. **Probability Distribution of 12-month ahead CPI Expectations**



Source: Garanti BBVA Research, Turkstat

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



Source: Garanti BBVA Research, Turkstat

Figure 7. **CPI in Subcomponents**

	MoM	YoY
Total	1.80%	18.95%
Food & Non-alcoholic beverages	2.8%	24.9%
Beverage & Tobacco	0.0%	1.8%
Clothing & Textile	-2.1%	8.5%
Housing	5.1%	19.3%
Household Equipment	-0.1%	22.7%
Health	0.4%	18.6%
Transportation	1.1%	24.6%
Communication	0.1%	4.4%
Recreation & Culture	1.3%	12.2%
Education	1.5%	10.6%
Restaurants & Hotels	2.7%	20.6%
Misc. Goods & Services	0.1%	17.3%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	2.46%	44.92%
Mining & Quarrying	3.4%	34.3%
Manufacturing	2.4%	47.9%
Food Products	2.4%	38.9%
Textiles	1.3%	38.8%
Wearing Apparel	0.7%	11.5%
Coke & Petroleum Products	5.3%	111.0%
Chemicals	1.8%	51.0%
Other Non-Metallic Mineral	2.6%	39.2%
Basic Metals	1.1%	108.5%
Metal Products	0.8%	39.5%
Electrical Equipment	1.8%	40.4%
Electricity, Gas, Steam	3.0%	15.1%

Source: Garanti BBVA Research, Turkstat

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