

Turkey: Consumer inflation rose up to 19.25%

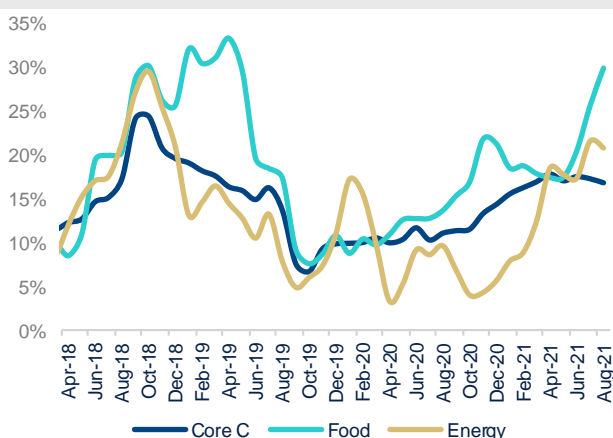
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3 September 2021

Consumer prices increased by 1.12% in August, again being realized above expectations (BBVA Research 0.9%, Consensus 0.7%) on the back of a higher than expected food inflation. Thus, annual consumer inflation rose to 19.25% up from 18.95% the month before. Core inflation continued to weaken and declined to 16.76%, helped by the recent changes in the special consumption tax ranges in personal cars. Though, other core prices still reflected the worsening in services prices and deepening cost-push factors as domestic producer prices still rose by 2.8% (45.5% in annual terms). Domestic demand stays relatively strong and inflation expectations keep deteriorating led by the uncertainty in domestic policies and other supply-side problems. Besides, historically high food inflation due to this year's drought and losses on several natural hazards, and continuing cost-push factors maintain risks on the upside for inflation outlook in the near term. We expect consumer inflation to stay close to 19% till November and end the year at close to 17%, led by the decline on positive base effects in the last two months of the year.

Upside risks on inflation on high food prices and further rise in cost push factors

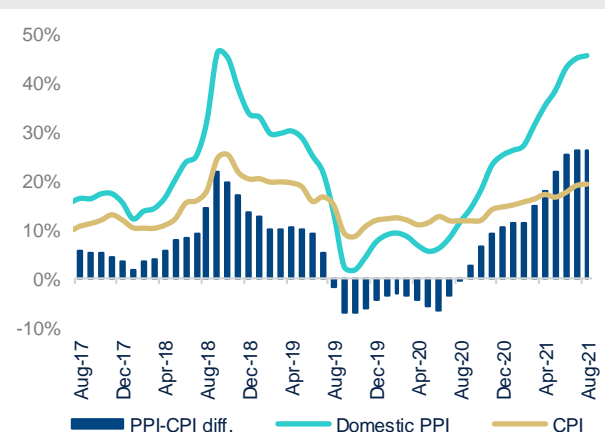
Food inflation surprised again on the upside with 3.3% mom on the back of 10.1% mom increase in fresh fruit and vegetable prices, in contrast to its negative seasonal average (-5%). Processed food inflation also materialized as 2.2% mom. Therefore, annual food inflation jumped up to 29.8% from 25.5% (Figure 1). On the other hand, energy inflation rose slightly by 0.6% mom, leading annual energy inflation to retreat to 20.7% from 21.5%. Also, core inflation remained relatively weaker with 0.38% mom increase on the back of recent changes in the special consumption tax ranges in personal cars despite still robust demand and ongoing cost push factors, and indicated an annual level of 16.76% (down from 17.22%). The decline in clothing and durable goods prices (-3.2% mom and -1% mom) was the supportive factors in basic goods. However, services prices inflation remained high with 1.3% mom due to the reopening of the economy, better tourism season and still strong demand, resulting in an annual inflation level up to 13.9%. Cost push factors strengthened further as producer prices increased by 2.7% mom, bringing the annual figure to 45.5% and the gap between CPI and PPI remains at record levels (Figure 1). All in all, according to our calculations, trend CPI (adjusted from cyclical and seasonal factors) continues to deteriorate with a level of above 16% (Figure 3), reinforcing stickiness over inertia for the future inflation outlook.

Figure 1. CPI Components, YoY



Source: Garanti BBVA Research, Turkstat

Figure 2. CPI vs Domestic PPI, YoY

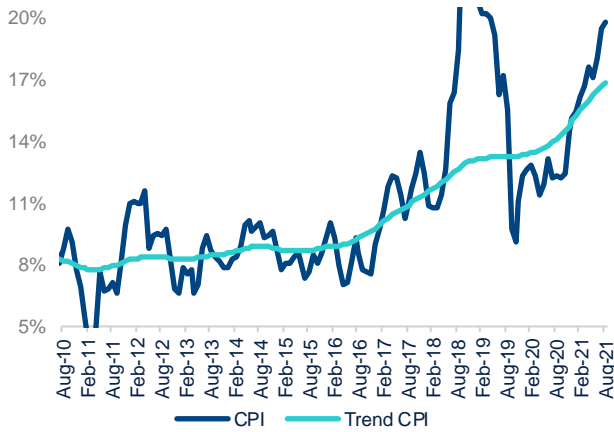


Source: Garanti BBVA Research, Turkstat

Inflation risks on the upside, rate cut in 4Q still on the table as the CBRT signals

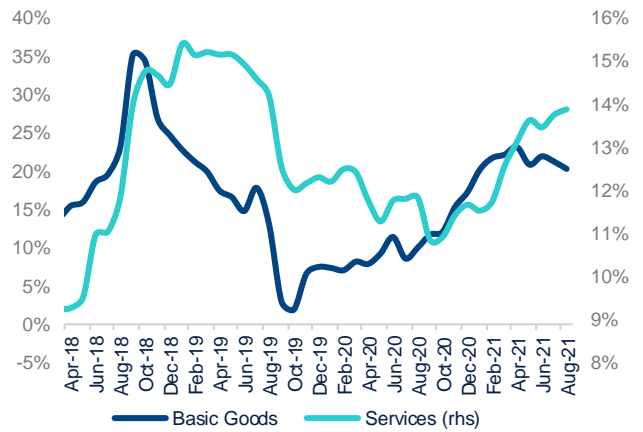
Although recent stable levels of the exchange rate provide some relief, cost push factors remain on track due to strong commodity prices and supply side problems. Also, still growing domestic demand and worsening inflation expectations facilitate pass-thru over the consumer prices, keeping the risks on the upside for inflation. We expect consumer inflation to stay close to 19% till November and then decline to near 17% at the end of the year, which leaves almost no room for an easing from the CBRT. But, given the recent CBRT communication, we still expect rate cuts in November and December, ending up with a policy rate of 18% at the end of the year.

Figure 3. **CPI and Trend CPI, YoY**



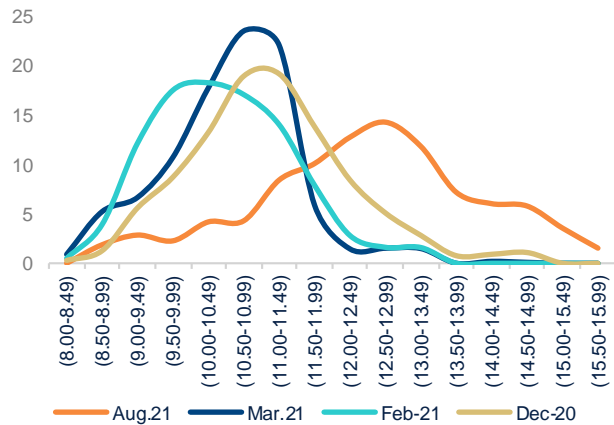
Source: Garanti BBVA Research, Turkstat

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



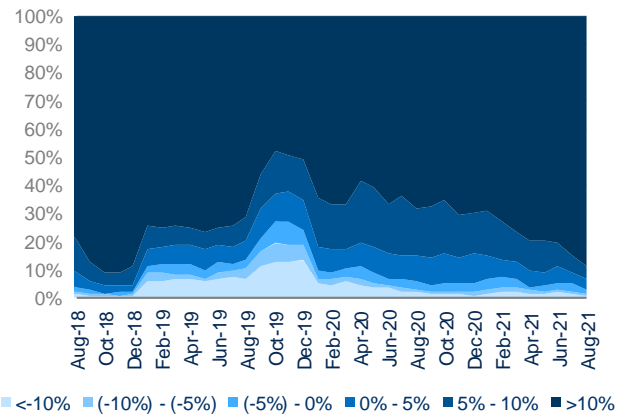
Source: Garanti BBVA Research, Turkstat, Bloomberg

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	1.12%	19.25%
Food & Non-alcoholic beverages	3.2%	29.0%
Beverage & Tobacco	0.2%	1.8%
Clothing & Textile	-3.1%	7.5%
Housing	0.9%	19.3%
Household Equipment	1.4%	22.9%
Health	0.3%	17.9%
Transportation	-0.8%	21.8%
Communication	0.9%	4.8%
Recreation & Culture	1.1%	12.2%
Education	0.6%	10.8%
Restaurants & Hotels	2.3%	21.5%
Misc. Goods & Services	1.2%	13.0%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	2.77%	45.52%
Mining & Quarrying	2.7%	31.8%
Manufacturing	1.2%	45.4%
Food Products	1.1%	39.2%
Textiles	0.6%	36.1%
Wearing Apparel	0.2%	10.8%
Coke & Petroleum Products	-3.1%	92.2%
Chemicals	1.8%	49.1%
Other Non-Metallic Mineral	4.0%	42.8%
Basic Metals	1.1%	100.3%
Metal Products	-0.1%	33.6%
Electrical Equipment	4.5%	41.4%
Electricity, Gas, Steam	19.5%	48.4%

Source: Garanti BBVA Research, Turkstat

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