

# Turkey: Core inflation surprisingly rose up to 17%

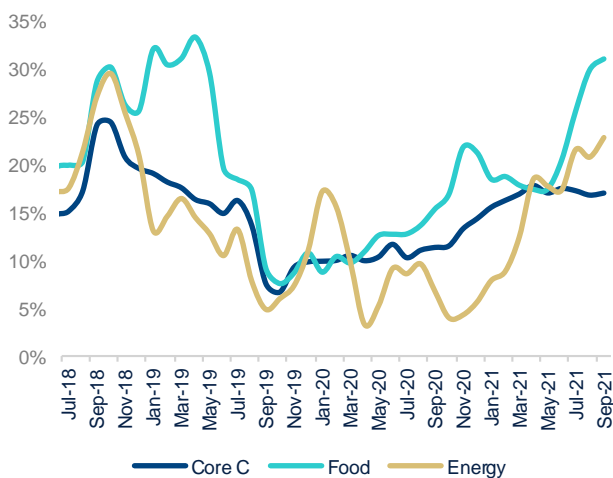
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4 October 2021

Consumer prices increased by 1.25% in September parallel to market expectations (1.27%) but slightly higher than ours (1.15%), resulting in an annual inflation of 19.58% up from 19.25% the month before. Our main deviation was due to core prices inflation, which surprisingly strengthened to 16.98% in annual terms. Domestic producer prices rose by 1.55% and its annual inflation slightly retreated to 44%, which will likely reverse in October due to higher energy prices and recent depreciation of the currency. Domestic demand remains strong on basically consumption and inflation expectations keep deteriorating. Besides, high food inflation due to drought and losses on several natural hazards, strengthening cost-push factors, and potentially ongoing energy price hikes following the pressures from global prices maintain risks on the upside for inflation outlook. We expect consumer inflation to increase further in October before declining to near 17% at the end of the year, led by the decline on positive base effects. Risks are clearly on the upside on our forecast, challenging the recent easing bias of the CBRT.

## Persisting upside risks on stronger cost-push factors and worsened expectations

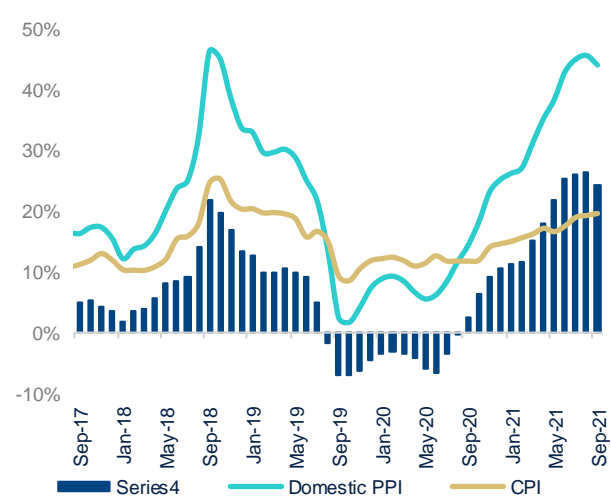
Food inflation moderated to 0.3% mom on the back of a correction in fresh fruit and vegetable prices (-3% mom) whereas processed food inflation remained strong with 1.5% mom. Thus, annual food inflation slightly declined to 28.8% but remained historically high. Energy prices rose by 2% mom following the water price hikes and higher commodity prices, resulting in an annual inflation of 22.8% which will likely deteriorate further in the next months, given the global energy price pressures. In contrast with expectations, core prices inflation surprised on the upside on the back of strengthening basic and durable goods prices which were weaker in the previous two months. Also, services prices continued to increase across-the-board with a realization of 15.1% in annual terms, confirming a deepening inertia impact. Therefore, annual core inflation accelerated back to 16.98% (previous: 16.76%) despite supportive base effects in September. Cost-push factors remain elevated although producer prices inflation moderated compared to previous months (1.5% mom) with an annual inflation declining to 44%. Second, inflation expectations keep worsening with higher levels as 12-month CPI and 24-month ahead expectations reached 12.9% and 10.7%, respectively. Third, according to high frequency data, domestic demand still grows up on consumption; and last but not least, deteriorating pricing behavior and further depreciation in currency maintain a worsening underlying trend on inflation, which will reinforce stickiness for the future outlook.

Figure 1. CPI Components, YoY



Source: Garanti BBVA Research, Turkstat

Figure 2. CPI vs Domestic PPI, YoY

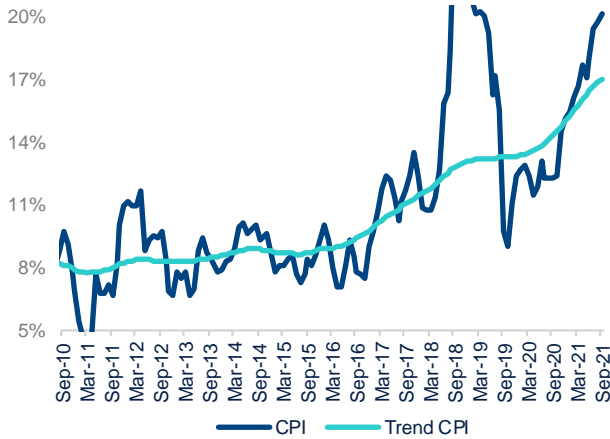


Source: Garanti BBVA Research, Turkstat

## Core prices might surprise on the upside, challenging the CBRT policy stance

Still growing domestic demand, worsening inflation expectations and strong cost push factors keep upward pressures on inflation. Given the recent depreciation and increased volatility, core inflation might surprise on the upside, which will challenge the recent forward guidance of the CBRT if the easing bias will continue.

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



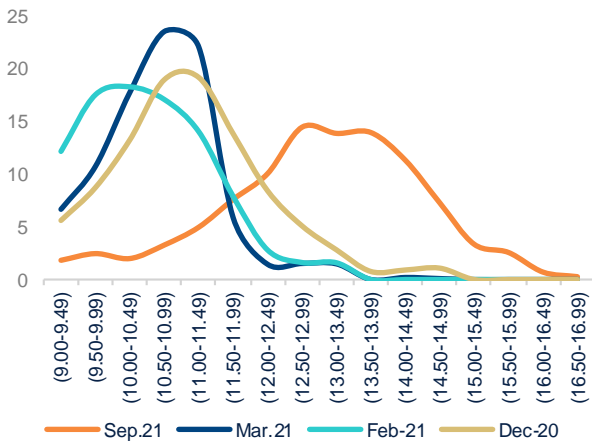
Source: Garanti BBVA Research, Turkstat

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



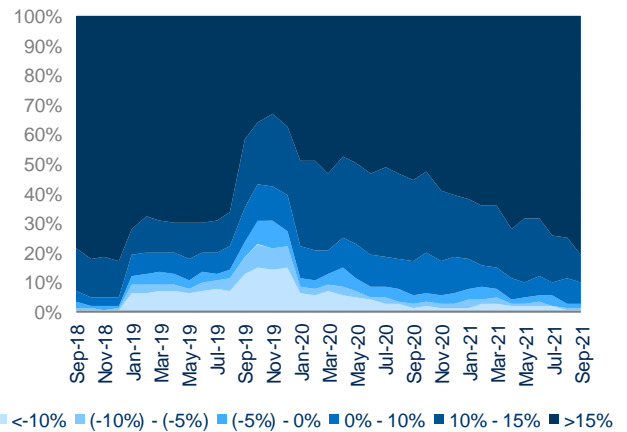
Source: Garanti BBVA Research, Turkstat, Bloomberg

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
<b>Total</b>	<b>1.25%</b>	<b>19.58%</b>
Food & Non-alcoholic beverages	0.5%	28.8%
Beverage & Tobacco	0.0%	1.8%
Clothing & Textile	-0.2%	7.3%
Housing	2.3%	21.0%
Household Equipment	3.3%	23.3%
Health	0.5%	17.5%
Transportation	0.5%	20.2%
Communication	0.5%	5.0%
Recreation & Culture	1.1%	12.4%
Education	5.1%	16.5%
Restaurants & Hotels	2.2%	23.3%
Misc. Goods & Services	1.5%	13.9%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
<b>Total</b>	<b>1.55%</b>	<b>43.96%</b>
Mining & Quarrying	-0.4%	28.4%
Manufacturing	1.6%	43.7%
Food Products	1.2%	38.0%
Textiles	1.4%	34.3%
Wearing Apparel	1.4%	9.8%
Coke & Petroleum Products	3.4%	102.0%
Chemicals	2.1%	46.9%
Other Non-Metallic Mineral	2.0%	43.1%
Basic Metals	1.1%	91.7%
Metal Products	1.9%	31.9%
Electrical Equipment	1.0%	39.3%
Electricity, Gas, Steam	1.3%	50.1%

Source: Garanti BBVA Research, Turkstat

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