Inflation Pulse

Türkiye | Temporary jump in inflation trend at July

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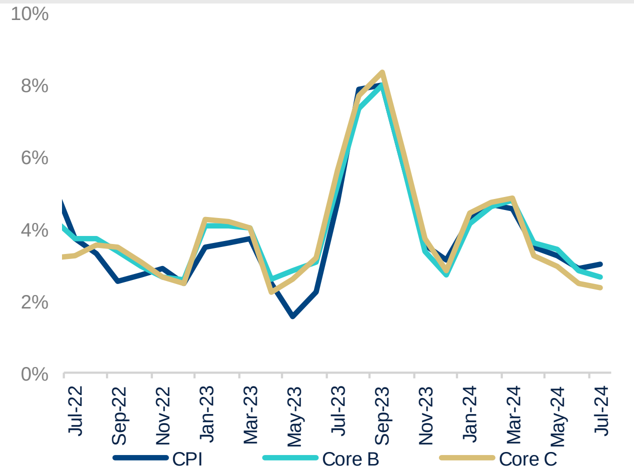
5 August 2024

Consumer prices rose by 3.23% m/m in July, lower than both our expectation (3.6%) and consensus (3.45%, according to Reuters), but annual inflation declined to 61.8% from 71.6% in June on strong base effect. The worsening in monthly inflation trend remained limited excluding the one-off impact stemming from electricity price hikes and automatic tax adjustment in fuel prices and tobacco and alcoholic beverages. Core inflation deteriorated on services prices especially on the backward indexation, signaling ongoing robust inertia while basic goods prices remained subdued. The recent hike in natural gas prices on top of second effects could lead to high August inflation. Aggregate demand, which remains inflationary due to the slow rebalancing in the economy, elevated inflation expectations, strong inertia and geopolitical risks continue to pose upside risk on the inflation outlook. We expect the annual inflation to slow down below 50% by September on base effect and to reach 43% by the end of 2024 assuming no additional energy price hikes, more moderation in demand and stable currency. If the policy mix would not be effective to fight against inflation in second half, CBRT should remain tight for longer, putting upward bias on our gradual rate cuts expectation in 4Q24.

The worsening in core inflation on services prices, pointing to still robust inertia…

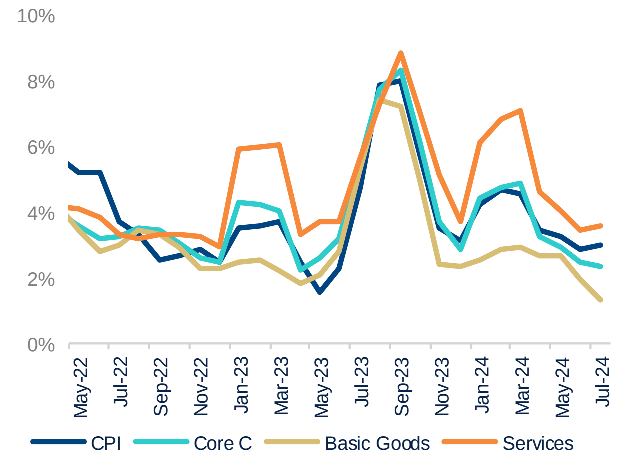
The consumer inflation picked up in July after the rapid decline in June, stemming from mainly the tax adjustments on fuel, alcohol and tobacco prices and electricity price hike, having total impact around 1-1.5 percentage points (pp) on monthly figure based on our calculation. If this contribution is excluded, the deterioration in inflation trend appears more limited. Core inflation materialized as 2.56% m/m (1.83% m/m prev.) in July on seasonally adjusted series (sa) on the back of services inflation, leading 3-month moving average to improve very slightly to 2.4%(vs 2.5% in June) according to our calculations. However, annual core inflation decreased to 60.2% from 71.4% in June thanks to the favorable base effect. Services prices increased by 4.29% m/m (sa), supported by the backward indexation, recent wage adjustment in private sector, second round effects and moderating but still robust domestic demand. In particular, rent inflation geared up to 7.0% m/m (5.1% m/m) as a result of the removal of 25% rent hike ceiling as of July and communication services rose by 5.5% m/m (4.2% m/m), contributing to the broad-based worsening in services prices. So, the 3-month average trend in services inflation worsened to 3.6% (3.5% prev.). On the other hand, stable currency and some moderation in domestic demand resulted in weak basic goods inflation in July, led by the 2.7% m/m decline in clothing and moderate increase in durable goods with 0.6% m/m. Although trend inflation in basic goods eased to 1.32% (1.96% prev.), the stronger realizations in services trend pointed still solid inertia.

Figure 1. CONSUMER INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

Figure 2. CONSUMER INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

The energy prices demonstrated a significant increase with 10.0% m/m (vs. 1.4% m/m), led by the 38% electricity price hike (38%) for the residential usage, contributing 0.7 percentage points to the headline inflation on top of the automatic special consumption tax rate adjustment in fuel prices. The recent price hikes in natural gas prices would have 1pp direct impact on August consumer inflation while total impact could be around 1.5pp.

Food inflation eased in July (1.69% m/m vs. 1.76% prev.), on the back of the slow-down in the fresh fruit and vegetables inflation (3.1% m/m vs. 6.1% prev.). The unprocessed food inflation slightly inched upward (1.1% m/m vs. 0.8% prev.), while other unprocessed food prices continued to decrease (-0.2% m/m vs. -2.2% prev.). On the other hand, processed food inflation remained strong with 2.5% m/m (2.7% m/m prev.).

Finally, despite the rise in the producer price inflation by 1.9% m/m in July with the upward adjustments in the energy prices (7.4% m/m vs. %2.7 prev.), the cost push factors remained weak as 3-month moving average decelerated further to 1.8% from 2.3% in June. Also, the annual producer prices inflation declined down to 41.37% y/y (50.09% y/y prev.), on the back of supportive base effect.

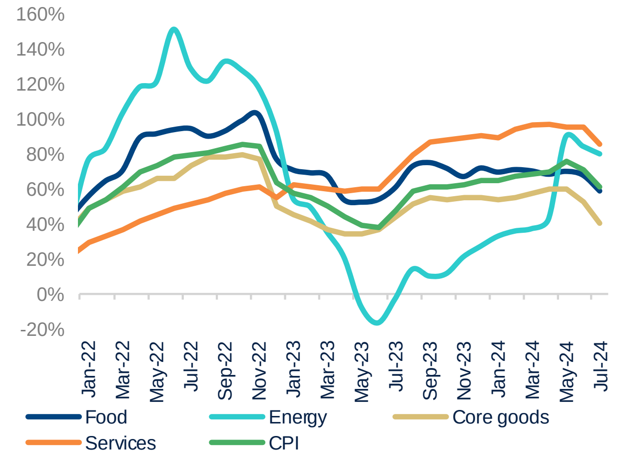
…no rush to begin easing cycle considering unanchored inflation expectations

July inflation realizations hit a blow to the trend inflation due to the one-off price hikes and adjustments in administered prices. The price of natural gas used in residences has been hiked by 38% in line with our expectation, as of Aug 1, 2024, which could have direct impact of 1pp on August consumer inflation whereas total impact including indirect could be around 1.5pp. Considering the gas price hike, second round effects and some delayed impact of the automatic adjustment of the special consumption tax, we expect that the August inflation could remain at elevated levels, close to 2.5-3%.

Meanwhile, considering the medium and long term, the inflation expectations of the professional forecasters improved only slightly in July with 42.95% (43.52% prev.) and 25.40% (25.51% prev.) for 2024 and 2025 year-end inflation, respectively (Figure 6). Similarly, the real sector's expectation for 12-month ahead inflation retreated to 55% from 56.20% in July. However, the households remain harder to persuade over the improvement of inflation, with their expectation for 12-month ahead slightly inching upward to 71.98% (from 71.49%). Overall, the inflation expectation remain well above CBRT's interim targets of 38% and 14%. Second, despite some moderation, the aggregate demand remained inflationary, as we mentioned in our recent publication. Finally, even including our disinflation path through the year end, permanent inflation is still high (Figure 4). To sum up, still robust inertia, unanchored inflation expectations, gradual rebalancing in activity and the geopolitical risks maintain upside risk on the inflation in the short run. Therefore, we evaluate that the CBRT will maintain the cautious stance on monetary policy while keeping the previous inflation forecasts in the upcoming Inflation Report-III 2024.

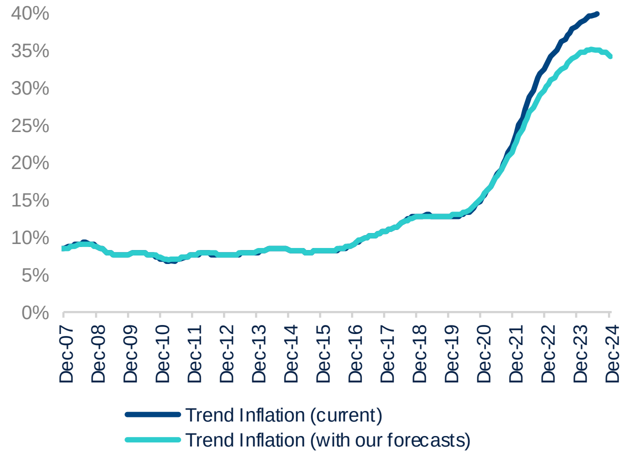
A stricter and clearer fiscal consolidation is needed to complement and to strengthen the impact of hawkish monetary stance and to achieve a faster rebalancing in the economy in the second half of the year. Hence, the Medium Term Plan, which could be likely released in early September, would be an important factor to improve expectations. We expect inflation trend to decelerate further through the end of the year, providing CBRT to start gradual easing cycle but if the policy mix would not be effective enough, it should remain restrictive longer than we expect in baseline.

Figure 3. **CONSUMER INFLATION INDICATORS** (YoY)



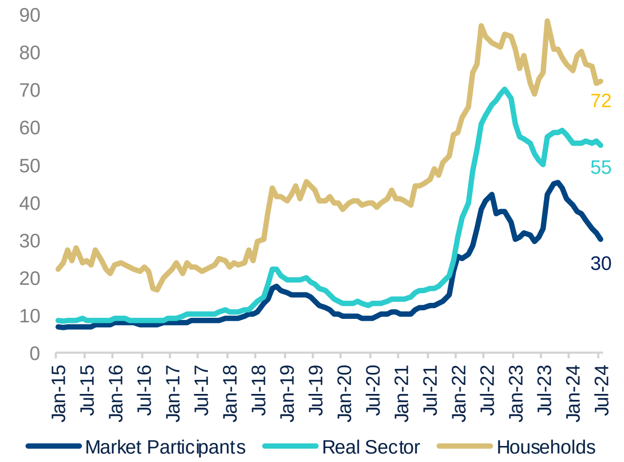
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **CONSUMER INFLATION TREND** (YoY)



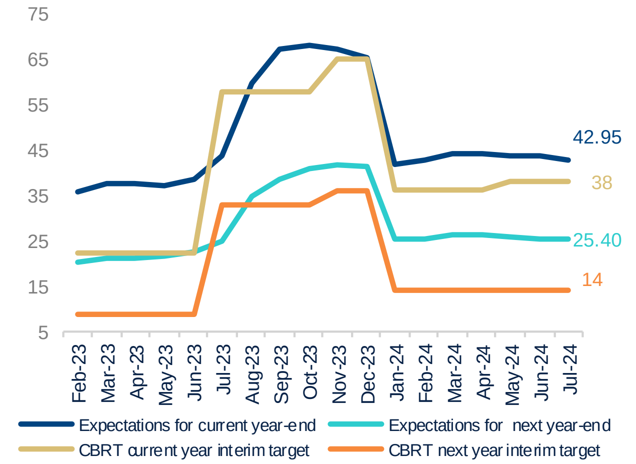
Source: Garanti BBVA Research, TURKSTAT, UCSV-MA Model

Figure 5. **CBRT SECTORAL INFLATION EXPECTATIONS** (%, 12 MONTH AHEAD, ANNUAL)



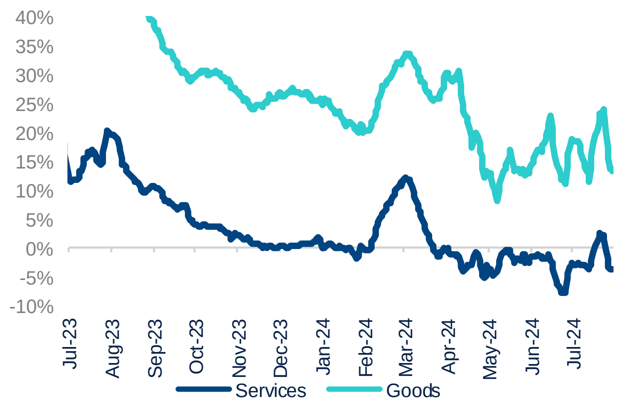
Source: Garanti BBVA Research, CBRT

Figure 6. **CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATIONS** (%)



Source: Garanti BBVA Research, CBRT

Figure 7. **GARANTI BBVA BIG DATA CONSUMPTION INDICATORS** (28-day sum, real YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. **CPI SUBCOMPONENTS**

	MoM	YoY
Total	**3.23%**	**61.78%**
Food & Non-alcoholic beverages	1.8%	58.9%
Beverage & Tobacco	5.8%	59.9%
Clothing & Textile	-2.6%	39.6%
Housing	8.1%	98.5%
Household Equipment	1.7%	56.6%
Health	3.7%	63.0%
Transportation	3.8%	46.1%
Communication	3.2%	48.0%
Recreation & Culture	2.1%	54.8%
Education	1.4%	104.5%
Restaurants & Hotels	3.3%	76.0%
Misc. Goods & Services	2.9%	55.6%

Source: Garanti BBVA Research, TURKSTAT

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