Creating Opportunities

Turkey: Annual CPI climbed up to 48.7% in January

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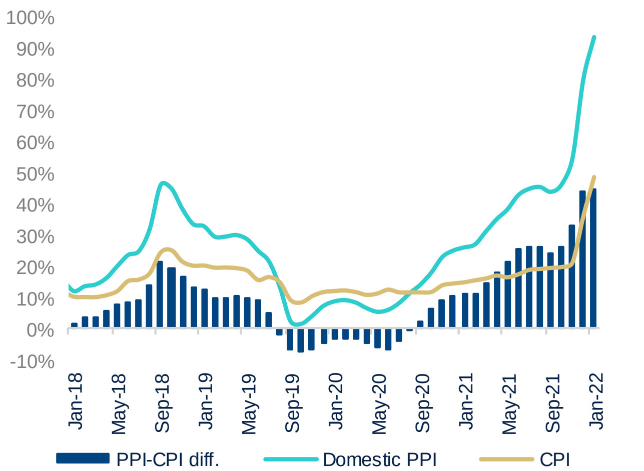
Consumer prices increased by 11.1% in January, parallel to expectations (BBVA Research 11.5%, Consensus 11%) and resulted in an annual inflation of 48.7%, up from 36.1% the previous month. The data reflects a broad-based worsening of price pressures, amid rapid pass-through from both the foreign exchange rate and cost factors. In fact domestic producer prices maintained an upward trend (10.4% m/m, 93.5% y/y), given the recent energy price hikes, wage increases and lagged effects from higher commodity prices and currency depreciation. Looking ahead, although the currency has stabilized, strong cost-push factors, high food inflation and pressure from imported prices reinforce inflation uncertainty due to potentially high second round effects. Furthermore, continuing demand-pull effects supported by the recent wage hikes and deteriorating inflation expectations keep inflationary risks to the upside. We expect consumer inflation to remain around 55% in 2Q and 3Q before slowing down to 35% at the end of the year, helped by the base impact in December.

A continuing wide-spread deterioration of inflation

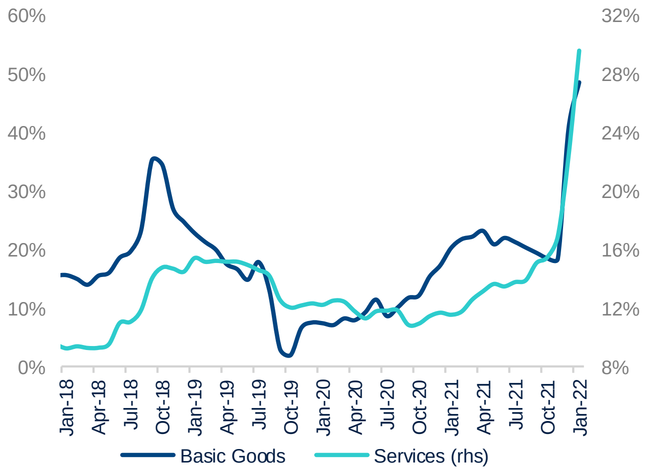
January's high inflation, and ongoing pressures from energy costs (price hikes & shortages) and other commodity prices highlight that exchange rate depreciation and cost effects continued to pass on to prices at a rapid pace. Therefore, potentially high second round effects and worsening inflation expectations will keep upside pressure on inflation even though there has been some stabilization in the currency in recent weeks. According to the release, there has also been the regular update of the basket and its corresponding weights, which would increase the contribution of core and energy prices on inflation in 2022 (Figure 6). In details, food inflation reached a new record level of 56.8% y/y in January, while energy prices accelerated further to 76.4% y/y, on the back of both fuel and utility price increases. Core prices remained high as well at 6.9% m/m and 39.5% y/y, led by broad-based price gains including the most sticky services prices. Moreover, cost push factors strengthened further with domestic producer prices increasing 93.5% y/y. Inflation expectations also worsened with the 12-month and 24-month ahead expectations reaching 25.4% and 15.5%, respectively. This reflects, in part, recent credit expansion and brought-forward demand, which could result in a high self-reinforcing inertia that could prove difficulties to tame down in the longer run. All in all, high cost push factors accompanied with worsening expectations, and continuing supply side problems maintain inflationary risks to the upside, which we expect to challenge the currency outlook.

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



Source: Garanti BBVA Research, Turkstat

Figure 2. **Basic Goods and Services Inflation, YoY**

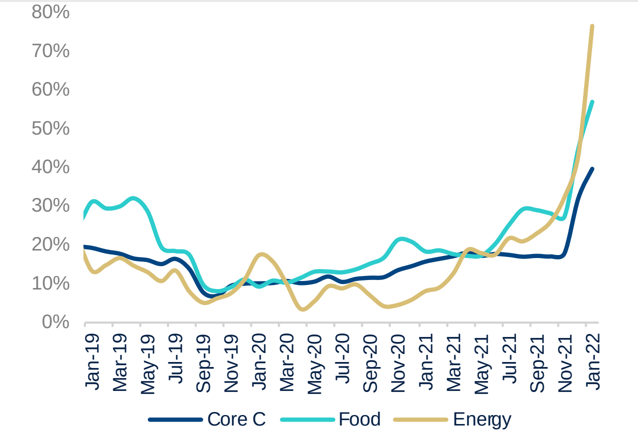


Source: Garanti BBVA Research, Turkstat

Dynamic effects show the risk of an inflation spiral

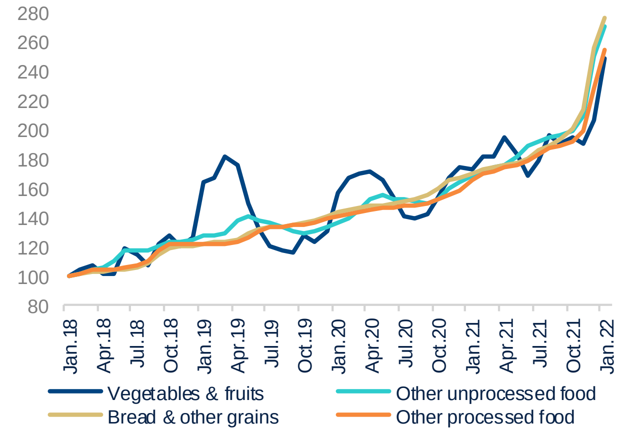
We expect consumer inflation to stay around 55% in 2Q and 3Q, before falling down to 35% on positive base effects in December. Therefore, it becomes even more challenging to continue with current loose monetary and fiscal policies, particularly when foreign yields are also rising and global inflation remains stubbornly high. Dynamic effects also confirm the risk of an inflation spiral, which we would expect to increase the pressure on the currency.

Figure 3. **CPI Components, YoY**



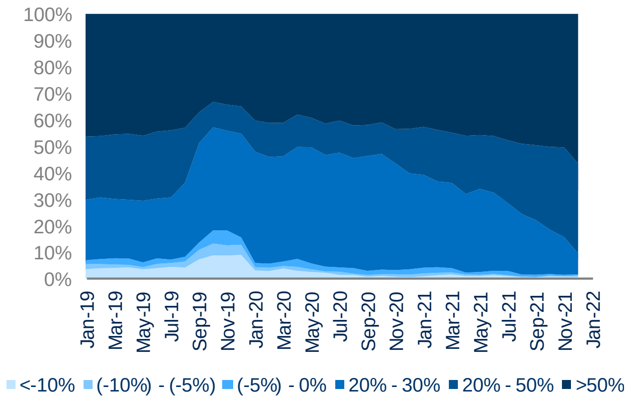
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **Food Prices, January 2018 = 100**



Source: Garanti BBVA Research, TURKSTAT

Figure 5. **Consumer Inflation Diffusion Map, YoY**



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Weights in CPI Basket (%)**

	2019	2020	2021	2022
Food and non-alcoholic beverages	23.3%	22.8%	25.9%	25.3%
Alcoholic beverages and tobacco	4.2%	6.1%	4.9%	4.3%
Clothing and footwear	7.2%	7.0%	5.9%	6.4%
Housing	15.2%	14.3%	15.4%	14.1%
Furnishings, household equipment	8.3%	7.8%	8.6%	8.9%
Health	2.6%	2.8%	3.2%	3.2%
Transportation	16.8%	15.6%	15.5%	16.8%
Communication	3.7%	3.8%	4.6%	3.8%
Recreation and culture	3.3%	3.3%	3.0%	3.1%
Education	2.4%	2.6%	2.3%	2.0%
Hotels, restaurants	7.9%	8.7%	5.9%	7.1%
Other	5.2%	5.4%	4.7%	5.0%
Energy Inflation	**12.7%**	**12.2%**	**12.1%**	**12.7%**
Core C Inflation	**58.6%**	**57.6%**	**56.3%**	**56.7%**

Source: Garanti BBVA Research, TURKSTAT

Figure 7. **CPI in Subcomponents**

	MoM	YoY
Total	**11.10%**	**48.69%**
Food & Non-alcoholic beverages	10.9%	55.6%
Beverage & Tobacco	21.9%	45.3%
Clothing & Textile	-0.2%	25.3%
Housing	18.9%	48.4%
Household Equipment	12.8%	54.5%
Health	11.3%	28.6%
Transportation	11.1%	68.9%
Communication	2.2%	10.8%
Recreation & Culture	8.8%	34.8%
Education	1.2%	18.7%
Restaurants & Hotels	8.4%	50.4%
Misc. Goods & Services	8.1%	43.5%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	**10.45%**	**93.53%**
Mining & Quarrying	17.4%	86.5%
Manufacturing	10.2%	90.3%
Food Products	10.7%	75.9%
Textiles	7.6%	102.9%
Wearing Apparel	8.0%	29.9%
Coke & Petroleum Products	11.6%	180.7%
Chemicals	8.0%	114.7%
Other Non-Metallic Mineral	20.7%	92.7%
Basic Metals	1.1%	136.3%
Metal Products	6.7%	78.3%
Electrical Equipment	9.8%	83.5%
Electricity, Gas, Steam	10.6%	138.5%

Source: Garanti BBVA Research, Turkstat

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