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 brough-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.

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

Figure 4. Food Prices, January 2018 = 100

Figure 5. Consumer Inflation Diffusion Map, YoY

Figure 6. Weights in CPI Basket (%)

Figure 7. CPI in Subcomponents

Figure 8. Domestic PPI in Subcomponents

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