

Turkey: Core inflation surprisingly rose up to 17%

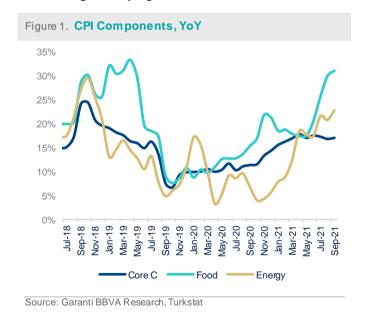
Adem Ileri / Seda Guler Mert / Yesim Ugurlu Solaz

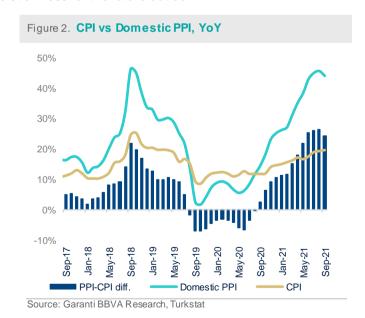
4 October 2021

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.





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

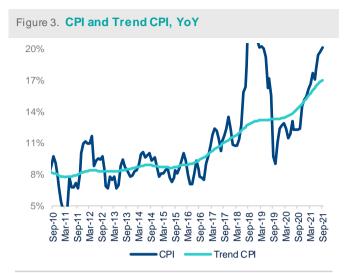
Still growing domestic demand, worsening inflation expectations and strong cost push factors keep upward pressures on inflation. Given the recent depreciation and increased volatility, core inflation might surprise on the upside, which will challenge the recent forward guidance of the CBRT if the easing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

10%

9%

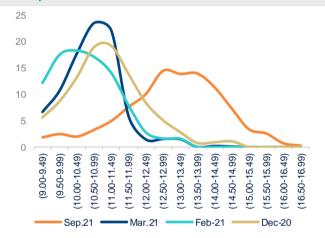
8%





Source: Garanti BBVA Research, Turkstat

Figure 5. Probability Distribution of 12-month ahead CPI Expectations



Source: Garanti BBVA Research, Turkstat

Figure 7. CPI in Subcomponents

| | MoM | YoY |
|--------------------------------|-------|--------|
| Total | 1.25% | 19.58% |
| 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

16% 35% 30% 25% 20% 15%

Basic Goods Services (rhs
Source: Garanti BBVA Research, Turkstat, Bloomberg

10%

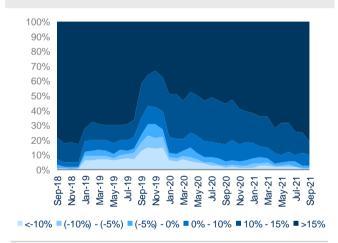
5%

0%

Mar-18

Sep-18
Dec-18
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Mar-21
Jun-21

Figure 6. Consumer Inflation Diffusion Map, YoY



Source: Garanti BBVA Research, Turkstat

Figure 8. Domestic PPI in Subcomponents

| | MoM | YoY |
|----------------------------|-------|--------|
| Total | 1.55% | 43.96% |
| 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



DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.

