

Inflation Pulse

Türkiye | Inflation trend weakens clearly in June

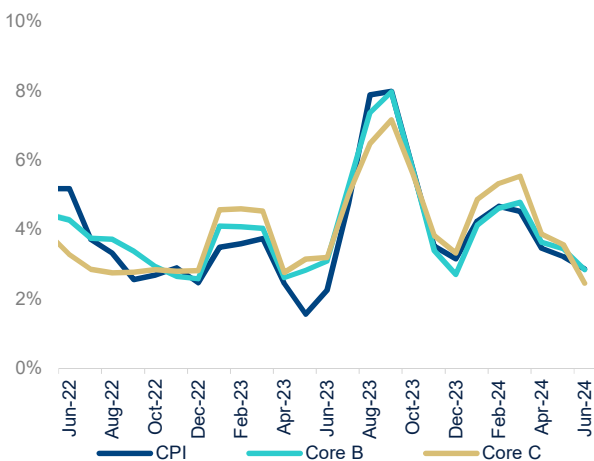
Adem İleri / Gül Yücel
3 July 2024

Consumer prices rose by 1.64% m/m in June, much lower than both our expectation (2.24%) and consensus (2.20%), which led to an annual inflation of 71.60%. We observe a considerable slow-down in core prices inflation, mostly driven by basic goods inflation on top of some softening in domestic demand and a stable currency. Services prices trend also shows a deceleration but to a limited extent, confirming the dying out effects of the wage indexation in the first half of the year. Producer prices inflation continued to gear down as well, due to weaker energy prices and a stable Turkish lira. We expect monthly consumer inflation trend to continue to weaken, driving the annual inflation down to 45-50% range by September and to 43% by the end of 2024. Despite the tight financial conditions, the rebalancing in the economy has been slowly taking place due to the counter effects over the monetary transmission mechanism and continuing supportive fiscal stance. Since inflation expectations also remain high, keeping a cautious and restrictive monetary stance against inflation as long as needed will be crucial.

Core inflation trend moderates on basic goods and services prices

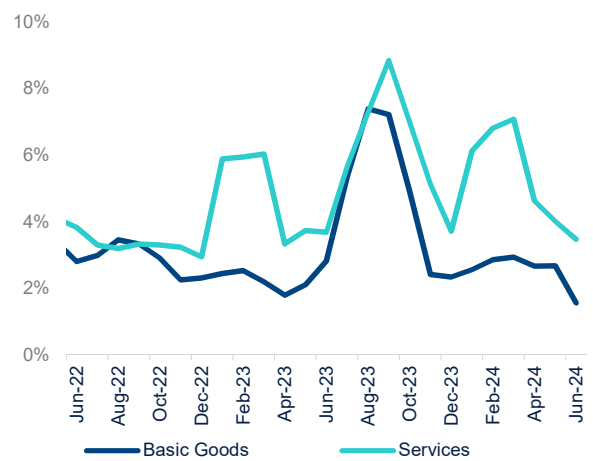
According to our calculations, consumer prices inflation dropped down to 1.9% m/m (3.6% m/m prev.) on a seasonally adjusted basis, which led its 3-month average trend to decline to 2.9% (vs. 1.5% target of the CBRT in 4Q24). The slow-down in core prices inflation was the main driver behind the clear deceleration, supported by basic goods and services. Some normalization in domestic demand and the stable level of the currency started to affect basic goods prices as it declined modestly on seasonally adjusted terms. Nevertheless, if the fall in the automobile prices (-0.9% m/m) on the back of the recent price reduction campaigns in order to deplete the current inventories ahead of the expected change in regulation is considered, the improvement in basic goods inflation would be less than observed. The contraction in clothing & footwear prices of 0.7% was also noteworthy since it barely catches up with its seasonality. As a result, the 3-month average trend in goods inflation retreated to below 2% m/m (vs. previous 2.7% m/m) in our calculations. Besides, decelerating impact of wage indexation and moderation in demand led further improvement in services prices. Monthly services inflation slowed down to 3.3% (2.6% m/m seasonally adjusted), driven by the retreat in the restaurant & hotel price inflation (3.1% m/m) and other services (2% m/m). On the other hand, rent (5.1% m/m) and transportation services inflation (4.5% m/m) remained strong. Still, the 3-month average services inflation trend eventually fell to 3.5% m/m (vs. 4% m/m prev.). All in all, annual basic goods inflation slowed down to 50.6% and services inflation fell only slightly to 95.3%, resulting in an annual core C inflation of 71.4%.

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)

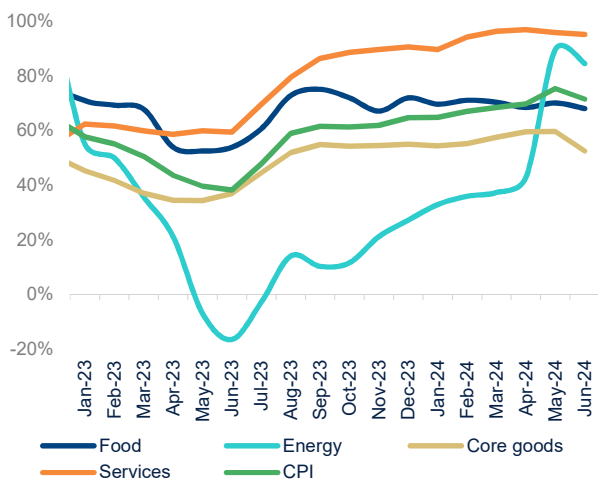


Source: Garanti BBVA Research, TURKSTAT

Food prices inflation materialized (1.76% m/m vs. 1.55% m/m prev.), higher than our expectations (1.1% m/m). Although other unprocessed food prices declined by 2.2% m/m and processed food price inflation came down to 2.7% m/m (3.8% m/m prev.), a higher increase in fresh fruit and vegetable prices (6.1% m/m) than their seasonal average prevented a further moderation in overall food inflation. Consequently, annual food inflation declined to only 68.2% from the previous 69.9%.

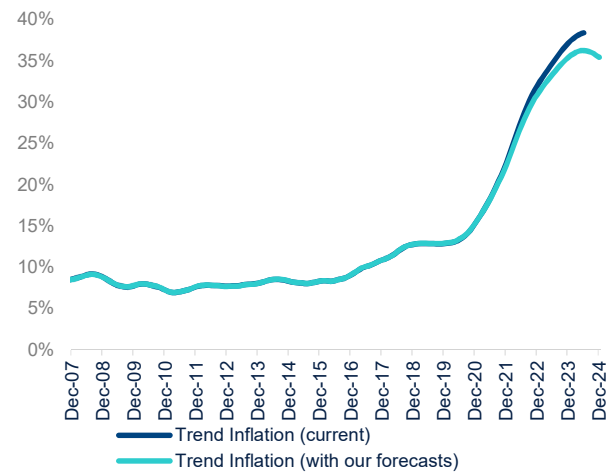
On the producer prices side, we observe that cost push factors continued to alleviate with the significant slow-down in energy prices (2.7% m/m vs. 7.3% m/m prev.) and the supportive real currency appreciation. Overall, the monthly producer prices inflation declined even further in June to 1.4% m/m (2.0% m/m prev.), driving the annual producer prices inflation down to 50% y/y (57.7% y/y prev.).

Figure 3. CONSUMER INFLATION INDICATORS (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 4. CONSUMER INFLATION TREND (YoY)



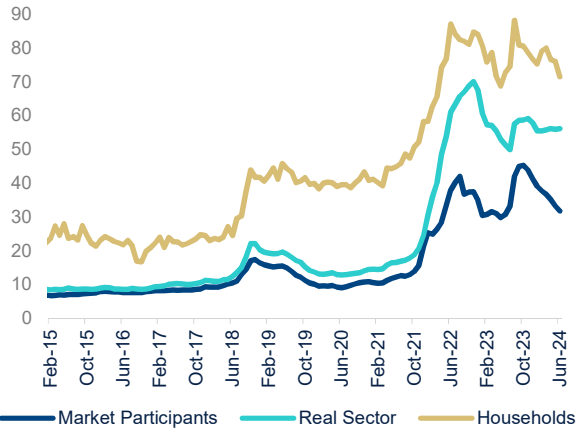
Source: Garanti BBVA Research, TURKSTAT

Fiscal consolidation would be decisive on inflation outlook in medium run

The trend inflation demonstrated considerable improvement with June realizations. However, maintaining the downward inflation trend may prove harder in the upcoming months due to several risk factors. First, the improvement in the inflation expectations remain sluggish and well above CBRT's interim targets of 38% and 14%. The professional forecasters expect the 2024 and 2025 year-end inflation 43.5% and 25.5%, respectively. Even though the market participants' expectations of 12-month ahead inflation somewhat continued to retreat, real sector and household expectations remain far above what the market expects (Figure 5 & 6). Second, the removal of the ceiling on the rent price adjustment (25%) starting from July, the recent electricity price hike (38%) and the automatic special consumption tax rate adjustment in tobacco and fuel prices may underpin consumer inflation in the next months. Third, despite the recent moderation in the domestic demand as positive output gap diminished in 2Q24, inflationary pressures remain well alive. Last but not the least, in a univariate analysis, we calculate a monthly permanent consumer inflation level of nearly 2.7%, which implies closer to 39% annual inflation (Figure 4). If we include our inflation forecast path, it will only improve to 35% at the end of 2024, signalling that the fight against inflation would be even more challenging for the next year. Therefore, a comprehensive policy mix guaranteeing a clearer restrictive stance against inflation is urgently needed to speed up the disinflation path.

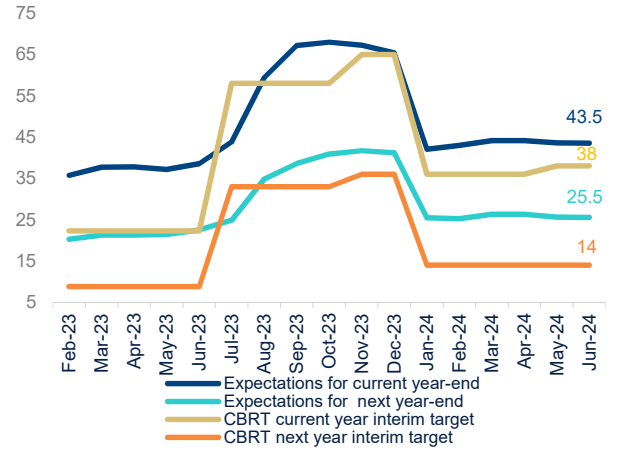
Overall, we envisage that monthly inflation trend will continue to weaken, driving the annual inflation down to 45-50% range by September and to 43% by the end of 2024. Given still unanchored high inflation expectations and upside risks on inflation outlook, we believe that only a limited room for a gradual easing cycle might arise in 4Q24. Moreover, the need of a clearer fiscal consolidation is obvious in order to achieve a faster rebalancing in the economy.

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



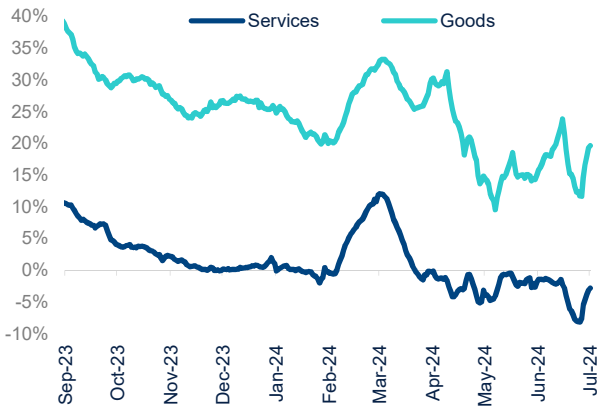
Source: Garanti BBVA Research, CBRT

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



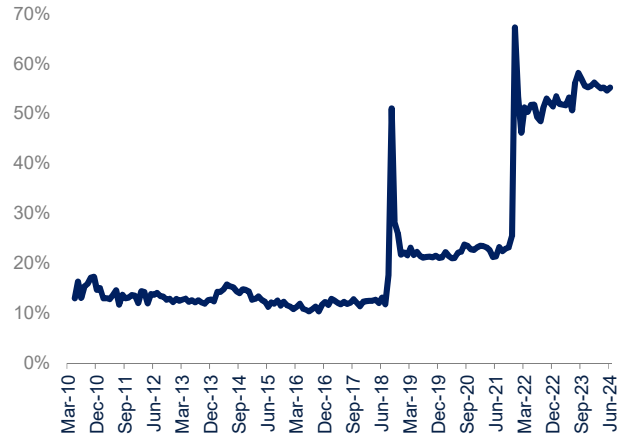
Source: Garanti BBVA Research, CBRT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 8. **FX PASS-THROUGH ON CORE-D INFLATION (RECURSIVE)**



Source: Garanti BBVA Research, TURKSTAT

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