

Data Snapshot – December inflation

Moderation in inflation continues with easing in durable goods and energy prices

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CPI MoM: -0.40% (Market: -0.3%, SEKER Invest: 0.2%), **YoY:** 20.3% (Nov-18: 21.6%)
D-PPI MoM: -2.22%, **YoY:** 33.6% (Nov-18: 38.5%)

TURKSTAT has revealed December CPI inflation at -0.4%, broadly in line with the -0.3% market estimate, but below our 0.2% estimate. The print led to a further decline in annual CPI inflation to 20.3% from 21.6%. With the strengthening in the TRY, MoM D-PPI inflation was also -2.2%, bringing the annual increase to 33.6% from 38.5%.

Table 1: CPI inflation subcomponents

	Weight	MoM		Ytd		YoY	
		Dec-18	Dec-17	Dec-18	Dec-17	Dec-18	Nov-18
CPI	100.0%	-0.40%	0.69%	20.30%	11.92%	20.3%	21.6%
Food and non-alcoholic beverages	23.0%	1.08%	1.52%	25.11%	13.79%	25.1%	25.7%
Tobacco and alcoholic beverages	5.1%	0.16%	-0.01%	2.39%	2.86%	2.4%	2.2%
Clothing and footwear	7.2%	-4.08%	-2.39%	14.83%	11.48%	14.8%	16.9%
Housing	14.9%	-0.06%	0.77%	23.73%	9.62%	23.7%	24.8%
Home appliances and furniture	7.7%	0.13%	1.18%	31.36%	12.74%	31.4%	32.7%
Health	2.6%	0.62%	0.23%	16.70%	11.90%	16.7%	16.3%
Transportation	17.5%	-2.56%	1.69%	15.97%	18.24%	16.0%	21.0%
Communication	3.9%	-0.11%	-0.17%	9.62%	1.41%	9.6%	9.6%
Recreation and culture	3.4%	-0.25%	0.02%	20.86%	8.38%	20.9%	21.2%
Education	2.7%	0.02%	0.03%	10.19%	10.48%	10.2%	10.2%
Hotels and restaurants	7.3%	0.31%	0.47%	19.81%	11.47%	19.8%	20.0%
Miscellaneous goods and services	4.8%	0.78%	0.05%	28.80%	12.77%	28.8%	27.9%
D-PPI		-2.22%	1.37%	33.64%	15.47%	33.6%	38.5%
Intermediate goods		-8.47%	1.67%	34.14%	20.75%	34.1%	39.1%
Energy		-0.13%	0.27%	57.13%	11.23%	57.1%	75.6%

Source: TURKSTAT

Major highlights of December inflation

- We had based our above consensus estimate to our high “**food**” inflation expectation, which actually materialized to some extent at 1.1% despite the mild food inflation prints as suggested by the Istanbul inflation (announced by the Istanbul Chamber of Commerce) and workers union Turk-Is’ cost of feeding survey. Nevertheless, we had penciled in a somewhat higher 1.7%, which partly explains the deviation in our estimate.
- Another deviation in our estimate stemmed from the “**clothing price**” inflation, which at -4.0% were below historical trends have suggested, thus below our -2.0% projection. Clothing component led to a 0.3% fall in headline CPI inflation.
- “**Energy**” inflation reached -3.1% as a result of the significant (%6-9) price cuts in gasoline and diesel prices also provided an important support to the decline in MoM inflation to the tune of 0.4%. MoM energy inflation was also below our projection.

- Apart from that, the easing in “**durable goods**” inflation lingered into December as well (as expected), with the improvement in the TRY’s trend and ongoing voluntary price discounts.
- Last month, we had stressed that the upside pressure on “**other core goods**” (basically fast consumer products) persisted with a 1.4% MoM inflation. In December, we now see some easing with a 0.4% MoM average price increase, but we also have to express that this only led to a slight improvement on a YoY basis to 37.6% from 38.8%. Most of the products recorded under this component are actually necessity goods, so close to 40% YoY price increase here is actually making a meaningful negative impact on household disposable income.
- “**Services**” inflation also eased on a MoM basis (at 0.25%) compared to the outstanding hikes witnessed after the August turmoil (1.1% in Oct, 3.0% in Sep, 1.9% in Aug). Nevertheless, similar to the situation in other core goods, there has only been a slight deceleration on a YoY basis to 14.5% from 14.7%.
- Despite the sticky service inflation, YoY core inflation (group C) fell to 19.5% from 207% last month and from the 24.3% October reading, mainly attributable to the core goods inflation, which moderated significantly as a result of the voluntary price discounts, enacted tax cuts, as well as the easing in TRY’s trend.

Table 2: Core inflation indicators

	Weight	MoM		Ytd		YoY	
		Dec-18	Dec-17	Dec-18	Dec-17	Dec-18	Nov-18
CPI inflation excluding;							
A Seasonal products	88.1%	-0.35%	0.72%	20.27%	11.35%	20.3%	21.6%
B Unprocessed food, energy, tobacco and alcoholic beverages and gold	71.9%	-0.37%	0.51%	20.15%	12.28%	20.2%	21.2%
C Food & non-alcoholic beverages, energy, tobacco and alcoholic beverages and gold	57.5%	-0.45%	0.55%	19.53%	12.30%	19.5%	20.7%
D Unprocessed food, tobacco and alcoholic beverages	85.0%	-0.79%	0.46%	20.48%	12.11%	20.5%	22.0%
Goods	71.4%	-0.65%	0.80%	22.68%	12.99%	22.7%	24.5%
Energy	13.2%	-3.12%	0.50%	20.82%	10.41%	20.8%	25.3%
Unprocessed food	8.9%	2.18%	2.85%	27.09%	15.55%	27.1%	27.9%
Processed food	14.4%	0.00%	0.32%	23.22%	12.20%	23.2%	23.6%
Goods excluding food and energy	35.1%	-0.17%	0.46%	21.78%	13.49%	21.8%	23.4%
Core goods	28.9%	-0.85%	0.67%	24.67%	15.45%	24.7%	26.9%
o/w Durable goods (excluding gold)	14.3%	-0.53%	2.18%	21.57%	18.08%	21.6%	24.9%
Services	28.6%	0.25%	0.43%	14.46%	9.47%	14.5%	14.7%
Rents	5.2%	0.51%	0.65%	9.61%	9.21%	9.6%	9.8%
Hotels and restaurants	7.3%	0.31%	0.47%	19.81%	11.47%	19.8%	20.0%
Transportation	3.7%	0.37%	0.66%	11.70%	12.46%	11.7%	12.0%
Communication	3.1%	-0.01%	0.00%	9.96%	1.87%	10.0%	10.0%
Other services	9.3%	0.10%	0.31%	15.56%	9.39%	15.6%	15.8%

Source: TURKSTAT

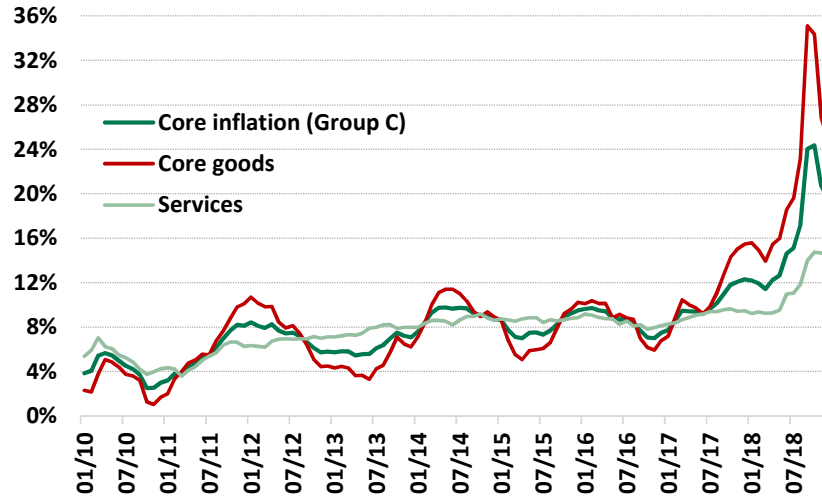
CPI inflation may test below 20% in the upcoming months

We expect that CPI inflation may continue to decline on a YoY basis over the next few months to below 20%, considering that the government extended the duration of the previously enacted tax cuts, as well as introduced 10% cuts in electricity and natural gas prices.

We will publish our detailed analysis on the 2019 inflation, as we release our “2019 strategy report” soon. That said, as we had already stated in our previous reports, we expect that CPI inflation may fall to 12.5%-13.0% by end-2019, well below the 15.0-17.0% consensus, but with an important conditionality of avoiding stress on TRY (i.e. USD/TRY averaging between 5.5-6.0 levels throughout 2019). Our below consensus estimate basically depends on our expectation of a greater GDP slowdown/contraction for 2019 (at -2.0-2.5%).

Despite our below consensus CPI inflation estimate for end-2019, we continue to believe that the CBT should not risk improvement in the TRY’s trend with a premature 1Q rate cut. If all remains well on the currency front, a rate cut cycle may be on the cards from late 2Q/early 3Q.

Graph 1: Core CPI inflation and its components



Source: TURKSTAT

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