

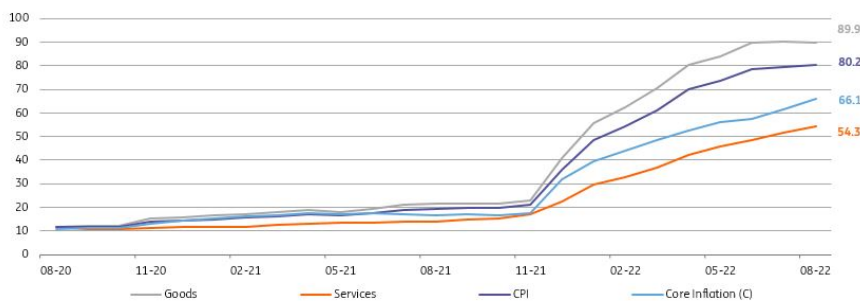
# Turkey: Core inflation still under pressure

While August's CPI showed the lowest monthly rate of increase this year (leading to a further loss of momentum in the pace of annual inflation) core indicators showed continued broad-based challenges



## Evolution of annual inflation (%)

Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold



Source: CBT, ING

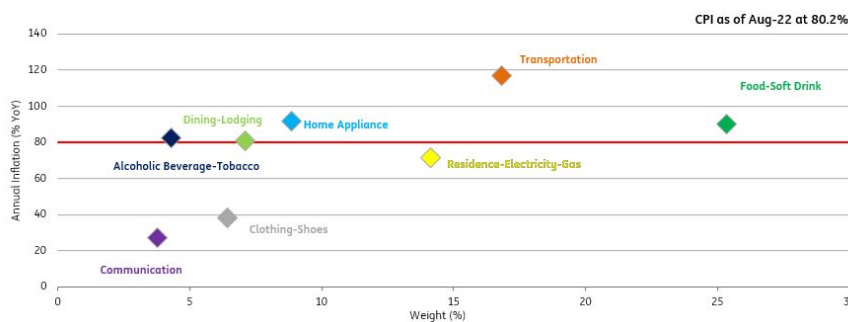
With August inflation at 1.46%, annual inflation came in at 80.21%, compared with 79.6% a month ago. While inflation has continued to trend higher, the pace of increase has lost some momentum

with the two lowest monthly readings of the year in July and August. This is supported by a decline in energy prices.

Regarding the core indicators, both B and C indices continued to rise, reaching 72.5% and 66.1% year-on-year, respectively, their highest levels. Regarding the underlying trend (as measured by 3m-ma, annualised percentage change, based on the seasonally-adjusted series), headline inflation has shown a gradual deceleration from its peak in early 2022, while core indicators and services inflation have remained broadly unchanged in recent months and remain markedly high, showing the extent of the challenge on the inflation front. Strong underlying inflation is not just a result of supply-side factors, but also demand-side factors as well as de-anchored inflation expectations.

The producer price index, meanwhile, has maintained its uptrend with a 2.4% month-on-month increase, leading to a slight decline in annual inflation to 143.7%. A moderation in energy prices and commodities has been responsible for the modest increase in monthly PPI. Going forward, uncertainty related to energy prices and the currency will be key for the PPI outlook.

## Annual inflation in expenditure groups



Source: CBT, ING

According to the breakdown of the main expenditure groups, housing and household equipment turned out to be the biggest contributors with a 30bp addition to the headline rate from each group. Regarding the former, rent increases, which have accelerated in recent months, along with price adjustments in some utilities were the main drivers. Regarding the latter, the impact of currency developments has led to price adjustments in white goods. Catering pulled the headline rate up by 24bp likely attributable to a strong tourism season along with strong pricing pressures in food in recent months. While adding 23bp to the headline rate in August alone, food inflation recorded a large drop in the annual rate to 90.3% from 94.6%, given a more benign monthly reading in comparison to expectations and the pace earlier in the year. On the flip side, the transportation group was supportive for the monthly reading, detracting 32bp from the headline rate, given the decline in oil prices last month. As a result, goods inflation dropped slightly to 89.9%, the first decline in the last year, while annual inflation in services is at the highest in the current 2003=100 series, at 54.3%.

Going forward, exchange rate developments and the extent of the pass-through along with administrative price adjustments will be key for the inflation outlook. We expect inflation to peak above 85% in October, before a decline to below 70% at year-end. But risks lie to the upside given the deterioration in pricing behaviour, higher trend inflation and currency

moves. The expected slowdown in domestic demand in the second half of this year is likely to limit these pressures to some extent.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).