

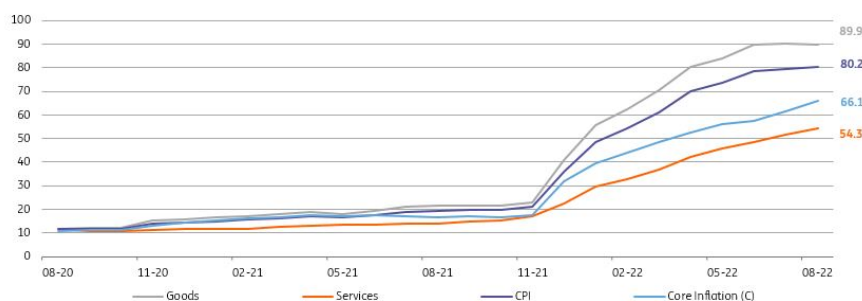
Turkey: Core inflation still under pressure

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

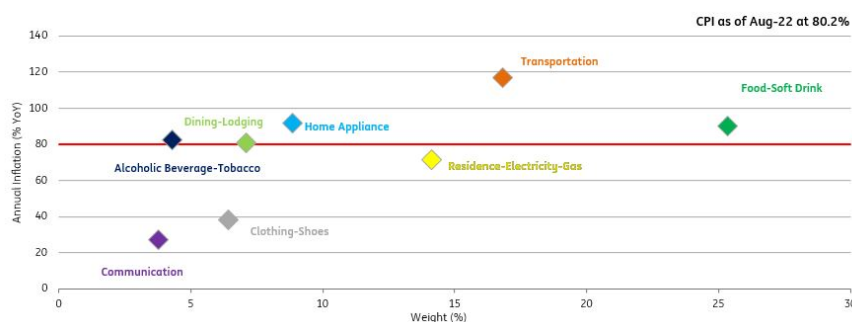
With August inflation at 1.46%, annual inflation came in at 80.21%, compared with 79.6% a month ago. While inflation has continued to trend higher, the pace of increase has lost some momentum

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.

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