

## Turkish inflation continues to fall

Consumer prices in Turkey came in better than consensus and resumed their downtrend. We expect inflation to drop substantially next month but reverse thereafter because of the large base effects, leaving some room for central bank easing. However, we expect the central bank to make measured moves rather than a large cut as priced in by the market



Source: Shutterstock

**15%** August inflation  
(YoY)

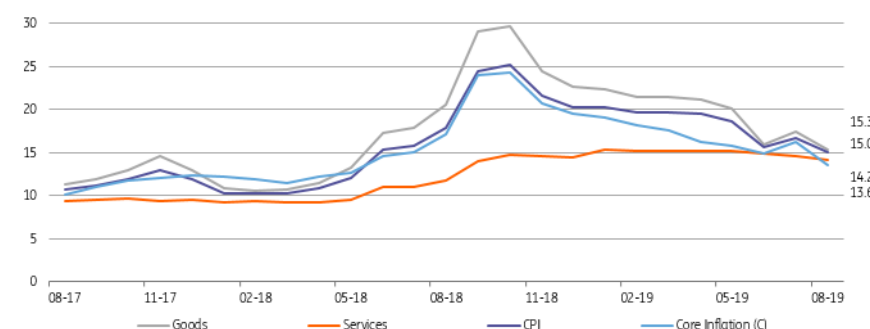
Lower than expected

Turkish inflation surprised on the downside again in August, coming in at 0.86% month on month vs the market consensus of 1.3%. In annual terms, inflation in Turkey dropped to 15.0% from 16.6% a month ago, also showing the impact of favourable base effects.

Resuming the downtrend after a temporary increase in July, the inflation breakdown reveals a plunge in annual goods inflation by more than 2 percentage points to 15.3%, a slight decline in annual services inflation to 14.2%, but flat rent inflation reflects continuing inertia in this category.

## Annual Inflation (%)

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



Source: TurkStat, ING

Annual core inflation stood at 13.6% last month - the lowest level since May 2018, showing improving price pressures with weak domestic demand and stability in the currency. As an indicator for underlying price dynamics, the diffusion index (calculated as the ratio of the number of items with increasing prices minus the number of items with decreasing prices to the total number of items within a given month) has remained below trend.

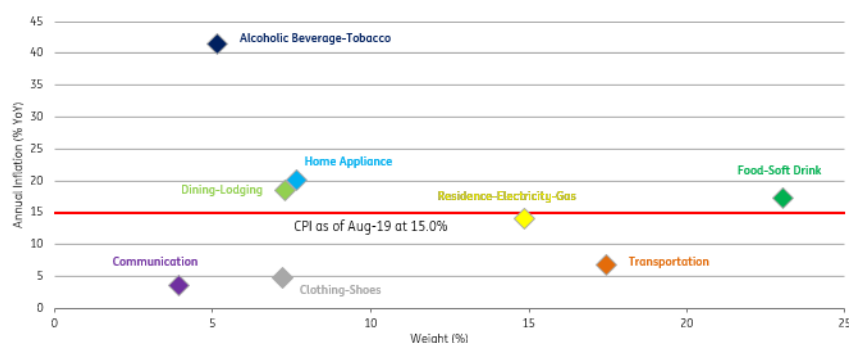
On the other hand, the domestic producer price index (D-PPI) came in at -0.6% with annual inflation falling down to 13.4% - the lowest since the first month of 2018. The data, reflecting large base effect from last year implies more moderation in producer-price-driven cost pressures on the back of falling commodity and food prices and the strength in the lira.

## Main expenditure groups

Transportation turned out to be the major negative contributor to the headline with -34bp contribution, thanks to lower energy prices and strong TRY despite some upward price adjustments in transportation services. A sharp downward correction in food inflation continued driven by other unprocessed food this time, as fruit and vegetable prices were the major contributor to the improvement in the outlook in recent months before August. However, the behaviour of processed food inflation was somewhat different given the inflation in this group has been relatively stable above 20%.

On the flip side, alcoholic beverages and tobacco group pulled the headline number up by 90bp given the tax adjustments in cigarettes and utilities also drove inflation higher by 29bp showing the impact of a price hike in natural gas.

## Contributions to annual inflation



Source: TurkStat, ING

Overall, inflation surprised on the downside for the fifth consecutive month in August thanks to weak domestic demand, the relative strength of the lira, gradually improving inflation expectations, plunge in unprocessed food prices and downward pressure on energy prices, despite the one-off factors like tax and administrative price adjustments.

We expect inflation to drop very rapidly in September but reverse thereafter because of large base effects, leaving room for central bank easing. However, the central bank will closely watch the currency and will probably come up with measured moves compared to a relatively larger cut, priced in by the markets.

## 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 <http://www.ing.com>.