

Turkey: Double-digit inflation won't worry the central bank

Annual inflation reverted to double digit territory in November. But the monthly reading was better than expected and price pressures are benign, which should encourage the central bank to continue easing at the last rate setting meeting of the year



Source: Flickr

10.6%

November Inflation
(YoY)

Lower than expected

The breakdown

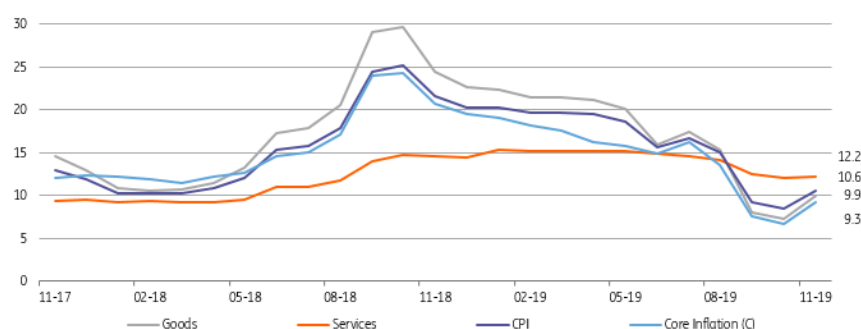
CPI inflation in November came in at 0.4% month-on-month, below the market consensus at 0.7% (close to our 0.5% call). Annual inflation returned to double digits at 10.6%, as expected, due to a more difficult comparison from last year.

The breakdown shows a jump in annual goods inflation to 9.9% from 7.3%, which was the lowest since November 2016, but benign price changes in energy, unprocessed foods and core goods, which remained below long term November averages. On the flip side, inflation in processed food, which has improved relatively slowly in recent months remained elevated, with higher increases than the long-term November averages since the beginning of the inflation series.

The breakdown also shows continued inertia in rent, which pulled services inflation up to 12.2% from 12.0% a month ago.

Evolution of Annual Inflation (%)

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



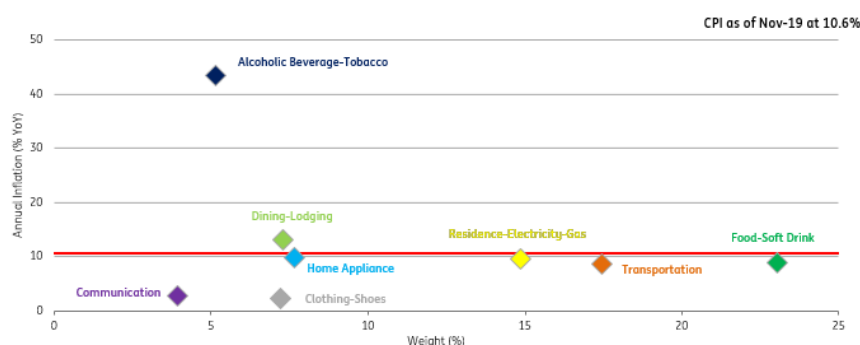
Source: TurkStat, ING

Annual *core* inflation has also come out of a downtrend, rising 9.4% in November from 6.7% in October, due to a weaker base. Monthly inflation has been relatively subdued due to softer domestic demand and a stable currency.

The Domestic Producer Price Index (D-PPI) changed direction, too, rising 4.26% from 1.7%, the lowest since early 2013, reflecting negative base effects. However, producer-price-driven cost pressures have remained negligible, while the gap between PPI and CPI inflation closed with reduced pass-through pressures.

Regarding the main expenditure groups, catering and other goods & services were the only ones which saw reduced monthly inflation. Among the positive contributors, clothing stood out with a contribution of 18 basis points to the headline, though the monthly figure was benign and close to the lowest November figure in the current inflation series. Other group contributions were in the 0-to-6 basis point range, despite a jump in transportation inflation to 8.7% from 1.4%, showing the extent of base effects. Also contributing to favourable November inflation was a gain in food prices, with mild price changes in fresh fruits and vegetables.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

What it all means for policy

Overall, inflation once again surprised to the downside again last month thanks to still weak domestic demand, moderating pass-through and low cost push factors. Inflation will increase further in December due to an unsupportive base. But it should remain below the central bank's estimate of 12% for this year. Better than expected data should encourage the bank to continue easing at the last rate setting meeting of the year.

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