

Turkey: Headline CPI slightly below consensus

The Consumer Price Index reached its highest level since March 2019, driven by higher services inflation. The underlying trend for both headline and core inflation moderated somewhat, but remained high.



Shoppers in Istanbul

CPI inflation in September was 1.25%, slightly better than consensus at 1.35% and pulling the annual figure up further, to 19.6%. Both "B" (excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and "C" (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) core inflation indices - now under increased CBT focus - went up, to 18.6% and 17%.

In the breakdown of CPI, we see (1) goods inflation remaining broadly unchanged at 21.6%, with higher energy costs offsetting the supportive impact from core goods, and (2) services inflation accelerating to 15.1%, driven by catering services and reflecting adverse effects from food prices, telecommunication services and rent.

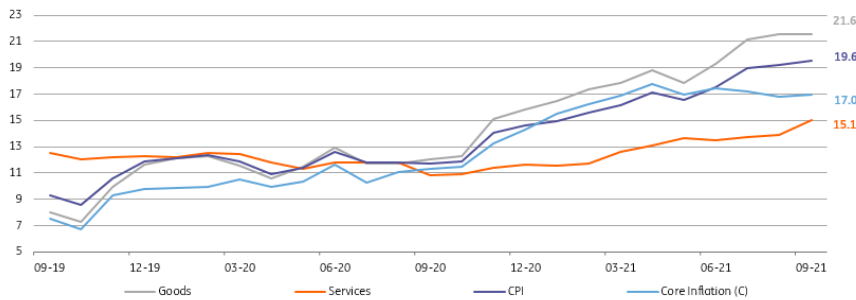
Recent momentum on a seasonally adjusted basis (3m-ma, annualized), on the other hand, somewhat moderated for both headline and core C, but remained elevated, indicating the extent of ongoing inflationary pressures. For services, both annual inflation and its recent trend increased in September, likely attributable to deteriorating pricing behavior and backward

indexation, along with the continuing impact of reopening.

The September Domestic Producer Price Index (D-PPI) at 1.55% pulled the annual figure down to 44%, from 45.5% a month ago. The difference between CPI and PPI fell to 24.4ppt, still close to its all-time high. This indicates elevated cost-push pressures, driven by higher commodity prices, cumulative exchange rate effects and supply constraints in some sectors.

Annual Inflation (%)

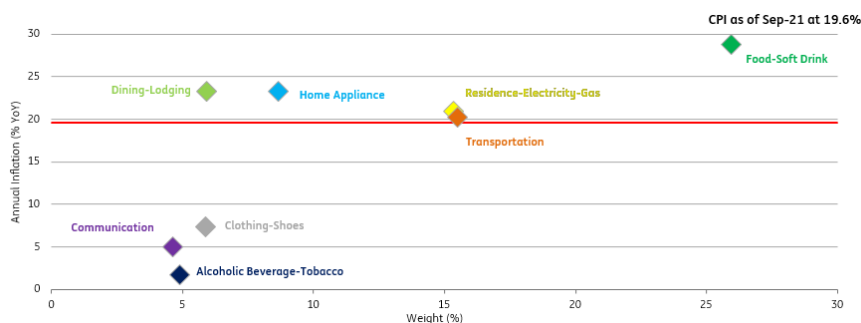
Core C = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold



Source: TurkStat, ING

Of the main expenditure groups, housing prices provided the biggest contribution to September inflation at 37bp and driven by adjustments in coal prices, water fees and rent. This was followed by household equipment, with 28bp impact on the back of higher furniture prices. Contributions from education (with seasonality) and catering (related to rises in prices of services along with pressure from food prices) were in the range of 12-14bp. By food group, despite continuing pressure in some unprocessed foods and elevated food prices, price declines in fresh fruit and vegetables contributed a slight drop in the annual figure to 28.8% with a monthly contribution of 13bp.

Annual inflation by Expenditure Group



Source: TurkStat, ING

Overall, CPI inflation maintained its uptrend to reach its highest level since Mar-19. Higher services inflation drove this, while the underlying trends for both headline and core somewhat moderated, though remaining high. Given earlier than expected start of the easing cycle and the CBT's signals of a less restrictive policy stance, pricing pressures through a weaker exchange rate and higher inflation expectations will further weigh on the

already challenging inflation dynamics in the period ahead. The strong base in the last two months of the year will likely be supportive for the headline. Given this backdrop, the CBT can go ahead with another 100bp cut in the last quarter, likely in December, in our view when inflation retreats below 18%, with base effects.

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