

3 December 2018  
Snap

## Turkish inflation retreats from its peak

Turkish CPI inflation came in better than expected in November dropping 1.4%, pushing the yearly figure down to 21.6%. The data shows the inflation has come off its peak and will likely close this year below 22%

**-1.44%**

CPI Inflation  
(MoM Change in November)

Lower than expected

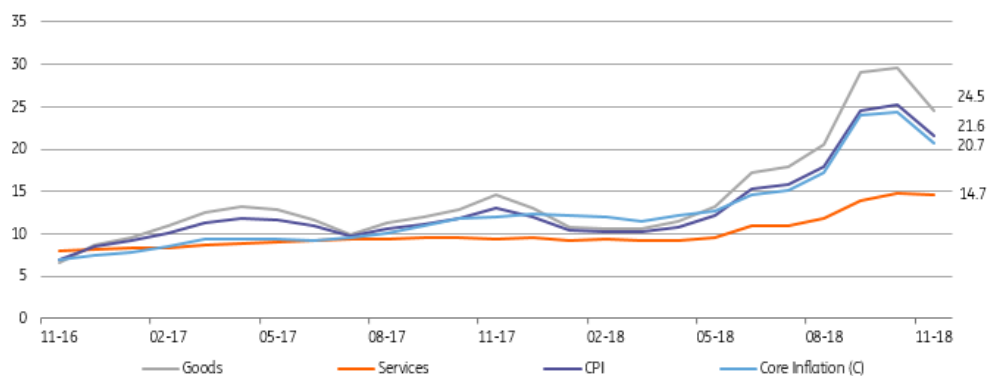
## A surprise drop in inflation

Turkey's November inflation data showed a more than expected decline in prices with -1.4% vs our call at -0.8 and a market consensus at -0.75%, indicating that the annual figure retreated from its peak at 25.2% in October to 21.6%. The favourable monthly reading is largely down to tax cuts in consumer durables, furniture and automobile introduced by the government in early November, a likely impact of temporary price discounts in targeted items in the consumer basket, with the government's decision of price freezes and voluntary private sector involvement, as well as sharp decline in oil prices. Accordingly, we saw a recovery in goods' inflation from 29.6% a month ago to 24.5% with significant contributions from energy, unprocessed food and core goods. Also evident is a broadly unchanged sticky services inflation despite price drops in transportation services. In a positive note, annual rent inflation returned to a single-digit level at 9.8%.

**Annual core inflation** also recovered from its peak, standing at 20.7% in November vs 24.3% in October, as we saw price declines in more than a quarter of items in the CPI basket. This shows not only the impact of recent government actions but it's also indicative of FX pass through almost running its course with sharp TRY recovery.

**The Domestic Producer Price Index (D-PPI)**, on the other hand, plunged by -2.5% last month, the first negative reading since early 2016. Accordingly, annual inflation dropped to 38.5% from 45.0% a month ago. The PPI that has returned from its September peak at 46.2%, which shows some erosion in persisting producer-price-driven cost pressures on the back of commodity-related product groups and FX sensitive items with recent TRY strengthening.

## Evolution of Annual Inflation (%)



Source: CBT, ING Bank

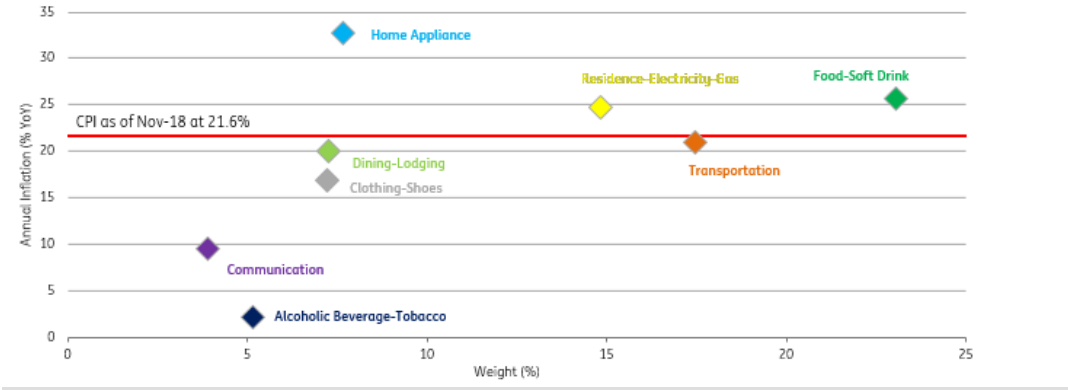
## The breakdown

Among 12 major expenditure groups, half recorded price declines in November. In the CPI breakdown:

- Transportation stood out with the largest negative contribution at 1.17 ppt thanks to double-digit price declines in automobile and a drop in energy prices. Accordingly, annual inflation in this group was 21% vs 32% a month ago, showing the impact of a favourable trend in oil, TRY strength and tax cuts.
- Another large drop was in home appliances, pulling the headline down by 24bp, thanks to temporary tax adjustments in furniture and white goods. Still, annual inflation in this group is the highest at 32.7%, showing the cumulative impact of exchange rate

- developments this year.
- Volatile food group provided -17bp contribution, mainly driven by fresh fruits and vegetables.
  - Among the positive contributors, clothing was at the top with 16bp, though monthly inflation was the lowest November reading in the current inflation series.

### Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

### Looking to 2019

Overall, November data shows inflation declined from its peak in October and will likely close this year below 22%. However, we expect to see some further inflationary pressures in early 2019 before falling more rapidly in the second half given the impact of a reversal in temporary tax cuts and unfavourable base effects. As inflation remains elevated, the CBT should maintain a tight stance to fight inflation and re-anchor inflation expectations as policy credibility will remain key in the period ahead.

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