

## Turkey: Inflation in line with consensus, core rises

Annual inflation recorded an increase in October on the back of higher food and transportation costs along with housing and home appliance inflation. This reflects continuing currency effects, seasonality and administrative price adjustments



Shoppers in Istanbul

October CPI inflation was in line with the consensus at 2.1%, pulling the annual figure up to 11.89% from 11.75% a month ago. Core inflation, on the other hand, was above the long-term October average, increasing to 11.5%, likely due to the impact of exchange rate developments.

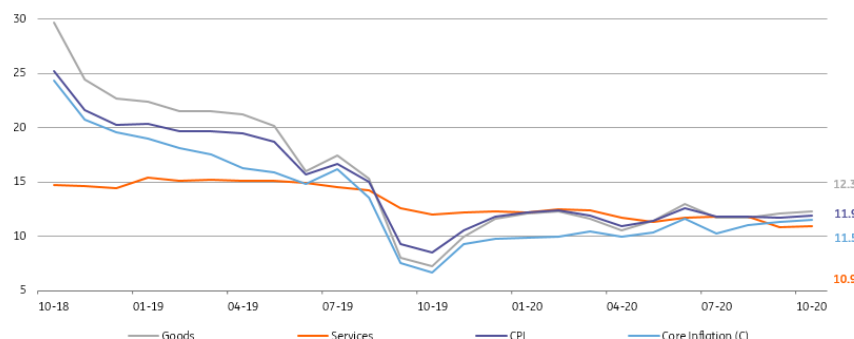
In the breakdown, we see 1) annual goods inflation rising to 12.3%, driven by food and durables, despite favourable base effects associated with energy, as well as benign clothing prices. Durable goods, sensitive to currency developments and demand conditions, stood out as the main driver of the rise in core goods inflation. 2) Services inflation was roughly in line with the long-term monthly average, slightly increasing to 10.9%, mainly due to catering services and rent.

The Domestic Producer Price Index (D-PPI) has maintained its rapid uptrend and reached 18.2% in October from 5.5% in May, showing the impact of small base from last year and the adverse effect of a weak currency. The data shows growing producer price-driven cost effects on the inflation

outlook.

## Evolution of Annual Inflation (%)

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



Source: TurkStat, ING

Regarding the main expenditure groups, food added 0.7 basis points to the headline reading, the biggest contribution, driven by processed and unprocessed food, although relatively benign fresh fruit and vegetable inflation limited the pace of increase. Clothing followed with a 42bp impact, however the monthly increase was modest compared to seasonal averages. A relatively strong 28bp contribution from housing was due to the adjustment in electricity prices. The price increase in electricity used by households, industrial firms, and businesses put upward pressure on energy inflation, though it dropped further in October to 4.0% due to a large supportive base. Among other factors, transportation and household equipment pushed the headline up by 33bp and 19bp, respectively, attributable to the weak currency.

The diffusion index (the ratio of the number of items with increasing prices minus the number of items with decreasing prices to the total number of items in the CPI basket) maintained its uptrend, reaching the highest level since the August 2018 shock, showing the extent of pricing pressures.

## Annual Inflation in Expenditure Groups



Source: TurkStat, ING

Exchange rate developments, tax adjustments and elevated services inflation, which is highly sticky at current levels, will likely remain key challenges for the inflation outlook.

Following the October MPC, the Central Bank of Turkey has continued with liquidity management tools and pulled the effective cost of funding close to 13.5%, while the governor noted in the recent inflation report meeting that the Bank's tightening stance would continue. Given this backdrop, the CBT may further widen the interest rate corridor by hiking the late liquidity window rate to gain more room and flexibility at the November MPC on 19 November. However, an outright policy rate hike cannot be ruled out given the worsening inflation outlook, with deteriorating expectations and continuing volatility in the Turkish lira.

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