

## Turkey: Inflation in single digits in September

Inflation surprised to the downside again in September, dropping into single digits thanks to still-weak domestic demand, moderating pass-through, easing cost push factors and favourable base effects along with a further correction in unprocessed food prices

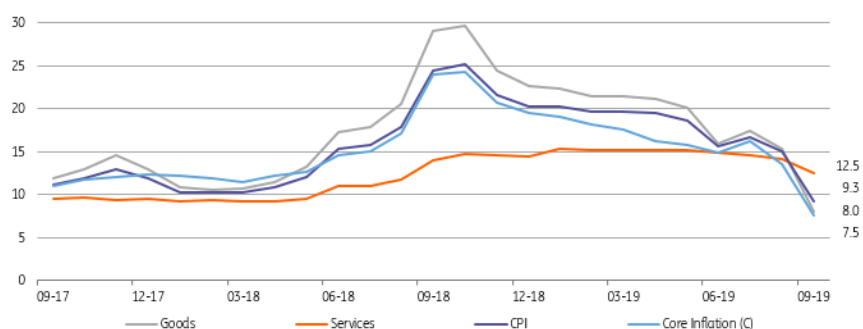


Shoppers in Istanbul

With another downside surprise in September, CPI inflation came in at 0.99% month-on-month vs the market consensus of 1.3% (and our call of 1.5%). The data pulls the annual figure down sharply to 9.3%, the first single digit reading since July 2017 and the lowest level in the last 32 months, from 15.0% a month ago. This shows the impact of the base-effect drop, along with a large correction in unprocessed food prices and an easing in core prices.

## Evolution of Annual Inflation (%)

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



Source: TurkStat, ING

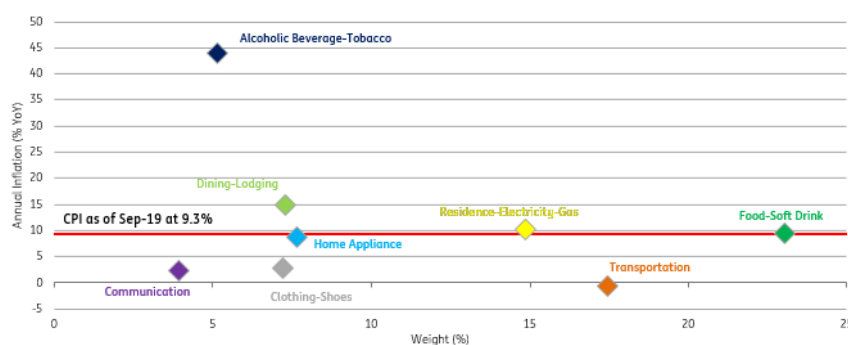
Inflation has been trending lower in Turkey since early 2018 and the breakdown this month indicates:

1. A plunge in annual goods inflation by more than 7ppt to 8.0% given large base effects from a year ago
2. A relatively smaller decline in annual services inflation to 12.5% from 14.2% a month ago, reflecting continued inertia, especially in rents. In fact, goods inflation is now below levels seen prior to the August 2018 volatility while services inflation has remained elevated, indicating deteriorating pricing behaviour in recent months.

Annual core inflation stood at 7.5% last month, the lowest level since November 2016 amid weak domestic demand and stability in the currency. As an indicator for underlying price dynamics, the diffusion index has remained below trend.

The Domestic Producer Price Index (D-PPI) also went down to single digits at 2.4%, the lowest in the last three years, continuing a downtrend that began a year ago when the index hit 46.2%. The data, which also reflects a large base effect, implies a sharp decline in producer price-driven cost pressures due to falling basic metal and food prices, along with currency stabilisation.

## Contributions to annual inflation



Source: TurkStat, ING

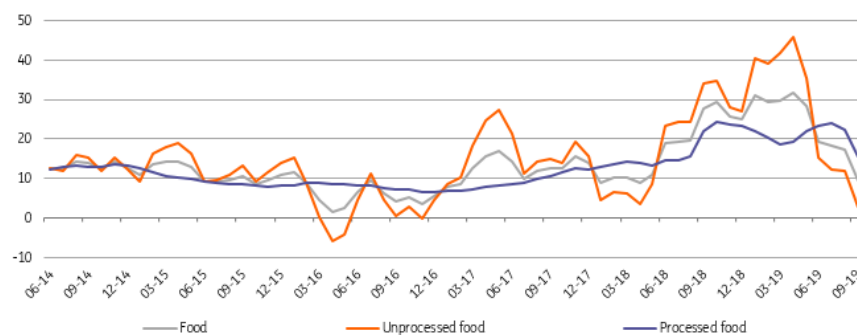
Regarding the main expenditure groups:

1. The sharp downward move in food inflation continued, driven by unprocessed foods, as the annual change in fruit and vegetable prices dropped to negative levels from close to triple-digit levels in the first half of this year. However, processed food inflation has remained above 15%.

On the flip side:

1. Utilities drove inflation higher by 31bp showing the impact of a price hike in natural gas.
2. Transportation was another major positive contributor to the headline rate, with a 27bp contribution thanks to upward price adjustments in transportation services and gasoline prices.

## Food inflation (%)



Source: TurkStat, ING

Overall, inflation surprised to the downside again in September amid still-weak domestic demand, moderating pass-through, easing cost push factors and favourable base effects, along with a further correction in unprocessed food prices, despite some administrative price adjustments. Inflation will likely remain in single digits in October and reverse thereafter because of large base effects, while unanchored expectations, high inertia and uncertainty surrounding the exchange rate outlook will remain key risk factors in the period ahead. Given the signal in the last rate-setting meeting, the central bank should lower policy rates cautiously, maintaining a “reasonable” real rate to cushion local and global uncertainties.

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