

## Turkey: Inflation pushes higher

CPI inflation was higher than expected in October, at 2.7%, pushing the annual figure up to 25.2%, as the upward pressure across various sub-components continues



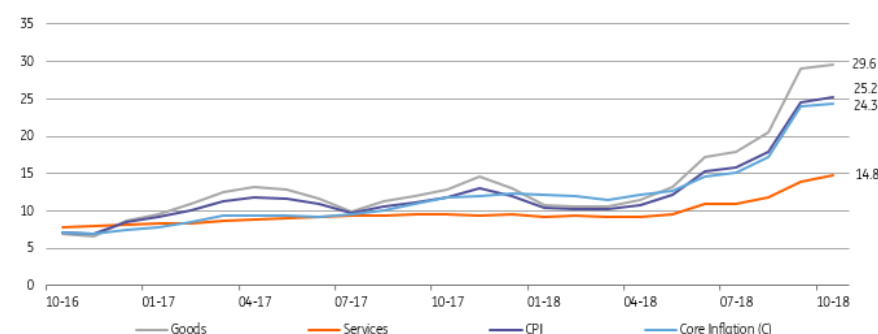
2.7% October Inflation  
(MoM)

Higher than expected

Following a significant upside surprise in September, inflation continued to increase, climbing to 2.7% in October. This was higher than the Reuters consensus of 2.0% and in line with our call. Accordingly, annual inflation went up further to 25.24% from 24.52% a month ago. This was due to:

1. A continued deterioration in goods inflation, especially energy, core goods and processed foods, reflecting the ongoing impact of the decline in the Turkish lira and administrative adjustments. Still, unprocessed foods recorded lower price increases than suggested by seasonal trends.
2. A continued rise in sticky services inflation, though transportation services showed price declines.

## Evolution of Annual Inflation (%)

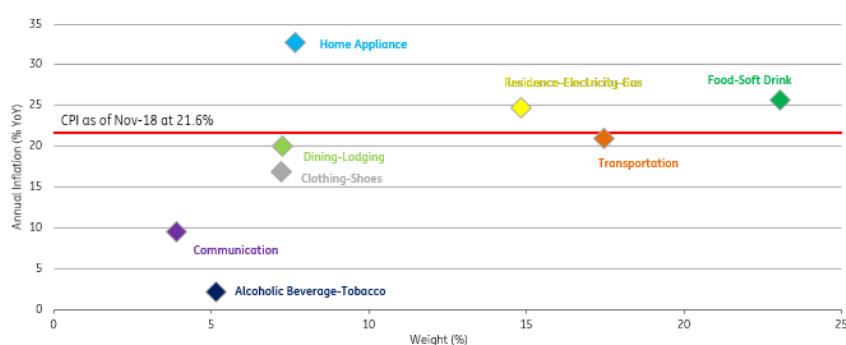


Source: TurkStat, ING Bank

Annual core inflation also continued to increase this month, from 24.8% in September to 25.5% in October. Broad-based price adjustments continue, with more than 80% of items in the CPI basket registering increases. The decline in the Turkish lira continues to feed through to prices, even though a large portion of this adjustment was seen in the September data.

The Domestic Producer Price Index (D-PPI), on the other hand, was up by 0.91% last month, following a 10.9% change in September, showing that after a spike, PPI inflation is peaking. Annual inflation, meanwhile, declined to 45.0% from 46.15% a month ago. PPI, which has been on an uptrend since February due to cost pressures from commodity-related product groups, has shown signs of moderation.

## Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

In the CPI breakdown, all groups with the exception of transportation pulled the monthly figure up. Four of them; clothing, food, utilities and home appliances, were the major drivers.

- October is a month with large seasonal pricing pressures. We saw that impact on clothing with a 12.7% monthly increase (80 basis point contribution to the headline), though the change was the highest of October readings since the start of the inflation series, showing the ongoing deterioration in pricing behaviour.
- Food raised the headline by 75bp, despite benign unprocessed food inflation thanks to a modest 4.2% price increase in fresh foods and vegetables vs the October average of 12.2% since 2003. However, processed food products broke the October record showing

continuing inflationary pressures in this group.

- Utilities contributed 61bp to the monthly reading mainly due to the impact of exchange rate developments and administrative price adjustments. We also saw a strong 29bp contribution from home appliances thanks to high FX pass-through.

Overall, October data shows that the inflation outlook remains poor driven by cost factors. Inflation likely has more room to run given that domestic PPI stands at around 45%. Going forward, developments in the exchange rate and food prices will likely determine the CPI trend, given an ongoing slowdown in demand pressures. The current uptrend will continue a few months more and likely peak in early 2019, with upside risks prevailing in the short-term.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).