

5 November 2018
Snap

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

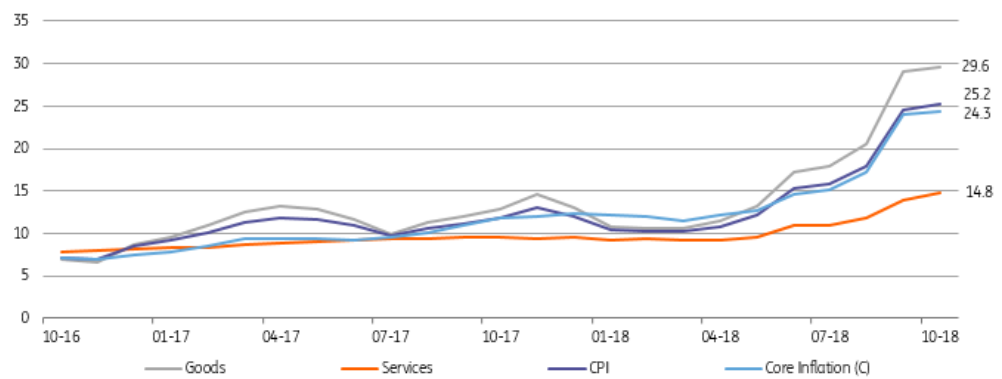
2.7% October Inflation (MoM)

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 (%)



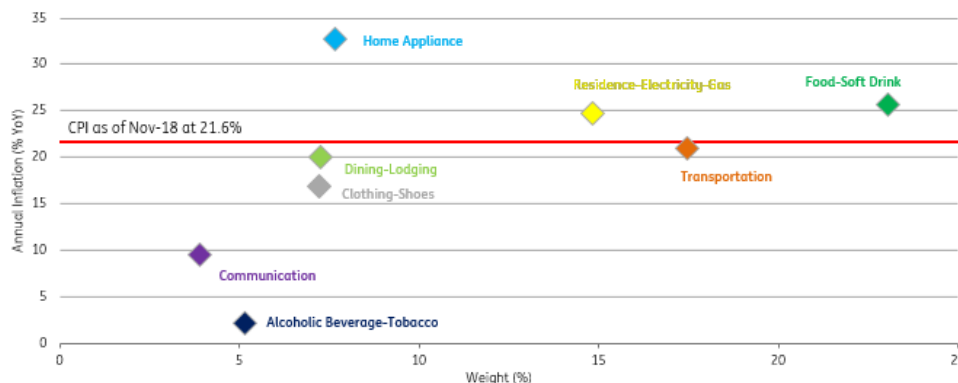
Source: TurkStat, ING Bank

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.

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