

Turkish inflation rises unexpectedly

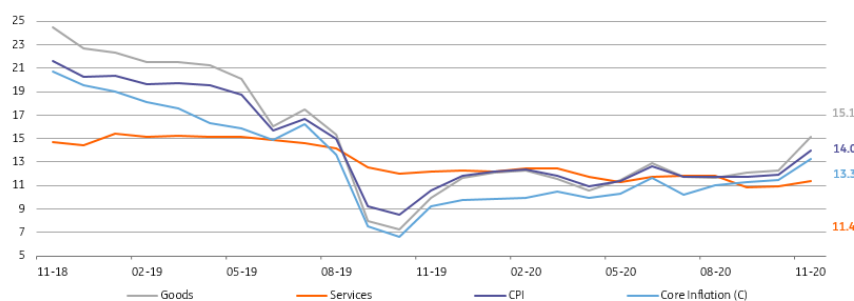
Turkish inflation jumped to 14% in November on the back of higher food and transportation prices reflecting increasing cost-push factors, strong domestic demand and sticky services inflation



Source: Flickr

Evolution of annual inflation (%)

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



Source: TurkStat, ING

Turkish inflation came in higher than expectations at 2.3% - the highest November figure, taking

annual inflation to 14.03% from 11.89% a month ago.

On the other hand, core inflation maintained the upwards trend and reached 13.26% with another above-average monthly reading. The data reflects growing cost-push pressures, while the rise in FX volatility until recently is also a factor further complicating challenging inflation dynamics.

The breakdown shows a jump in annual goods inflation to 15.1% from 12.3% a month ago driven by food, durables and some core goods despite relatively benign energy, clothing and alcoholic beverages & tobacco prices and a strong services inflation driven by catering services, while rent inflation aligned with long-term November average, limiting the upside move.

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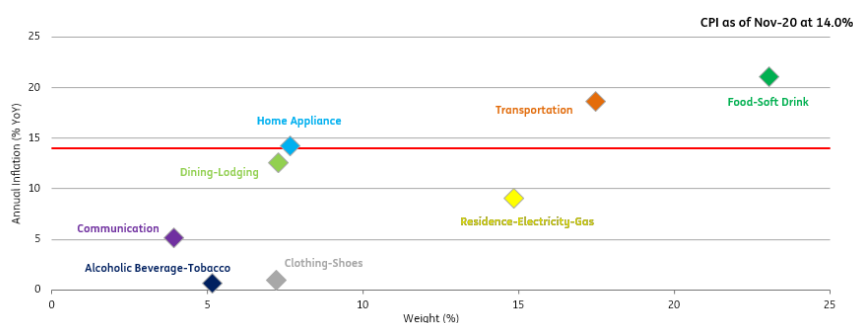
With 4.08% monthly change, the domestic producer price index (D-PPI) has maintained its rapid upwards trend and reached 23.1% from 5.5% a few months ago, showing the impact of the small base from the last year and growing producer-price-driven cost pressures on the inflation outlook with the adverse effect of a weak currency.

Regarding the main expenditure groups, food and transportation were the biggest contributors to the headline reading at 97bp and 72bp respectively.

For food, annual inflation jumped to 27% - the highest since mid-2019, driven by both processed and unprocessed foods. For transportation, higher motor vehicle and fuel prices pulled annual transportation inflation to 18.7% in November from 13.9%YoY in October. Other drivers of higher than expected inflation include monthly contributions from housing by 15bp, household equipment by 13bp and dining & lodging was 10bp.

The diffusion index maintained upwards trend reached the highest level since the August 2018 shock showing the extent of price pressures.

Annual inflation in Expenditure Groups



Overall, annual inflation recorded a sharp increase on the back of higher food and

transportation prices reflecting increasing cost-push factors, strong domestic demand and elevated services inflation which are highly sticky at current levels. Going forward exchange rate developments, tax adjustments and deteriorating pricing will remain key challenges for the inflation outlook.

After the promised policy overhaul in November, and the revision in reserve requirement framework, whether the central bank responds to the latest inflation developments at the December meeting will be watched closely.

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