

Inflation Pulse

Türkiye | Challenging outlook on inflation trend

Adem İleri / Gül Yücel
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Consumer prices increased by 2.88% in October, higher than our expectation (2.7%) and consensus (2.5%). Annual consumer inflation declined to 48.58% (vs. 49.38% prev.) on the back of favorable base effects. The underlying inflation trend only limitedly came down, supported by the deceleration in services inflation, while basic goods price inflation deteriorated further. Despite the ongoing moderation in domestic demand, distorted pricing behavior in the presence of unanchored inflation expectations and uncertainties on wage hikes, administered prices and tax adjustments at the beginning of 2025 maintain upside risks on inflation outlook. Considering the current momentum, annual consumer inflation will likely finish the year at around 45%. Meanwhile, risks on our 2025 year-end forecast of 25% become visibly tilted to the upside. We will monitor the messages of the CBRT in the last inflation report of the year on Nov 8th and revise our inflation and interest rate forecasts, accordingly.

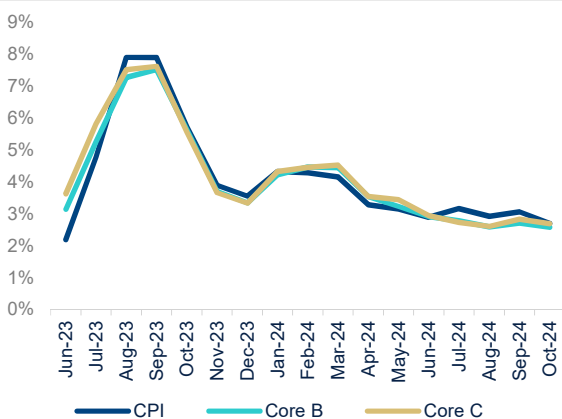
Core prices inflation trend slightly improved, led by services prices

According to our calculations, monthly consumer inflation trend (seasonally adjusted) decreased to 2.5% from 2.8% previously, thanks to the decline in core inflation; while food and energy inflation pushed to the upside. Core C monthly inflation trend (excluding food, energy, alcohol & tobacco and gold) retreated to 2.3% from 3%, supported by the easing services inflation (2.6% m/m on seasonally adjusted terms vs. 4.0% prev.). However, basic goods prices inflation trend slightly worsened (2.1% m/m vs. 1.9% prev.), driven by clothing inflation which surprised above its seasonal trend (3.6% m/m vs. 2.6% prev.). On the positive side, services inflation slowed down considerably in October, led by widespread weakening across all service categories. Transportation services geared down to 1.0% m/m (vs. 2.0% prev.), while restaurant and hotel price inflation retreated to 2.4% m/m (vs. 3.3% prev.). Nevertheless, the rent inflation remained at elevated levels with 5.0% m/m (7.6% prev.). Overall, the 3-month average trend in services inflation fell to 3.5% (4.1% previously). To sum up, the underlying trend in both headline and core inflation (3 month moving average of seasonal adjusted data) improved but only limitedly.

Food inflation rose in October mainly due to accelerating fresh fruit & vegetable price inflation (seasonal adj., 15.9% m/m vs. 4.9% prev.) and the increase in processed food inflation (2.2% m/m vs. 1.6% prev.) stemming from bread and cereals prices. Meanwhile, monthly energy inflation was 1.4% on the back of the rise in fuel prices.

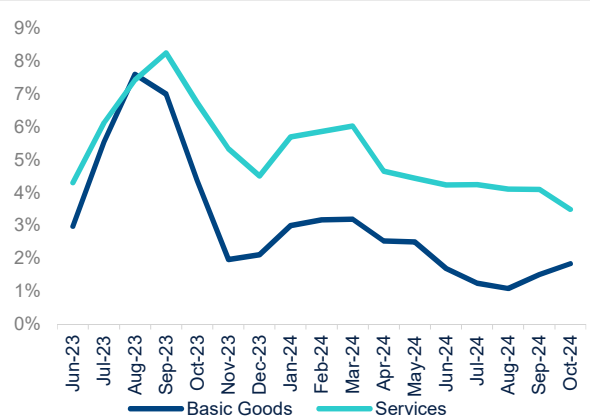
Cost push factors remained subdued thanks to the stable exchange rate and the weak commodity prices as monthly producer price inflation eased further to 1.29% in October, resulting in an annual inflation of 32.2%.

Figure 1. CONSUMER INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



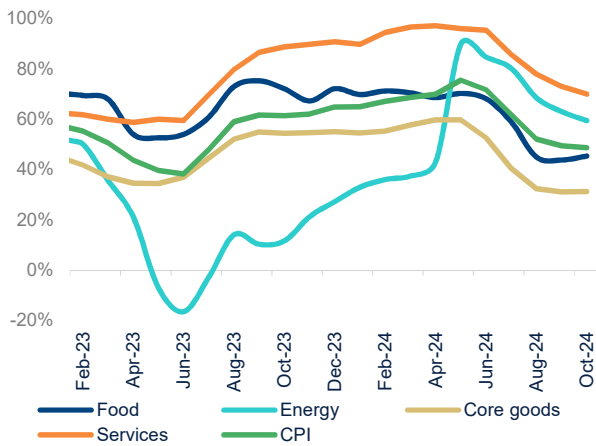
Source: Garanti BBVA Research, TURKSTAT

Figure 2. CORE C INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



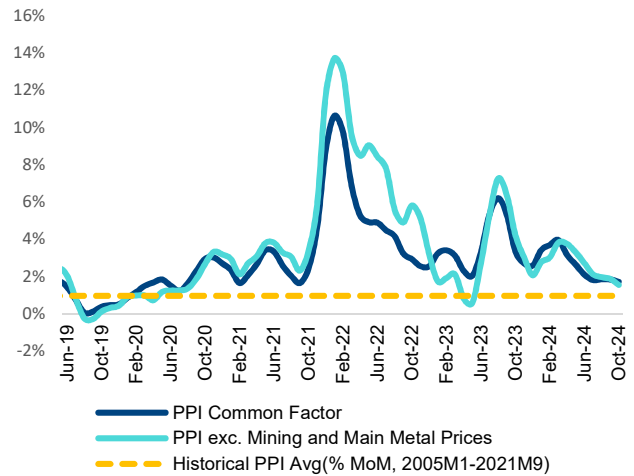
Source: Garanti BBVA Research, TURKSTAT

Figure 3. **CONSUMER INFLATION INDICATORS (YoY)**



Source: Garanti BBVA Research, TURKSTAT

Figure 4. **PPI TREND INDICATORS (% MoM, 3-month average)**



Source: Garanti BBVA Research, TURKSTAT

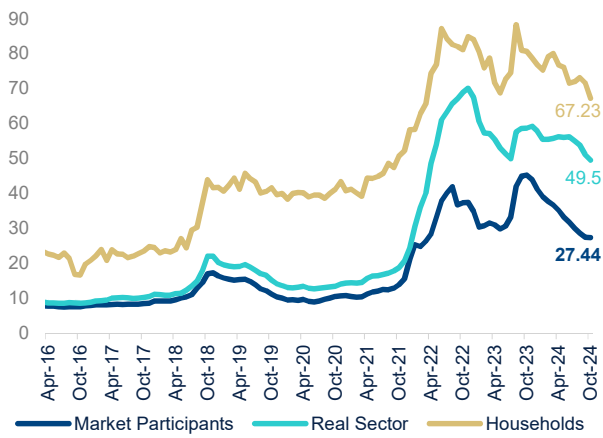
The upside risks on inflation outlook requires the CBRT to remain cautious

The recent realizations signalled that the inflation trend (2.7% as of October) is far from the previous 1.5% target of the CBRT for 4Q24. Despite some moderation in domestic demand and the stable currency, the distorted pricing behaviour in the presence of unanchored inflation expectations continue to impose upside risks on inflation outlook. In the October survey, professional forecasters' expectations for 2024 and 2025 year-end inflation inched upward to 44.11% and 25.64% (vs. 43.14% and 25.26%, previously). On the other hand, the real sector's and households expectations for 12-month ahead inflation retreated to 49.5% and 67.2% respectively (51.10% and 71.56% previously); albeit, happening only very slowly.

Although the output gap returning to negative in 3Q24 suggests that the cost pressures ease on inflation, the slow adjustment of the imbalance between demand and supply keeps the pricing behaviour distorted. Fiscal policy remaining expansionary and the availability of spending capacity depending on the income levels and wealth effects reduce the effectiveness of the monetary transmission mechanism. Given the upward surprises since summer, the Central Bank (CBRT) is likely to revise its inflation forecasts to the upside in the last Inflation Report of the year to be published on Nov 8, 2024. The rationale behind the revisions will be a test for credibility and the communication will be even more important to make the coming years' interim targets convincing as already shared in the Medium Term Program (MTP) with 17.5% for 2025 end.

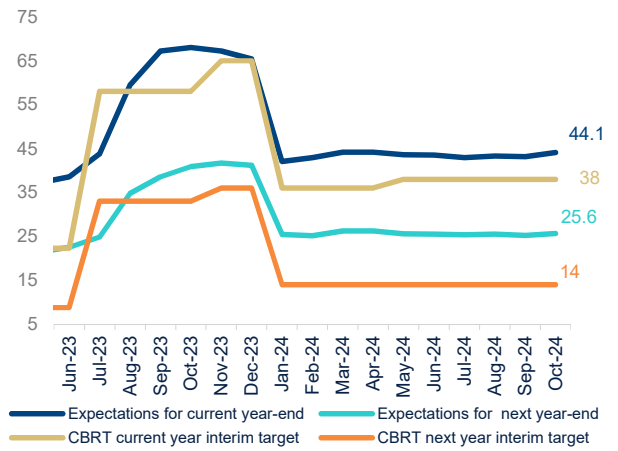
After the recent upside surprises, we now expect consumer inflation to finish the year annually at around 45% (vs. our previous 43% forecast). The stronger than expected momentum and the increasing risks of more generous wage hikes and upward adjustments in the administrative prices at the start of the year make risks on our 2025 year-end forecast of 25% become clearly tilted to the upside. We will monitor the messages of the CBRT in the last inflation report of the year on Nov 8th and revise our inflation and interest rate forecasts, accordingly.

Figure 5. **CBRT SECTORAL INFLATION EXPECTATIONS (% , 12 MONTH AHEAD, ANNUAL)**



Source: Garanti BBVA Research, CBRT

Figure 6. **CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATIONS (%)**



Source: Garanti BBVA Research, CBRT

Figure 7. **CPI SUBCOMPONENTS**

	MoM	YoY
Total	2.88%	48.58%
Food & Non-alcoholic beverages	4.3%	45.3%
Beverage & Tobacco	0.0%	52.2%
Clothing & Textile	14.3%	31.4%
Housing	2.9%	89.4%
Household Equipment	1.8%	39.2%
Health	2.9%	51.0%
Transportation	-0.5%	26.1%
Communication	3.5%	37.8%
Recreation & Culture	0.6%	41.6%
Education	0.3%	93.7%
Restaurants & Hotels	1.4%	62.1%
Misc. Goods & Services	2.0%	45.2%

Source: Garanti BBVA Research, TURKSTAT

Figure 8. **PPI SUBCOMPONENTS**

	MoM	YoY
Total	1.29%	32.24%
Mining & Quarrying	0.9%	40.1%
Manufacturing	1.6%	32.9%
Food Products	2.3%	41.4%
Textiles	0.5%	27.2%
Wearing Apparel	3.0%	44.5%
Coke & Petroleum Products	2.8%	-1.9%
Chemicals	0.9%	28.9%
Other Non-Metallic Mineral	0.9%	32.4%
Basic Metals	2.3%	26.0%
Metal Products	0.8%	31.1%
Electrical Equipment	0.7%	31.1%
Electricity, Gas, Steam	-1.6%	20.5%

Source: Garanti BBVA Research, TURKSTAT

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ENQUIRIES TO:

Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
www.bbvarsearch.com