

## Data Snapshot – November inflation

### Voluntary price discounts and tax cuts loom large on inflation

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**CPI MoM:** -1.44% (Market: -0.7%, SEKER Invest: -0.6%), **YoY:** 21.6% (Oct-18: 25.2%)  
**D-PPI MoM:** -2.53%, **YoY:** 38.5% (Oct-18: 45.0%)

**TURKSTAT has revealed November CPI inflation at -1.44%, which is better than our -0.6% estimate and the -0.7% median market expectation. The print led to a significant decline in annual CPI inflation to 21.6% from 25.2%. With strengthening in the TRY, MoM D-PPI inflation was also -2.5%, bringing the annual increase to 38.5% from 45.0%.**

**Table 1: CPI inflation subcomponents**

	Weight	MoM		Ytd		YoY	
		Nov-18	Nov-17	Nov-18	Nov-17	Nov-18	Oct-18
<b>CPI</b>	<b>100.0%</b>	<b>-1.44%</b>	<b>1.49%</b>	<b>20.79%</b>	<b>11.16%</b>	<b>21.6%</b>	<b>25.2%</b>
Food and non-alcoholic beverages	23.0%	-0.74%	2.11%	23.78%	12.09%	25.7%	29.3%
Tobacco and alcoholic beverages	5.1%	0.17%	0.01%	2.23%	2.87%	2.2%	2.1%
Clothing and footwear	7.2%	2.37%	3.77%	19.72%	14.21%	16.9%	18.5%
Housing	14.9%	0.47%	1.25%	23.80%	8.78%	24.8%	25.7%
Home appliances and furniture	7.7%	-2.85%	0.95%	31.19%	11.42%	32.7%	37.9%
Health	2.6%	0.57%	0.21%	15.98%	11.64%	16.3%	15.8%
Transportation	17.5%	-6.46%	2.01%	19.02%	16.27%	21.0%	32.0%
Communication	3.9%	-0.60%	0.25%	9.74%	1.58%	9.6%	10.5%
Recreation and culture	3.4%	-2.08%	0.21%	21.16%	8.36%	21.2%	24.0%
Education	2.7%	0.02%	0.08%	10.17%	10.45%	10.2%	10.3%
Hotels and restaurants	7.3%	0.41%	0.46%	19.44%	10.94%	20.0%	20.1%
Miscellaneous goods and services	4.8%	-0.96%	1.84%	27.81%	12.72%	27.9%	31.5%
<b>D-PPI</b>		<b>-2.53%</b>	<b>2.02%</b>	<b>36.68%</b>	<b>13.91%</b>	<b>38.5%</b>	<b>45.0%</b>
Intermediate goods		2.35%	-3.73%	36.66%	18.62%	39.1%	48.6%
Energy		1.25%	0.93%	72.50%	9.26%	75.6%	81.6%

Source: TURKSTAT

### Durable goods played the major role in the inflation moderation

Actually, food inflation and energy inflation (both at -0.7%) are broadly in line with our expectations. That said, it seems that price discounts related to the temporary tax cuts and all-out war against inflation, and partly due to the TRY's strengthening, were somewhat higher than expectations. For example, the 12-14% fall in automotive prices alone led to a 0.9% decline in inflation. There was also a 10-15% fall in computer and TV prices and 4-7% fall in white goods prices, which all led to a 9.6% decline in the durable goods component of the inflation basket.

Services prices also eased compared to previous months, remaining flat MoM (1.1% in Oct, 3.0% in Sep, 1.9% in Aug). On the services front, we may highlight the 14% decline in plane ticket prices and the 23% fall in holiday tour prices, which all seems related to voluntary price discounts in the context of the 'all-out-war' against inflation. That said, annual services inflation only eased to 14.7% from 14.8%, which is much less pronounced compared to the easing in durable goods inflation.

The 2.4% MoM seasonal rise in the clothing component is somewhat less than what historical trends suggest, which might also be related to voluntary price discounts.

**Table 2: Core inflation indicators**

	Weight	MoM		Ytd		YoY	
		Nov-18	Nov-17	Nov-18	Nov-17	Nov-18	Oct-18
<b>CPI inflation excluding;</b>							
A Seasonal products	88.1%	-1.53%	1.08%	20.70%	10.55%	21.6%	24.8%
B Unprocessed food, energy, tobacco and alcoholic beverages and gold	71.9%	-1.48%	1.09%	20.60%	11.71%	21.2%	24.4%
<b>C Food &amp; non-alcoholic beverages, energy, tobacco and alcoholic beverages and gold</b>	<b>57.5%</b>	<b>-1.87%</b>	<b>1.07%</b>	<b>20.07%</b>	<b>11.69%</b>	<b>20.7%</b>	<b>24.3%</b>
D Unprocessed food, tobacco and alcoholic beverages	85.0%	-1.45%	1.39%	21.44%	11.59%	22.0%	25.5%
<b>Goods</b>	<b>71.4%</b>	<b>-1.99%</b>	<b>2.09%</b>	<b>23.48%</b>	<b>12.10%</b>	<b>24.5%</b>	<b>29.6%</b>
Energy	13.2%	-0.71%	2.53%	24.72%	9.86%	25.3%	29.4%
Unprocessed food	8.9%	-1.95%	3.17%	24.37%	12.36%	27.9%	34.6%
Processed food	14.4%	0.46%	1.17%	23.21%	11.85%	23.6%	24.5%
Goods excluding food and energy	35.1%	-0.07%	1.93%	22.82%	12.97%	23.4%	30.0%
Core goods	28.9%	-3.27%	2.12%	26.04%	14.68%	26.9%	34.3%
o/w Durable goods (excluding gold)	14.3%	-9.59%	1.85%	22.22%	15.56%	24.9%	40.7%
<b>Services</b>	<b>28.6%</b>	<b>0.03%</b>	<b>0.11%</b>	<b>14.18%</b>	<b>9.01%</b>	<b>14.7%</b>	<b>14.8%</b>
Rents	5.2%	0.62%	0.85%	9.06%	8.51%	9.8%	10.0%
Hotels and restaurants	7.3%	0.41%	0.46%	19.44%	10.94%	20.0%	20.1%
Transportation	3.7%	-1.44%	-1.27%	11.28%	11.73%	12.0%	12.2%
Communication	3.1%	0.04%	0.12%	9.97%	1.87%	10.0%	10.1%
Other services	9.3%	-0.02%	0.01%	15.45%	9.05%	15.8%	15.8%

Source: TURKSTAT

### Voluntary price discounts and tax cuts loom large on inflation, but pricing pressures continue on fast moving consumer goods

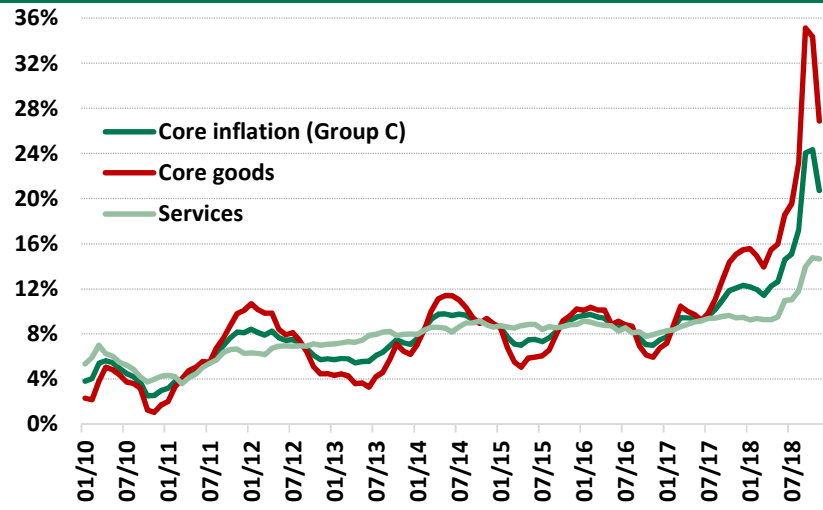
All of the above-mentioned factors helped core CPI inflation (group C) to register a 1.9% MoM fall, also leading to a decline to 20.7% in annual terms from 24.3%. Accordingly, we may easily suggest that the easing in core inflation as a result of the tax cuts and voluntary price discounts has been the major factor behind the moderation in inflation.

That said, we also have to highlight that with a 1.4% MoM increase, the upside pressure on other core goods (fast consumer products) prices seems to have lingered into November. As a result, annual inflation for the other core goods component continued to rise to 38.8% from 38.3% last month.

### The moderation in inflation is positive, but not yet a cause of relief

All in all, there has been more than a 3.5% point fall in annual CPI inflation, which is without doubt positive and supportive of current market sentiment. Nevertheless, it should also be kept in mind that this decline is mostly due to seemingly temporary factors, such as tax cuts and voluntary price discounts, which might be reversed in early 2019. As a result, we still advise some caution as to the disinflation trend until we see a sustained decline in inflation (which might probably take place in 2H19).

**Graph 1: Core CPI inflation and its components**



Source: TURKSTAT

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