

Macro note – 2024 December Inflation

CPI rises 1.03% mom in December, while annual inflation for 2024 prints at 44.38%. Acceleration in the disinflation process will bring an update to the interest rate cut path...

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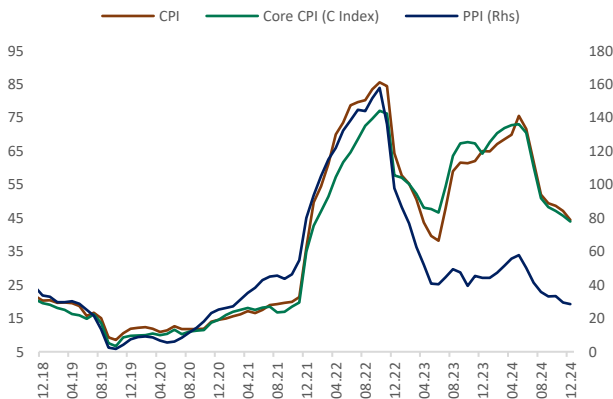
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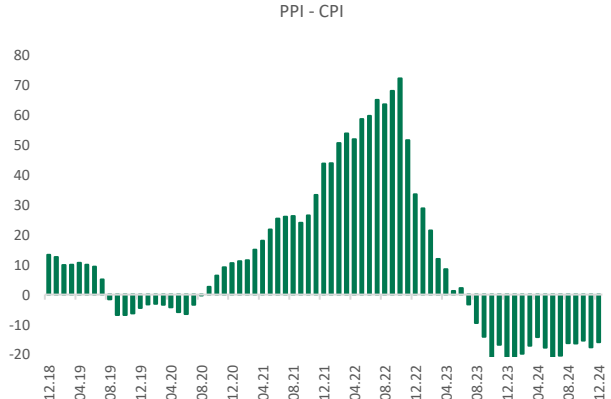
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	1.63	1.6	1.03	45.25	45.2	44.38
PPI	-	-	0.4			28.52

CPI increased by 1.03% mom in December, while annual inflation was realized as 44.38%. Market expectations were for monthly inflation to rise by 1.63% mom and 45.25% yoy (Şeker Invest expectations were 1.6% mom and 45.2% yoy). Monthly inflation, which was well below expectations, points to a significant improvement in the disinflation process in price dynamics. The average of food, housing and transportation inflation, which has a weight of 56.5% in the index, rose by 44.54% yoy. Despite the high course of housing and food inflation, transportation inflation pulls the average down. Although inflation declined in some items, the inflation felt especially by middle and low income groups is beyond the headline figures, notably in housing, education and services. In the same period, monthly inflation in the Special CPI Aggregate B index (core inflation) was realized as 1.17% while annual inflation was realized as 43.94%. The course of core inflation is scrutinized by the CBRT, being closely related to monetary policy's room to maneuver. Producer prices, on the other hand, rose by 0.4% mom in December, while the annual change in PPI was realized as 28.52%. When we look at the sub-indices in PPI, annual changes in main industrial groups were realized as a 27.01% increase in intermediate goods, 35.69% increase in durable consumer goods, 39.26% increase in non-durable consumer goods, 11.92% increase in energy and 29.21% increase in capital goods. The long-lasting calm course in producer prices has been limiting cost-driven consumer inflation. Therefore, we can say that the main uptrend in CPI was driven by price hikes in unprocessed food, administered prices and services, rather than producer prices and costs. It is inevitable for the start of interest rate cuts to lead to a limited increase in demand and economic activity. However, expect the monthly dynamics that rise with demand pressure to remain overshadowed by the base effect in annual indicators. In this context, even if economic activity revives in the first half, annual inflation will decline significantly. Considering that the pace of interest rate cuts is indexed to the disinflation process, a rate cut of around 8-10 points seems likely in the first half.

Graph 1: CPI, PPI and Core CPI (YoY %)



Graph 2: PPI – CPI Spread



Analyzing the subcategories of CPI inflation, the main group with the lowest year-on-year increase was transportation with 25.88%. On the other hand, the main group with the highest increase compared to the same month of the previous year was education with 91.64%. By main expenditure groups, the group with the highest decrease in December 2024 compared to the previous month was clothing and footwear with -0.67%. On the other hand, the main group with the highest increase in December 2024 compared to the previous month was household goods with 2.78%.

Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	100,00	1,03	44,38	44,38
Food and non-alcoholic beverages	24,98	1,29	43,58	43,58
Alcoholic beverages and tobacco	3,76	-0,02	39,28	39,28
Clothing and footwear	6,94	-0,67	32,32	32,32
Housing, water, electricity, gas and other fuels	14,20	1,71	69,03	69,03
Furnishing, household equipment, routine domestic maintenance	8,12	2,78	38,72	38,72
Health	3,71	0,88	47,63	47,63
Transportation	17,35	-0,42	25,88	25,88
Communication	3,34	1,82	34,08	34,08
Recreation and Culture	3,33	1,46	37,57	37,57
Education	1,80	0,07	91,64	91,64
Hotels, cafes and restaurants	8,17	1,35	57,13	57,13
Miscellaneous goods and services	4,30	1,54	43,30	43,30

Source: TURKSTAT

In sum, CPI increased by 1.03% mom in December, while annual inflation for 2024 was realized as 44.38%. While the realized level was below market expectations, it was quite close to CBRT forecasts. The marked improvement in the monthly trend suggests that disinflation may materialize more favorably than expected in the first half of 2025. With year-end inflation, uncertainty, especially regarding the course of the CBRT's interest rate cut path, have partially diminished. Monthly inflation developments are recognized as the most fundamental criterion for the CBRT's monetary policy stance. In this sense, we can say that the January rate cut is also being priced in. On the other hand, administered prices beyond the control of monetary policy and contributions from unprocessed food make the CBRT's job more difficult. The economic management, which gradually adjusts monetary and fiscal policies according to the trend in inflation, will need more time to manage inflation expectations. We closely monitor inflation expectations as the improvement in the expectations channel will have an impact on both pricing behavior and costs. Contributions to inflation from cost and exchange rate pressures have been contained, and consumption and demand inflation have started to decline. Considering the sphere of monetary policy control, implementations that take financial stability as well as price stability into account will reduce exchange rate volatility and contribute to both risk premiums and macro financial stability. We underline here that we may revise our inflation forecasts depending on the developments in the monthly inflation level and the course of monetary policy. We maintain our 2025 year-end inflation forecast at 26.4%.

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