

## Macro note – 2025 January Inflation

**CPI increases by 5.03% mom and 42.12% yoy in January. While the rigidity in services prices continues, the slowdown in food and transportation prices is proceeding gradually.**

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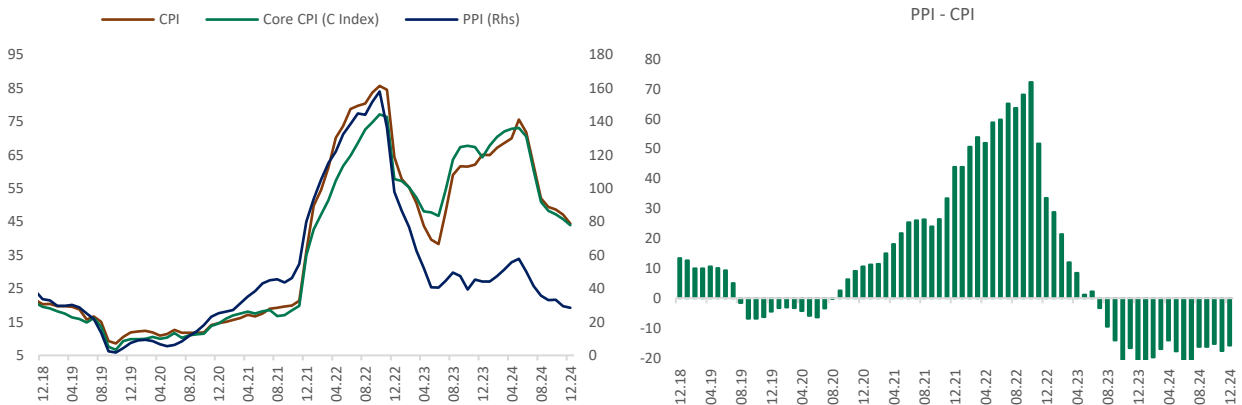
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	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
<b>CPI</b>	4.33	4.15	5.03	41.16	41	42.12
<b>PPI</b>	-	-	3.06			27.2

CPI increased by 5.03% mom in January, while annual inflation was realized as 42.12%. Market expectations were that inflation would increase by 4.33% mom and 41.16% yoy (Seker Investment expectations were 4.15% mom and 41% yoy). The first inflation rate of the new year, which was higher than the market and our expectations, draws attention to price rigidities, especially in the services sector. The average of food, housing, and transportation inflation, which has a weight of 55.2% in the index, rose by 44.05% yoy. Considering the impact across income groups, the price increase in the core expenditure items of lower-income groups still hovers above the headline inflation. In the same period, monthly inflation in the Special CPI Aggregate B index (core inflation) was realized as 5.47%, while annual inflation was realized as 42.08%. The course of core inflation is strictly monitored by the CBRT as it is closely related to monetary policy room for maneuver. When monthly developments are evaluated, the pressure from health and miscellaneous goods/services especially reduced the pace of annual disinflation. Producer prices increased by 3.06% mom in January, while the annual change in PPI was realized as 27.2%. When we look at the sub-indices of PPI, annual changes in main industrial groups were realized as a 23.27% increase in intermediate goods, 37.44% increase in durable consumer goods, 37.42% increase in non-durable consumer goods, 18.05% increase in energy and 25.61% increase in capital goods. We see that the long-lasting low course of monthly producer prices has revived. Cost pressures will gradually increase despite their low course. We expect that the recent tariff-driven pressures on global trade will put additional pressure on producer prices. If February inflation continues to exceed expectations, we expect the pace of interest rate cuts to slow down. On the other hand, although monthly dynamics create pressure, we are entering a period where we will feel the base effect strongly. In this context, even if economic activity picks up in the first half, annual inflation will decline significantly. Inflation realization in February will guide the CBRT's decision in March. We do not foresee any change in our base scenario, but the CBRT may be more cautious about interest rate cuts due to the course of inflation.

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 23.14%. On the other hand, the main group with the highest increase compared to the same month of last year was education, with 99.93%. By main expenditure groups, the main group that decreased in January 2025 compared to the previous month was clothing and footwear, with -5.17%. On the other hand, the main group with the highest increase in January 2025 compared to the previous month was health, with 23.57%.

**Table 1: Inflation and Sub-Components**

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
<b>CPI</b>	<b>100,00</b>	<b>5,03</b>	<b>5,03</b>	<b>42,12</b>
Food and non-alcoholic beverages	24,97	3,86	3,86	41,76
Alcoholic beverages and tobacco	3,52	1,02	1,02	34,10
Clothing and footwear	7,16	-5,17	-5,17	27,53
Housing, water, electricity, gas and other fuels	15,22	7,34	7,34	68,90
Furnishing, household equipment, routine domestic maintenance	7,67	4,70	4,70	35,32
Health	4,09	23,57	23,57	55,02
Transportation	15,34	4,20	4,20	23,14
Communication	3,62	2,14	2,14	32,98
Recreation and Culture	3,36	5,49	5,49	33,05
Education	2,31	7,63	7,63	99,93
Hotels, cafes and restaurants	8,32	6,50	6,50	49,18
Miscellaneous goods and services	4,43	7,66	7,66	39,94

Source: TURKSTAT

In sum, CPI increased by 5.03% mom in January, while annual inflation was realized as 42.12%. Price dynamics were above expectations on a monthly basis, while the rigidity in services, in particular, persisted. In our baseline scenario, we envisaged a significant decline in inflation in the first half of the year. Although there has been no significant change, if the rigidity and global shocks persist, we may have a first half slightly above our expectations. Since inflation dynamics are closely related to the monetary policy stance, February inflation developments have become more important for the March interest rate decision. Demand-side inflation and core goods/food inflation seem to be in line with CBRT forecasts. On the other hand, administered prices and contributions from unprocessed food, which are beyond the control of monetary policy, 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 note 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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