Şeker Invest

Macro note – May 2025 Inflation

The CPI increases by 1.53% month-on-month and 35.41% year-on-year in May. Food and non-alcoholic beverages show a decline on a monthly basis, while there is a significant pullback in service inflation...

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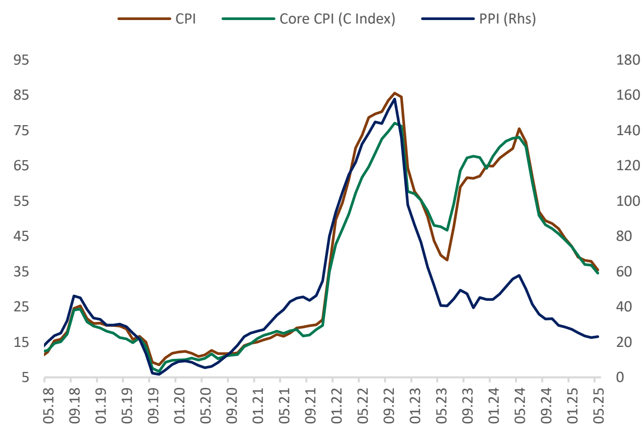
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	2,1	2	1,53	36,15	36	35,41
PPI	-	-	2,48			23.13

The CPI rose by 1.53% in May compared to the previous month, while annual inflation stood at 35.41%. Market expectations were for inflation to rise by 2.1% monthly and 36.15% annually (Seker Invest expectations were for a 2% monthly and 36% annual increase). We are seeing a sharper decline in inflation than expected. The average inflation rate for food, housing, and transportation, which accounts for 55.2% of the index, rose by 40.05% annually. During the same period, the monthly inflation rate for the B index (core inflation), which is the Special Scope CPI Indicator, was 2.25%, while the annual inflation rate was 34.81%. Several points stand out in the May figures. First among these is the monthly decline in prices for food and non-alcoholic beverages. This rate, which fell to 0.71%, has also brought annual inflation down to 32.87%. However, monthly increases of 2.99% and annual increases of 67.43% in housing prices appear to have limited the strong decline in the basket (housing index weight is 15.22%). In transportation, despite a monthly increase (2.66%), the annual level remains at 24.59%, balancing the impact of housing in the basket. We have previously noted in our reports that price developments in May and June are of critical importance for the CBRT's monetary policy stance. The institution, which implemented additional tightening in April, has tied the extent and timing of interest rate cuts for the remainder of the year to the inflation outlook. Looking at the actual figures, market expectations for an interest rate cut in June have strengthened, and the CBRT's hand has been eased. We can also see this in the pricing behavior of financial markets.

Producer prices rose by 2.48% month-on-month in May, while the annual change in the PPI stood at 23.13%. Looking at the sub-indices of the PPI, the annual changes in the main industrial groups were a 20.50% increase in intermediate goods, 29.22% increase in durable consumer goods, 27.48% increase in non-durable consumer goods, 17.05% increase in energy, and 26.48% increase in capital goods. Monthly dynamics showed a 1.92% increase in intermediate goods, a 0.05% increase in durable consumer goods, a 1.70% increase in non-durable consumer goods, a 7.98% increase in energy, and a 2.38% increase in capital goods. We note that producer or supply-side cost shocks have a very limited impact on inflation. This makes it easier to combat inflation. In a global environment where commodity, monetary policy, or supply-side pressures are also limited, the only thing needed for domestic price indicators to retreat to 30% levels seems to be time and a consistent monetary policy stance. Economic activity slowed in the first quarter, with a contraction in production indicators, particularly in the industrial sector. This is also evidence that the output gap will remain negative for some time to come. On the other hand, policymakers aiming for a soft landing now find themselves in a precarious situation. Early interest rate cuts could bring about a soft landing, but they may also disrupt the process of disinflation. In this case, the most reasonable scenario appears to be rolling back the additional tightening of monetary policy that occurred in March to pre-March levels. This would both manage three-month demand-driven inflation and send a message that the market is prepared to use all available tools in the face of upward risks. This would reassure the market and buy time in the fight against inflation. In the other two scenarios (an interest rate cut exceeding expectations or a delay in the cut), we would either need to exercise greater patience in the fight against inflation or face a sharp decline in growth. Both scenarios contain outcomes that the market would not welcome. We expect that the CBRT will revert to its March monetary policy by June and proceed with a focus on inflation.

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



Graph 2: PPI – CPI Spread

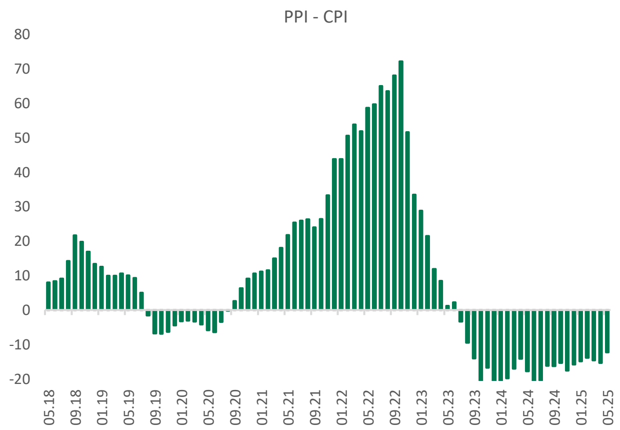


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	**100,00**	**1,53**	**15,09**	**35,41**
Food and non-alcoholic beverages	24,97	-0,71	13,88	32,87
Alcoholic beverages and tobacco	3,52	0,06	11,07	27,87
Clothing and footwear	7,16	6,97	0,03	14,12
Housing, water, electricity, gas and other fuels	15,22	2,99	23,54	67,43
Furnishing, household equipment, routine domestic maintenance	7,67	1,21	13,17	29,69
Health	4,09	0,47	20,77	40,12
Transportation	15,34	2,66	14,72	24,59
Communication	3,62	-0,71	5,20	19,25
Recreation and Culture	3,36	1,94	11,70	26,04
Education	2,31	1,19	28,17	71,67
Hotels, cafes and restaurants	8,32	1,83	18,33	36,91
Miscellaneous goods and services	4,43	1,59	17,62	35,98

Source: TURKSTAT

In summary, the CPI rose by 1.53% month-on-month in May, while annual inflation stood at 35.41%. Inflation figures, which were well below market and our expectations, created optimism regarding the monetary policy stance. Political developments disrupted our baseline scenario at the beginning of the year in March. The May inflation figures have opened up a strong opportunity for the Central Bank of the Republic of Turkey (CBRT) to return to the pre-March scenario. The significant declines in both goods and services inflation are also limiting upward risks for year-end forecasts. We anticipate that the economic administration, which is gradually adjusting monetary and fiscal policies in line with inflation trends, will adopt a stance that supports economic activity in the second half of the year. We are closely monitoring inflation expectations, as improvements in the expectation channel will affect both pricing behavior and costs. Contributions to inflation due to cost and exchange rate pressures have been limited, and consumption and demand inflation have entered a downward trend. Considering the scope of monetary policy, measures that take into account both financial stability and price stability will contribute to reducing risk premiums and enhancing macro-financial stability by mitigating exchange rate volatility. We maintain our year-end inflation forecast at 30%. We emphasize that we may update our inflation forecasts in response to developments in monthly inflation levels and the course of monetary policy.

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