Şeker Invest

Macro note – August 2025 Inflation

The CPI rises 2.04% month-on-month and 32.95% year-on-year in August. Inflation inertia in core expenditure items and managed/directed price pressures persist.

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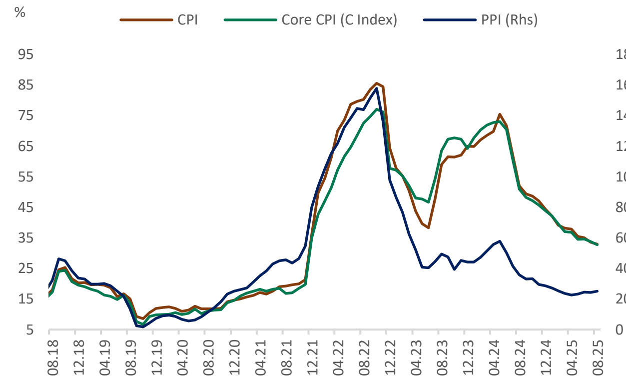
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	1,75	1,8	2,04	32,65	32,7	32,95
PPI	-	-	2,48			25,16

The CPI rose by 2.04% in August compared to the previous month, while annual inflation stood at 32.95% (previous: 33.52%). Market expectations were for inflation to increase by 1.75% monthly and 32.65% annually (Seker Invest expectation was 1.8% monthly and 32.7% annually). Inflation figures, which exceeded market and our expectations, indicate that domestic demand remains buoyant, albeit to a limited extent. The average inflation rate for food, housing, and transportation, which accounts for 55.52% of the index, rose by 36.43% annually. The average inflation of items with a high weight in the spending basket of the low-income group is far above headline figures. During the same period, the monthly inflation rate for the B index (core inflation), which is the Specially Covered CPI Indicator, was 2.07%, while the annual inflation rate was 32.71%. Both inertia and managed/directed price effects continue in products of high basket weight. In particular, food and non-alcoholic beverages, alcoholic beverages, and tobacco recorded increases of 3.02% and 6.04% this month, respectively. This was followed by a monthly increase of 2.66% in housing. Of the 2.04% monthly inflation, 1.4 points came from these three items, while the remaining 0.65 points came from other sub-items. When the total impact is assessed on an annual basis, the impact of alcoholic beverages and tobacco remains limited, while transportation takes its place. When their contribution to 32.95% annual inflation is evaluated, housing, food, and transportation contribute a total of 20.2 points. Although demand-side inflation is under control, cost/supply-side pressures and service inflation are hampering inflation targets. Despite a marked improvement in service inflation, the annual inflation rate of 45.77% is preventing a downward break in the expectations channel. When the last three months of inflation are evaluated together, we can say that we are on a path consistent with the CBRT's forecasts. Although the tight stance continues the disinflation process, the pace of adjustment has slowed. This slowdown was within our expectations. Inflation will continue to hover around the 30-35% range until the end of the year. It appears that the inertia and base effect at these levels will not disappear until 2026. Although political developments and global fluctuations may cause deviations in forecasts, we will close the year with inflation close to market expectations (+/-2 points).

Producer prices rose by 2.48% monthly in August, while the annual change in the PPI stood at 25.16%. Looking at the sub-indices of the PPI, the main industrial groups saw a 22.02% increase in intermediate goods, a 30.22% increase in durable consumer goods, a 28.94% increase in non-durable consumer goods, a 24.76% increase in energy, and a 26.61% increase in capital goods. Monthly dynamics showed a 1.34% increase in intermediate goods, a 1.26% increase in durable consumer goods, a 3.21% increase in non-durable consumer goods, a 6.39% increase in energy, and a 1.11% increase in capital goods. Monthly dynamics in producer prices are slightly above consumer prices. This may be a sign that the long-standing calm in the cost channel is picking up again. Considering the PPI-CPI gap, the pass-through from producer prices to consumer prices will stabilize at around 25-30%. Interest rate cuts that take into account the real interest rate level and do not create additional tightening in the market will also give the real sector some breathing room. In particular, the improvement in inflation expectations may create a tighter level in real interest rates. In other words, improvements in the expectation channel will pave the way for more flexible interest rate cuts. Although the CBRT has more leeway in terms of interest rate cuts, political developments and the slowdown in disinflation may lead to a cautious stance.

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



Graph 2: PPI – CPI Spread

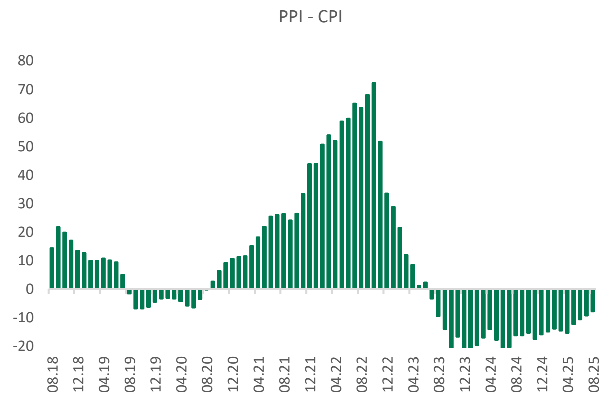


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	**100,00**	**2,04**	**21,50**	**32,95**
Food and non-alcoholic beverages	24,97	3,02	17,09	33,28
Alcoholic beverages and tobacco	3,52	6,04	24,66	29,71
Clothing and footwear	7,16	-0,71	-6,72	9,49
Housing, water, electricity, gas, and other fuels	15,22	2,66	37,67	53,27
Furnishing, household equipment, routine domestic maintenance	7,67	0,80	18,26	29,74
Health	4,09	1,01	26,27	36,59
Transportation	15,34	1,55	22,71	24,86
Communication	3,62	1,46	13,30	20,61
Recreation and Culture	3,36	1,48	17,36	26,16
Education	2,31	2,07	40,33	60,91
Hotels, cafes, and restaurants	8,32	1,88	25,85	33,96
Miscellaneous goods and services	4,43	0,67	22,79	33,03

Source: TURKSTAT

In summary, as the CPI rose by 2.04% month-on-month in August, annual inflation stood at 32.95%. Levels exceeding market expectations indicate that the disinflation process has slowed down. Inflation stabilizing at levels below 2% month-on-month will bring year-end outcomes in line with market expectations. Although the slowdown in goods and services inflation has improved when compared to peak levels, it is still far from target levels. Inflation developments have given the CBRT significant room to return to the pre-March scenario and stance. We expect the economic administration, which is gradually adjusting monetary and fiscal policies according to inflation trends, to implement interest rate cuts that support economic activity until the end of the year. We are closely monitoring inflation expectations, as the improvement 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 control, measures that take financial stability into account, as well as price stability, will reduce exchange rate volatility, contributing to risk premiums and macro-financial stability. We maintain our year-end inflation forecast at 30%. Note that we may update our inflation forecasts depending on developments in the monthly inflation rate and the course of monetary policy.

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