

# Turkey-Inflation

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## May 2021 - CPI inflation print below estimates

**Headline CPI inflation in May printed at 0.89%, significantly below both the consensus (1.32%) and our (1.30%) estimate. Thus, yoy CPI inflation fell to 16.59% from 17.14%, marking the first monthly fall since July 2020. Yoy core inflation decreased from 17.77% to 16.99%, while yoy PPI inflation increased significantly from 35.17% to 38.33%.**

As in the previous month, limited price pressure from demand and FX was key in keeping inflation below our expectations in May. In addition to the fact that the price increase in the clothing group remained below the seasonal trend, the reflection of the depreciation in the TRY on related goods groups was also weaker than our forecast. Thus, core yoy inflation fell, contrary to our expectation of an increase. Despite the increase in fuel prices, energy yoy inflation decreased slightly in line with expectations due to the base effect. On the other hand, food yoy inflation remained unchanged, contrary to our expectation of a decline. Despite the limited price increase in the goods group, continuation of the rapid rise in services inflation is negative for the inflation outlook. In addition, the fact that PPI yoy inflation, which increased by 15 points over the past six months to 38% due to rising commodity prices, indicates that production costs have increased significantly. High production costs and signals of inflation inertia indicate that risks to the inflation outlook persist.

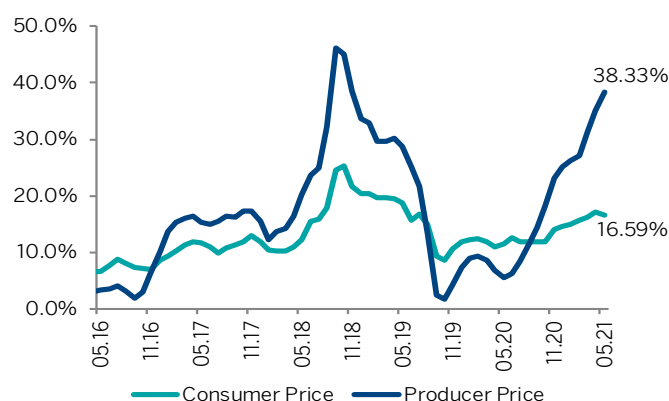
Although inflation remained below expectations in May, risks to the inflation outlook remain important due to high commodity prices, supply problems, the depreciation of the TRY and possible drought. In addition, the likely upward impact of the lockdown due to Covid-19 on prices could realize in June. We expect inflation to fall to 15% by the end of the year, after being in the range of 16-18% until the last months of 2021. Commodity prices, growth trend, and the course of TRY will be key factors for the inflation path in the upcoming period. We expect the CBRT to keep the policy

Details of Inflation

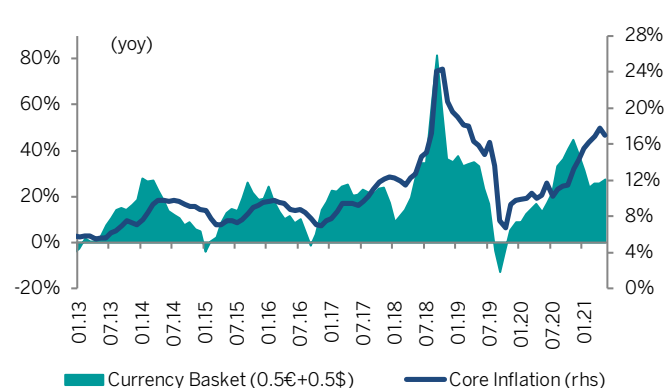
rate unchanged at 19% at its June meeting.

	May 2021		April 2021	Diff in Annual Figure		May 2021		April 2021	Diff in Annual Figure
	MoM	YoY	YoY			MoM	YoY	YoY	
Headline CPI	0.89%	16.59%	17.14%	-0.5%	Alc. Bev.&Tobacco	-0.01%	2.90%	3.60%	-0.7%
Core CPI	1.01%	16.99%	17.77%	-0.8%	Clothing&Footwear	1.76%	5.75%	11.03%	-5.3%
Energy	1.50%	17.71%	18.44%	-0.7%	Housing	0.76%	14.08%	13.60%	0.5%
Goods	0.79%	17.86%	18.86%	-1.0%	Furnishing, Hhold Equip.	0.75%	21.79%	22.27%	-0.5%
Service	1.18%	13.62%	13.12%	0.5%	Health	0.30%	19.30%	19.20%	0.1%
Food and Non-Alc. Bev.	0.29%	17.04%	16.98%	0.1%	Transportation	2.56%	28.39%	29.31%	-0.9%
Unprocessed Food	-0.32%	14.61%	14.67%	-0.1%	Communication	0.56%	8.07%	9.05%	-1.0%
Processed Food	0.87%	19.49%	19.36%	0.1%	Recreation&Culture	-1.32%	10.05%	12.33%	-2.3%
CPI exc. Adminis. Prices	1.00%	18.13%	18.82%	-0.7%	Education	0.60%	10.57%	10.21%	0.4%
PPI	3.92%	38.33%	35.17%	3.2%	Hotels&Restaurants	0.95%	17.73%	16.81%	0.9%
					Misc. Goods&Services	1.62%	17.92%	18.27%	-0.4%

CPI and PPI Inflation (yoy)



Core Inflation & FX

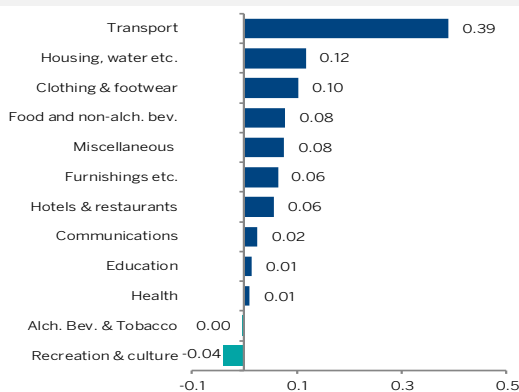


Source: Turkstat, Garanti BBVA Securities

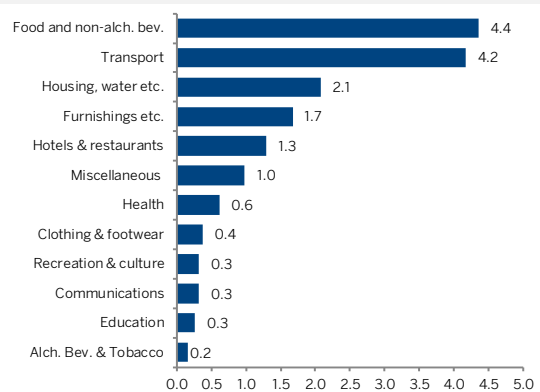
### Core yoy inflation fell in May relative to the previous month after rising over the past nine months

- Food inflation was 0.2% in May, above the average of the previous 5 years (-0.4%), similar to the past year. Yoy food inflation remained flat at 17.4%.
- Despite a fuel price rise of c.4% mom, yoy energy inflation fell to 17.7% from 18.4% due to the base effect. The sliding scale system and ceiling price implementations led the impact of high Brent prices and TRY depreciation on headline inflation to be contained. These implementations also caused the gap between PPI and CPI to widen.
- The impact of FX and demand conditions on prices was limited in May. On a mom basis, furniture prices rose by 1.8%, automobile prices by c.1.9%, while home appliances prices fell by 0.5%. The prices of TVs (0.1%), computers (-1.1%), and phones (-0.1%) did not reflect the FX pass-through impact. Yoy clothing inflation fell sharply to 5.6% from 11.0% due to the mom price rise, below its seasonal trend. Yoy goods inflation fell to 17.9%.
- Service yoy inflation increased by 0.5 points to 13.6%, driven mainly by transportation. The rise in service inflation could continue in June due to the delayed impact of lockdowns related to Covid-19.
- Core yoy inflation decreased relative to the previous month after a nine month of consecutive rise thanks to the limited impact of TRY depreciation and moderate demand. Inflation indicators adjusted for various factors declined, being in the range of 17.0%- 18.1%.

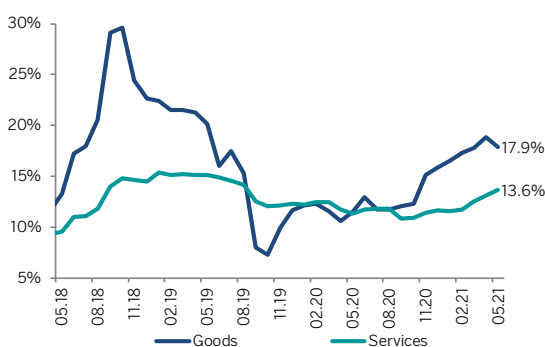
Contributions to the Monthly Inflation (points)



Contributions to the Annual Inflation (points)



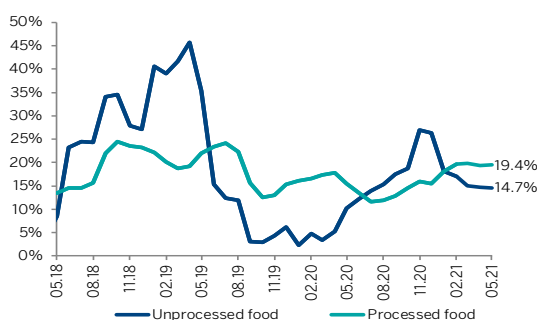
Goods & Services Inflation



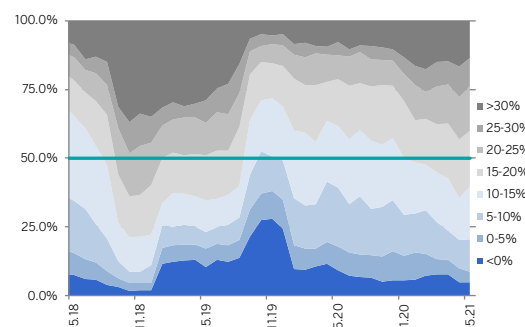
Inflation (yoy)



Food Inflation (yoy)



Inflation Distribution (yoy) of Item Basket



Nihan Ziya Erdem

Chief Economist

Research

Direct Tel : +90 212 384 11 31

Tel : +90 212 384 10 10

[nihanz@garantibbva.com.tr](mailto:nihanz@garantibbva.com.tr)

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