

Turkey-Inflation

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May 2022 - CPI inflation prints below estimates

Headline CPI inflation in May printed at 2.98%, below the consensus (4.00%) and our own (4.50%) estimate. Thus, yoy CPI inflation rose to 73.50% from 69.97%. Yoy core inflation increased from 52.37% to 56.04%, and yoy PPI inflation from 121.82% to 132.16%.

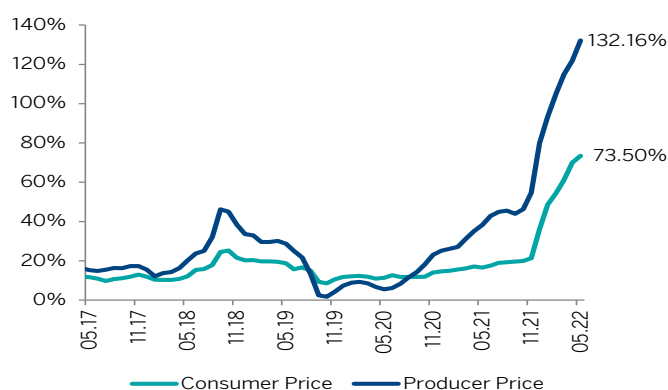
Headline inflation printed below our expectation in May due to weaker price rises in all main subgroups than our forecasts. Notably, the food inflation announced by Turkstat was quite low relative to the leading indicators of Turk-Is and ICC, keeping the rise in headline inflation limited. Even though yoy unprocessed food inflation remained high at 97.6%, it decreased compared to the previous month. Thus, the acceleration in total food inflation lost pace. A similar trend exists in energy and core inflation. With mom energy inflation remaining at 2.9%, below the previous seven-month average of 10.0%, its impact on headline inflation decreased. Increases in electricity (15%) and natural gas (30%) prices in June could cause energy inflation to accelerate again. The 6.8% mom price rise in the tobacco group pushed headline inflation up. Despite the diminishing repercussions of TRY depreciation, core inflation continued to rise due to worsening inflation expectations and moderate demand effects. However, mom core inflation was at 3.4%, its lowest increase since November 2021, indicating a limited loss of momentum in the inflation trend. Despite the loss of momentum in core inflation, the rapid rise in yoy PPI inflation to 132.2% is negative as it underlines that cost-driven inflationary pressures remain strong.

The current inflation outlook and high commodity prices indicate that headline inflation will remain elevated throughout 2022. Our CPI inflation forecast is 60% for the year-end.

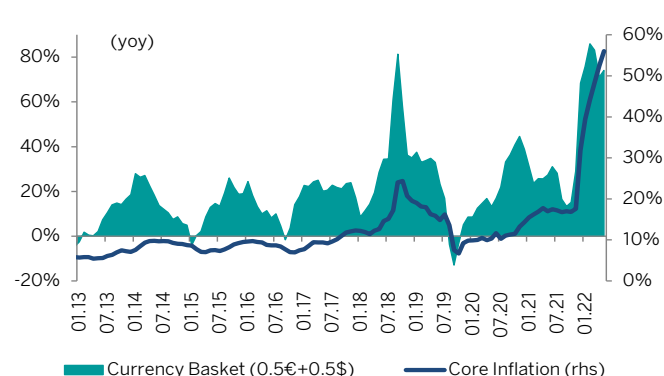
Details of Inflation

	May 2022		April 2022	Diff in Annual Figure		May 2022		April 2022	Diff in Annual Figure
	MoM	YoY	YoY			MoM	YoY	YoY	
Headline CPI	2.98%	73.50%	69.97%	3.5%	Alc. Bev.&Tobacco	6.53%	66.62%	56.38%	10.2%
Core CPI	3.44%	56.04%	52.37%	3.7%	Clothing&Footwear	4.64%	29.80%	26.23%	3.6%
Energy	2.90%	121.21%	118.20%	3.0%	Housing	2.25%	63.51%	61.14%	2.4%
Goods	2.75%	83.95%	80.44%	3.5%	Furnishing, Hhold Equip.	3.26%	82.08%	77.64%	4.4%
Service	3.73%	45.78%	42.18%	3.6%	Health	1.61%	37.74%	35.95%	1.8%
Food and Non-Alc. Bev.	1.63%	91.63%	89.10%	2.5%	Transportation	3.43%	107.62%	105.86%	1.8%
Unprocessed Food	-1.83%	97.61%	100.67%	-3.1%	Communication	1.49%	19.81%	18.71%	1.1%
Processed Food	5.36%	86.01%	78.09%	7.9%	Recreation&Culture	6.15%	54.12%	43.28%	10.8%
CPI exc. Adminis. Prices	2.73%	75.14%	72.19%	2.9%	Education	0.41%	27.48%	27.73%	-0.2%
PPI	8.76%	132.16%	121.82%	10.3%	Hotels&Restaurants	5.47%	76.83%	69.26%	7.6%
					Misc. Goods&Services	3.06%	60.96%	58.72%	2.2%

CPI and PPI Inflation (yoy)



Core Inflation & FX

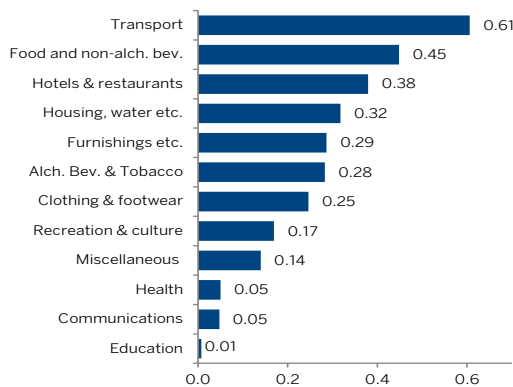


Source: Turkstat, Garanti BBVA Securities

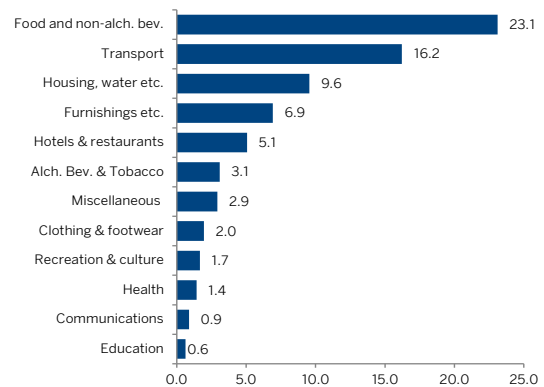
Limited deceleration in core inflation trend

- Food mom inflation was at 1.4% mom in May, above the 5-year average (0%), but lost momentum relative to previous months. Food inflation rose yoy from 90.3% to 93.1%. Unprocessed food yoy inflation fell to 98% due to falling fresh fruit & vegetable prices on a mom basis, while processed food yoy inflation rose to 86%.
- In May, when fuel price increases continued, energy yoy inflation rose to 121%. The direct effect of electricity and natural gas price increases on CPI headline inflation is 0.8 points.
- Despite the weakening FX driven effects, yoy inflation of durable goods excluding gold continued to rise (76.8%). The yoy inflation in the clothing group was 29.3%, significantly below headline inflation.
- The tobacco group's mom inflation is high at 6.8%. The possible effects of the rise in SCT in this group will be reflected mainly on June inflation. On the other hand, the announcement that there will be no automatic tax adjustment due to PPI in July indicates that the contribution of this group to inflation will be limited in 2H22.
- Yoy service inflation rose to 45.8%, especially due to the restaurant & hotel group.
- Due to the impact of FX, demand and deteriorated expectations, yoy core inflation rose to 56.04%. All yoy inflation indicators released by Turkstat have accelerated. Inflation indicators adjusted for various factors were in the range of 56.0%-75.6%.

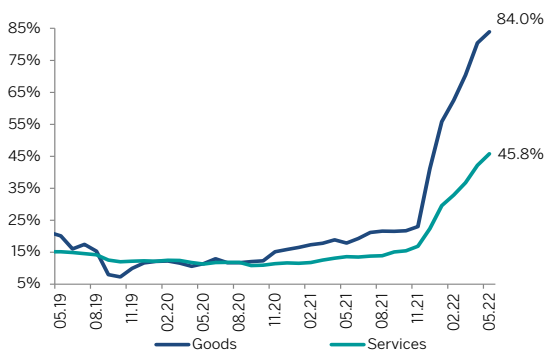
Contributions to the Monthly Inflation (points)



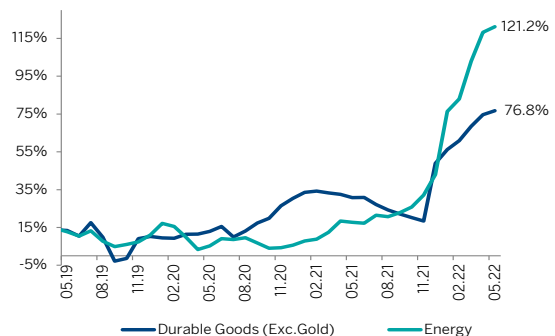
Contributions to the Annual Inflation (points)



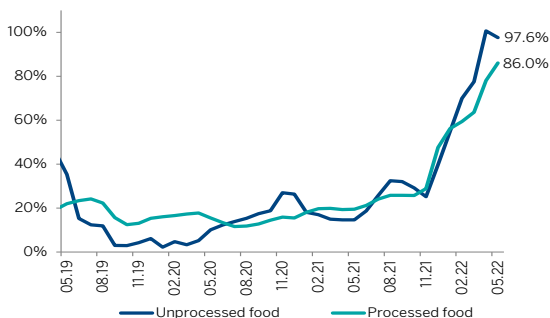
Goods & Services Inflation



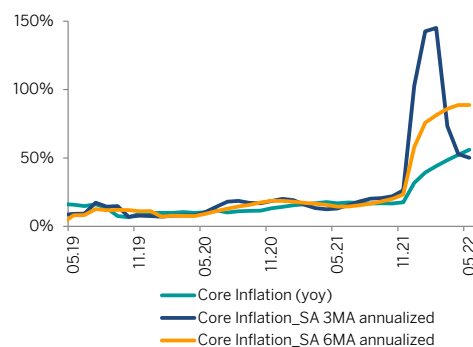
Inflation (yoy)



Food Inflation (yoy)



Core Inflation



Nihan Ziya Erdem

Chief Economist

Research

Direct Tel :+90 212 384 11 31

Tel :+90 212 384 10 10

nihanz@garantibbva.com.tr

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