

Annual headline inflation increased to 79.60%, with the core at its new high of 61.69%

CPI inflation was below the market expectations in July with 2.37% monthly increase. As a result, annual inflation increased from 78.62% to 79.60%, setting a new record in the revised series (2003=100). The continuing upward trend in inflation was mainly driven by the contribution of food, housing, household equipment and alcoholic beverages & tobacco. The core inflation also moved up by 3.45% MoM, bringing its annual rate to 61.69%, up from June's 57.26%.

The highest contributors to headline inflation on a monthly basis came from food, household equipment, housing and alcohol & tobacco segments. Moreover, the monthly increases seen in restaurants and household equipment were mainly driven by food prices together with higher cost of imported goods.

Food prices, with a 3.15% increase on a monthly basis in July, made the highest contribution to the monthly inflation with 0.83 ppt. Annual food inflation stood at 94.65% YoY. Housing item increased by 1.99% MoM mainly as a result of rent, water supply and solid fuel costs and contributed +0.29ppt to the headline CPI. Transportation decreased for the first time since August 2021 by 0.85% MoM mostly due to decline in oil prices and made the only negative contribution (-0.16 ppt) to the monthly inflation. Health also advanced by 6.98% on monthly basis and contributed +0.21ppt to the inflation. Prices in hotels and restaurants segment increased by 2.5% MoM and contributed +0.18ppt to the inflation. Rising food prices were the primary cause of that increase. The MoM increase in clothing continued to stay above its prior 5-year average of -3.1% in July: 1.8%, contribution: +0.09ppt.

In July, monthly core inflation was 3.45%, putting the annual core to 61.69% up from 57.26% in June. On a monthly basis, core goods inflation increased by 3.67% and services inflation was up 3.20%. Annual core goods and services inflation are 70.93% and 51.45%, respectively.

PPI increased by 5.17% MoM, which was 6.77% in June, leading the annual rise to 144.61%, new YoY record in the new series (2003=100). The most important contributions to the monthly increase came from food products (+0.95 pts), other non-metallic products (+0.37 pts), electricity, gas production and distribution (+2.46pts), motor vehicles (+0.19pts) and textile (+0.18pts). On an annual basis, basic metals (+9.51 pts), food products (+28.09 pts), electricity, gas production and distribution (+30.41 pts), textiles (+11.76 pts) and other non-metallic products (+9.43 pts) made the most significant contributions.

Main upside risks on inflation in the near term are:

- Rising inflation expectations from its previous levels,
- Continued high levels of PPI and the widening gap between PPI-CPI and the pass-through impact,
- Concerns about rising global food, energy and commodity costs, as a result of geopolitical conflicts and,
- Possible supply-chain bottlenecks as a result of Covid-19 variants.

CHART-1: Core CPI vs Headline Inflation

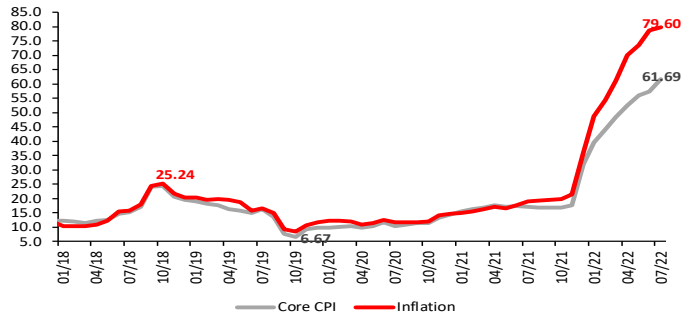


CHART-2: Headline Inflation vs PPI (yoy, %)

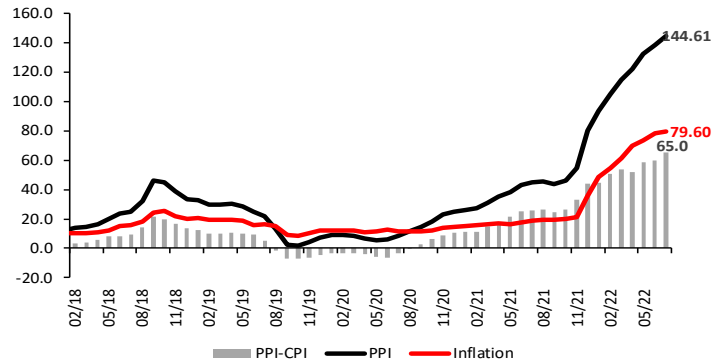
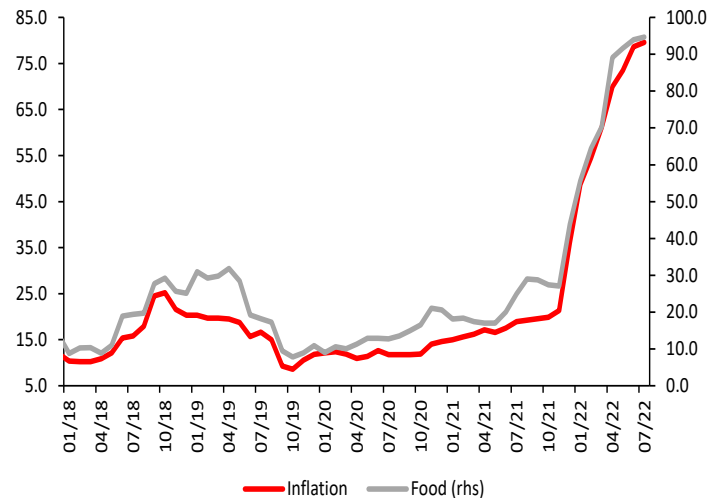


CHART-3: Inflation and Food



This report is prepared by Akbank Economic Research

Economic.research@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Alp Nasır

Alp.Nasir@akbank.com

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