

**Macro: Stickiness in services inflation persists; underlying trend still strong**

In May, consumer prices increased by 3.37% and annual inflation rose from 69.8% to 75.4%. Thus, inflation was realized above the midpoint of the CBRT Inflation Report forecast band ( $\approx 75.0\%$ ). The technical correction due to the end of the subsidy for household natural gas consumption as of May 1 added 0.64 pp to monthly inflation. Even when this effect is removed, the monthly CPI inflation trend falls to 3%.

The trend of core inflation indicators, which by definition exclude energy, has picked up from April. The postponement of price adjustments until after the elections seems to have had an impact on this development. Looking ahead, the fact that monthly D-PPI inflation has fallen to 2% on the back of stable exchange rate, and that we are likely to see a figure below that in June, is positive for the goods in the CPI basket. However, the stickiness in services inflation across subgroups is noteworthy. While the seasonally adjusted monthly inflation for goods is 3.2%, it is quite high for services at 4.6%.

Despite stable exchange rates, the lack of a significant slowdown in demand is preventing an improvement in pricing behavior. The seasonally adjusted monthly inflation distribution of 5-digit sub-items is still concentrated between 5-10%. Without a significant slowdown in economic activity and the labor market, it seems difficult to bring the monthly inflation trend down to levels in line with the official forecast with exchange rate stability alone. It should be recalled that the CBRT predicted that the monthly inflation trend would fall below 1.5% in the last quarter.

The lack of improvement in the pricing behavior and the stickiness in the inflation trend may increase the market's sensitivity to the data (the alignment between the realizations and the official path) in the coming period. The monetary stance may be revised depending on the evolution of fiscal policies (wages, administered prices, etc.) and their impact on the inflation outlook. In the current outlook, we consider a rate cut during the year to be unlikely.

All in all, the May data suggest that the inflation trend is stronger than our previous projections, despite the mild exchange rate development. We maintain our year-end inflation forecast at 43.5%, noting the increased upside risks compared to last month. Decisions on wage, administered price and automatic tax adjustments, which we currently assess as upside risks, remain important for the inflation outlook and the monetary policy stance.

**Consumer Price Index (CPI)**

**Monthly inflation came in at 3.37%, above our forecast (2.95%) and market forecasts** (Bloomberg HT: 3.0%, AA Finans: 3.0%, Foreks: 3.1%). Thus, the annual inflation rate rose by 5.6 points to 75.4%. In May, inflation was also above the midpoint of the CBRT Inflation Report forecast band (75.0%).

**The inflation trend in CPI and core indicators accelerated from the previous month.** The technical correction due to the end of the subsidy for household natural gas consumption as of May 1 added 0.64 pp to monthly inflation. However, excluding this effect, the monthly inflation trend was 3.0%, registering a very limited improvement compared to the previous month (Table 1). This is equivalent to an annualized rate of inflation of about 43%. Core-B seasonally adjusted (s.a.) monthly inflation was 3.8%, stronger than the CPI. Trends in goods and services remain quite different. The stickiness in services inflation has a negative impact on the core inflation trend. While the seasonally adjusted monthly inflation for goods is 3.2%, it is quite high for services at 4.6%.

Since **core inflation indicators** exclude the energy group by definition, annual inflation rates did not change significantly. Annual inflation in the B index rose by 0.3 points to 73.0%, while annual inflation in the C index decreased by 0.8 points to 75.0% (Chart 1, Table 3).

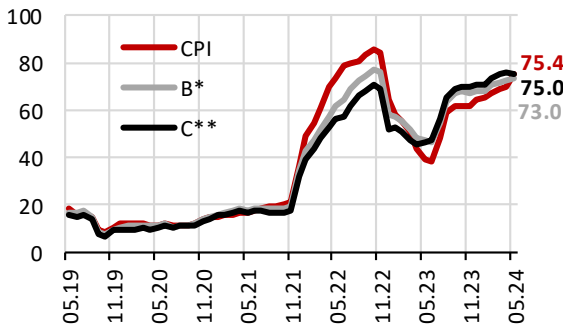
Table 1. Seasonally Adjusted Monthly Inflation

	CPI (excl. natural gas)	CPI
May.23	2.7	0.4
Jun.23	3.9	3.7
Jul.23	10.0	10.2
Aug.23	9.7	10.1
Sep.23	4.8	4.7
Oct.23	2.7	3.2
Nov.23	2.5	3.3
Dec.23	3.1	3.3
Jan.24	5.2	5.0
Feb.24	4.4	4.2
Mar.24	3.2	3.3
Apr.24	3.1	3.3
May.24	3.0	3.7

Source: TURKSTAT, Akbank

Annual inflation increased in food and energy groups, but declined slightly in core goods and services (Chart 2, Table 1). The end of the natural gas discount and the low base from the start of the discount last year led to a sharp rise in annual energy inflation. Details on main subcategories are as follows:

Chart 1. CPI and Core CPI  
(annual % change)

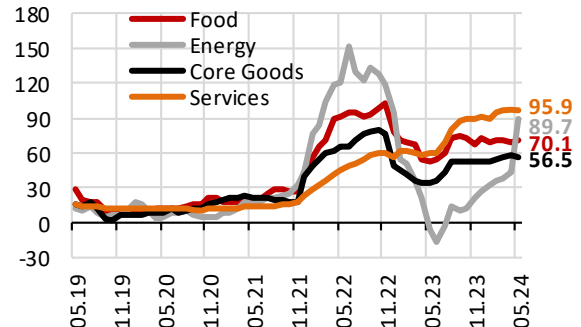


\* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

\*\* CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products, and gold

Source: Turkstat

Chart 2. CPI Sub-Indices  
(annual % change)



- **Food:** While the monthly increase in the food and non-alcoholic beverages group slowed down to 1.7% due to seasonal effects (Table 2), the seasonally adjusted monthly increase accelerated to 3.8%. As a result, annual inflation increased by 1.6 points to 70.1% (Tables 1 and 2). The deterioration in the inflation trend of the food group in May was led by processed food.

**Unprocessed food** prices fell by 0.45% mom due to seasonal effects stemming from fresh fruits and vegetables (Table 3). However, seasonally adjusted monthly inflation was realized as 3.4%. In the **fresh fruits and vegetables** group, the unfavorable outlook was particularly noticeable for vegetables (up 11.4% s.a.). The annual inflation rate for unprocessed food fell by 1.3 points to 76.5%. In the **meat** group, which has long outpaced the food group in general, monthly inflation was more moderate than in previous months at 2.35% (s.a. 3.3%), while annual inflation fell by 2

points to 86.3%. While the decline in white meat prices limited the group's inflation, the rise in red meat prices continued at a slower pace.

The monthly price increase in the **processed food** group accelerated to 3.8% (Table 3). Annual inflation in this group increased from 60.2% to 64.5%. The acceleration in monthly inflation was realized in both **bread and cereals** and **other processed food**. Bread prices increased by 5.4% due to price adjustments postponed until after the local elections. In other processed food, the effects of the 8.5% increase in raw milk prices effective from 1 May were partially observed, while confectionery and processed meat showed strong increases. In June, we may observe the impact of dairy products on group prices.

In the first 5 months, food prices rose by a cumulative 23.1% (s.a. 20.3%). Current trends point to a less favorable outlook for year-end food inflation compared to the CBRT's May Inflation Report forecast, which was revised up by 0.9pp to 35.5%. Therefore, under current conditions, we believe that this assumption remains optimistic and food prices remain a significant upside risk factor to the CBRT's inflation forecast.

- **Energy:** Energy prices rose by 4.9% mom due to the technical correction resulting from the end of the subsidy for household natural gas consumption (first 25 m<sup>3</sup> free of charge) as of May 1. We calculate its contribution to monthly CPI inflation as 0.64 pp. The annual inflation of the group picked up by 46.9 points to 89.7% due to the base effect (Chart 2, Table 3).

Energy items other than natural gas had a mild outlook in May. **Fuel** prices fell by 3.1% mom due to the stable exchange rate and the 6.7% monthly decline in Brent oil prices. **Electricity** prices were unchanged in May, while **solid fuel** prices increased by 0.2% and **municipal water** prices decreased by 0.2%.

In the second half of the year, we expect a significant adjustment in the prices of electricity and natural gas used by households. Apart from this, SCT on fuel products is increased every 6 months by the cumulative D-PPI increase in the previous 6 months, unless otherwise decided by the Presidency. While the year-to-date cumulative D-PPI change was 17.9%, we expect the cumulative increase in the first half of the year to reach 20%. If these increases in electricity, natural gas and fuel products materialize, the group inflation will rise significantly in the second half of the year.

- **Core goods:** Monthly inflation in the core goods group, which is the most sensitive to exchange rate developments, appears to have accelerated due to the seasonality in the clothing and footwear group, but slowed down in seasonally adjusted terms. Annual inflation in this group fell by 0.6 points to 56.5% (Chart 2, Table 3).

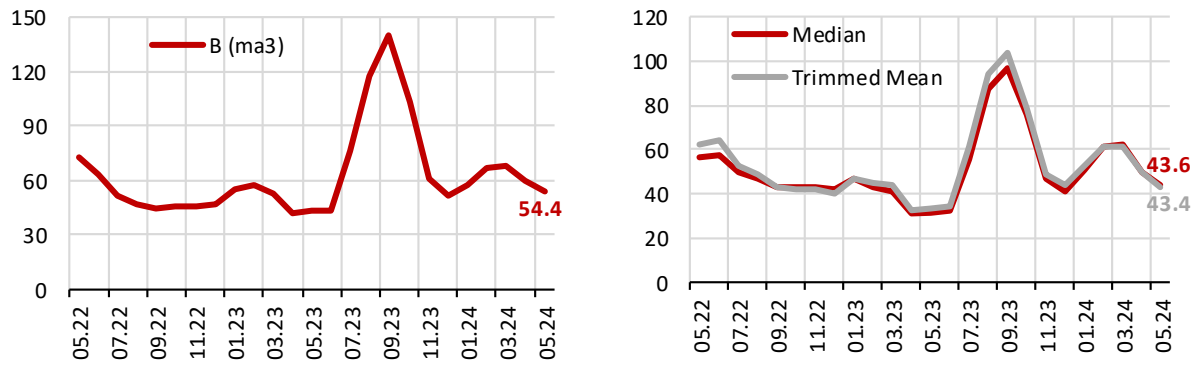
The prices of **household appliances** rose by 1.3% (s.a.), much slower than the average of the last three months (2.7%). The increase in **motor vehicle** prices was 3.0% (s.a. 2.0%). On the other hand, **furniture** prices continued to rise strongly at a seasonally adjusted rate of 3.85%. Overall, the average monthly rate of increase in durable goods (excluding gold) in the last two months was 2.0%, significantly lower than in the previous three months (s.a. 2.9%). During this period, the stability of the Turkish lira had a positive impact on core goods prices.

**Clothing and footwear** prices rose by 9.7% mom due to seasonal effects, while the seasonally adjusted monthly increase was slower at 2.8%. The annual inflation of the group eased to 49.9%, remaining well below the CPI, cost increases and the ICC annual clothing inflation (96.0%). The monthly price increase in **other core goods**, which excludes clothing and durable goods (excluding gold), was 1.9%, the lowest level in the last 1 year.

- **Services:** Services inflation continued to be sticky. **Services prices rose by 4.0% mom (4.6% s.a.)**, while annual services inflation fell by 1.1 points to 95.9%. Services remained the main group with the highest annual inflation (Chart 2).

Monthly **rent** inflation remained strong at 5.5% (s.a. 6.2%). Annual inflation in this group rose to 125.1%. Strong price increases continued in the **restaurants-hotels** group. Monthly seasonally adjusted inflation in this group has been around 4.9% for the last 9 months with little volatility. Prices for **transportation services** were nearly unchanged in May, reflecting the decline in fuel prices and seasonal effects. However, the seasonally adjusted monthly increase remained strong at 3.1%. **Communication services** posted the lowest increase with 2.3%.

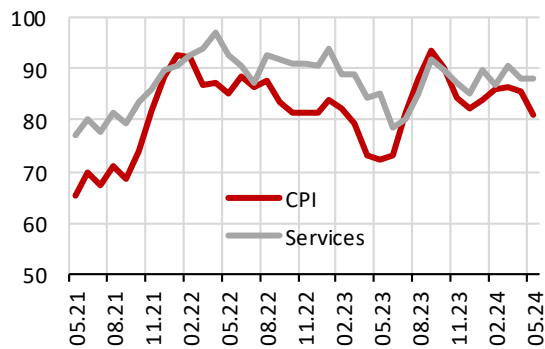
**Chart 3. Underlying Inflation\* (seas. adj. m-o-m, 3-month moving average, annualized)**



\* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.  
Source: Turkstat, Akbank

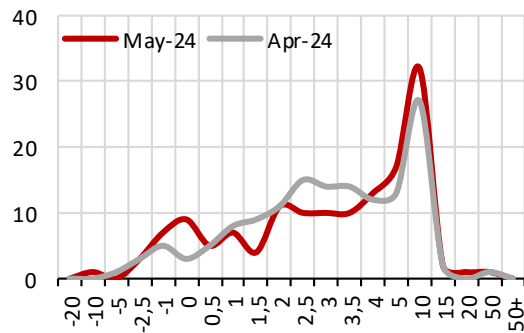
**Underlying trend indicators** calculated based on three-month averages continue to hover above the targets (Chart 3). The distribution of monthly price increases in the indices that make up the CPI basket also shows no improvement (Chart 5). The lack of a significant slowdown in demand is preventing an improvement in pricing behavior. The seasonally adjusted monthly inflation distribution of 5-digit sub-items is still concentrated between 5-10%. Without a significant slowdown in economic activity and the labor market, it seems difficult to bring the monthly inflation trend down to levels in line with the official forecast with exchange rate stability alone. It should be recalled that the CBRT predicted that the monthly inflation trend would fall below 1.5% in the last quarter ([Macro: Disinflation path remained mostly intact](#)).

**Chart 4. Diffusion Index (seas. adj., increase-decrease, %)**



Source: Turkstat, Akbank

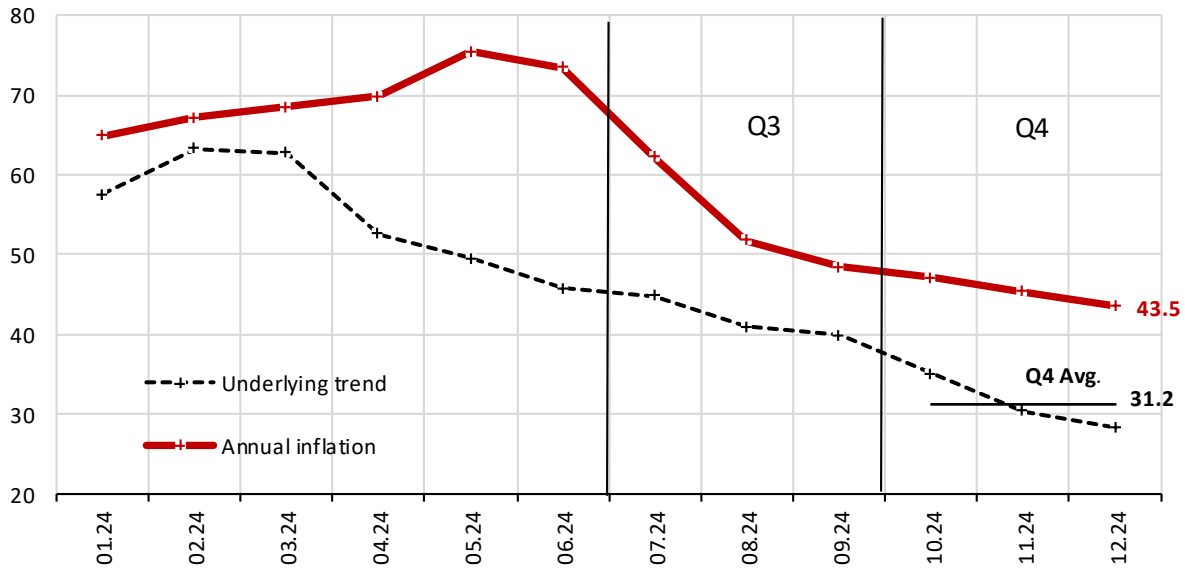
**Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj.)**



Source: Turkstat, Akbank

All in all, the May data suggest that the inflation trend is stronger than our previous projections, despite the mild exchange rate development. **We maintain our year-end inflation forecast at 43.5%, noting the increased upside risks compared to last month.** Our inflation forecast implies a gradual decline in the underlying trend over the year to 30% by the end of the year (Chart 6). However, factors that have significantly affected the course of inflation over the past year (natural gas price support, wage adjustments, large depreciations) make it difficult to calculate the seasonally adjusted price changes that we use to measure the underlying trend. Therefore, we also note that it is difficult to accurately forecast the underlying trend in the upcoming period using the current seasonally adjusted methods. Finally, decisions on wage, administered price and automatic tax adjustments, which we currently assess as upside risks, remain important for the inflation outlook and the monetary policy stance.

**Chart 6. Annual Inflation and Underlying Trend\* Forecast (%)**



\*Note: Underlying trend shows the annualized value of the change in seasonally adjusted CPI over the last 3 months.

**Table 2. Consumer Price Index (Raw data)**

	Monthly % Change			Annual % Change		
	May.23	Apr.24	May.24	May.23	Apr.24	May.24
<b>CPI</b>	<b>0.0</b>	<b>3.2</b>	<b>3.4</b>	<b>39.6</b>	<b>69.8</b>	<b>75.4</b>
Food and Non-Alcoholic Beverages	0.7	2.8	1.7	52.5	68.5	70.1
Alcoholic Beverages and Tobacco	0.3	9.6	4.7	30.1	78.5	86.5
Clothing and Footwear	9.9	4.6	9.6	19.5	51.2	50.9
Housing, Water, Electricity, Gas and Other Fuels	-13.8	1.4	7.1	20.7	55.6	93.2
Furnishings, household equipment, maintenance of the house	1.0	4.1	1.9	45.1	67.9	69.3
Health	1.8	1.0	1.8	66.9	77.7	77.7
Transport	1.9	2.8	1.2	23.7	80.4	79.1
Communication	1.7	3.2	1.0	36.7	55.4	54.3
Recreation and Culture	3.6	2.6	1.8	42.9	67.0	64.0
Education	5.1	3.0	5.6	50.9	103.9	104.8
Restaurants and Hotels	7.1	4.7	5.5	69.0	95.8	92.9
Miscellaneous Goods and Services	1.8	3.5	1.6	46.1	66.1	65.9

Source: TURKSTAT

Table 3. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	May.23	Apr.24	May.24	May.23	Apr.24	May.24
<b>CPI</b>	<b>0.0</b>	<b>3.2</b>	<b>3.4</b>	<b>39.6</b>	<b>69.8</b>	<b>75.4</b>
<b>Goods</b>	<b>-1.8</b>	<b>2.8</b>	<b>3.1</b>	<b>32.5</b>	<b>59.7</b>	<b>67.6</b>
Energy	-21.0	0.0	4.9	-7.0	42.8	89.7
Food and Non-alcoholic Beverages	0.7	2.8	1.7	52.5	68.5	70.1
Unprocessed Food	0.3	3.8	-0.4	56.0	77.8	76.5
Fresh Fruits and Vegetables	-5.0	0.7	-3.2	24.0	78.0	81.3
Other Unprocessed Food	3.2	5.8	1.2	77.1	78.1	74.6
Processed Food	1.1	1.8	3.8	51.3	60.2	64.5
Bread and Cereals	0.8	2.0	4.1	45.7	60.6	65.9
Other Processed Food	1.2	1.6	3.7	54.4	60.0	63.8
Goods excl. Energy and Food	3.5	3.6	3.6	34.4	59.6	59.7
Core Goods	3.9	3.0	3.5	35.1	57.1	56.5
Clothing and Footwear	10.0	4.6	9.7	18.5	50.3	49.9
Durable Goods (excl. Gold)	3.5	2.3	1.9	39.3	59.9	57.4
Other Core Goods	1.0	3.0	1.9	39.3	58.2	59.6
<b>Services</b>	<b>4.6</b>	<b>4.2</b>	<b>4.0</b>	<b>59.9</b>	<b>97.0</b>	<b>95.9</b>
Rent	5.1	4.6	5.5	71.4	124.5	125.1
Restaurant-Hotels	7.1	4.7	5.5	69.0	95.8	92.9
Transportation Services	0.7	6.4	-0.1	39.3	100.7	99.1
Telecommunication Services	3.0	4.5	2.3	44.4	66.3	65.2
Other Services	3.7	2.7	3.6	58.2	90.5	90.3
<b>CPI</b>	<b>0.0</b>	<b>3.2</b>	<b>3.4</b>	<b>39.6</b>	<b>69.8</b>	<b>75.4</b>
A (CPI excl. seasonal products)	-0.3	3.2	3.3	41.8	70.8	76.9
B (CPI excl. unproc. food., energy., alc. bev., tob., gold)	3.6	3.2	3.8	47.7	72.7	73.0
C (CPI excl. energy, food, alc. bev., tob., and gold)	4.3	3.6	3.8	46.6	75.8	75.0
D (CPI excl. unproc. food., alc. bev. and tobacco)	0.0	2.8	3.9	38.1	68.3	74.9
E (CPI excl. alcoholic beverages and tobacco)	0.0	3.0	3.3	40.0	69.5	75.1
F (CPI excluding administered prices)	2.8	3.4	2.9	43.6	74.7	74.8

Source: TURKSTAT

**Domestic Producer Price Index (D-PPI)**

The monthly increase in producer prices slowed down significantly by 1.96% mom compared to the previous months. This slowdown was widespread, more pronounced in intermediate goods and capital goods (Table 4). Looking ahead, the fact that monthly D-PPI inflation has fallen to 2% on the back of stable exchange rate, and that we are likely to see a figure below that in June, is positive for the goods in the CPI basket. On the other hand, despite the retreat in oil prices, cost pressures from rising metal prices persist.

Table 4. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	May.23	Apr.24	May.24	May.23	Apr.24	May.24
<b>Domestic PPI</b>	<b>0.7</b>	<b>3.6</b>	<b>2.0</b>	<b>40.8</b>	<b>55.7</b>	<b>57.7</b>
Intermediate Goods	1.1	3.0	1.4	35.8	54.9	55.5
Durable Consumption Goods	2.6	3.6	2.0	49.1	65.8	64.9
Non-durable Consumption Goods	2.6	4.8	2.4	64.9	66.3	66.1
Energy	-6.7	5.1	3.3	9.6	29.8	43.7
Capital Goods	3.1	2.0	1.3	50.0	66.3	63.5

Source: TURKSTAT

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