

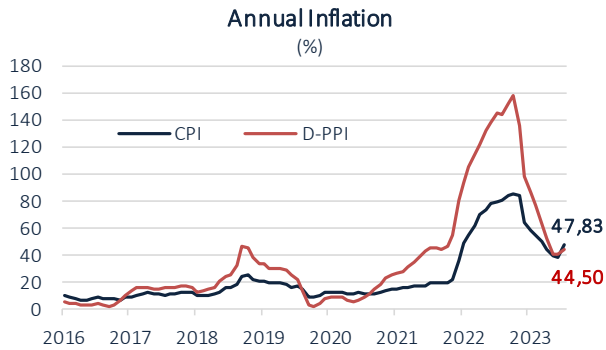


In July, CPI rose by 9.49% mom.

CPI increased by 9.49% mom in July, in line with market expectations, the highest level in the last 1.5 years. This historically high increase in July marked the end of the favorable base effect which was in place in the first six months of the year. Thus, annual CPI inflation rose to 47.83%, while y-t-d increase in CPI became 31.1%.

July (change %)	CPI		D-PPI	
	2022	2023	2022	2023
Monthly	2.37	9.49	5.17	8.23
Year-to-Date	45.72	31.14	70.04	24.27
Annual	79.60	47.83	144.61	44.50
Annual Average	49.65	57.45	97.30	78.51

D-PPI also recorded a strong monthly surge of 8.23% in July, following the 6.5% rise in June. This pointed out that the cost-driven pressure on inflation will continue in the upcoming period. Annual increase in D-PPI was 44.5% in this period.



Food and transportation groups stood out in monthly inflation.

In July, prices increased in all 12 main expenditure groups. In this period, transportation group, where prices rose by 17.75% mom due to the rapid increase in fuel prices (29%) as well as the increases in railway (31%) and airline (22.8%) passenger transportation prices, made the highest contribution to monthly inflation by 2.77 pp. Food prices went up by 7.71% mom in line with the continued rise in fruit and vegetable prices, pushing monthly inflation up by 2.1 pp. In this period, restaurants and hotels group prices also surged by 11.92% mom due to the rise in food prices and accommodation services, adding 1.1 pp to monthly inflation. In July, the prices of goods and services groups rose by 9.35% and 9.81%, respectively, due to the continued depreciation in TRY.

Core inflation indicators...

Monthly CPI inflation excluding seasonal products was at the same level with headline inflation in July. In this period, prices of fresh fruits and vegetables rose at the fastest pace in the last five months with 17.65% mom. On the other hand, in the same period, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) increased by 8.92% mom, below the headline inflation, while C index (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) rose by 9.61%. Annual increases in B and C indices remained above the headline inflation with 54.32% and 56.09%, respectively. This supports the view that annual headline inflation will hover above 50% in the upcoming period.

The rise in commodity prices was the main driver of D-PPI inflation.

In July, the rise in commodity prices and the depreciation in TRY were the main drivers of the rise in D-PPI inflation. In this period, the textile group, which is highly sensitive to wage increases, made the highest contribution to the rise in D-PPI by 1.1 pp. Coke refined and petroleum products also rose rapidly by 20.24% mom, pushing D-PPI inflation up by 1.0 pp, while price increases in the base metal group pushed D-PPI up by 0.9 pp. Electricity, gas production and distribution prices fell by 5.06% mom in July, limiting the monthly rise in D-PPI inflation by 0.4 pp.

Expectations...

The deterioration in inflation indicators in July was mainly driven by tax adjustments, the continued depreciation in TRY and the rise in food and commodity prices. We expect monthly CPI inflation will stay above its historical average in August due to the indirect effects of the increase in transportation prices and price hikes in tobacco products as well as the remaining effect of the tax adjustments announced in July. In the upcoming period, we think that global supply concerns will support the rise in food prices and the lagged effects of the depreciation in TRY will continue to have an upward impact on inflation. On the other hand, we expect that the tightening steps taken by the economic management may limit the demand-driven pressures on inflation to some extent. In this context, we believe that the CBRT's year-end inflation forecast for 2023, which was raised from 22.3% to 58% in the Inflation Report published on July 27, is consistent with the general trend of inflation.

		Inflation (%)							
		CPI (2003=100)				D-PPI (2003=100)			
		Monthly	Year to Date	Annual	Annual Average	Monthly	Year to Date	Annual	Annual Average
2021	January	1.68	1.68	14.97	12.53	2.66	2.66	26.16	13.64
	February	0.91	2.60	15.61	12.81	1.22	3.92	27.09	15.14
	March	1.08	3.71	16.19	13.18	4.13	8.21	31.20	17.04
	April	1.68	5.45	17.14	13.70	4.34	12.91	35.17	19.44
	May	0.89	6.39	16.59	14.13	3.92	17.34	38.33	22.24
	June	1.94	8.45	17.53	14.55	4.01	22.04	42.89	25.38
	July	1.80	10.41	18.95	15.15	2.46	25.05	44.92	28.47
	August	1.12	11.65	19.25	15.78	2.77	28.51	45.52	31.34
	September	1.25	13.04	19.58	16.42	1.55	30.50	43.96	33.83
	October	2.39	15.75	19.89	17.09	5.24	37.34	46.31	36.20
	November	3.51	19.82	21.31	17.71	9.99	51.06	54.62	38.94
	December	13.58	36.08	36.08	19.60	19.08	79.89	79.89	43.86
2022	January	11.10	11.10	48.69	22.58	10.45	10.45	93.53	49.93
	February	4.81	16.45	54.44	25.98	7.22	18.43	105.01	56.83
	March	5.46	22.81	61.14	29.88	9.19	29.31	114.97	64.30
	April	7.25	31.71	69.97	34.46	7.67	39.23	121.82	72.03
	May	2.98	35.64	73.50	39.33	8.76	51.43	132.16	80.38
	June	4.95	42.35	78.62	44.54	6.77	61.68	138.31	88.77
	July	2.37	45.72	79.60	49.65	5.17	70.04	144.61	97.30
	August	1.46	47.85	80.21	54.69	2.41	74.13	143.75	105.39
	September	3.08	52.40	83.45	59.91	4.78	82.45	151.50	114.02
	October	3.54	57.80	85.51	65.26	7.83	96.74	157.69	122.93
	November	2.88	62.35	84.39	70.36	0.74	98.20	136.02	128.94
	December	1.18	64.27	64.27	72.31	-0.24	97.72	97.72	128.47
2023	January	6.65	6.65	57.68	72.45	4.15	4.15	86.46	125.53
	February	3.15	10.00	55.18	71.83	1.56	5.78	76.61	120.72
	March	2.29	12.52	50.51	70.20	0.44	6.25	62.45	113.73
	April	2.39	15.21	43.68	67.20	0.81	7.11	52.11	105.50
	May	0.04	15.26	39.59	63.72	0.65	7.81	40.76	95.80
	June	3.92	19.77	38.21	59.95	6.50	14.82	40.42	86.59
	July	9.49	31.14	47.83	57.45	8.23	24.27	44.50	78.51

Source: Turkstat, Datastream

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