

# INFLATION March 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
March	1.94	1.22	0.58	0.42
January-March	4.24	5.40	3.93	1.57
Annual	8.58	10.08	9.56	3.99
Annual Average	1.63	9.36	6.53	7.29

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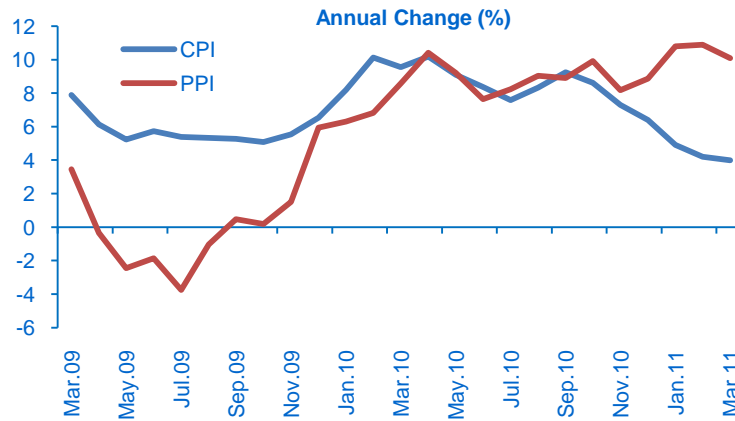
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*In March, CPI was realized lower than expectations.*

In March, compared to the previous month, **CPI and PPI increased by 0.42% and 1.22%, respectively**. According to the Reuters' Survey, markets' monthly inflation expectations were 0.66% in CPI and 0.95% in PPI. According to the CBRT's survey of expectations, CPI inflation was expected to increase by 0.73%.

*Annual CPI decreased to 3.99%.*

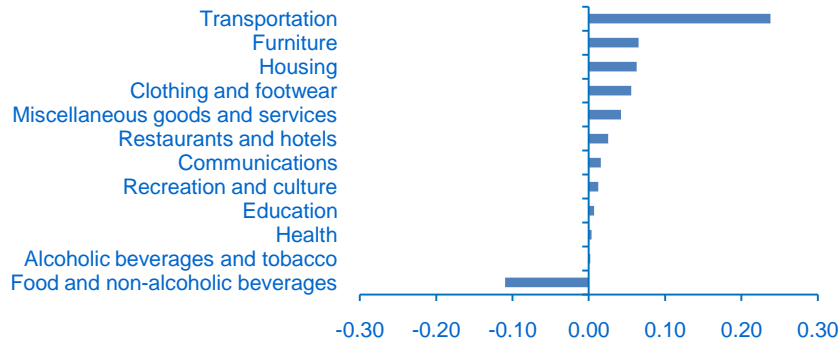
In March, in line with the lower than expected monthly CPI figure, annual CPI decreased to 3.99%. In PPI, on the other hand, annual inflation was realized as 10.08%, maintaining its high levels in recent months. Thus, the divergence between CPI and PPI which has been observed since the last quarter of 2010 also continued in March.



*Decrease in food prices...*

In March, decrease in food and non-alcoholic beverage prices was the main factor behind the lower than expected CPI figure. In fact, food and non alcoholic beverages prices registered an increase in every March since 2003 except this March in which they decreased for the first time. Besides, it is seen that the price increases in some services sectors such as education, recreation and culture were also limited. However, in line with the rise in oil prices, the highest contribution to CPI came from the transportation sub-group prices which increased by 1.6%.

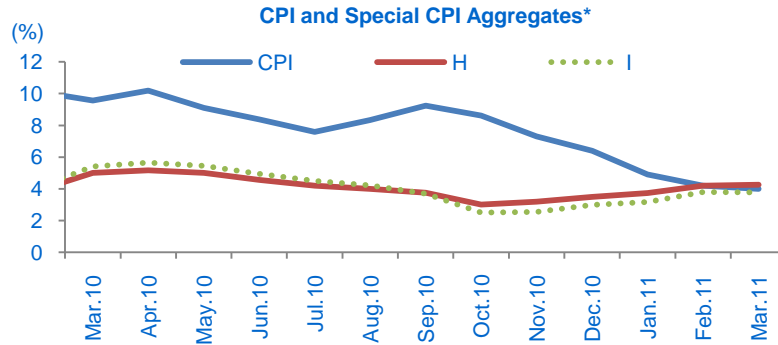
Contributions to the monthly CPI by sub-groups (% points)



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## Limited rise in core inflation...

In March, unprocessed food and seasonal products had a lowering impact on monthly CPI. In the same period, the annual increases in CBRT's favorite core inflation aggregates denoted by H and I were realized as 4.27% and 3.77%, respectively. It was noteworthy that the annual increase in the H index was higher than the annual increase in CPI. In the coming period, it is anticipated that if the increases in core aggregates continue, upside risks on the inflation would intensify.



(\*) Annual change

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

## Increase in PPI was higher than anticipated.

In March, industrial sector made the highest contribution to PPI. As regards the manufacturing sector, especially the rise in coke and refined petroleum prices were noticeable due to the increase in crude oil prices. Furthermore, prices in textile and food manufacturing sectors increased rapidly. These developments point out that the increase in PPI might pass through to the CPI in the coming months.

## In April, we estimate monthly CPI and PPI to rise by 1.20% and 1.30%, respectively.

In April, we anticipate that the developments in oil prices and seasonal factors in clothing and footwear prices would become influential on CPI. In PPI, on the other hand, we expect that exchange rate and oil prices would be effective. In this context, we estimate CPI and PPI to increase by 1.20% and 1.30%, respectively.

## CBRT increased required reserve ratios.

CBRT kept the policy rates unchanged at 6.25% at its meeting on March 23<sup>rd</sup>. Besides, CBRT highlighted that with the support of the increase in domestic demand, economic activity maintained its strong momentum. In this context, in accordance with the new policy mix, CBRT increased required reserve ratios by 200 to 500 basis points for different maturities. In this respect, CBRT stated that the decision on reserve requirements would also provide the monetary tightening required for limiting the potential second round effects of the recent increases in oil and other commodity prices.

CPI is expected to rise in the coming period in line with the elimination of base effect. Furthermore, recent increases in core inflation aggregates regarding the course of inflation were noteworthy. In this context, it is thought that medium-term risks on inflation would increase due to the rise in global oil and food prices and hence interest rate hikes might come into CBRT's agenda starting from the second half of the year.



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INFLATION (%)									
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2010	January	0.58	0.58	6.30	1.14	1.85	1.85	8.19	6.16
	February	1.66	2.25	6.82	1.20	1.45	3.32	10.13	6.38
	March	1.94	4.24	8.58	1.63	0.58	3.93	9.56	6.53
	April	2.35	6.69	10.42	2.52	0.60	4.55	10.19	6.87
	May	-1.15	5.47	9.21	3.50	-0.36	4.17	9.10	7.20
	June	-0.50	4.93	7.64	4.30	-0.56	3.59	8.37	7.41
	July	-0.16	4.77	8.24	5.33	-0.48	3.09	7.58	7.59
	August	1.15	5.98	9.03	6.18	0.40	3.50	8.33	7.83
	September	0.51	6.52	8.91	6.89	1.23	4.77	9.24	8.16
	October	1.21	7.80	9.92	7.71	1.83	6.69	8.62	8.45
	November	-0.31	7.47	8.17	8.27	0.03	6.72	7.29	8.59
	December	1.31	8.87	8.87	8.52	-0.30	6.40	6.40	8.57
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February	1.72	4.13	10.87	9.23	0.73	1.14	4.16	7.76
	March	1.22	5.40	10.08	9.36	0.42	1.57	3.99	7.29
	<b>April (E)</b>	<b>1.30</b>	<b>6.77</b>	<b>8.95</b>	<b>9.24</b>	<b>1.20</b>	<b>2.79</b>	<b>4.61</b>	<b>6.82</b>

(E) Estimate

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