



Inflation - December 2014

Economic Research Division

TÜRKİYE İŞ BANKASI

CPI inflation decreased by 0.44% mom in December.

In December, CPI and Domestic PPI (D-PPI) decreased by 0.44% and 0.76% mom, respectively. According to the Reuters' survey, on the other hand, CPI was expected to remain unchanged in December. According to the CBRT's survey, markets' monthly CPI expectation was 0.31%.

December (%)	CPI		Domestic PPI	
	2013	2014	2013	2014
Monthly	0.46	-0.44	1.11	-0.76
Year to Date	7.40	8.17	6.97	6.36
Annual	7.40	8.17	6.97	6.36
Annual Average	7.49	8.85	4.48	10.25

Annual CPI inflation was realized as 8.17%.

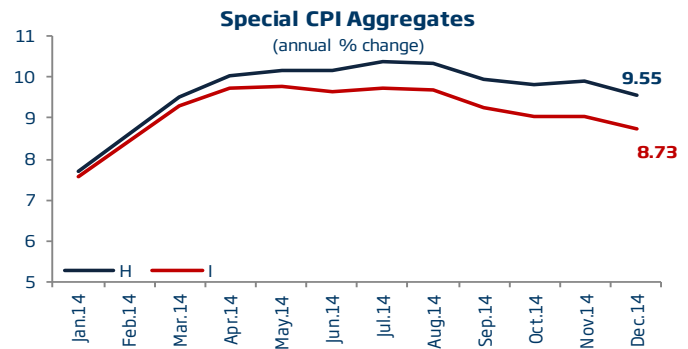
Annual increase in CPI, which exhibited better than expected outlook in December, was realized as 8.17%, the lowest level of the last 10 months. Having declined in November on monthly basis, D-PPI inflation recorded a significant fall in December as well. Thus, annual inflation in D-PPI came in at 6.36% in December, recording the lowest annual increase in 2014.

Fall in oil prices were influential on the course of CPI.

Analysis of the main expenditure groups in December showed that the decline in the clothing and footwear prices together with the transport prices were influential on consumer prices. Owing to the fall in international oil prices, transport prices continued to display a downward course in December. Indeed, the prices in the said group dropped by 1.78% mom in December and lowered monthly inflation by 27 basis points. Moreover, seasonal price decreases in clothing and footwear (3.71% mom) limited the CPI inflation by another 26 basis points. On the other hand, it was noteworthy that the prices in food and non-alcoholic beverages, which have the highest share among main expenditure groups with around 25%, remained unchanged in December. The price developments in the other sub-groups had limited impact on the CPI inflation in this period.

Decline in the core inflation indicators...

In December, seasonal factors along with the developments in energy prices had a downward impact on the CPI inflation. In



H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco

fact, the fall in CPI was realized as 0.06% and 0.23% mom in December when seasonal and energy products are excluded, respectively. In the last month of the year, annual increases in CBRT's favorite core indices, denominated by H and I, were 9.55% and 8.73%, respectively.

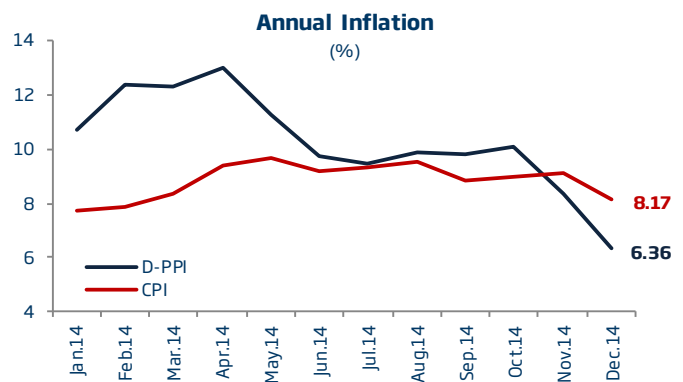
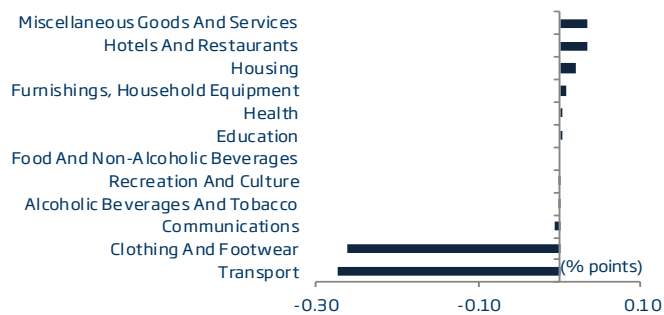
The annual D-PPI inflation recorded as 6.36%.

Analysis of the sub-sectors of D-PPI revealed a broad-based deceleration in the prices in December. Especially, the price decreases in coke and refined petroleum products, electricity and gas production and distribution and motor vehicles played an important role in deceleration in D-PPI. Indeed, the said groups reduced the monthly CPI inflation by 78 basis points in December.

Expectations

We anticipate that the seasonal price discounts in clothing and footwear group together with the drop in the energy prices will have a downward impact on the CPI figures in January. On the other hand, tax hike in alcoholic beverages and tobacco group is considered to mitigate this impact on consumer prices. Taking into account the sharp increase registered in CPI in January 2014, we expect that the annual inflation will continue to decrease in the first month of the 2015 thanks to the base effect.

Contributions to the Monthly CPI by Subgroups



Source: Turkstat

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Inflation (%)

	Consumer Price Index (2003=100)				Domestic Producer Price Index (2003=100)				
	Monthly	Year to		Annual Average	Monthly	Year to		Annual Average	
		Date	Annual			Date	Annual		
2013	January	1.65	1.65	7.31	8.62	-0.18	-0.18	1.88	5.33
	February	0.30	1.95	7.03	8.33	-0.13	-0.31	1.84	4.72
	March	0.66	2.63	7.29	8.08	0.81	0.50	2.30	4.23
	April	0.42	3.06	6.13	7.66	-0.51	-0.01	1.70	3.74
	May	0.15	3.21	6.51	7.51	1.00	0.99	2.17	3.27
	June	0.76	4.00	8.30	7.47	1.46	2.46	5.23	3.18
	July	0.31	4.32	8.88	7.47	0.99	3.48	6.61	3.23
	August	-0.10	4.21	8.17	7.42	0.04	3.52	6.38	3.39
	September	0.77	5.01	7.88	7.32	0.88	4.43	6.23	3.58
	October	1.80	6.90	7.71	7.32	0.69	5.15	6.77	3.93
	November	0.01	6.91	7.32	7.39	0.62	5.80	5.67	4.10
	December	0.46	7.40	7.40	7.49	1.11	6.97	6.97	4.48
2014	January	1.98	1.98	7.75	7.53	3.32	3.32	10.72	5.22
	February	0.43	2.41	7.89	7.60	1.38	4.75	12.40	6.11
	March	1.13	3.57	8.39	7.70	0.74	5.52	12.31	6.95
	April	1.34	4.96	9.38	7.97	0.09	5.61	12.98	7.89
	May	0.40	5.38	9.66	8.23	-0.52	5.06	11.28	8.66
	June	0.31	5.70	9.16	8.31	0.06	5.12	9.75	9.03
	July	0.45	6.18	9.32	8.35	0.73	5.89	9.46	9.26
	August	0.09	6.28	9.54	8.46	0.42	6.33	9.88	9.55
	September	0.14	6.43	8.86	8.54	0.85	7.24	9.84	9.84
	October	1.90	8.45	8.96	8.65	0.92	8.22	10.10	10.11
	November	0.18	8.65	9.15	8.80	-0.97	7.18	8.36	10.32
	December	-0.44	8.17	8.17	8.85	-0.76	6.36	6.36	10.25
2015	January^(E)	0.90	0.90	7.03	8.78	0.50	0.50	3.46	9.61

(E) Estimate

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