



Inflation - June 2015

Economic Research Division

TÜRKİYE BANKASI

CPI came in well below expectations in June.

In June, CPI decreased by 0.51% mom, while D-PPI increased by 0.25% mom. According to the Reuters' survey, market had expected a 0.25% mom decline in inflation while CPI was expected to rise by 0.17% mom according to the CBRT's survey of expectations.

June	CPI		D-PPI	
	2014	2015	2014	2015
Change (%)				
Monthly	0.31	-0.51	0.06	0.25
Year-to-Date	5.70	4.76	5.12	5.49
Annual	9.16	7.20	9.75	6.73
Annual Average	8.30	8.28	9.03	6.74

Lowest annual rate of CPI inflation in the last 25 months...

Having recorded the fastest monthly decline of the last 3 years in June, annual CPI inflation was realized as 7.20%. Thus, annual inflation rate declined to its lowest level since May 2013. On the other hand as the upward movement in D-PPI became more evident recently, D-PPI picked up by 6.73% yoy in June.

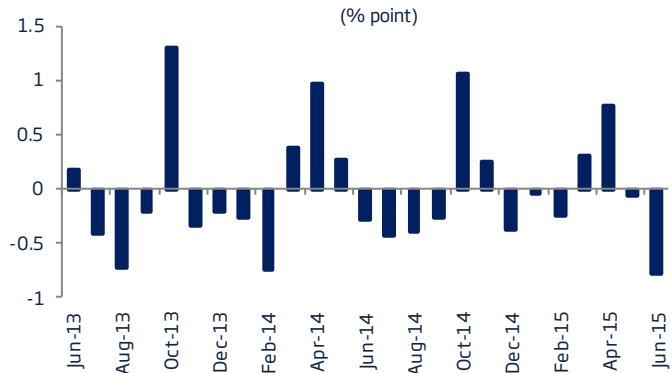
The sharp decrease in food prices...

Food prices, which display generally a downward trend during summer months, recorded a monthly decrease of 2.79% in June and limited monthly inflation by 69 basis points. Seasonal factors were also influential on the prices of clothing and footwear group along with hotels and restaurants group. Indeed, the prices in clothing and footwear group dropped by 1.31% mom and lowered the monthly inflation by 10 basis points. Prices in hotels and restaurants group, on the other hand, recorded an increase of 2.64% mom and contributed to the monthly inflation by 10 basis points.

Flat course in core inflation indicators...

Core inflation indicators confirmed that the downward movement in inflation stemmed from seasonal factors. In

Contributions of Seasonal Factors



fact, CPI excluding seasonal products rose by 0.27% mom in this period. However, the price developments in administered goods as well as in alcoholic beverages and tobacco sub-items caused inflation to rise. In this period, CBRT's favorite core indices denominated by H and I remained relatively flat, recording an annual rise of 7.82% and 7.51%, respectively.

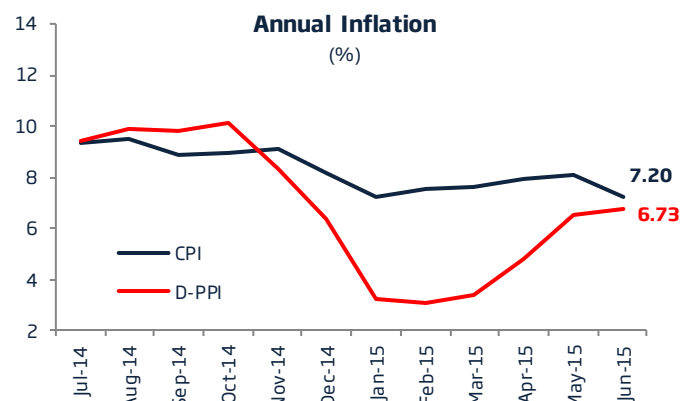
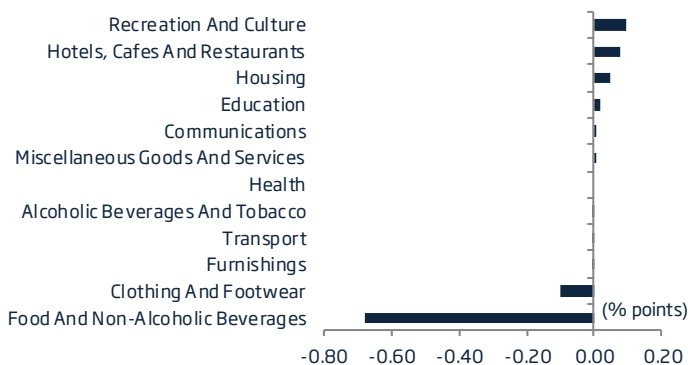
A limited rise in D-PPI...

The rise in D-PPI was broad-based in June. The upsurges in prices of rubber products, textiles and chemical products together contributed to D-PPI inflation by 24 basis points. On the other hand, prices in production and distribution of electricity and gas fell by 1.84% mom and hence pulled down D-PPI inflation by 17 basis points.

Expectations

We expect that clothing and footwear prices will continue to decline in July due to the seasonal factors. Downward correction in food prices might face upward pressure by Ramadan. Yet, seasonal factors are anticipated to outpace this effect in food prices and have a decreasing effect on inflation. In addition to these, we think that foreign exchange developments will continue to be significant for inflation prospects in the forthcoming period.

Contributions to the Monthly CPI by Subgroups



Source: Datastream, 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	1.10	1.10	7.24	8.80	0.33	0.33	3.28	9.59
	February	0.71	1.82	7.55	8.77	1.20	1.53	3.10	8.79
	March	1.19	3.03	7.61	8.70	1.05	2.60	3.41	8.03
	April	1.63	4.71	7.91	8.57	1.43	4.06	4.80	7.36
	May	0.56	5.30	8.09	8.45	1.11	5.22	6.52	6.98
	June	-0.51	4.76	7.20	8.28	0.25	5.49	6.73	6.74
	July ^(E)	0.10	4.86	6.83	8.07	0.50	6.01	6.49	6.51

Source: Turkstat

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