

Inflation - February 2016

Economic Research Division

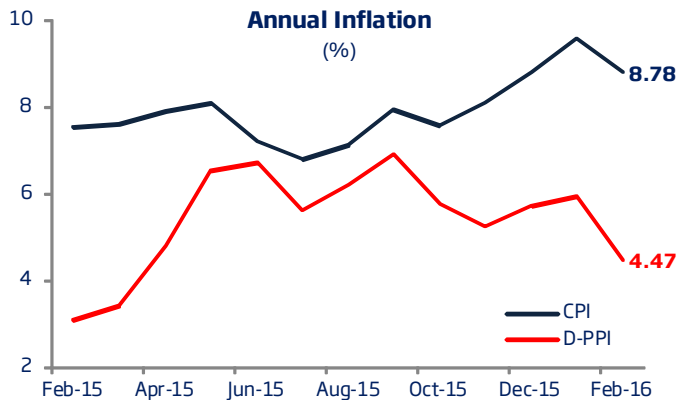
CPI posted an unexpected monthly decline.

In February, CPI and D-PPI decreased by 0.02% mom and 0.2% mom, respectively. Markets expected a 0.3% monthly CPI rise in this period. According to the CBRT's Survey of Expectations, CPI was anticipated to increase by 0.68%.

February	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.71	-0.02	1.20	-0.20
Year-to-Date	1.82	1.80	1.53	0.34
Annual	7.55	8.78	3.10	4.47
Annual Average	8.77	7.97	8.79	5.61

CPI registered an annual rise of 8.78%.

Having been on an upward trend since October, annual CPI inflation rate edged back down to 8.78% in February. Annual increase in D-PPI also lost momentum rapidly compared to the previous month and was realized as 4.47% in this period. Thus, annual D-PPI inflation fell to the lowest level of the last eleven months.

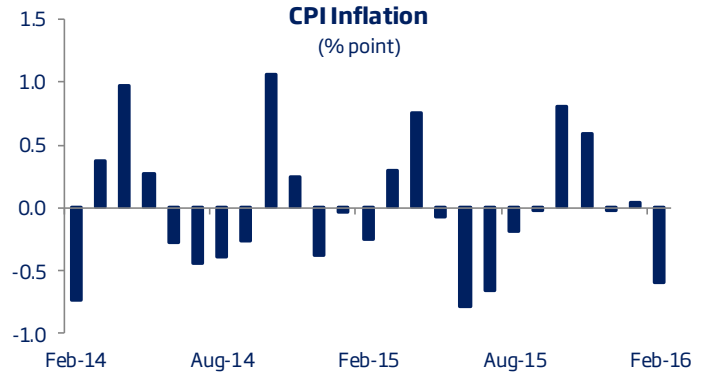


Clothing and footwear prices declined by 6.2% mom.

Seasonal factors put a downward pressure on monthly inflation in February. Having decreased by 6.2% on monthly basis, clothing and footwear group made the biggest contribution to the drop registered in CPI.

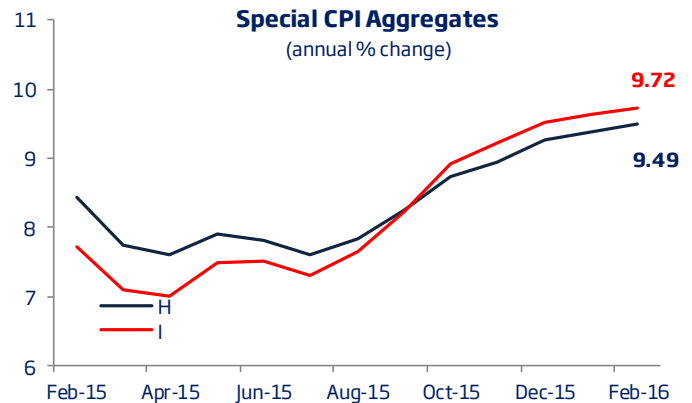
It was worth mentioning that food and nonalcoholic beverages prices, which generally exert significant upward pressure on inflation, recorded a monthly decline albeit to a limited extent. Having the second biggest weight in CPI basket (15.9%) following the food group, the surge in housing prices limited the fall in CPI. On the other hand, increase in the prices of vehicles under the transportation group, whose prices are highly sensitive to the developments in foreign exchange rates, made the highest positive contribution to the CPI during this period.

Contribution of Seasonal Factors to Monthly



Surge in the core inflation indicators...

Despite the decrease in CPI in February, the core inflation indices kept their rising trends. H and I indices, followed by CBRT closely, recorded annual increases of 9.49% and 9.72%, respectively in this period. Hence, these indices reached their highest readings for more than a year.



Low energy prices had substantial impact on D-PPI.

Analysis of the main industrial groups revealed that the prices of energy sector fell by 3% on a monthly basis and by 7.6% on annual basis in February. This development played a significant role in decreasing D-PPI. On the other hand, the downward price movements in domestic energy prices remained limited compared to the global prices owing to the rise in foreign exchange rates.

Expectations...

We expect that the annual inflation will continue to decline thanks to the favorable base effect in March. Moreover, the performance of TRY as well as the possible impact of minimum wage hike on services inflation will be the key factors regarding the inflation outlook in the upcoming months.

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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		
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	0.09	4.85	6.81	8.07	-0.32	5.15	5.62	6.43
	August	0.40	5.27	7.14	7.88	0.98	6.19	6.21	6.14
	September	0.89	6.21	7.95	7.80	1.53	7.81	6.92	5.92
	October	1.55	7.86	7.58	7.69	-0.20	7.59	5.74	5.58
	November	0.67	8.58	8.10	7.61	-1.42	6.06	5.25	5.33
	December	0.21	8.81	8.81	7.67	-0.33	5.71	5.71	5.28
2016	January	1.82	1.82	9.58	7.87	0.55	0.55	5.94	5.50
	February	-0.02	1.80	8.78	7.97	-0.20	0.34	4.47	5.61
	March ^(E)	0.80	2.61	8.36	8.03	0.40	0.74	3.80	5.64

(E) Estimate

Source: Turkstat, ERD

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