

### CPI moved in line with expectations.

CPI increased by 0.15% compared to the previous month in July, in accord with market expectations. On the other hand, Domestic Producer Price Index (D-PPI) posted a relatively rapid rise with 0.72%.

July (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	1.16	0.15	0.21	0.72
Year-to-Date	4.84	6.05	3.41	8.60
Annual	8.79	9.79	3.96	15.45
Annual Average	7.91	9.44	4.77	10.94

### Annual inflation fell to single-digit level.

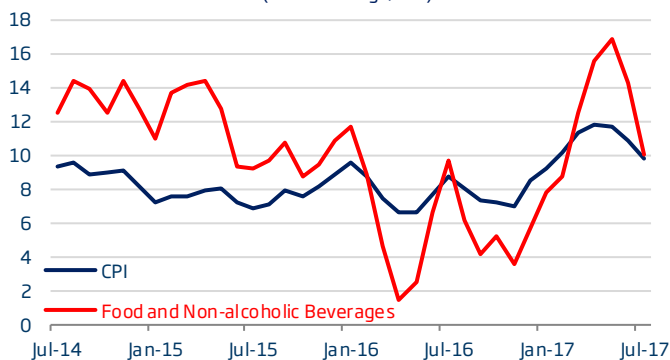
The annual CPI inflation has lost steam for the third consecutive month in July and fell to single digit level by 9.79%. The annual D-PPI inflation, however, stood at 15.45%, the highest in the last three months.

### Clothing and food prices tamed inflation.

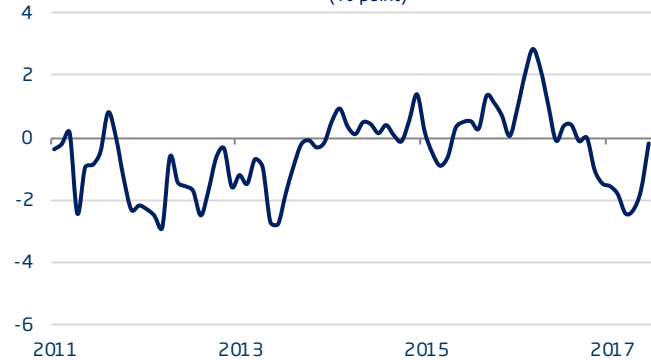
Clothing and food prices became the two main expenditure groups that pulled the inflation down in July as was the case in June. Clothing and footwear prices slumped by 3.5% compared to the previous month and limited the rise in CPI by 25 basis points. Having declined by 0.71% mom on the back of the falls in the prices of fresh fruit and vegetables, food prices pushed the inflation down by 15 basis points.

The main expenditure groups that contributed largely to the rise in monthly CPI inflation were transportation, hotels, cafes and restaurants as well as housing. Transportation prices surged fast by 1.13% and made a contribution of 18 basis points to the monthly CPI inflation. Hotels, cafes and restaurants followed transportation group by a contribution of 14 basis points while housing added 6 basis points to the monthly rise in the overall index.

**Food Prices and CPI**  
(annual change, %)



**Gap Between Core (C)\* and Headline Inflation**  
(% point)



\*Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold

### Rise in core inflation indicators...

The increase in CPI was limited by the seasonal products in July. Indeed, when seasonal products are excluded, monthly consumer price inflation becomes 0.74%. In this period, main core inflation indicators each registered rises by around 40 basis points. Adding these figures into the picture, the gap between core inflation and headline inflation narrowed to the lowest level seen this year. This weakens the optimism about the course of inflation.

Looking at the prices of the goods group, it is seen that the energy prices, which had been decreasing since March, went up in July. Durable goods prices also rose by 0.88%, pointing to inflationary pressures. The increase in the price of the services group has been high as it is so in each July.

### D-PPI...

Energy and furniture group prices eased the monthly rise in D-PPI in July while basic metals and textile products exerted upward pressure on it. Looking at the main industrial groups, it was noteworthy that capital goods prices recorded the fastest rise in six months.

### Expectations...

We believe that monthly CPI inflation would remain at benign levels in August due to seasonality in clothing and food prices. Along with the measures taken by the Food Committee, volatility in food prices would fade somewhat and inflation outlook would be brighter. However, we expect annual inflation to climb to double-digit levels again in August as monthly CPI inflation was negative in the same month of the last year.

Source: Datastream, Turkstat

## 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		
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	-0.04	1.75	7.46	7.96	0.40	0.75	3.80	5.64
	April	0.78	2.55	6.57	7.84	0.52	1.27	2.87	5.47
	May	0.58	3.15	6.58	7.71	1.48	2.77	3.25	5.19
	June	0.47	3.63	7.64	7.74	0.41	3.19	3.41	4.91
	July	1.16	4.84	8.79	7.91	0.21	3.41	3.96	4.77
	August	-0.29	4.53	8.05	7.98	0.08	3.49	3.03	4.51
	September	0.18	4.72	7.28	7.92	0.29	3.79	1.78	4.07
	October	1.44	6.23	7.16	7.89	0.84	4.66	2.84	3.83
	November	0.52	6.78	7.00	7.79	2.00	6.76	6.41	3.93
	December	1.64	8.53	8.53	7.78	2.98	9.94	9.94	4.30
2017	January	2.46	2.46	9.22	7.76	3.98	3.98	13.69	4.96
	February	0.81	3.29	10.13	7.88	1.26	5.29	15.36	5.87
	March	1.02	4.34	11.29	8.21	1.04	6.38	16.09	6.89
	April	1.31	5.71	11.87	8.66	0.76	7.19	16.37	8.01
	May	0.45	6.18	11.72	9.09	0.52	7.74	15.26	9.02
	June	-0.27	5.89	10.90	9.36	0.07	7.82	14.87	9.98
	July	0.15	6.05	9.79	9.44	0.72	8.60	15.45	10.94
	<b>August<sup>(E)</sup></b>	<b>0.10</b>	<b>6.16</b>	<b>10.22</b>	<b>9.62</b>	<b>0.20</b>	<b>8.81</b>	<b>15.59</b>	<b>11.98</b>

(E) Estimate

Source: Turkstat, Datastream, ERD

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