



CPI rose above expectations.

CPI came in above the expectations and recorded a monthly increase of 0.69% in December. According to the Reuters' survey, CPI was expected to rise by 0.5% in this period. Monthly increase in Domestic Producer Price Index (D-PPI), on the other hand, became 1.37% in December.

Year-end inflation stood at 11.92%.

CPI posted an annual rise of 11.92% in the last month of the year. Annual D-PPI inflation remained elevated at 15.47%. Indeed, these two figures marked the historical highs among the year-end figures in 2003 based series.

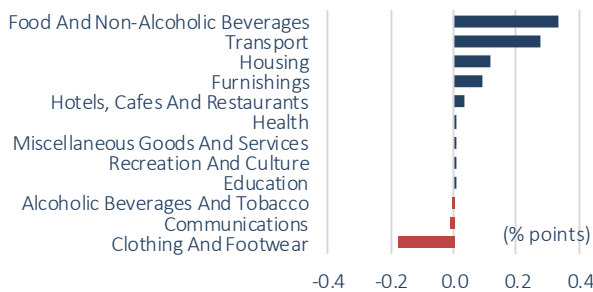
December (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	1.64	0.69	2.98	1.37
Annual	8.53	11.92	9.94	15.47
Annual Average	7.78	11.14	4.30	15.82

Food and transport prices pushed inflation up.

Among the main expenditure groups, food and non-alcoholic beverages made the highest contribution to monthly inflation in December. This was followed by transportation group which came under upward pressure by the rise in oil prices and foreign exchange rates. These two groups added 62 basis points to monthly CPI inflation. Prices in housing group, which has the highest weight in the index after food and transportation, rose by 0.8% mom and pushed monthly inflation up by 12 basis points. Clothing and footwear groups as well as communications and alcoholic beverages pulled the inflation down in this period.

Except for the clothing and footwear group, a similar ranking holds for the annual contributions of the main expenditure groups to annual CPI inflation. During the said period, food and transportation prices each added 300 basis points to the annual rise in consumer prices.

Contributions to the Monthly CPI Inflation



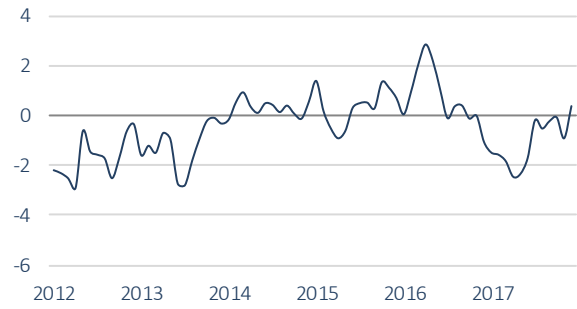
When seasonal products excluded, monthly CPI became 0.72%, somewhat higher than the headline monthly inflation. On an annual basis, however, seasonal factors drove inflation up in December. Annual CPI inflation

excluding seasonal products declines to 11.35% in this period.

Core inflation exceeded the headline inflation.

The upward trend in B and C core inflation indicators prevailed in the last month of the year. Even though the monthly rises in these two indices, which are monitored closely by the CBRT, remained below the monthly CPI inflation, the annual rises exceeded the annual headline CPI increase for the first time since September 2016. This was noteworthy as it offers a dismal outlook for inflation expectations and realizations regarding the upcoming period. The annual increase in C index (CPI excluding energy, food, alcoholic and non-alcoholic beverages and tobacco and gold prices) was 12.30% in December, while the B index (CPI excluding unprocessed food, energy, alcoholic beverages and tobacco and gold) registered an annual rise of 12.28%.

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



D-PPI inflation continued to hover around high levels...

Annual D-PPI inflation maintained its high levels with a slight slowdown in December. All sub-groups that are listed under the index recorded annual rises during this period. This broad-based increase lies behind the deterioration in D-PPI inflation. In particular, surging input costs in the manufacture of food products and soaring commodity prices have pushed up the overall index. Looking at annual price changes in sub-groups, the strongest increase in December was observed in crude oil and natural gas group with 71%. This was followed by base metals with 36% increase.

Inflation may stay at double digits for the most part of 2018.

Owing to the rebound in domestic demand and the increases in exchange rates and commodity prices, annual CPI inflation became 11.92% at the end of 2017. CBRT's latest Inflation Report had suggested that the year-end annual inflation would be 9.8%. Similar to 2017, exchange rate developments as well as the trajectory of food and oil prices will lead inflation in the upcoming period. Against this backdrop, we anticipate that annual CPI inflation will decelerate somewhat in the first quarter of the year, yet it will stay at double-digit levels for the most part of 2018.

Source: Turkstat, Datastream

Inflation (%)

	CPI (2003=100)				D-PPI (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
	August	0.52	6.60	10.68	9.66	0.85	9.52	16.34	12.05
	September	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January ^(E)	1.52	1.52	10.89	11.28	1.17	1.17	12.34	15.68

(E) Estimate

Source: Turkstat, Datastream

Economic Research Division

izlem Erdem Division Head izlem.erdem@isbank.com.tr	ilker Şahin Economist ilker.sahin@isbank.com.tr
Alper Gürler Unit Manager alper.gurler@isbank.com.tr	Gamze Can Economist gamze.can@isbank.com.tr
H. Erhan Gül Asst.Manager erhan.gul@isbank.com.tr	Ayşim Kalkan Asst. Economist aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.