



### CPI was above expectations in June.

In June, CPI rose above market expectations by 2.61% on a monthly basis, the fastest increase since October 2011. According to the Reuters' survey, CPI was expected to increase by 1.4% mom. Having stood at high levels since March, monthly increase in Domestic Producer Price Index (D-PPI) lost some momentum and became 3.03% in this period.

June (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	-0.27	2.61	0.07	3.03
Year-to-Date	5.89	9.17	7.82	15.52
Annual	10.90	15.39	14.87	23.71
Annual Average	9.36	11.49	9.98	16.57

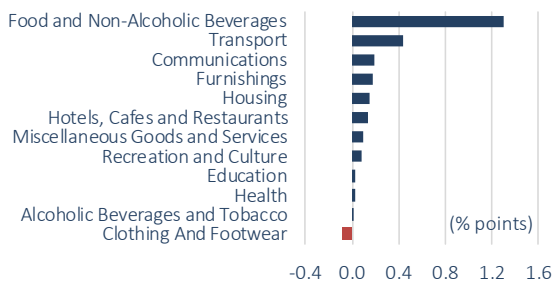
### Rapid increase in annual inflation...

Annual CPI inflation surged up rapidly to 15.39% in June. Annual increase in D-PPI was also high with 23.71%. Thus, annual rises in CPI and D-PPI reached their highest levels in 2003 based series.

### Inflation was mainly driven by food prices.

In June, while prices in all main expenditure groups except clothing and footwear increased on a monthly basis, food and non-alcoholic beverages group continued to play a significant role in inflation. The said group made the highest contribution to the monthly inflation by 139 bps, increasing by 5.98% which was driven by the rise in unprocessed food prices especially in fresh fruits and vegetables. Due to the exchange rate developments and rising trend in oil prices, transportation group made the second highest contribution to the monthly CPI inflation by 47 bps. Housing and communication groups also stood out by their contributions to the inflation.

Contributions to the Monthly CPI Inflation



Most of the fastest price increases were recorded in the items followed under food and non-alcoholic beverages group. Rapid rises in onion and potato prices were particularly noteworthy in this period. Onion and potato prices surged up by 82.5% and 63.3% mom, respectively.

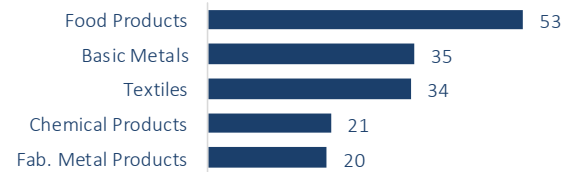
### Core inflation indicators...

In June, deterioration in CBRT's favorite core inflation indicators, B and C, continued to increase. Annual rises in B and C indexes were realized as 14.58% and 14.60%, the highest levels of 2003 based series. Rising core inflation (excluding energy and food) indicated that deterioration in pricing behavior will continue in the upcoming period.

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

In June, prices in all sub-sectors pushed the monthly D-PPI inflation up. In this period, food products sub-sector made the highest contribution to the monthly D-PPI increase with 53 bps. In addition to commodity prices, exchange rate developments led to an increase in basic metals prices which contributed to monthly D-PPI inflation by 35 bps.

Contributions to the Monthly D-PPI Inflation  
(basis points)



### Expectations...

In June, inflation was well above the expectations, due largely to the unexpected rise in unprocessed food prices. Core inflation indicators have also continued to deteriorate. We anticipate that seasonal discounts in clothing and footwear sector will be introduced in July and high levels in some of the agricultural products' prices would not continue. Also, momentum loss in economic activity seen in recent months would alleviate upward pressure on inflation somewhat. This would support a slowdown in monthly inflation. On the other hand, the effect of the rapid rise in D-PPI on CPI inflation and potential tax adjustments are the main upward risks on inflation.

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to	Annual	Annual	Monthly	Year to	Annual	Annual	
		Date				Average			Date
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	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June	2.61	9.17	15.39	11.49	3.03	15.52	23.71	16.57
	July <sup>(E)</sup>	0.10	9.28	15.32	11.96	0.70	16.33	23.68	17.29

Source: Turkstat, Datastream

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