

# INFLATION February 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
February	1.66	1.72	1.45	0.73
January-February	2.25	4.13	3.32	1.14
Annual	6.82	10.87	10.13	4.16
Annual Average	1.20	9.23	6.38	7.76

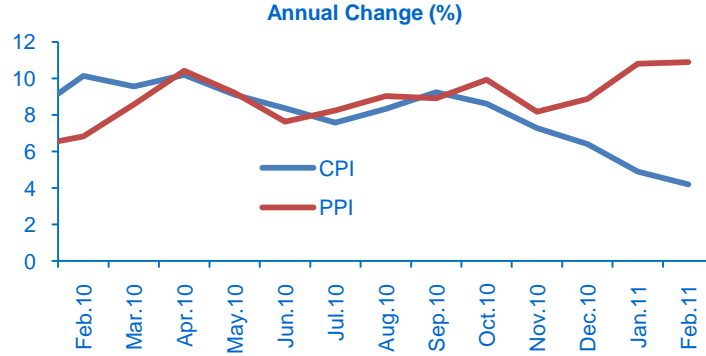
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*In February, CPI and PPI increased by 0.73% and 1.72%, respectively.*

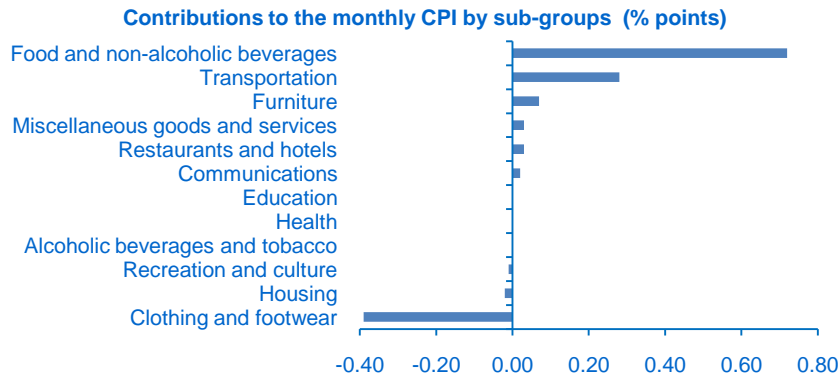
In February, compared to the previous month, **CPI and PPI increased by 0.73% and 1.72%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were 0.64% in CPI and 1.30% in PPI. According to the CBRT's survey of expectations, CPI inflation was expected to increase by 0.59%.

In February, despite the higher than expected monthly CPI figure, annual CPI decreased to 4.16%. In PPI, however, annual inflation was realized as 10.87%. Thus, the divergence between CPI and PPI which has been observed since the last quarter of 2010 also continued in February.



*The fall in annual CPI figures continued.*

In February, the fall in annual CPI figures continued due to the base effect. In this period, the price developments in food and non-alcoholic beverages sub-group were influential on the monthly increase in CPI. 2.54% monthly increase in food and non-alcoholic beverages sub-group contributed inflation by 72 basis points. Furthermore, in line with the rise in oil prices, the price increases in transportation sub-group also contributed to the higher than expected inflation. The seasonal price decreases in clothing and footwear sub-group, on the other hand, limited the rise in CPI.

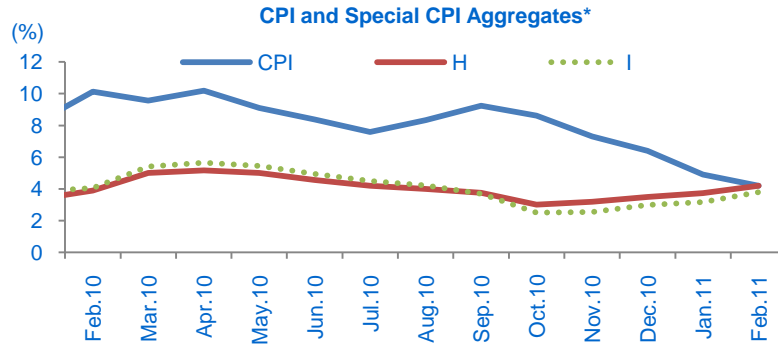


*Rise in core inflation...*

In February, the price increases in unprocessed food prices due to the unfavorable weather conditions, put upward pressure on monthly inflation. Indeed, CPI excluding unprocessed food prices increased by only 0.18% in February. In the same period, the annual increases in CBRT's favorite core

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inflation aggregates denoted by H and I were realized as 4.22% and 3.78%, respectively. In the coming period, it is anticipated that if the increases in core aggregates continue, upside risks on the inflation would intensify.



(\*) Annual change

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

## **Rapid rise in PPI continued.**

In February, examining 1.72% increase in PPI revealed that price developments in agricultural sector made the highest contribution. Furthermore, the high pass through from commodity prices and foreign exchange rates to PPI, contributed to the rapid increase in PPI.

## **In March, we estimate monthly CPI and PPI to rise by 0.90% and 1.30%, respectively.**

In March, we anticipate that the developments in oil prices and foreign currencies would become evident on CPI. In this context, we estimate CPI and PPI to increase by 0.90% and 1.30%, respectively in March.

## **Policy rates remained unchanged.**

CBRT kept the policy rates unchanged at 6.25% in line with the market expectations at its meeting on February 15<sup>th</sup>. According to the statement released after the meeting, it was expressed that economic activity continued to recover owing to the increasing domestic demand while external demand remained relatively weak despite the recent pick up. According to the CBRT, following the further decline in February inflation would display some fluctuations from the second quarter and end the year at a level close to the January Inflation Report forecast. On the other hand, CBRT drew attention to supply side risks on the inflation outlook due to the recent price increases in energy and other commodities. In this context, in order to contain the risks towards price stability and financial stability, CBRT decided to monitor the tightening impact of the implemented policy mix until the next meeting to be held on March 23<sup>rd</sup> and declared that additional measures along the same line would be taken, if needed.

In line with the diminishing base effects, the decreasing trend in annual CPI is anticipated to lose momentum in the coming months. Furthermore, recent increases in core inflation aggregates regarding the course of inflation were noteworthy. In this context, it is thought that medium-term risks to inflation would increase and interest rate hikes might come into CBRT's agenda starting from the second half of the year.



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INFLATION (%)									
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2010	January	0.58	0.58	6.30	1.14	1.85	1.85	8.19	6.16
	February	1.66	2.25	6.82	1.20	1.45	3.32	10.13	6.38
	March	1.94	4.24	8.58	1.63	0.58	3.93	9.56	6.53
	April	2.35	6.69	10.42	2.52	0.60	4.55	10.19	6.87
	May	-1.15	5.47	9.21	3.50	-0.36	4.17	9.10	7.20
	June	-0.50	4.93	7.64	4.30	-0.56	3.59	8.37	7.41
	July	-0.16	4.77	8.24	5.33	-0.48	3.09	7.58	7.59
	August	1.15	5.98	9.03	6.18	0.40	3.50	8.33	7.83
	September	0.51	6.52	8.91	6.89	1.23	4.77	9.24	8.16
	October	1.21	7.80	9.92	7.71	1.83	6.69	8.62	8.45
	November	-0.31	7.47	8.17	8.27	0.03	6.72	7.29	8.59
	December	1.31	8.87	8.87	8.52	-0.30	6.40	6.40	8.57
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February	1.72	4.13	10.87	9.23	0.73	1.14	4.16	7.76
	<b>March (E)</b>	<b>1.30</b>	<b>5.48</b>	<b>10.17</b>	<b>9.37</b>	<b>0.90</b>	<b>2.05</b>	<b>4.48</b>	<b>7.33</b>

(E) Estimate

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