

# INFLATION July 2012

(%)	PPI		CPI	
	2011	2012	2011	2012
July	-0.03	-0.31	-0.41	-0.23
January-July	6.18	-0.56	3.00	1.71
Annual	10.34	6.13	6.31	9.07
Annual Average	9.59	9.88	6.37	9.11

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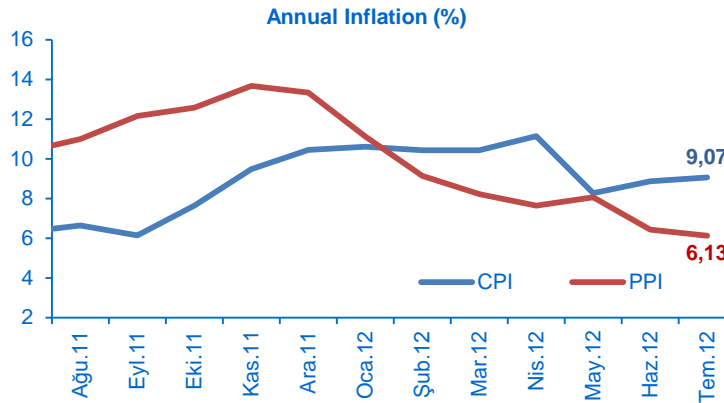
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*In July, CPI decreased more than expected.*

In July, compared to the previous month, **CPI and PPI decreased by 0.23% and 0.31%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were -0.10% in CPI and -0.05% in PPI. According to the CBRT's survey of expectations, on the other hand, CPI was expected to rise by 0.05%

*Annual inflation increased.*

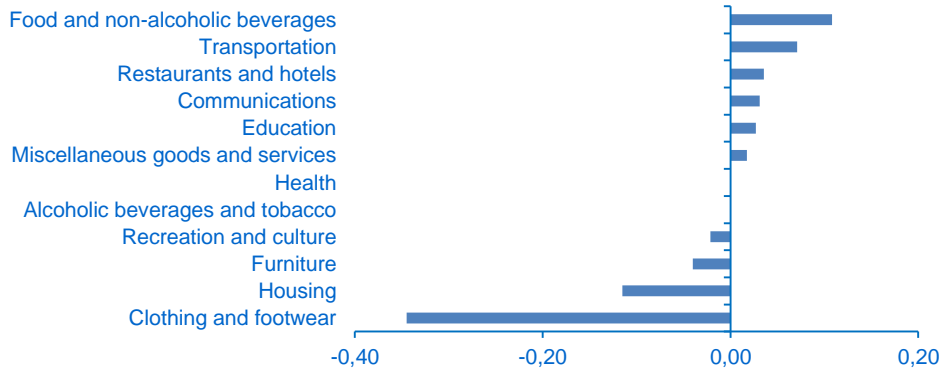
Although monthly CPI decreased more than expected in July, the annual inflation rose to 9.07% due to the base effect. PPI also continued its downward trend on monthly basis in July and the annual increase in PPI realized as 6.13%, the lowest level in the last 2.5 years.



*Decline in clothing and footwear prices continued.*

Decline in clothing and footwear prices due to the seasonal factors was influential on the course of CPI in July. Indeed, clothing and footwear prices, which declined by 4.38% on a monthly basis, made the highest contribution to the decrease in CPI with 34 basis points. Moreover, declining housing prices also had a decreasing impact on CPI figures. On the other hand, increase in food prices because of Ramadan limited the decline in CPI.

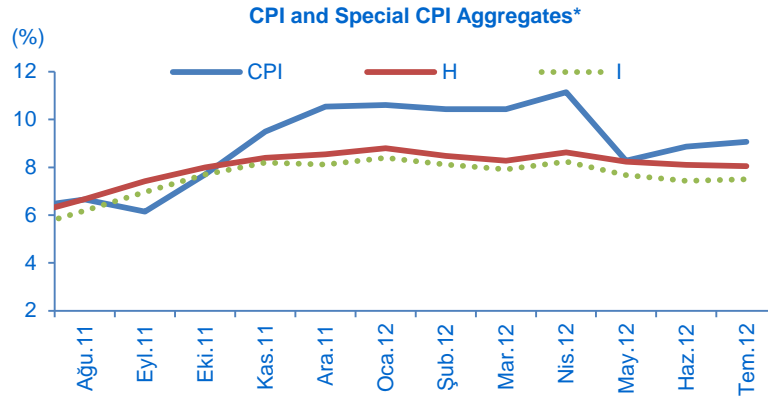
Contributions to the monthly CPI by sub-groups (% points)



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## Core inflation aggregates followed a flat course.

Analyzing the core inflation indicators in July, seasonal products were substantially influential on the decline in inflation. In fact, monthly increase in CPI was recorded as 0.10% excluding the seasonal products. In July, the annual increases in CBRT's favorite core inflation aggregates denominated by H and I realized as 8.05% and 7.50%, respectively. The annual inflation aggregates, which demonstrated a relatively flat course in recent months, are expected to follow a downward trend in the forthcoming period.



(\*) 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.

## PPI declined in July.

PPI, which displayed a positive outlook recently in line with the easing cost-side pressures, declined by 0.31% in July. The decline in electricity and gas prices had a 23 basis points decreasing impact on PPI.

## We expect CPI and PPI to increase by 0.25% and 0.50%, respectively in August.

In August, in addition to the recent supply-side pressures, the upward trend of food prices in Ramadan would be influential on the course of CPI. On the other hand, we anticipate that the decline in clothing and footwear prices would continue. **In this context, we expect CPI and PPI to increase by 0.25% and 0.50%, respectively in August.**

## CBRT kept the policy rate unchanged.

At its meeting on July 19<sup>th</sup>, CBRT Monetary Policy Committee (MPC) decided to keep the one-week repo rate (5.75%), overnight borrowing rate (5%) and lending rate (11.5%) unchanged at their current levels. In its announcement following the meeting, it was noted that the modest recovery in domestic demand continued as expected and exports continued to perform well despite the weak global growth. The Committee said that it would be appropriate to keep the flexibility of the monetary policy considering the continuing uncertainties regarding the global economy. Hence, it was stated that the amount of TL funding would be adjusted in either direction depending on the developments.

## CBRT lowered its year-end inflation forecast.

In the 3<sup>rd</sup> Inflation Report published on July 26<sup>th</sup>, CBRT reiterated its view that the economic activity will return to its moderate growth path after the weak outlook recorded in the first quarter. CBRT noted that the private consumption expenditures enlivened in the second quarter and added that the orders for the third quarter pointed out a favorable outlook for domestic demand. CBRT revised down its oil and food price forecasts for 2012 and lowered its inflation forecast of 2012 by 30 basis points to 6.2% with a confidence interval of 5.3%-7.1%. CBRT expects the inflation to stabilize around 5% in the medium-term.



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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
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
	March	1.22	5.40	10.08	9.36	0.42	1.57	3.99	7.29
	April	0.61	6.04	8.21	9.17	0.87	2.45	4.26	6.79
	May	0.15	6.20	9.63	9.21	2.42	4.93	7.17	6.64
	June	0.01	6.21	10.19	9.42	-1.43	3.43	6.24	6.47
	July	-0.03	6.18	10.34	9.59	-0.41	3.00	6.31	6.37
	August	1.76	8.05	11.00	9.76	0.73	3.75	6.65	6.24
	September	1.55	9.72	12.15	10.03	0.75	4.53	6.15	6.00
	October	1.60	11.48	12.58	10.26	3.27	7.95	7.66	5.93
	November	0.65	12.20	13.67	10.72	1.73	9.82	9.48	6.13
	December	1.00	13.33	13.33	11.09	0.58	10.45	10.45	6.47
2012	January	0.38	0.38	11.13	11.11	0.56	0.56	10.61	6.95
	February	-0.09	0.29	9.15	10.96	0.56	1.13	10.43	7.48
	March	0.36	0.65	8.22	10.79	0.41	1.55	10.43	8.02
	April	0.08	0.73	7.65	10.72	1.52	3.09	11.14	8.59
	May	0.53	1.27	8.06	10.57	-0.21	2.87	8.28	8.68
	June	-1.49	-0.24	6.44	10.24	-0.90	1.95	8.87	8.89
	July	-0.31	-0.56	6.13	9.88	-0.23	1.71	9.07	9.11
	<b>August<sup>(E)</sup></b>	<b>0.50</b>	<b>-0.06</b>	<b>4.82</b>	<b>9.35</b>	<b>0.25</b>	<b>1.97</b>	<b>8.55</b>	<b>9.26</b>

(E) Estimate

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