



Inflation - September 2014

Economic Research Division

TÜRKİYE BANKASI

Lower than expected CPI inflation in September

In September, CPI and Domestic PPI (D-PPI) increased by 0.14% and 0.85% mom, respectively. According to the Reuters' survey, CPI was expected to increase by 0.45% mom in September. According to the CBRT's survey, markets' monthly CPI expectation was 0.53%.

September (%)	CPI		Domestic PPI	
	2013	2014	2013	2014
Monthly	0.77	0.14	0.88	0.85
Year to Date	5.01	6.43	4.43	7.24
Annual	7.88	8.86	6.23	9.84
Annual Average	7.32	8.54	3.58	9.84

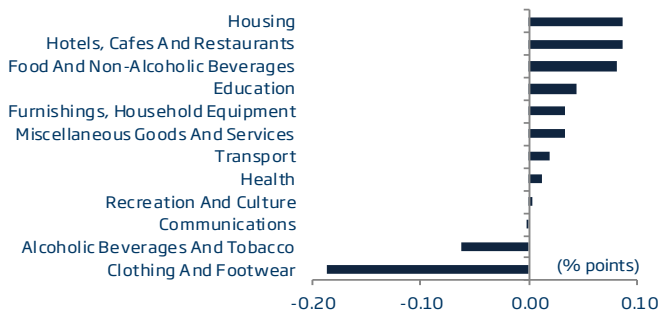
Annual CPI inflation decreased to 8.86%.

Annual CPI inflation, which hovered above 9% since April, decreased to 8.86% in October. In the same period, the annual D-PPI inflation was realized as 9.84%, approaching double-digit levels.

The rise in food price slowed down.

Analysis of the main expenditures groups in September show edthat the food prices, which increased rapidly in the first 8 months of the year as a result of the adverse weather conditions, increased moderately in September and was effective in the lower than expected monthly CPI reading. In fact, after having increased by 1.11% mom in average during the first 8 months, food prices increased by only 0.31% in September and made 0.08 contribution to the monthly CPI inflation. The decreases in clothing and footwear prices and alcoholic beverages–tobacco prices also played role in the lower than expected CPI increase. On the other hand, the price increases in the housing group, which has the second highest share in the CPI basket, have accelerated. In addition, the prices in the education group also increased notably in line with the start of the new school year.

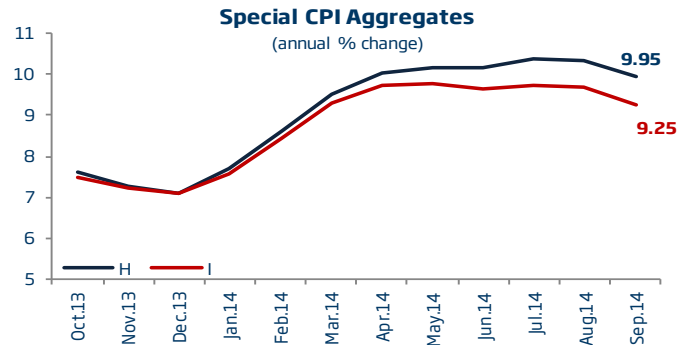
Contributions to the Monthly CPI by Subgroups



The annual rise in core inflation indicators declined.

The core inflation figures, representing the main trend of inflation, also declined in parallel with the general index. In fact,

the annual increases in CBRT's favorite core indices denominated by H and I were realized as 9.95% and 9.25%, respectively. These rates are the lowest increases since March



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

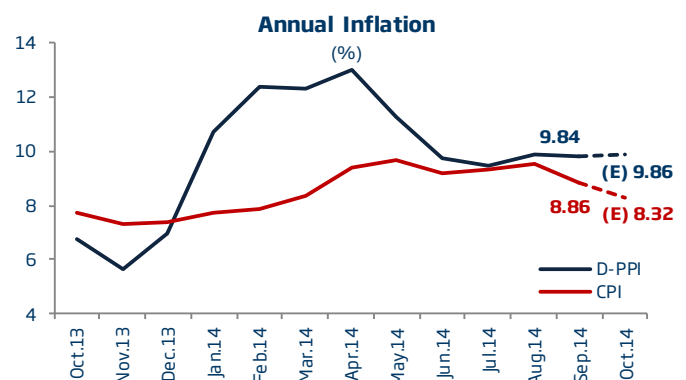
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco 2014 for the H index, and since February 2014 for the I index.

The annual D-PPI inflation was 9.84% in September.

Despite the lower than expected increase in CPI in September, the increase in D-PPI kept its high level. There are 29 product groups which constitute the D-PPI index. In 20 of them, prices registered an increase in September. Despite the fact that the food prices in the CPI increased by 0.31% mom, the increase in food prices in D-PPI was realized as 2.76%. In fact, the highest contribution to monthly D-PPI increase came from food prices. This development shows that the upward pressure on CPI inflation stemming from the rise in food prices might continue in the coming period.

Expectations

In October, we expect that clothing and footwear prices would increase due to the seasonal factors. Moreover, we anticipate that the price hikes in natural gas and electricity will contribute to monthly inflation by 30 basis points while their total contribution will reach 40 basis points until year-end. In this context, we expect CPI and D-PPI to increase by 1.30% and 0.70% mom, respectively. We anticipate that the year-end annual CPI inflation would be around 9%.



(E) Estimate
Source: Turkstat

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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		
2012	January	0.56	0.56	10.61	6.95	0.38	0.38	11.13	11.11
	February	0.56	1.13	10.43	7.48	-0.09	0.29	9.15	10.96
	March	0.41	1.55	10.43	8.02	0.36	0.65	8.22	10.79
	April	1.52	3.09	11.14	8.59	0.08	0.73	7.65	10.72
	May	-0.21	2.87	8.28	8.68	0.53	1.27	8.06	10.57
	June	-0.90	1.95	8.87	8.89	-1.49	-0.24	6.44	10.24
	July	-0.23	1.71	9.07	9.11	-0.31	-0.56	6.13	9.88
	August	0.56	2.28	8.88	9.29	0.26	-0.30	4.56	9.33
	September	1.03	3.34	9.19	9.53	1.03	0.72	4.03	8.65
	October	1.96	5.36	7.80	9.53	0.17	0.90	2.57	7.80
	November	0.38	5.76	6.37	9.26	1.66	2.58	3.60	6.98
	December	0.38	6.16	6.16	8.89	-0.12	2.45	2.45	6.09
2013	January	1.65	1.65	7.31	8.62	-0.18	-0.18	1.88	5.33
	February	0.30	1.95	7.03	8.33	-0.13	-0.31	1.84	4.72
	March	0.66	2.63	7.29	8.08	0.81	0.50	2.30	4.23
	April	0.42	3.06	6.13	7.66	-0.51	-0.01	1.70	3.74
	May	0.15	3.21	6.51	7.51	1.00	0.99	2.17	3.27
	June	0.76	4.00	8.30	7.47	1.46	2.46	5.23	3.18
	July	0.31	4.32	8.88	7.47	0.99	3.48	6.61	3.23
	August	-0.10	4.21	8.17	7.42	0.04	3.52	6.38	3.39
	September	0.77	5.01	7.88	7.32	0.88	4.43	6.23	3.58
	October	1.80	6.90	7.71	7.32	0.69	5.15	6.77	3.93
	November	0.01	6.91	7.32	7.39	0.62	5.80	5.67	4.10
	December	0.46	7.40	7.40	7.49	1.11	6.97	6.97	4.48
2014	January	1.98	1.98	7.75	7.53	3.32	3.32	10.72	5.22
	February	0.43	2.41	7.89	7.60	1.38	4.75	12.40	6.11
	March	1.13	3.57	8.39	7.70	0.74	5.52	12.31	6.95
	April	1.34	4.96	9.38	7.97	0.09	5.61	12.98	7.89
	May	0.40	5.38	9.66	8.23	-0.52	5.06	11.28	8.66
	June	0.31	5.70	9.16	8.31	0.06	5.12	9.75	9.03
	July	0.45	6.18	9.32	8.35	0.73	5.89	9.46	9.26
	August	0.09	6.28	9.54	8.46	0.42	6.33	9.88	9.55
	September	0.14	6.43	8.86	8.54	0.85	7.24	9.84	9.84
	October ^(E)	1.30	7.82	8.32	8.59	0.70	7.99	9.86	10.09

(E) Estimate

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