

Inflation - December 2015

Economic Research Division

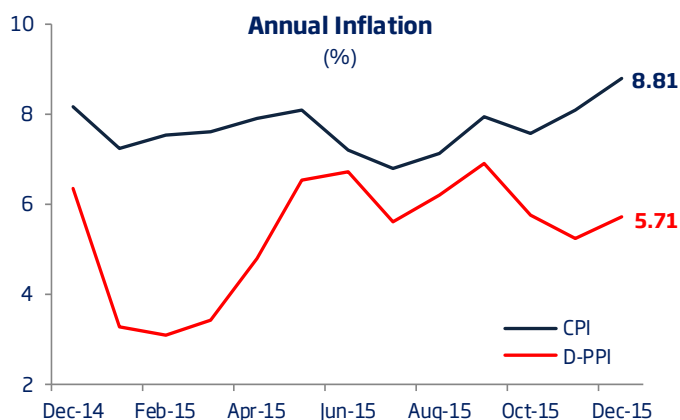
Monthly inflation surpassed expectations in December.

In December, CPI increased by 0.21% mom, contrary to the expectations of a decline. On the other hand, Domestic PPI (D-PPI) declined by 0.33% mom in this period. Monthly CPI inflation was expected to fall by 0.04% according to the Reuters poll, while CBRT Survey of Expectations suggested that CPI would post a limited increase of 0.07% mom in December.

December	CPI		D-PPI	
	2014	2015	2014	2015
Change (%)				
Monthly	-0.44	0.21	-0.76	-0.33
Year-to-Date	8.17	8.81	6.36	5.71
Annual	8.17	8.81	6.36	5.71
Annual Average	8.85	7.67	10.25	5.28

Annual inflation was 8.81% at the end of 2015.

Divergence between the annual CPI and D-PPI figures became more evident by the end of the year. In December, annual CPI inflation was realized as 8.81%, marking the highest year-end rate in last 4 years. Having declined on monthly basis since October, D-PPI inflation became 5.71% yoy, the lowest rate of annual inflation since 2012.

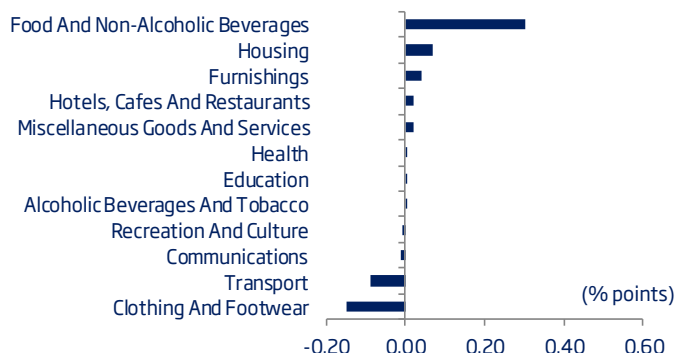


The upsurge in food prices has continued.

Prices in food and non-alcoholic beverage group surged by 1.24% mom and made the contribution to CPI inflation by 30 basis points. Price increase in unprocessed foods, such as vegetables and fruits, due to the winter season was significant in this development. The rise in housing and furniture prices also made contribution to monthly inflation by 11 basis points. On the other hand, the clothing and footwear prices declined by 1.98% mom and limited the increase in CPI by 15 basis points. Thus, seasonal factors exhibited a balanced outlook in December. However, as seasonal discounts in clothing and footwear prices remained limited compared to the previous years, this development also played an important role in higher-than-expected inflation rate.

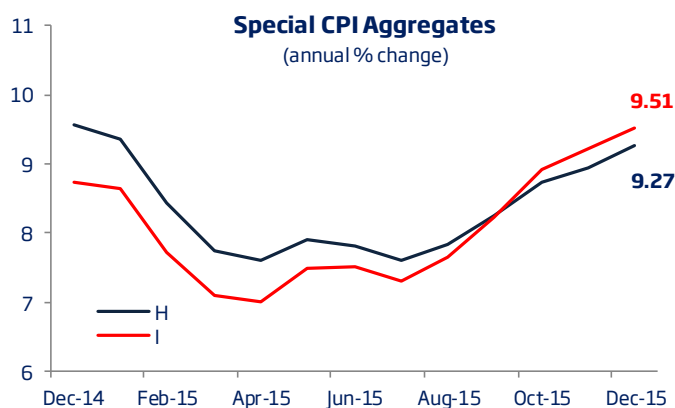
The highest annual rate of price increase was registered in hotels, cafes and restaurants (13.23%). Annual inflation also came in above 10% in food and furniture as well as recreation

Contributions to the Monthly CPI by Subgroups



and culture groups.

Annual inflation in the two core inflation indices monitored closely by CBRT, denominated by H and I, have moved upward since August. The indices rose by 9.27% and 9.51% yoy, respectively.



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.

Steep decline in D-PPI...

In December, the downward trend in commodity prices, particularly in oil prices, remained influential on the fall in D-PPI. In this respect, almost 10% monthly drop recorded in the prices of coke and refined petroleum products had a downward impact on the D-PPI inflation by 24 basis points. On the other hand, increase in food prices limited the drop in D-PPI by 9 basis points.

Expectations

With the start of the new year, increase in electricity tariff along with the bridge and highway tolls and Special Income Tax hikes on alcoholic beverages and tobacco products will have an upward effect on inflation. In addition, it is estimated that the impact of minimum wage hike on inflation will be 1.1-2.2 pp on annual basis throughout 2016. We expect that prices in all subgroups, except clothing and footwear, will post a rise in the first month of 2016 owing to adjustments in administered prices and seasonal factors.

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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		
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	1.90	8.45	8.96	8.65	0.92	8.22	10.10	10.11
	November	0.18	8.65	9.15	8.80	-0.97	7.18	8.36	10.32
	December	-0.44	8.17	8.17	8.85	-0.76	6.36	6.36	10.25
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^(E)	1.50	1.50	9.24	7.84	0.50	0.50	5.89	5.50

(E) Estimate

Source: Turkstat, ERD

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