

# Inflation - January 2016

## Economic Research Division

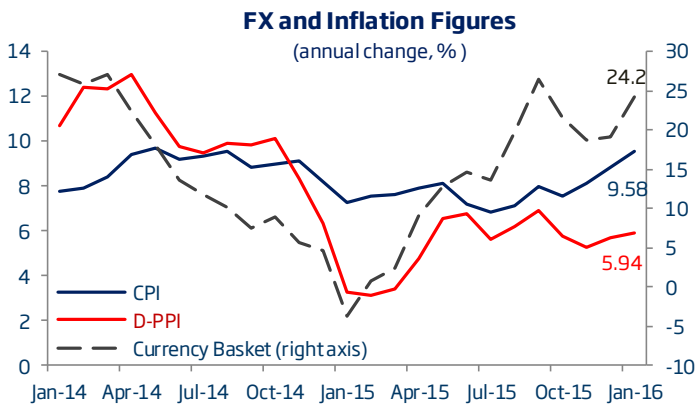
### Inflation came in above expectations in January.

In January, CPI increased by 1.82% mom, surpassing the market expectations, while monthly Domestic PPI (D-PPI) inflation was realized as 0.55%. According to the Reuters poll and CBRT's Survey of Expectations, monthly CPI inflation expectations were 1.7% and 1.21%, respectively.

January	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	1.10	1.82	0.33	0.55
Year-to-Date	1.10	1.82	0.33	0.55
Annual	7.24	9.58	3.28	5.94
Annual Average	8.80	7.87	9.59	5.50

### Annual inflation reached its highest level in 20 months.

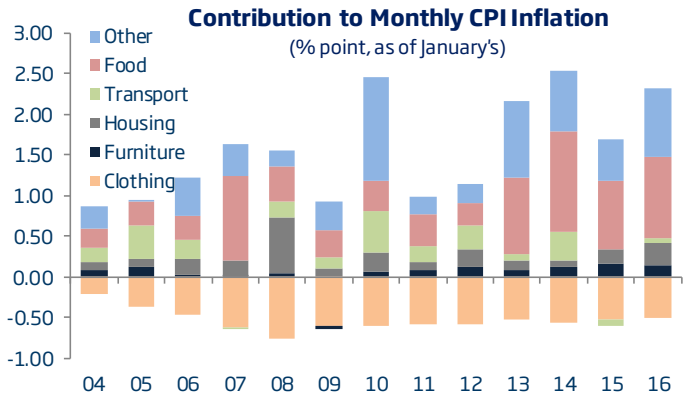
The upward pressure on inflation due to the developments in both food prices and exchange rates has persisted also in January. Thus, annual inflation approached double-digit levels in the first month of 2016. Having declined in the last 3 months of 2015, D-PPI posted a relatively modest annual increase despite the low base effect.



Turkstat revised the weight of the main expenditure groups in CPI basket for 2016. Accordingly, the weights of food-beverages and transportation subgroups have been decreased by 57 and 107 bps, respectively while the share of the hotels and restaurants has been increased by 49 bps.

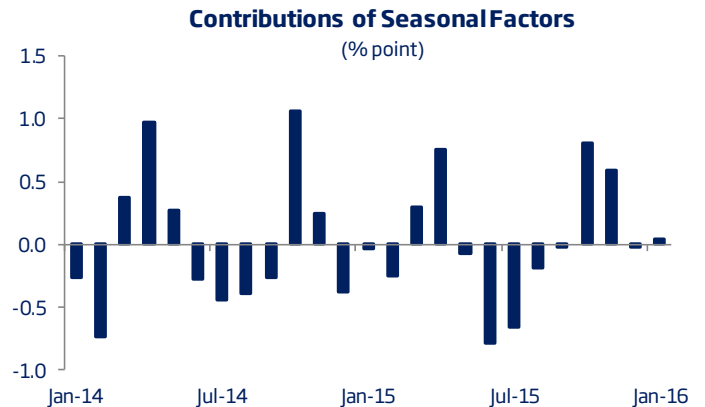
### Ongoing increase in food prices...

Prices in food and non-alcoholic beverages group surged by 4.28% mom and made the highest contribution to CPI inflation by 102 bps. Prices in housing, alcoholic beverages and tobacco subgroups also rose in January mainly due to the price adjustments and tax hikes. Price increases in these groups made contribution to monthly inflation by a total of 75 bps. On the other hand, seasonal declines in the prices of clothing and footwear lowered the monthly CPI by 50 bps.



In January, the price increases in only education, housing, communication and transportation subgroups were lower than CBRT's year-end inflation forecast of 7.5%.

Seasonal factors displayed a balanced outlook in January as was the case in December. However, the upward trend in core inflation indicators observed since August 2015 has persisted in January.



### Rise in D-PPI...

The crude petroleum and natural gas prices decreased by 26% mom in January. The prices in tobacco, petroleum products and wearing apparel also declined in this period. Nevertheless, the prices in other sub-sectors, especially in manufacturing of food products, led the increase in annual D-PPI inflation.

### Expectations

The price increases in administered prices and the minimum wage hike caused the inflation expectations to surge in January. We expect this deterioration in the inflation indicators to continue for some more time due to the lagged impact of the TRY depreciation and the elevated levels of food prices. Against this backdrop, the prices in the main expenditure groups excluding the clothing and footwear are more likely to post an increase also in February. The low base effect in D-PPI will last until April while oil price developments may limit this impact to some extent.

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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	1.82	1.82	9.58	7.87	0.55	0.55	5.94	5.50
	February <sup>(E)</sup>	<b>1.00</b>	<b>2.84</b>	<b>9.89</b>	<b>8.07</b>	<b>1.10</b>	<b>1.66</b>	<b>5.83</b>	<b>5.72</b>

(E) Estimate

Source: Turkstat, ERD

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