

Inflation - May 2016

Economic Research Division

May	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.56	0.58	1.11	1.48
Year-to-Date	5.30	3.15	5.22	2.77
Annual	8.09	6.58	6.52	3.25
Annual Average	8.45	7.71	6.98	5.19

Monthly CPI inflation was below market expectations.

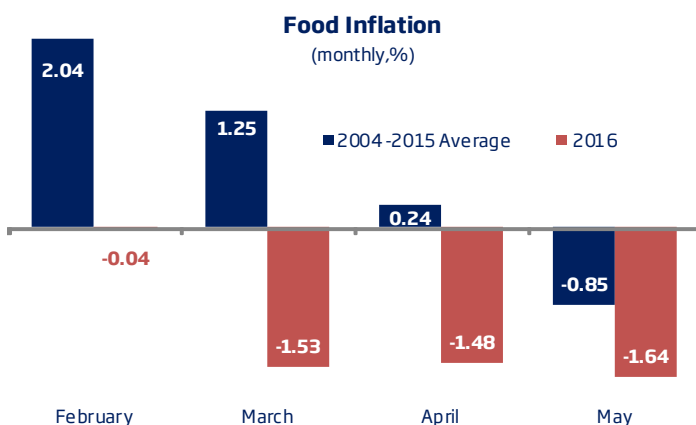
CPI posted a monthly rise of 0.58% in May, below the market expectations of 0.78%. Domestic PPI (D-PPI), on the other hand, surged by 1.48% mom, the highest May level for the last eight years.

CPI recorded an annual increase of 6.58%.

Annual CPI inflation remained at low levels and became 6.58% in May. Annual D-PPI inflation rose by 38 basis points compared to April due to the recent upturn in commodity prices, particularly in oil price, and came in at 3.25%.

Food prices continued to have a big part in the positive performance of CPI.

Having recorded monthly declines since February, food prices performed better than the historical averages. Food prices, which have 24% weight in the overall CPI, dragged the monthly inflation down by 38 basis points in May while they pushed the annual inflation up by 58 basis points. Other than food prices, furnishings and household equipment also limited the rise in inflation albeit to a marginal extent.

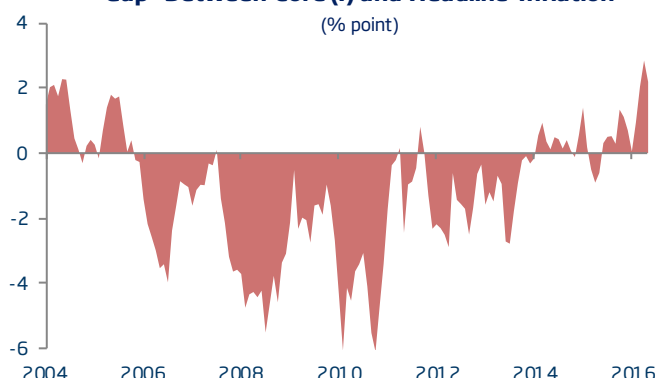


Nevertheless, seasonal factors put upward pressure on CPI in May as was the case in April. Clothing and footwear, having followed an upward trend in the last three months, made the biggest contribution to monthly CPI inflation by 58 basis points. Transport and housing groups followed clothing and footwear providing marginal contributions of 15 and 6 basis points, respectively.

Improvement in core inflation...

Core inflation indicators continued to recover along with the fading cumulative effects of exchange rates on inflation.

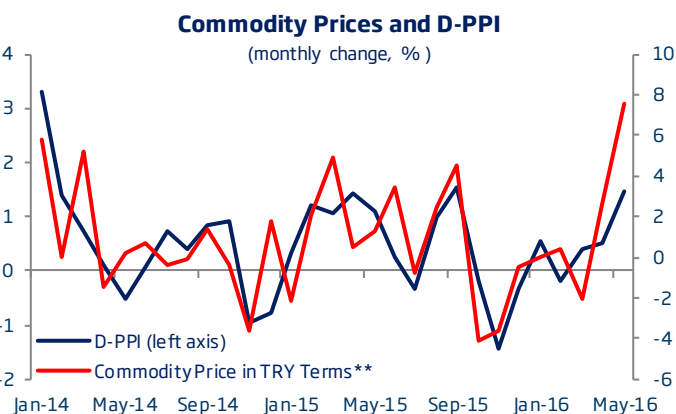
Gap* Between Core (I) and Headline Inflation



Hence, the gap between the core and headline inflations, causing debates lately as it widened recently, narrowed somewhat. Indeed, H and I core inflation indicators, which are closely monitored by the CBRT, fell to 8.7% from 9.2% and to 8.8% from 9.4%, respectively. However, risks over the core inflation might resurge in the coming period considering the depreciation in TRY observed in May.

Rapid increase in D-PPI...

The recent rebound in commodity prices played a significant role in the performance of D-PPI in May. It was worthy of attention that CRB commodity price index in TRY terms, rising by 7.5% mom with also the impact of TRY weakening, registered the highest surge since August 2011. Analysis by the main industrial groupings showed that three-month long rise in energy prices gained momentum.



The performance of TRY will be one of the main drivers of inflation.

Clothing and footwear as well as food prices are expected to fall in June thanks to seasonality. However, the upturn in commodity prices together with a weakening TRY continues to pose risks to inflation outlook. Against this backdrop, we think that dips have been seen already in annual CPI inflation during the recent months and the trend in annual inflation seems to be upwards in the period ahead.

(*) (Core Inflation – Headline Inflation) (**) Based on CRB Commodity Price Index
Source: Datastream, Turkstat

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		Inflation (%)							
		Consumer Price Index (2003=100)				Domestic Producer Price Index (2003=100)			
		Year to		Annual	Year to		Annual		
		Monthly	Date	Average	Monthly	Date	Average		
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	-0.02	1.80	8.78	7.97	-0.20	0.34	4.47	5.61
	March	-0.04	1.75	7.46	7.96	0.40	0.75	3.80	5.64
	April	0.78	2.55	6.57	7.84	0.52	1.27	2.87	5.47
	May	0.58	3.15	6.58	7.71	1.48	2.77	3.25	5.19
	June ^(E)	-0.30	2.84	6.81	7.67	1.00	3.80	4.02	4.96

(E) Estimate

Source: Turkstat, ERD

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