



In December, CPI inflation came in above expectations.

CPI increased by 0.74% mom in December. According to the Reuters survey, markets expected a rise of 0.49%. Domestic PPI (D-PPI) recorded an increase of 0.69% during this period.

December (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	-0.40	0.74	-2.22	0.69
Annual	20.30	11.84	33.64	7.36
Annual Average	16.33	15.18	27.01	17.56

2019-end inflation is at 11.84%.

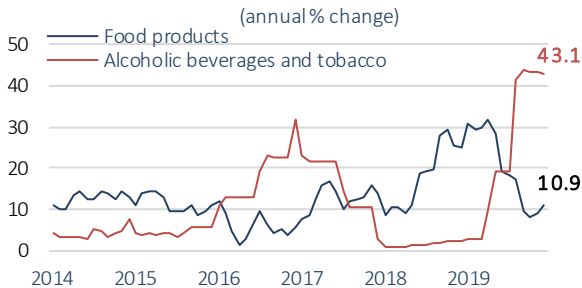
Annual CPI inflation, which ended 2018 at 20.30%, became 11.84% in 2019-end. CBRT had expected the year-end inflation to be 12% in its Inflation Report published in late October. Annual rise in D-PPI, which was 33.64% in December 2018, stood at 7.36% during the same period in 2019.

Food prices drove CPI inflation up.

Food group, in which prices increased by 2.9% on a monthly basis in December, made the highest contribution to inflation by 66 bps. Food prices were followed by transportation group with a positive contribution of 9 bps. Clothing and footwear group, in which prices declined by 1.9% on a monthly basis in December, made the largest negative contribution to monthly inflation by 13 bps.

Looking at the annual CPI inflation, the highest contributions came from food and transportation groups with 254 and 205 bps, respectively. In addition, alcoholic beverages and tobacco, in which prices surged more rapidly than the prices in other main expenditure groups by 43.1% yoy, added 182 bps to the annual consumer inflation.

Food and Alcoholic Beverages & Tobacco Prices

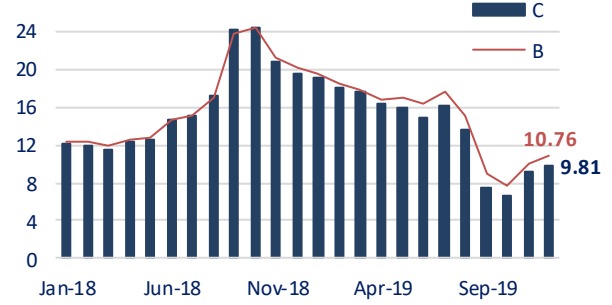


Core inflation indicators...

CPI excluding seasonal products increased at a similar rate to headline inflation with 0.73% mom. One of the CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), increased 0.41% mom. C index (CPI excluding

energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold) followed an almost flat path during this period. Annual increases in B and C indices were realized as 10.76% and 9.81%, respectively.

Special CPI Aggregates

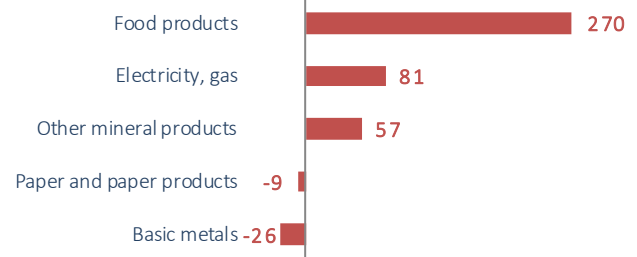


Food and basic metals pushed up monthly D-PPI inflation.

In December, the rise in D-PPI was mainly driven by food products and basic metals sub-sectors. The said groups dragged monthly D-PPI inflation down by 36 bps and 14 bps, respectively. During this period, electricity&gas sector, in which prices fell by 0.88% mom, made the largest negative contribution to monthly D-PPI inflation by 6 bps.

Looking at the annual D-PPI inflation, the highest positive contributions came from food products and electricity&gas while basic metals stood out with a negative contribution.

Contributions to Annual D-PPI Inflation by Main Sub-Groups



Expectations...

The 4.6% monthly rise in currency basket in December and the 15% increase to the minimum wage for 2020 are among the upside risks to inflation. On the other hand, the recent cancellation of automatic price hikes in tobacco and alcohol products for the first half of the year and the cut in value-added tax in furniture products are expected to have a positive impact on inflation outlook. We expect annual CPI inflation to hover around double-digits during the first half of 2020. CBRT's inflation forecast for the 2020-end was announced as 8.2% at the end of October 2019.

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to	Annual	Annual	Monthly	Year to	Annual	Annual	
		Date				Date			Average
2017	January	2.46	2.46	9.22	7.76	3.98	3.98	13.69	4.96
	February	0.81	3.29	10.13	7.88	1.26	5.29	15.36	5.87
	March	1.02	4.34	11.29	8.21	1.04	6.38	16.09	6.89
	April	1.31	5.71	11.87	8.66	0.76	7.19	16.37	8.01
	May	0.45	6.18	11.72	9.09	0.52	7.74	15.26	9.02
	June	-0.27	5.89	10.90	9.36	0.07	7.82	14.87	9.98
	July	0.15	6.05	9.79	9.44	0.72	8.60	15.45	10.94
	August	0.52	6.60	10.68	9.66	0.85	9.52	16.34	12.05
	September	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June	2.61	9.17	15.39	11.49	3.03	15.52	23.71	16.57
	July	0.55	9.77	15.85	12.00	1.77	17.56	25.00	17.41
	August	2.30	12.29	17.90	12.61	6.60	25.32	32.13	18.78
	September	6.30	19.37	24.52	13.75	10.88	38.96	46.15	21.36
	October	2.67	22.56	25.24	14.90	0.91	40.22	45.01	23.73
	November	-1.44	20.79	21.62	15.63	-2.53	36.68	38.54	25.52
	December	-0.40	20.30	20.30	16.33	-2.22	33.64	33.64	27.01
2019	January	1.06	1.06	20.35	17.16	0.45	0.45	32.93	28.70
	February	0.16	1.23	19.67	17.93	0.09	0.55	29.59	29.97
	March	1.03	2.27	19.71	18.70	1.58	2.14	29.64	31.17
	April	1.69	4.00	19.50	19.39	2.98	5.18	30.12	32.24
	May	0.95	4.99	18.71	19.91	2.67	7.99	28.71	32.85
	June	0.03	5.01	15.72	19.88	0.09	8.09	25.04	32.81
	July	1.36	6.44	16.65	19.91	-0.99	7.02	21.66	32.34
	August	0.86	7.35	15.01	19.62	-0.59	6.39	13.45	30.51
	September	0.99	8.42	9.26	18.27	0.13	6.53	2.45	26.44
	October	2.00	10.59	8.55	16.81	0.17	6.71	1.70	22.58
	November	0.38	11.01	10.56	15.87	-0.08	6.63	4.26	19.68
	December	0.74	11.84	11.84	15.18	0.69	7.36	7.36	17.56

Source: Turkstat, Datastream

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