



In December, CPI inflation came in above expectations.

CPI increased by 1.25% mom in December. Markets were expecting a rise of 0.9% on a monthly basis. Domestic PPI (D-PPI) recorded an increase of 2.36% during this period.

Annual CPI inflation rose to 14.60% in 2020.

Annual CPI inflation, which was 11.84% at the end of 2019, reached 14.60% in December 2020. CBRT's inflation expectation for the year-end was 12.1% in its Inflation Report published in late October. Annual rise in D-PPI, which was 7.36% in December 2019, stood at 25.15% at 2020 year-end.

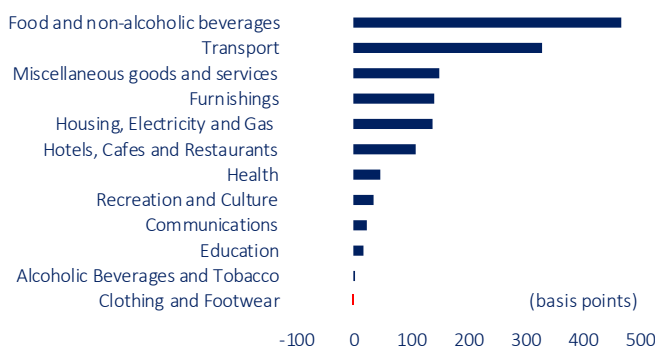
December (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	0.74	1.25	0.69	2.36
Annual	11.84	14.60	7.36	25.15
Annual Average	15.18	12.28	17.56	12.18

Food and transportation prices drove CPI inflation up.

In December, prices rose in 8 out of the 12 main spending groups on a monthly basis. Food prices increased by 2.3% mom and made the highest contribution to CPI inflation by 60 bps in December. Among food group, the rises of fresh fruit and vegetable prices drew attention. Transportation group followed food group with a contribution of 43 bps to CPI. Prices in clothing and footwear group decreased by 3.1% mom in December and pulled the monthly CPI inflation down by 13 bps. Prices declined slightly in the alcoholic beverages and tobacco, as well as in education and miscellaneous goods and services groups in this period.

Looking at the annual CPI inflation, the highest contributions came from food and transportation groups with 469 and 330 bps, respectively. Thus, 8 points of annual CPI inflation, which was realized at 14.6%, came from these two main spending groups. In addition, the prices of miscellaneous goods and services surged more rapidly (28.1%) compared to other main expenditure groups and added 151 bps to the annual consumer inflation.

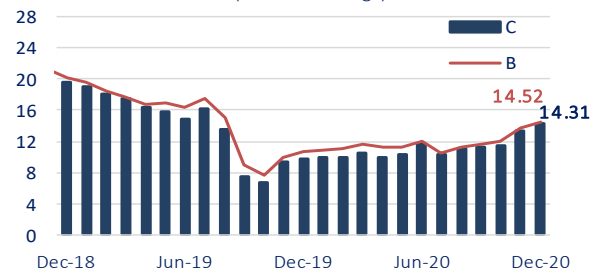
Contributions to the Annual CPI Inflation



Core inflation indicators...

CPI excluding seasonal products increased slightly above the headline inflation with 1.40% mom. CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) increased by 1.11% mom and C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold) rose by 0.99% in December. Annual increases in B and C indices were realized as 14.52% and 14.31%, respectively.

Special CPI Aggregates
(annual % change)



Basic metals and food prices pushed up annual D-PPI inflation.

The prices in 23 out of 29 subsectors increased in December. In this period, the rise in D-PPI was mainly driven by basic metals and coke and refined petroleum products sub-sectors. The said groups pushed monthly D-PPI inflation up by 64 bps and 43 bps, respectively. During this period, prices in electricity&gas sector fell by 1.21% mom and dragged monthly D-PPI inflation down by 8 bps.

The highest contributions to the annual D-PPI inflation came from basic metals and food products by 551 bps and 464 bps, respectively. During this period, tobacco products sector was the only sector that pulled down the annual D-PPI slightly by 7 bps.

Expectations...

Due to the rapid increases in November and December, annual CPI inflation came in above expectations and reached 14.6% at the end of 2020. In the coming months, the inflation outlook will continue to be driven by domestic demand and exchange rate developments. The recent cancellation of automatic price hikes in tobacco products for the first half of 2021 and the extension of the value-added tax cuts for some services until May are expected to have positive impact on inflation outlook. On the other hand, the 21.6% rise in the minimum wage for 2021 and adjustments in the natural gas and electricity prices as well as highway and bridge tolls are among the upside risks to inflation. We predict that inflation will continue to hover at high levels in the first half of 2021. Under the assumption that the CBRT will maintain its tight monetary policy stance, we expect inflation to follow a downward course in the second half of the year thanks to the weakening effect of exchange rate pass-through.

		Inflation (%)							
		CPI (2003=100)				D-PPI (2003=100)			
		Monthly	Year to Date	Annual	Annual Average	Monthly	Year to Date	Annual	Annual Average
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
2020	January	1.35	1.35	12.15	14.52	1.84	1.84	8.84	15.71
	February	0.35	1.71	12.37	13.94	0.48	2.33	9.26	14.18
	March	0.57	2.29	11.86	13.33	0.87	3.22	8.50	12.61
	April	0.85	3.16	10.94	12.66	1.28	4.54	6.71	10.87
	May	1.36	4.57	11.39	12.10	1.54	6.15	5.53	9.14
	June	1.13	5.75	12.62	11.88	0.69	6.89	6.17	7.74
	July	0.58	6.37	11.76	11.51	1.02	7.98	8.33	6.81
	August	0.86	7.29	11.77	11.27	2.35	10.52	11.53	6.71
	September	0.97	8.33	11.75	11.47	2.65	13.44	14.33	7.71
	October	2.13	10.64	11.89	11.74	3.55	17.48	18.20	9.11
	November	2.30	13.19	14.03	12.04	4.08	22.26	23.11	10.69
	December	1.25	14.60	14.60	12.28	3.55	25.15	25.15	12.18

Source: Turkstat, Datastream

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