

Data Snapshot

Inflation:

Auto prices shift a gear

Ibrahim Aksoy

Economist

+90 212 334 91 04

iaksoy@sekeryatirim.com

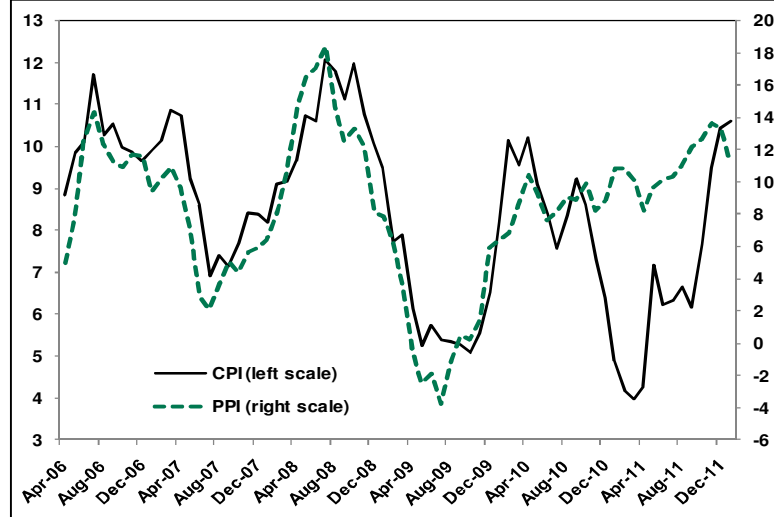
In January, consumer prices rose 0.56% over December, slightly above the market consensus (0.46%) and our in-house forecast (0.47%). Monthly inflation in January 2010 was 0.41%. Hence, annual inflation rose to 10.61% in January, the highest since November 2008, from 10.45% at end-2011.

Table 1: Summary of inflation data (%)

	Monthly		12-month	
	Jan 12	Jan 11	Jan 12	Dec 11
CPI	0.56	0.41	10.61	10.45
Food and Beverages	1.13	1.61	11.67	12.21
Tobacco and Liquor	0.02	0.00	18.53	18.50
Clothing and Footwear	-7.88	-7.76	7.84	7.98
Housing	1.32	0.58	8.99	8.20
o/w: Rent	0.35	0.37	4.69	4.71
Houseware	1.58	1.02	11.65	11.04
Health	0.09	0.28	0.15	0.34
Transportation	2.06	1.44	12.90	12.22
o/w: Maintenance	2.53	1.62	12.01	11.02
Communication	-0.01	1.21	1.24	2.48
Entertainment and Culture	0.83	-0.08	7.45	6.49
Education	-0.05	0.04	6.38	6.47
Hotels, Cafes and Restaurants	0.75	0.76	8.19	8.20
Miscellaneous goods and service	1.79	1.37	17.63	17.14
PPI	0.38	2.36	11.13	13.33
Agriculture	0.97	2.92	8.44	10.54
Industry	0.26	2.25	11.71	13.92
o/w: Mining and Quarrying	1.42	4.02	16.77	19.77
Manufacturing Industry	0.11	2.35	12.08	14.59
Electricity, Gas and Water	1.07	0.72	6.75	6.38

Source: TurkStat

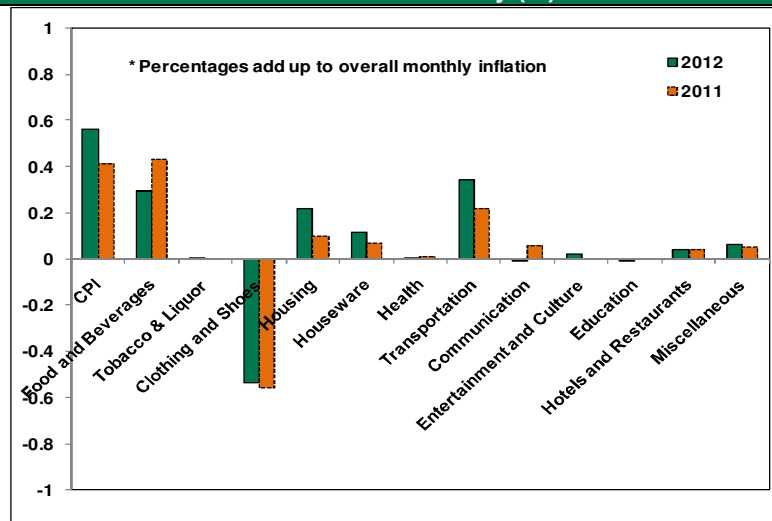
Graph 1: CPI & PPI inflation (% , 12-month)



Source: TurkStat

Jump in automobile prices after year-end campaign period was the main factor behind monthly inflation. Surprisingly, food prices rose less than the ICC and Turkey's labor union data pointed to. The group prices rose 1.1% MoM in January, contributing 0.29 pp to monthly inflation, following the highest contribution of 0.34 pp by the transportation group, in which prices rose 2.1% in January. Monthly price rises of 3.1% for diesel-powered automobiles and 7.1% for gasoline automobiles following year-end campaigns accounted for 0.3 pp of the month inflation print. In addition, gasoline and LPG prices used in automobiles increased 2.7% and 4.4% MoM and contributed to January inflation by 0.13 pp. We expect that some of the automobile price hikes will be reversed in the upcoming months thanks to the appreciation of the lira in January, combined with the lower demand. Other than these, parallel to seasonal discounts, clothing prices, declining 7.9% MoM, erased 0.54 pp from headline inflation. Meanwhile, housing group prices rose 1.3% MoM, increasing inflation by 0.22 pp, on the back of hikes in tube gas prices and rents.

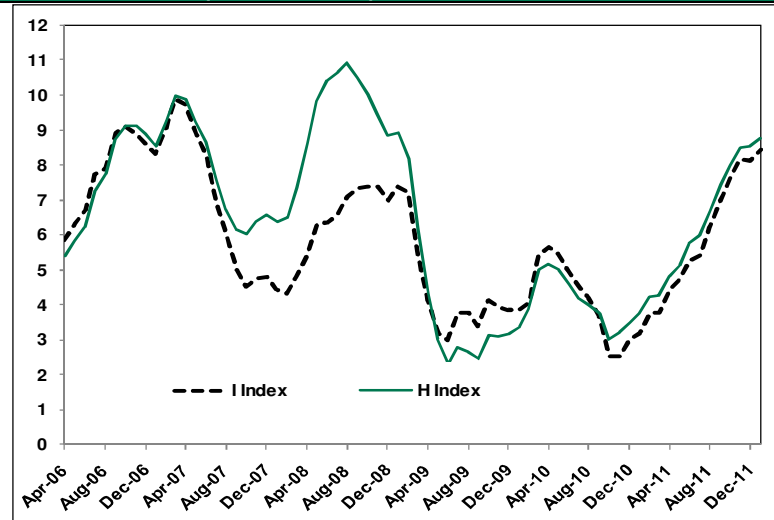
Graph 2: Contributions to CPI Inflation: January (%)



Source: TurkStat

Annual core inflation indicators also rose in January. Monthly core inflation indicators remained weak on the back of the decline in clothing group prices in January. H and I index monthly inflation were 0.15% and -0.08% respectively in January. Despite this monthly picture, annual H and I index inflation increased to 8.76% (previous: 8.54%) and 8.42% (previous: 8.12%). Recall that the I index is the most preferred core inflation indicator of the CBRT, and the index excludes food, non-alcoholic beverages, energy, tobacco, alcohol and gold.

Graph 3: Core inflation (% , 12-month)



Source: TurkStat

Old weights would have decreased January inflation. TurkStat changed the weights of groups under the CPI basket as a usual procedure every year. Accordingly, during 2012 the weight of the food group will be 26.2% (down 0.6 pp), while the weight of transportation will rise to 16.7% (up 1.6 pp). Meanwhile, the weights for tobacco/alcoholic beverages and clothing group will decline to 5.2% (down 0.7 pp) and 6.9% (down 0.4 pp) respectively. Using previous weights in 2011, we forecast the CPI calculation would yield a lower monthly inflation of 0.51% compared to the actual 0.56% due to the increased weight of transportation in the new CPI basket and decreased weight of the food group.

Fruit and vegetable prices may jump in February. Difficult weather conditions in late January and early February will likely cause vegetable and fruit prices to jump in February, which may prevent annual inflation to decline this month despite the low base in February 2010.

CBRT likely to continue fund the banking system at 7.5-8.0% on average. We forecast annual inflation to remain within the 9-11% range until the last quarter before dropping sharply to 6.7% thanks to base effects in the last quarter. Recall that the CBRT recently revised its year-end inflation forecast to 6.5% from 5.2% in its October report. However, the CBRT will not likely make “additional tightening” as the bank will wait and observe the effect of recent appreciation in the lira on inflation unless the lira enters under strong depreciation pressure. Another reason for the CBRT not to make additional tightening is the bank’s view that bringing inflation to the 5% target by year-end would cause unfavorable fluctuations in economic activity and necessitate undesirable monetary tightening. Therefore,

inflation will decline to the target by mid-2013 according to the bank unless the lira displayed stronger appreciation than currently expected. All in all, the CBRT signals that it will not tighten monetary policy excessively if the lira outlook permits, which is in line with our expectations.

ŞEKER SECURITIES RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
İnönü Cad. Tımşah Han No: 36
Beyoğlu - İSTANBUL
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: <http://www.sekeryatirim.com/english/index.aspx>

For additional information, please contact:

Research

Kadir Tezeller	Head of Research	+90 (212) 334 33 81	ktezeller@sekeryatirim.com
Volkan Muhurcuoglu	Banking & Equity Strategy	+90 (212) 334 33 33-228	vmuhurcuoglu@sekeryatirim.com
Burak Demirbilek	Utilities, Aviation, Iron-Steel, Beverage	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
Selahattin Aydin	Cement & Technical Analyst	+90 (212) 334 33 33-251	saydin@sekeryatirim.com
Ezgi Gulbas	Autos, Oil & Gas, Retail	+90 (212) 334 33 33-201	egulbas@sekeryatirim.com
Volkan Dukkancik	Telecoms, REITs, White Goods, Glass	+90 (212) 334 33 33-257	vdukkancik@sekeryatirim.com
Okan Uzun	Banking, Insurance, Conglomerate	+90 (212) 334 33 33-245	okan.uzun@sekeryatirim.com
Engin Degirmenci	Database Associate	+90 (212) 334 33 33-334	edegirmenci@sekeryatirim.com

Economy & Politics

Ibrahim Aksoy	Economist	+90 (212) 334 91 04	iaksoy@sekeryatirim.com
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