

# VAKIFBANK WEEKLY ECONOMIC REPORT

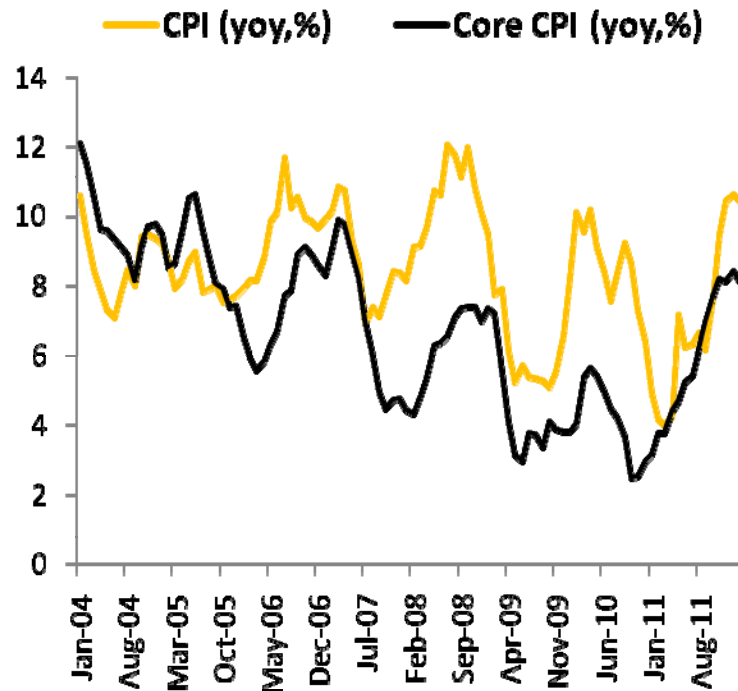
**CPI slowed down in February...**



T. Vakıflar Bankası T.A.O



## CPI rose by 0.55% mom in February...



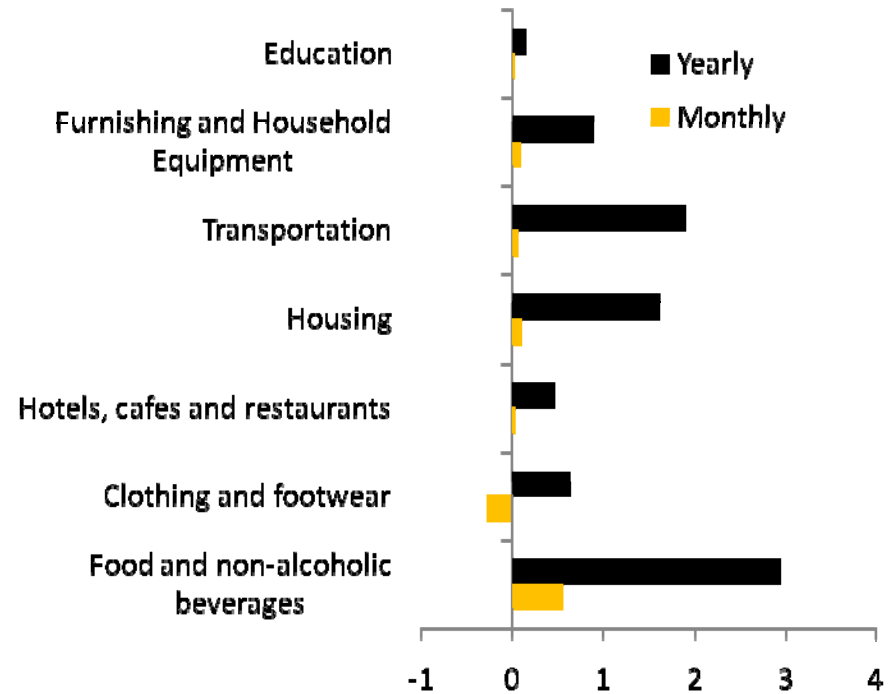
Source: CBRT

- ✔ In February annual headline CPI decreased to 10.43% from 10.61%.
- ✔ Hence, upward movement in CPI, which was prevalent since September 2011, has reversed.
- ✔ Core CPI fell by 0.18% mom and annual core CPI decreased to 8.12% from 8.42%. It was the most notable decline in annual core CPI since October 2010.

## Food prices were the main determinant of inflation in February...

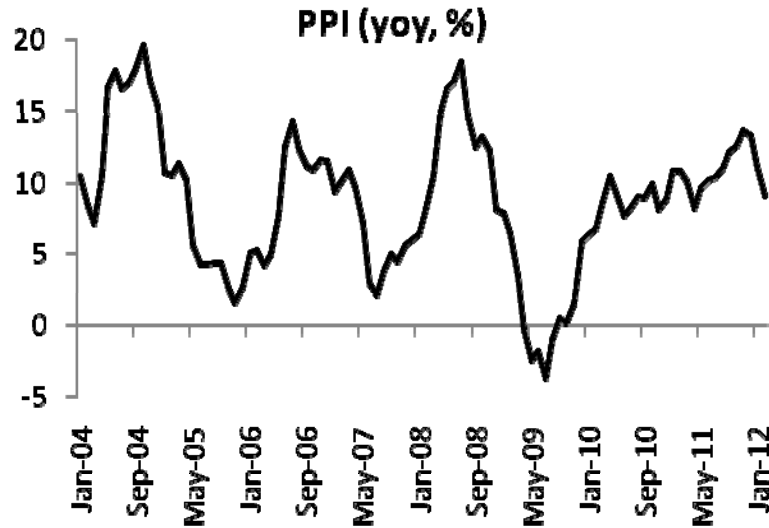
- Food prices increased by 2.1% mom and had the highest contribution to February CPI with 0.55 points.
- High fruit and vegetable prices were determinant on the movement of food prices by the effect of negative seasonal conditions.
- Despite the rise in oil prices, increase in transportation prices was limited in February. Transportation prices increased by 0.33% mom.
- Housing prices rose by 0.6% mom and clothing prices decreased by 4.1% mom due to seasonal discounts. Clothing prices had 0.28 points negative contribution to CPI.

Contribution of Expenditure Groups to CPI (point)

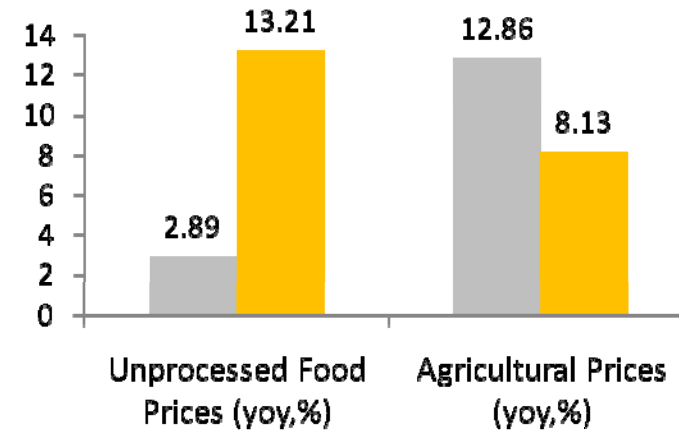


Source: TurkStat

## Yoy PPI decreased to 9.14%...



Source: CBRT

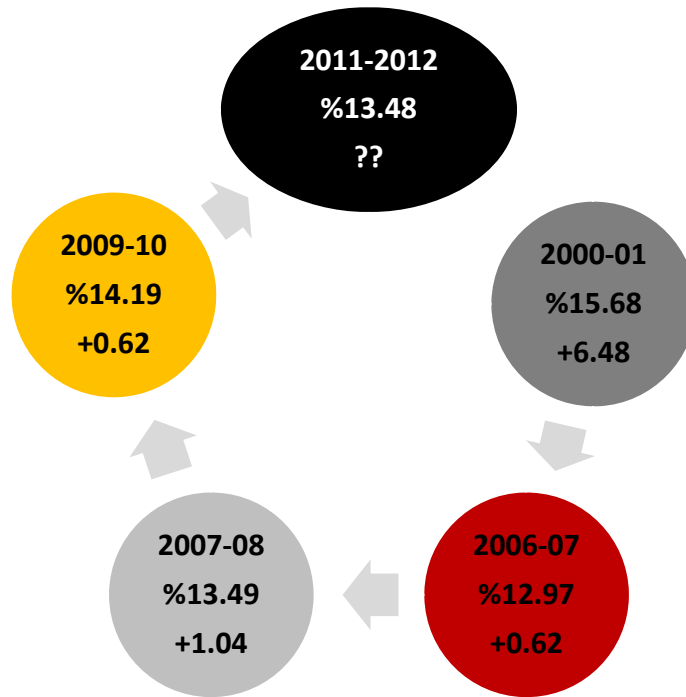


Source: CBRT

- ✔ PPI decreased by 0.09% mom, and yearly change in PPI decreased to 9.14% in February 2012 from 11.33%.
- ✔ Decrease in industrial prices was effective in the fall of PPI.
- ✔ Inflationary pressures on agricultural prices abated.

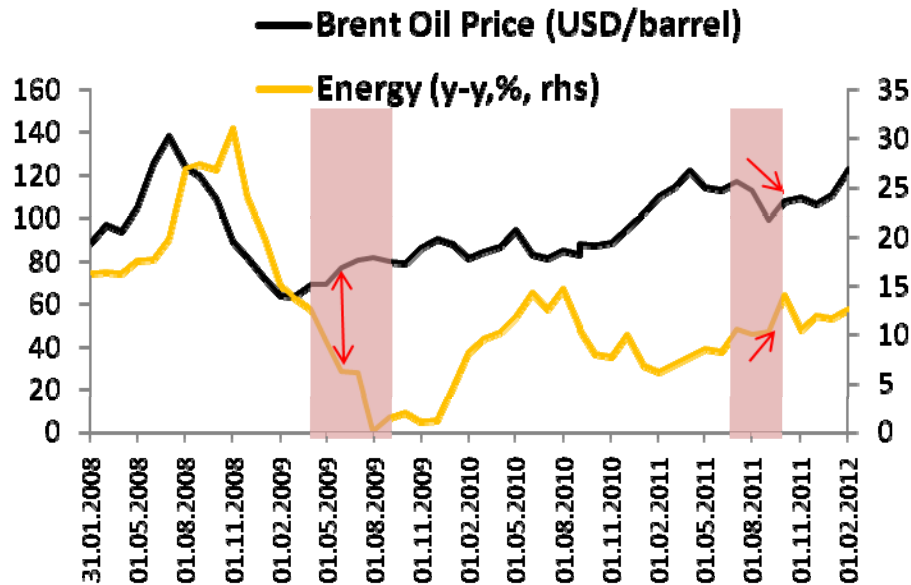
- ✔ Unprocessed food prices has reached to 13.21% yoy in February 2012 from 2.89% yoy in February 2011.
- ✔ Agriculture prices has separated from unprocessed food prices due to heavy-costly brokerage operations.

## How could food prices behave in March?...

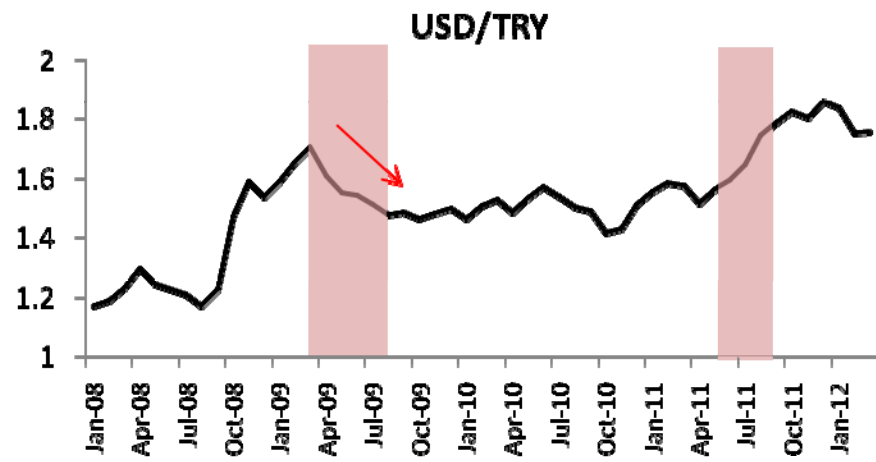


- ✓ Monthly change in food and non-alcoholic beverages prices has been positive since August 2011.
- ✓ Food prices decreased by 15.8% since July 2011.
- ✓ To determine the possible footpath of food prices we analyzed the mom changes in food prices since 1988 and concentrated on the preceding years when food prices increased as high as in 2011-2012.
- ✓ According to the general trend of similar years, increase in food prices may be limited in March 2012. 2000-2001 period was ignored since these years were the crisis years.

# High oil prices pose a risk for the domestic inflation dynamics...



Sources: CBRT, Bloomberg



Source: CBRT

- Relation between oil and domestic energy prices is important in terms of domestic inflation dynamics for the coming months.
- Positive correlation between these variables sometimes changes mainly due to exchange rate movements.
- Despite the increase in oil prices, if TRY appreciates, inflationary pressures in energy may not be as high as expected.

## Conclusion...

- ✔ Food prices have continued to be the main determiner of inflation.
- ✔ Despite the rise in oil prices, increase in transportation prices was limited in February.
- ✔ In addition to downward movement of annual headline inflation, decline in core inflation (I index) became more apparent due to favorable cost factors.
- ✔ High oil prices pose a risk for domestic inflation dynamics. However, the impact of high oil prices on domestic inflation also depends on the exchange rate movements.

Serkan ÖZCAN

Chief Economist

+ 90 312 455 7087

[serkan.ozcan@vakifbank.com.tr](mailto:serkan.ozcan@vakifbank.com.tr)

Emine Özgü ÖZEN

Researcher

+ 90 212 398 1890

[emineozgu.ozen@vakifbank.com.tr](mailto:emineozgu.ozen@vakifbank.com.tr)

Naime DOĞAN ERİŞ

Researcher

+ 90 212 398 1892

[naimedogan.eris@vakifbank.com.tr](mailto:naimedogan.eris@vakifbank.com.tr)

Fatma Özlem KANBUR

Researcher

+ 90 212 398 1891

[fatmaozlem.kanbur@vakifbank.com.tr](mailto:fatmaozlem.kanbur@vakifbank.com.tr)

T. Vakıflar Bankası T.A.O

[www.vakifbank.com.tr](http://www.vakifbank.com.tr)

Vakifbank Economic Research

[ekonomik.arastirmalar@vakifbank.com.tr](mailto:ekonomik.arastirmalar@vakifbank.com.tr)

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