

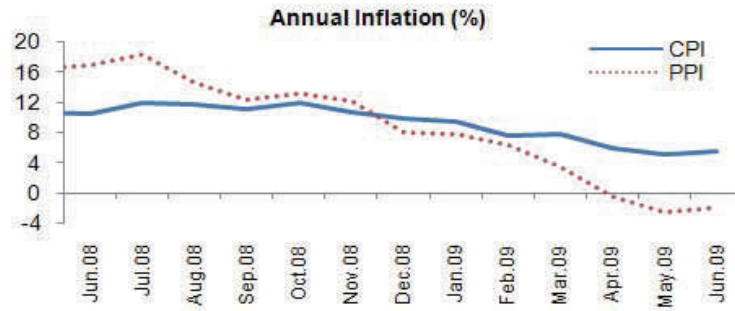
# INFLATION JUNE 2009

(%)	PPI		CPI	
	2008	2009	2008	2009
June	0.32	0.94	-0.36	0.11
January-June	13.76	3.27	6.00	1.83
Annual	17.03	-1.86	10.61	5.73
Annual Average	8.39	7.34	8.64	9.08

**In June, CPI and PPI increased by 0.11% and 0.94%, respectively.**

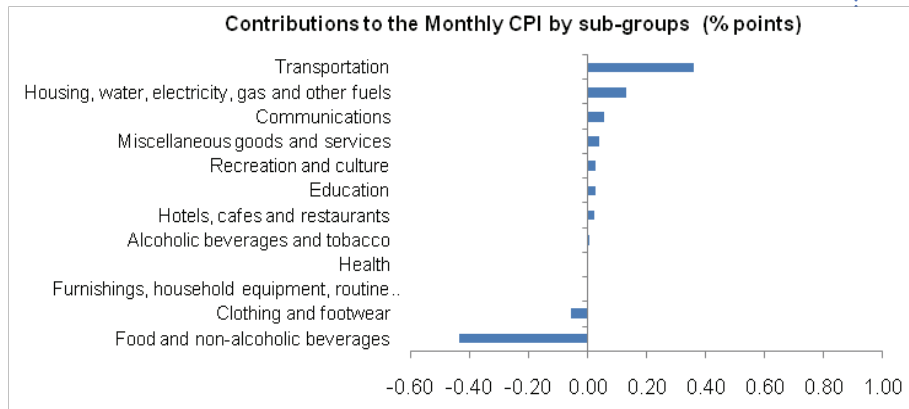
In June, compared to the previous month, **CPI and PPI increased by 0.11% and 0.94%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were 0.0% in CPI and 0.14% in PPI. According to the CBRT's Survey of Expectations, CPI inflation was also expected as 0.29%.

In June, annual CPI increased slightly above the May figure and was realized as 5.73% while annual PPI materialized as -1.86%, keeping its negative annual rate.



**Seasonal factors limited the rise in CPI.**

In June, monthly CPI inflation was realized slightly above the expectations. In this period, new arrangements on Special Consumption Tax and VAT put upward pressure on CPI. The rise in CPI was mainly attributable to the rise in the prices of transportation and housing sub-groups. Decreasing prices in food and non-alcoholic beverages and clothing and footwear due to seasonal factors limited the increase in CPI.



**Core inflation aggregates follow a favorable course.**

Analysis of the special CPI aggregates on a monthly basis revealed that seasonal and unprocessed food products had a declining impact on CPI, while energy products and products having administrated prices put upward pressure on CPI. Excluding seasonal products, the monthly CPI increased by 0.56%. On an annual basis, the rises in CBRT's favorite core inflation aggregates, denoted by H and I, were realized as 2.31% and 2.98%, respectively.

## Economic Research Division

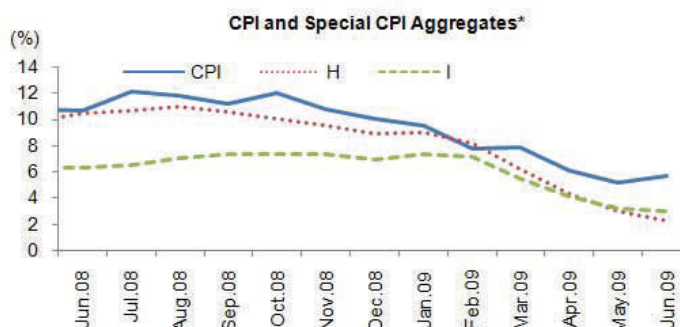
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# INFLATION JUNE 2009

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(\*) Annual change

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold.

*Higher than expected rise in PPI...*

In June, monthly PPI increased by 0.94%, above the expectations. On monthly basis, agricultural and industrial sector prices rose by 1.69% and 0.77%, respectively. In manufacturing industry, the prices of coke and refined petroleum products and wearing apparel rose rapidly. However, prices in machinery and equipment subgroup decreased significantly.

*We expect CPI and PPI to rise by 0.10% and 0.25% in July, respectively.*

In July, the fall in the food and clothing prices are expected to continue due to seasonal factors, while the price increases in tobacco products are expected to be balanced by the ceiling price set on retail oil prices. In this context, **we estimate CPI and PPI to increase by 0.10% and 0.25% in July, respectively.**

*CBRT cut the short term interest rates by 50 basis points.*

The Monetary Policy Committee of CBRT cut the O/N borrowing interest rate from 9.25% to 8.75% and the lending rate from 11.75% to 11.25% at its meeting on June 16<sup>th</sup>. Markets expected a 25 basis points cut. The Committee expected that the recovery in economic activity would be slow and gradual, the present weakness in employment conditions would continue for a while and therefore inflation would remain at low levels. In this respect, the Committee underlined that the rise in annual inflation in June due to tax hikes and base effects is not expected to be permanent. The Committee stated that the next rate cut would be measured and it might be necessary for the monetary policy to maintain an easing bias for a longer time. It was also noted that a deceleration in the pace of rate cuts or a pause would be considered if the signs of improvement in economic activity turn into a robust recovery.

In June, annual CPI continued to stay below the year-end inflation forecast of 6% and this development supported the expectations that the Central Bank would cut the interest rates one more time in July.



# INFLATION JUNE 2009

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		INFLATION (%)							
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2008	January	0.42	0.42	6.44	6.08	0.80	0.80	8.17	8.61
	February	2.56	3.00	8.15	5.94	1.29	2.11	9.10	8.53
	March	3.17	6.26	10.50	5.95	0.96	3.09	9.15	8.40
	April	4.50	11.04	14.56	6.39	1.68	4.82	9.66	8.33
	May	2.12	13.39	16.53	7.20	1.49	6.38	10.74	8.47
	June	0.32	13.76	17.03	8.39	-0.36	6.00	10.61	8.64
	July	1.25	15.18	18.41	9.76	0.58	6.61	12.06	9.07
	August	-2.34	12.49	14.67	10.68	-0.24	6.35	11.77	9.43
	September	-0.90	11.48	12.49	11.29	0.45	6.83	11.13	9.76
	October	0.57	12.11	13.29	12.03	2.60	9.60	11.99	10.12
	November	-0.03	12.08	12.25	12.56	0.83	10.52	10.76	10.31
	December	-3.54	8.11	8.11	12.72	-0.41	10.06	10.06	10.44
2009	January	0.23	0.23	7.90	12.81	0.29	0.29	9.50	10.54
	February	1.17	1.40	6.43	12.63	-0.34	-0.06	7.73	10.41
	March	0.29	1.70	3.46	11.99	1.10	1.05	7.89	10.29
	April	0.65	2.35	-0.35	10.65	0.02	1.07	6.13	9.98
	May	-0.05	2.30	-2.46	8.96	0.64	1.71	5.24	9.49
	June	0.94	3.27	-1.86	7.34	0.11	1.83	5.73	9.08
	<b>July (E)</b>	<b>0.25</b>	<b>3.53</b>	<b>-2.83</b>	<b>5.56</b>	<b>0.10</b>	<b>1.93</b>	<b>5.23</b>	<b>8.51</b>

(E): Estimate

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