

## NOVEMBER INFLATION AND OUTLOOK

### I. GENERAL EVALUATION

1. In November 2002, WPI and CPI increased by 1,6 percent and by 2,9 percent respectively. Thus, the overall increase in the January-November period has become 27,5 percent in WPI and 27,7 percent in CPI. Annual WPI and CPI inflation have fallen to 32,8 percent and 31,8 percent respectively.

2. The favorable developments in market expectations, which led to the strengthening of the exchange rate and stability in the market, had a positive impact on the November inflation. In the last four months, the ease of cost and demand pressures had a favorable effect on inflation by constraining price increases.

3. In November, the increase in CPI was quite above the WPI. The main reason for this was that, in contrast to October, increases in food prices were well above the rise in agriculture prices. However, it is observed that this difference still remains even when the price increases in food and agriculture are excluded. That is, CPI (excluding food) rose by 2,0 percent, while the increase in WPI (excluding agriculture) remained at 1,2 percent. This can be explained by the fact that the encouraging developments in exchange rates have more influence on the private manufacturing industry prices, and the influence of public sector price adjustments on CPI is higher. While the drop in oil prices has compensated the increase of other public sector prices in WPI, the CPI, in which oil products are less weighted, was more affected by increases in public sector prices.

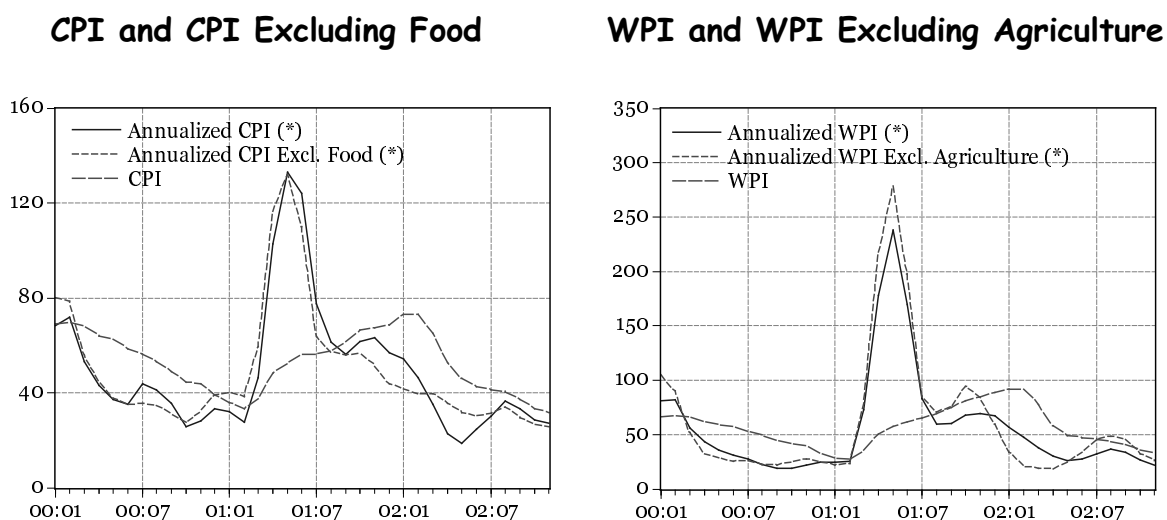
**Table 1: CPI, WPI and Sub-items**

	Year-on-Year % Change		Monthly % Change		
	2001	2002	2002		
	November	November	September	October	November
<b>CPI</b>	<b>67,3</b>	<b>31,8</b>	<b>3,5</b>	<b>3,3</b>	<b>2,9</b>
Goods	78,0	32,3	4,0	4,2	3,6
Services	49,5	30,7	2,6	1,5	1,5
Excluding Food	66,5	32,5	3,0	2,9	2,0
<b>WPI</b>	<b>84,5</b>	<b>32,8</b>	<b>3,1</b>	<b>3,1</b>	<b>1,6</b>
Public	101,0	31,3	3,3	1,7	0,3
Private	78,6	33,4	3,0	3,7	2,1
Public Manufacturing	100,8	31,2	3,4	1,6	0,0
Private Manufacturing	92,6	28,1	2,5	1,8	1,6
Excluding Agriculture	95,6	29,5	2,9	1,8	1,2
Excluding Agriculture and Energy	94,4	29,5	2,9	1,9	1,1

Source: CBRT, SIS.

4. The seasonally adjusted *annual CPI and WPI inflation*, which is calculated by annualizing the three-month moving averages, continued to decrease in November and reached 21,9 percent in WPI and 27,2 percent in CPI. Measured in this way, the annual inflation has fallen to 26,0 percent in *WPI excluding agriculture*, and to 25,5 percent in *CPI excluding food*.

**Figure 1: Annual Percentage Change and Three-Month Moving Averages**



(\*) 3-Month moving averages (Annualized, Seasonally Adjusted)

Source: CBRT, SIS.

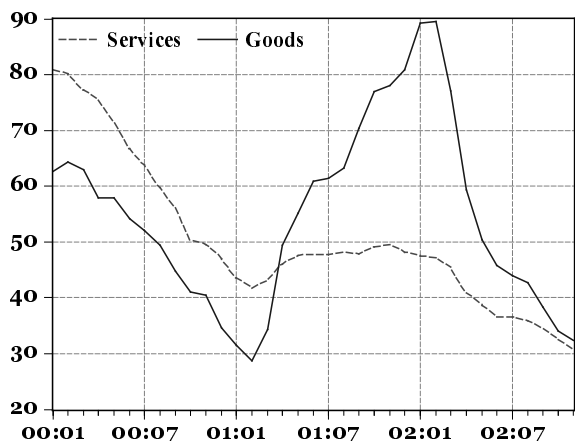
### ***Developments in Consumer Prices***

5. In November, the increase in CPI was adversely affected by food prices and public sector price adjustments. Nevertheless, the relatively low price increases in services group and the favorable developments in exchange rate and expectations have reduced the effects of these adverse factors.

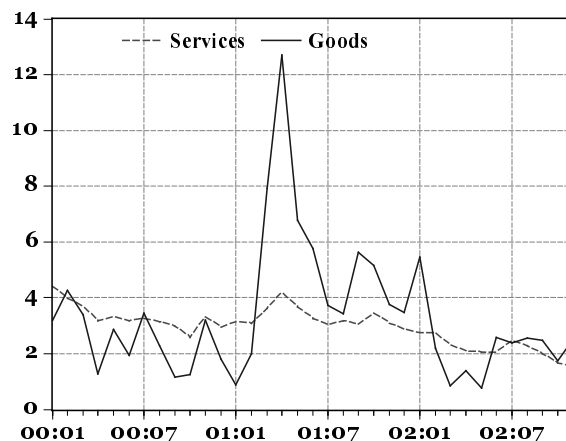
6. Increases in food prices led to an increase by 3,6 percent in the prices of goods in November. The increase in prices of goods excluding food on the other hand, was 2,5 percent. Price increases in the services maintained its low level in October, staying at 1,5 percent. Especially the limited price increases in the rents, as was the case in October, were instrumental in this development. On the other hand, prices in the communications services increased by 3,2 percent - above the CPI increase. Seasonally adjusted data reveals that goods prices increased by 2,5 percent in November, which is 0,8 points higher than the previous month. On the other hand, services prices increased by 1,5 percent, dropping by 0,2 points.

Figure 2: Prices of Goods and Services

Year-on-Year % Change



Monthly % Change  
(Seasonally Adjusted)\*



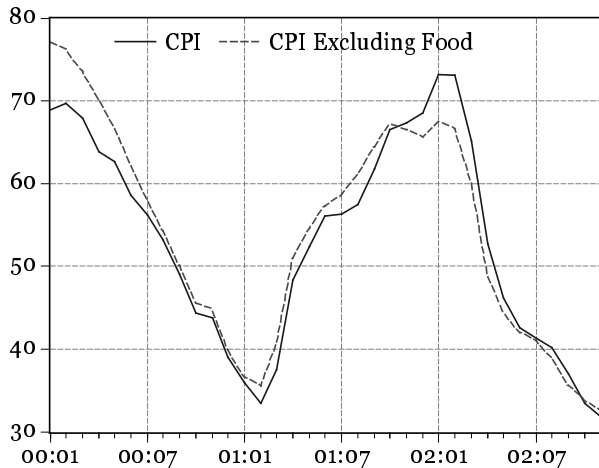
Source: CBRT, SIS.

\*TRAMO-SEATS method has been used in seasonal adjustment.

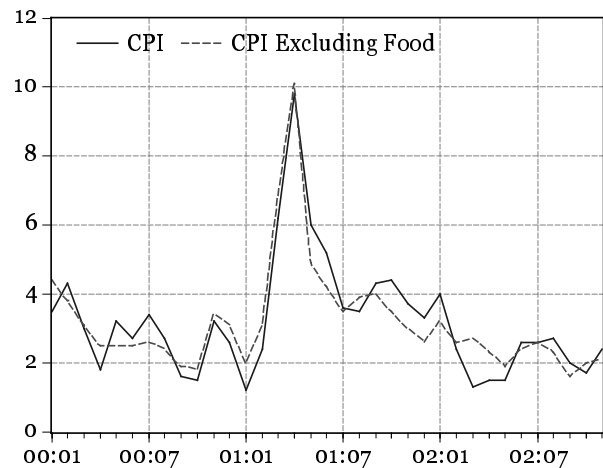
7. Agricultural prices that had posted a higher increase than the foods prices in October played a role in the acceleration of food price increases in November. Food prices, which increased by 4,6 percent in October, rose by 6,0 percent in November. This can be accounted for the adjustments made in tea and sugar prices that had been postponed earlier, and the month of Ramadan. When seasonally adjusted, the acceleration in the food prices becomes more visible. The rate of increase in food prices, which was 0,9 percent in October, realized at 3,4 percent in November. In line with the acceleration of food prices, the seasonally adjusted CPI increased by 2,4 percent - 0,7 points higher than the previous month (Figure 3).

Figure 3: CPI and CPI Excluding Food

Year-on-Year % Change



Monthly % Change  
(Seasonally Adjusted)\*



Source: CBRT, SIS.

\*TRAMO-SEATS method has been used in seasonal adjustment.

### *Developments in Wholesale Prices*

8. After having increased by 8,1 percent in October, agricultural prices rose by 3,3 percent in November and limited the WPI inflation along with the favorable exchange-rate developments. In contrast to October, the rate of increase in agricultural prices remained below the November average figure in the last seven years, which is 4,8 percent. Seasonally adjusted rate of increase in agricultural prices was 2,7 percent, which is lower than the last month.

9. Public manufacturing industry prices, which had already been slowing down relatively in September and October, did not record an obvious increase in November either. The increments in the electricity, the State Monopoly and food prices after the general elections were compensated by a drop of 3,0 percent in the prices of petroleum products manufacturing sector, which has the largest share in the public manufacturing industry. The rate of increase in private manufacturing sector price index has been affected favorably by the relatively stable Turkish lira since August and the slowdown in public sector price adjustments. Price increases in the private manufacturing industry dropped to its lowest level in the last eight months. Owing to these

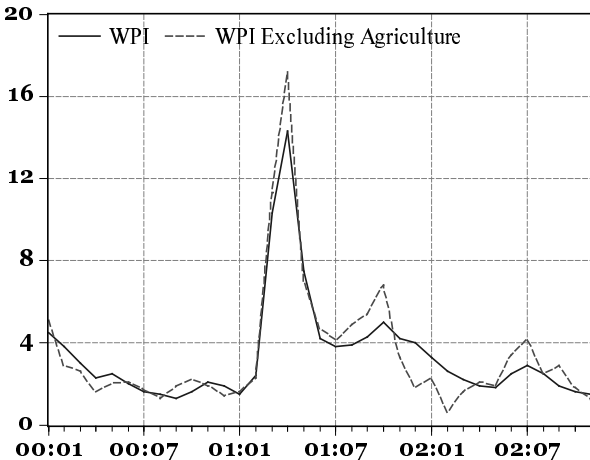
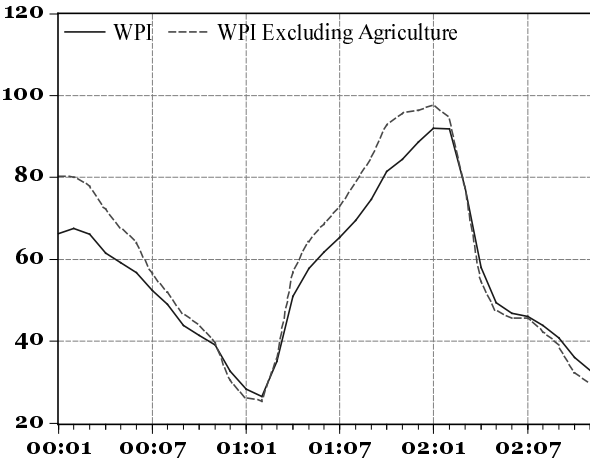
developments, seasonally adjusted WPI increase, which began slowing down starting from August, maintained this trend in November as well and realized at 1,5 percent. Meanwhile, the decrease in WPI excluding agriculture is more remarkable: 1,8 percent in October to 1,2 percent in November (Figure 4).

**Figure 4: WPI and WPI Excluding Agriculture**

**Year-on-Year % Change**

**Monthly % Change**

**(Seasonally Adjusted)\***



Source: CBRT, SIS.

\*TRAMO-SEATS method has been used in seasonal adjustment.

**II. OUTLOOK**

10. The annual CPI increase as end of November has declined to 31,8 percent, which is the lowest level in the period between January 1988 and November 2002. According to the CBRT Expectation Survey, the next 12 month-inflation expectations continued to drop, realizing at 26,2 percent in the second period of November (Figure 5). In the light of all these developments and our future forecasts, the annual CPI increase is expected to continue its downward trend in December too, and to remain well below the inflation target.

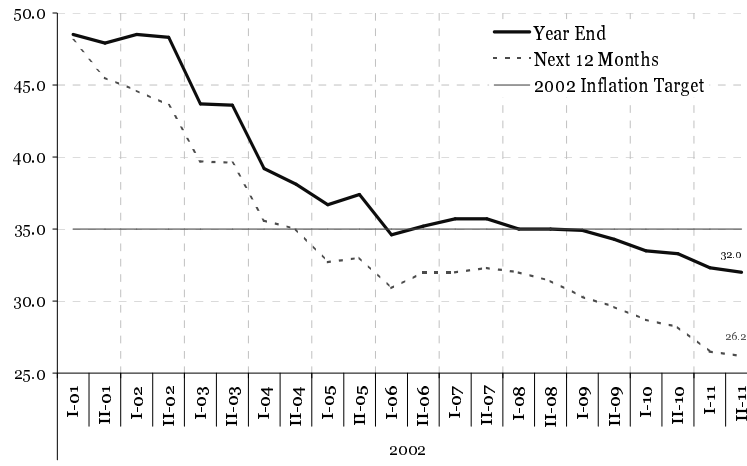
11. It will be helpful to underline a number of risks that might adversely affect the future inflation developments. Firstly, a possible military operation against Iraq and negative developments related to EU membership accession process could pose risk for the 2003 inflation target by affecting expectations and exchange rates adversely.

12. Moreover, an analysis of growth data for the third quarter of 2002 reveals that exports and government spending have contributed most to the economic growth. Private consumption increase, on the other hand, remained relatively low. It shows that despite favorable growth performance in 2002, domestic demand has not put much pressure on the inflation. However, it is expected that in 2003 the developments in the domestic demand might not be as favorable as it was in 2002, and that a revival of domestic demand might exert pressure over the inflation, with the economy back on growth track. Price increases in the services group that have been following a flat course since 2001 run the risk of getting accelerated, once domestic demand is revived.

13. Lastly, considering the likelihood of a poor harvest in agricultural products in 2003 compared to 2002 due to seasonal effects, agricultural and food prices are not expected to affect the 2003 inflation positively as it was the case in 2002.

14. An important progress was achieved in lowering inflation in 2002. However, the current inflation level is well above the international standards. It should be kept in mind that the major precondition of achieving a sustainable growth rate, and a more equitable income distribution is the strict adherence to the disinflation efforts. Despite the above-mentioned risks, it is possible to repeat the previous year's success in fighting against inflation in 2003. In this context, in order to reach the 2003 inflation target it is vital to preserve the fiscal and monetary discipline, to formulate incomes policy in line with the inflation target and continue strictly with structural reforms.

**Figure 5: Inflation Expectations**



Source: CBRT Expectations Survey

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