

MARCH INFLATION AND OUTLOOK

I. GENERAL EVALUATION

1. In March 2003, WPI and CPI prices increased by 3.2 percent and 3.1 percent, respectively. Monthly increases, which were rather high compared with the figures of March 2002 (1.9 percent in WPI and 1.2 percent in CPI), have led to a rise in annual WPI and CPI inflation. Annual WPI became 35.2 percent while CPI recorded 29.4 percent. Meanwhile, seasonally adjusted WPI and CPI were 3.0 and 3.1, respectively.

2. The cost-push effects of the rapid appreciation in exchange rates in January and rise in crude oil prices and food prices were the main factors underlying the rise in inflation in February. In March, the cost-push effect diminished while adverse developments in food prices continued. The mild increase in manufacturing sector prices also supports this observation.

3. Price increases both in WPI and CPI stemmed mainly from agricultural and food prices and rate of increase in WPI excluding agriculture became 1.8 percent while rate of increase in CPI excluding food became 1.5 percent. While the general increases in WPI and CPI are rather high compared with the figures of March 2002, it is observed that WPI excluding agriculture has only inched up by a 0.2 percent and CPI excluding food has decreased by 0.3 percent compared with the same period last year. (Table 1).

Table 1: General CPI, WPI and Sub-items

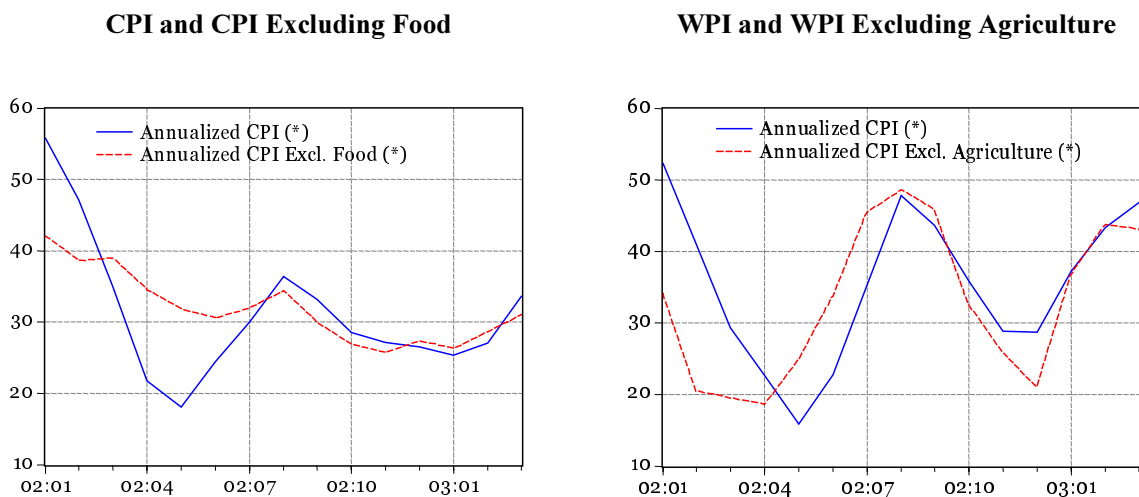
	Annual % Change		Monthly % Change			
	2002 March	2003 March	2003 January	2003 February	2002 March	2003 March
CPI	65,1	29,4	2,6	2,3	1,2	3,1
Goods	77,1	29,3	2,3	2,5	0,7	3,3
Services	45,3	29,6	3,1	1,8	2,2	2,7
Excl. Food	60,2	29,7	2,5	1,5	1,8	1,5
Food	81,8	28,5	3,0	4,8	-0,6	8,2
WPI	77,5	35,2	5,6	3,1	1,9	3,2
Public	81,2	42,7	7,3	3,8	2,0	1,9
Private	76,2	32,4	4,9	2,9	1,8	3,7
Public Manufacturing	83,0	47,6	8,5	4,1	2,7	1,8
Private Manufacturing	75,5	30,9	3,6	1,5	1,3	1,6
Agriculture	77,5	33,9	7,7	5,6	2,6	7,8
Excl. Agriculture	77,5	35,6	5,0	2,4	1,6	1,8
Excl. Agriculture and Energy	76,9	36,8	5,2	2,5	1,7	1,8

Source: CBRT, SIS

4. The seasonally adjusted monthly average inflation for the last three months was 3.3 percent and 2.4 percent in WPI and CPI, respectively. The annual figures for the referred average inflation corresponds to 46.8 percent in WPI and 33.6 percent in CPI. Seasonally adjusted monthly WPI inflation excluding agriculture reached 3.0 percent while that of CPI excluding food reached 2.3 percent. In annual terms, annual CPI inflation excluding agriculture reached 43.1 and CPI excluding food recorded 31 percent. The annual inflation

calculated accordingly decreased slightly in WPI while CPI inched up compared with the previous month (Figure 1).

Figure 1: Annual Percentage Change and Quarterly Moving Averages



(*) Quarterly Moving Averages (Annualized, Seasonally Adjusted)

Source: CBRT, SIS

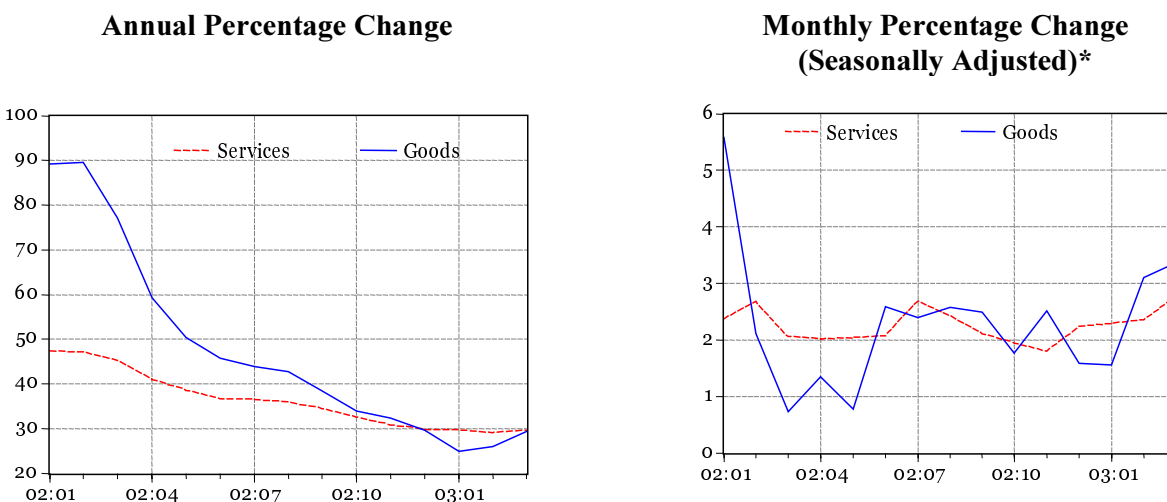
Developments in Consumer Prices

5. The unexpectedly high increase in food prices in March pushed CPI inflation beyond expectations. Food-beverage and tobacco prices made a contribution of 2.1 percent to the overall CPI inflation of 3.1. The increase in CPI food prices may have been affected by the rise in agricultural prices.

6. Influenced by the rise in food prices, prices of goods increased by 3.3 percent in March 2003. Meanwhile, prices of goods excluding food decreased by 0.6 percent compared with the previous month and remained at 0.7 percent. The 2.7 percent increase in the prices of services, mainly stemmed from the price adjustments made in health, transportation and communication sectors. An analysis of the seasonally adjusted price increases reveals that overall increases in the prices of goods and services were 3.4 and 2.8 percent, respectively. As of March, annual inflation reached 29.3 in prices of goods and 29.6 percent in prices of services (Figure 2).

7. While price increases in all sectors in CPI except for the food group remained relatively low, prices in health, transportation and prices of various goods and services recorded comparably high rates of increase. This development is mainly due to the price adjustments made in transportation, health and communication services.

Figure 2: Prices of Goods and Services

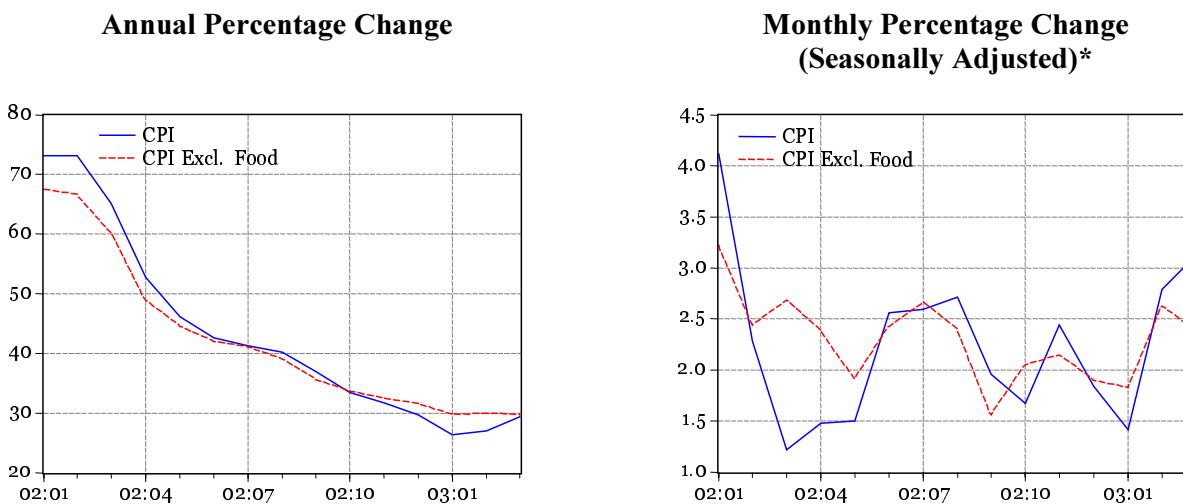


Source: CBRT, SIS.

* TRAMO/SEATS Method has been used for deseasonalization.

8. The seasonally adjusted CPI increase of 3.1 percent in March 2003 became the second highest level after January 2002. The seasonally adjusted increase of 6.2 percent in food prices was the main reason for this development.

Figure 3: CPI and CPI Excluding Food



Source: CBRT, SIS.

* TRAMO/SEATS Method has been used for deseasonalization

Developments in Wholesale Prices

9. Monthly WPI inflation increased by 0.1 percent compared with the figures of February and reached 3.2 percent in March. Seasonally adjusted WPI inflation also inched up by 0.1 percent and reached 3.0 percent. While manufacturing sector prices made a contribution of 1.3 percent to the 3.0 percent overall WPI inflation in March, that of agriculture was 1.8,

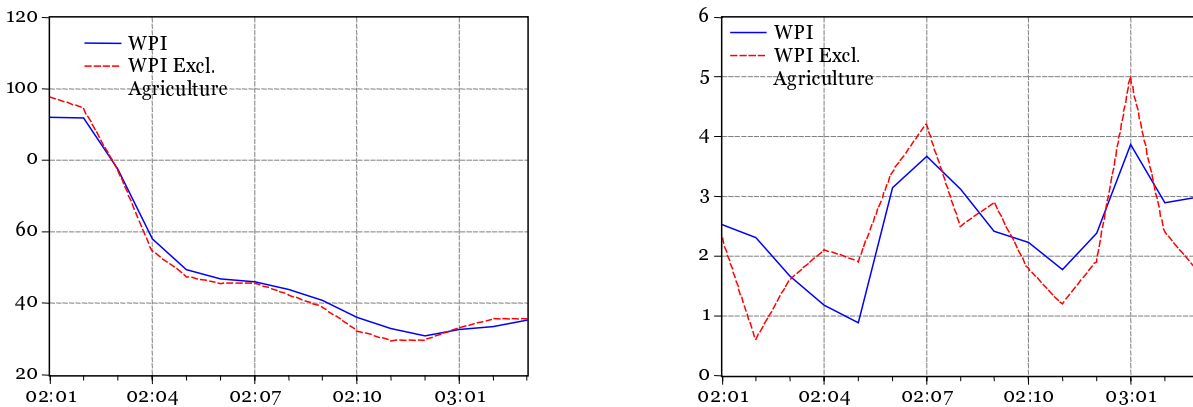
which indicates that agricultural prices became the main determinant of WPI inflation in March.

10. In March, rate of increase in agricultural prices, which was 7.8 percent, was quite over the 5.6 percent increase recorded in February. The high rate of increase in agricultural prices can be attributed to the flood in greenhouses in Antalya and unfavorable weather conditions throughout winter. A similar course is observed in seasonally adjusted data as well: the seasonally adjusted agricultural price increases were up to 4.2 percent in March from 1.8 percent in February. Whereas, when agricultural sector is excluded, it is observed that monthly WPI has been declining since January.

11. The public manufacturing sector prices, which accelerated in January due to rise in petroleum products manufacturing sector fueled by public price adjustments and developments in international crude oil prices, started to decelerate as of February. The rate of increase in public manufacturing sector prices, which realized at 1.8 percent in March, was rather low compared with the figures of the same period last year; and in annual basis, rate of increase in public manufacturing sector prices slipped down to 47.6 percent.

12. The rate of increase in private manufacturing sector prices remained below the expected level of 1.6 percent. When annual rates are analyzed, it is observed that rate of increase in private manufacturing sector prices, which was 30.5 percent in February climbed to 30.9 percent due to the base effect.

Figure 4: WPI and WPI Excluding Agriculture
Annual Percentage Change **Monthly Percentage Change**
(Seasonally Adjusted)*



Source: CBRT; SIS.
 * TRAMO/SEATS Method has been used in deseasonalization.

13. Energy prices sustained the slow pace of increase in March as well and remained at 0.6 percent. Annual increase in prices of water and natural gas were 32.9 percent and 13.9 percent, respectively.

III. OUTLOOK

14. The cost-push effect of crude oil prices and rapid appreciation of exchange rates in January as well as the rise in food prices became the main driving factors of February inflation. In March, cost-push pressure eased in the face of the persisting adverse effects of food prices developments. Indeed, the low rates of increase in private manufacturing sector prices supports this observation.

15. The private consumption expenditures increased by 4.2 percent in the last quarter of 2002 while the overall increase was 2.0 for the entire year. However, drop of 11.3 percent in the private consumption expenditures in the last quarter of 2001 and of 9.4 percent throughout 2001 indicate to sluggish domestic demand. As a matter of fact, in the first two months of 2003, a significant deterioration was observed in the Real Sector Confidence Index and Business Sentiment derived from the answers compiled under the CBRT Business Tendency Survey. The probability of persistence of the uncertainties regarding the course of economy and adverse developments in the labor market in 2003 show that increase in private consumption expenditures will be limited in the first half of 2003.

16. Within the framework of the tight fiscal policy for 2003, an additional measure of 4.9 percent of GNP has been specified with the aim of achieving a primary surplus of 6.5 percent of GNP. Therefore, it is estimated that public consumption expenditures would slightly increase and public investments would decrease in real terms. Meanwhile, it is anticipated that introduction of new taxes, increase in contribution to health expenses and tight control over the increase in wages-salaries with the aim of achieving the primary surplus objective, would curtail the probability of a domestic demand-pull inflationary pressure in 2003.

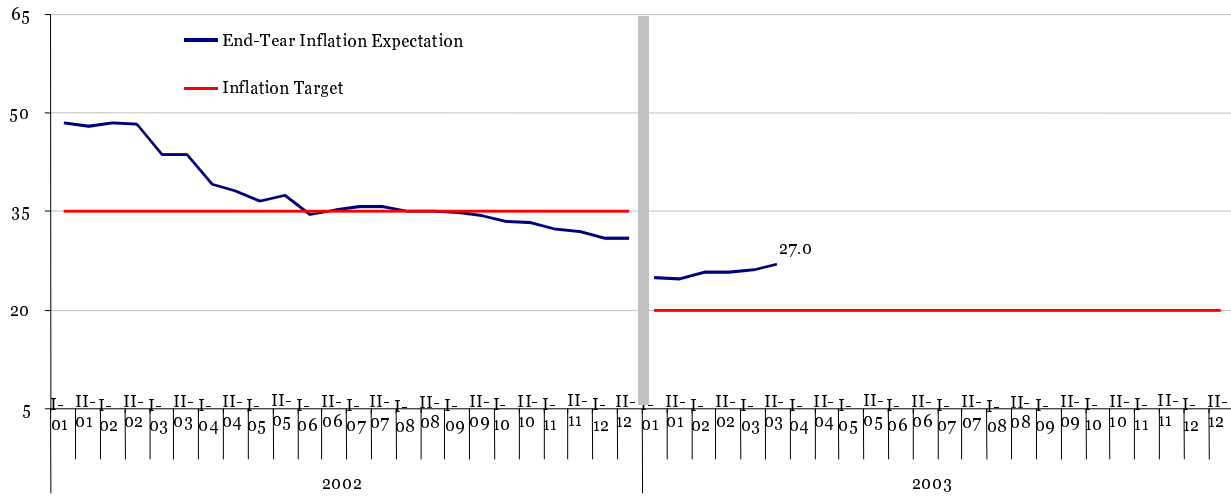
17. In light of the above-mentioned developments, as no significant increase is observed in manufacturing costs and there is no demand-pull pressure, the high rate of inflation in March can be mainly attributed to food and agricultural prices. Within this framework, it would not be too early to assert that inflation has run into a permanent upward trend. In Fact, a downward trend is observed in all sectors except for the food sector compared to the same period last year. Taking into account the fact that inflation was at historically low levels in March 2002, it is evident that there is no bounce-back in inflation.

18. The most important factor for the manufacturing cost developments in the forthcoming period will be the duration of the war in Iraq. Another main factor will be the probability of high rates of increase in agricultural prices. Meanwhile, as inflation rate in April last year was very low, annual inflation figures in the forthcoming period will probably see slight increases due to the base effect. However, the main period that will be critical for the 2003 inflation target will be the June-September period, during which seasonally adjusted inflation rose in 2002. It is projected that the annual inflation rates would start a significant slow-down as of this period provided the program is implemented consistently.

19. A close look into the analysis of the first three months reveals that the rise in inflation is mainly due to exogenous factors such as increase in food and oil prices. Under the given conditions, with the anticipation that domestic demand would remain limited, exchange rates would not appreciate rapidly and there would be no price adjustments other than specified within the framework of the program, it is projected that increase in annual CPI excluding food would follow a course consistent with the inflation target. At this very point, it is clear that consistent and determined implementation of economy policies with the aim of preserving what has been achieved in disinflation process so far; and fostering confidence in order to improve the expectations should stay on top of the agenda.

Figure 5: Inflation Expectations According to CBRT Survey of Expectations

End-Year Inflation Expectations and Inflation Target: 2002-2003



Inflation Expectations for the Next 12 Months

