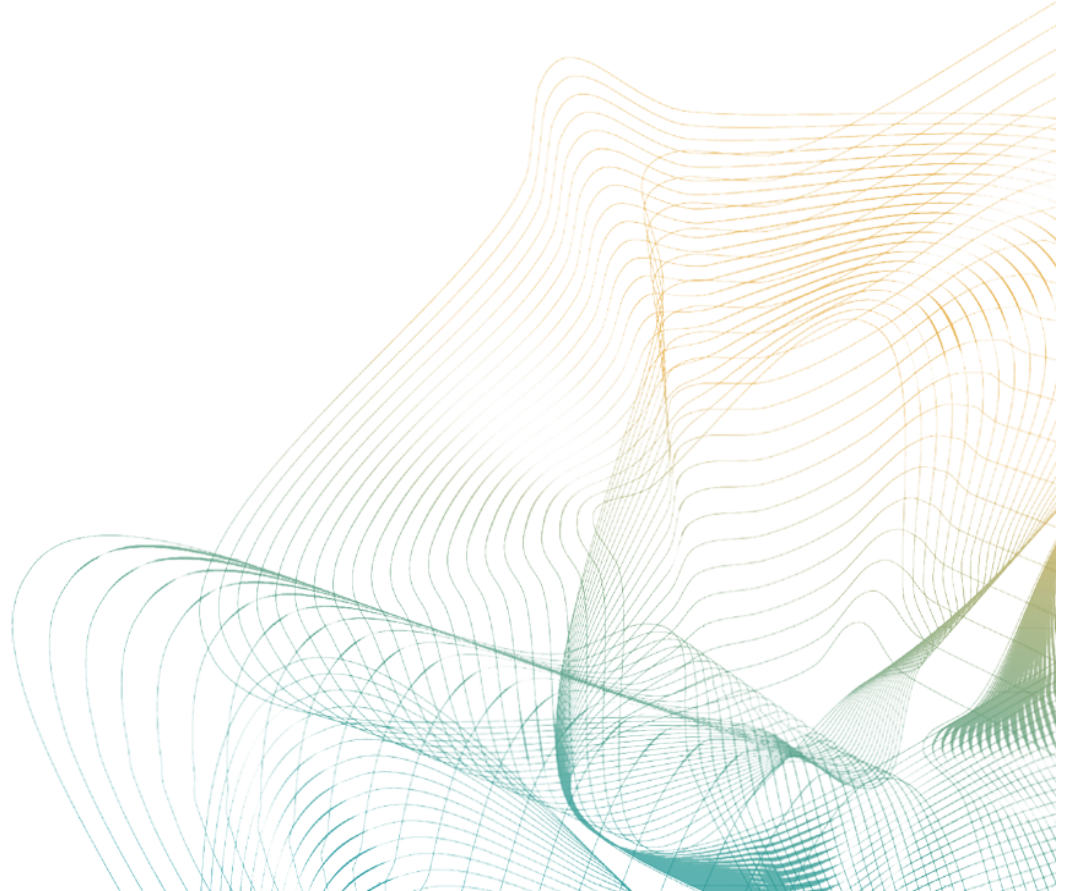




September Price Developments

4 October 2019



Summary

In September, consumer prices rose by 0.99% and annual inflation decreased by 5.75 points to 9.26%. Due to the strong base effect from the previous year, annual inflation fell significantly across all subgroups. The decline in inflation was mainly driven by core goods and food subgroups. In this period, the favorable outlook in food inflation continued. Despite the decline in annual inflation in the energy group, prices in this group posted a high increase month-on-month. The decline in annual inflation was underpinned by the stability in the Turkish lira, improvement in inflation expectations and the course of domestic demand. In this framework, the underlying trend of the B and C indices remained moderate.

Price Developments are published within one working day following the announcement of price statistics by the Turkish Statistical Institute (TurkStat). Price Developments, which include CBRT's initial remarks on the inflation figures of the previous month, aim to contribute to a sounder interpretation of the monthly inflation developments by the public during the period between the announcement of the official price statistics and the Monetary Policy Committee meeting.

Evaluations

In September, consumer prices rose by 0.99% and annual inflation decreased by 5.75 points to 9.26% (Chart 1). The annual rate of change in the B and C indices decreased by 6.15 and 6.06 points to 8.90% and 7.54%, respectively (Chart 2).

An analysis of the contribution of subcategories to annual consumer inflation indicates that the contribution of core goods, food, services, energy and alcohol-tobacco-gold group decreased month-on-month by 2.87, 1.79, 0.57, 0.41 and 0.11 points respectively.

Chart 1: CPI and D (Annual % Change)

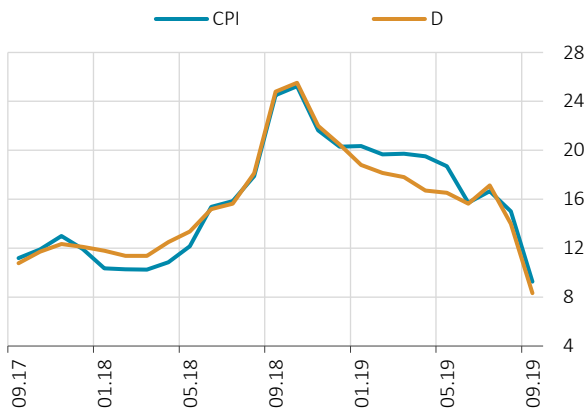
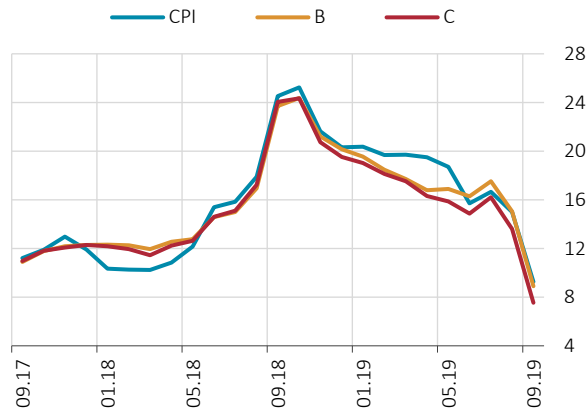


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators suggest that the downtrend in the underlying trend of the B index continued (Chart 3). Despite the limited rise in the core goods group, services and processed food groups became a determining factor in this downtrend. (Chart 4).

Chart 3: Index B (Seasonally adjusted, Annualized 3-Month Average % Change)

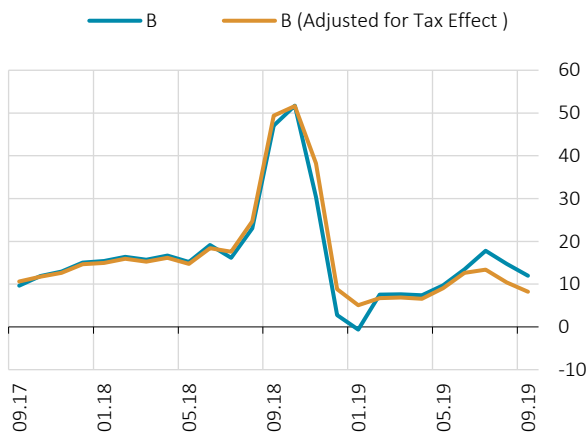
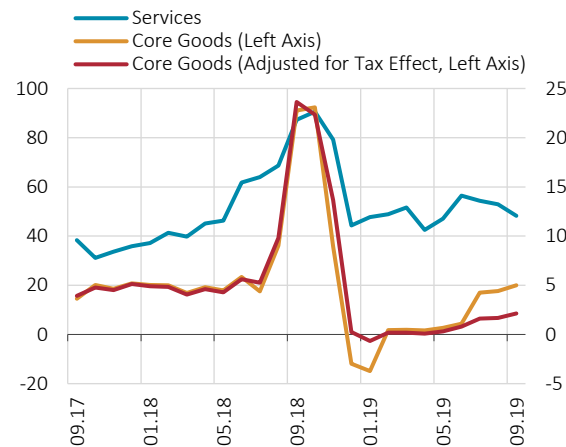


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In September, services prices increased by 1.47% and annual services inflation decreased by 1.65 points to 12.54% (Chart 5 and Table 1). By subcategories, annual inflation increased in the transport group while it dropped in the restaurants-hotels and other services groups due to high base effect from last year (Chart 6). There has been no significant change in the annual inflation in communication and rents. The rise in the annual inflation in transport group was driven by the increase in in-city transportation prices (municipal bus, taxi, train etc.)

Chart 5. Core Goods and Services (Annual % Change)

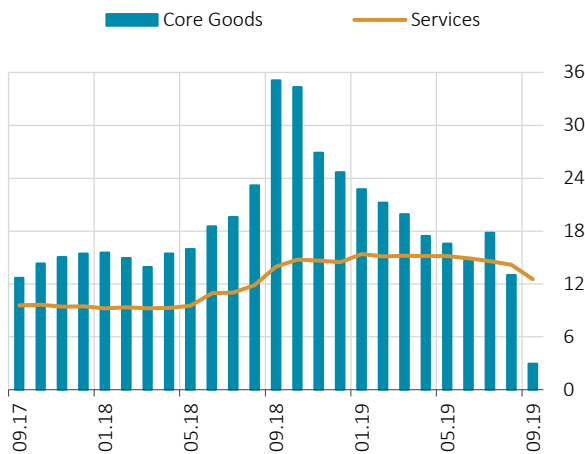
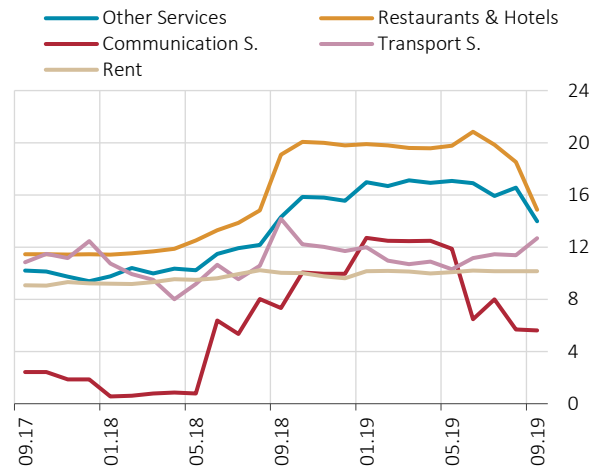


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 10.04 points to 2.98% mostly due to the base effect (Chart 5). Annual inflation in all subgroups decreased, more significantly in durable and other core goods groups (Chart 7). Despite the rise in white goods prices (2.63%), durable goods prices posted a limited decrease on the back of the decline in automobile prices (0.81%). After a limited decline in August, other core goods group prices increased by 0.86% in September. To sum up, the annual core goods inflation significantly decreased on the back of the base effect, as well as the favorable outlook of the Turkish lira and the moderate trend in domestic demand.

Chart 7. Core Goods (Annual % Change)

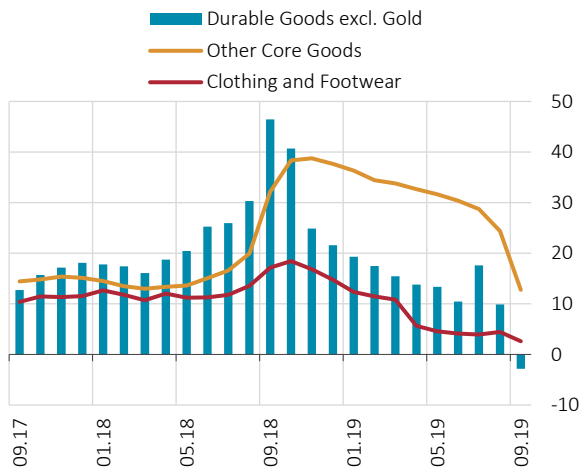
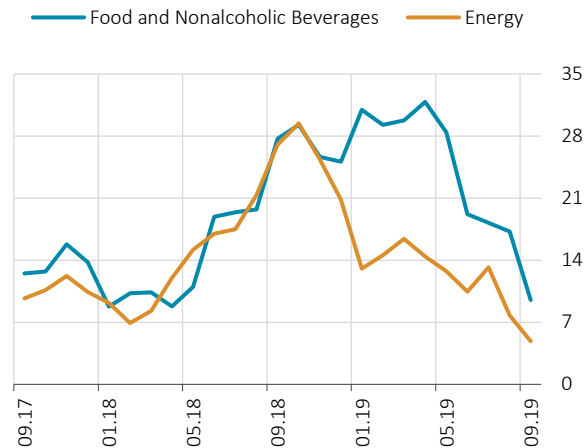


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



In September, energy prices increased by 3.17%. Nevertheless, annual energy inflation decreased to 4.86% due to the base effect (Chart 8 and Table 1). In this period, natural gas prices increased by 13.92%, while fuel prices went up by 2.80% due to developments in exchange rates and oil prices. The sliding scale system prevented a more negative outlook in fuel prices. The uptrend observed in energy prices on a monthly basis will likely to continue in October due to the price adjustments in electricity prices.

In September, annual inflation in food were up by non-alcoholic beverages decreased by 7.70 points to 9.52% (Chart 8 and Table 2). In addition to the high base effect from last year, prices in both unprocessed and processed food groups displayed a favorable trend, and thus annual inflation decreased to 3.04% in unprocessed food and to 15.69% in processed food (Chart 9). In this period, annual inflation in the fresh

fruits and vegetables group posted a favorable outlook by decreasing to -5.29% (Chart 10). In the other unprocessed food group, the on-going fall in the prices of potatoes and white meat came to the fore. In September, processed food prices increased by a moderate rate of 0.65%. Even if this favorable outlook prevailed across all subgroups, the high increase in tea prices (9.48%) was noteworthy. All in all, annual food inflation excluding fresh fruits and vegetables decreased to 12.74% (Chart 10).

In September, alcohol-tobacco group prices increased by 1.79% and annual inflation in this group reached 43.86%. This rise was mainly driven by the lagged effect of the price increment in tobacco products in August.

Chart 9. Processed and Unprocessed Food (Annual % Change)

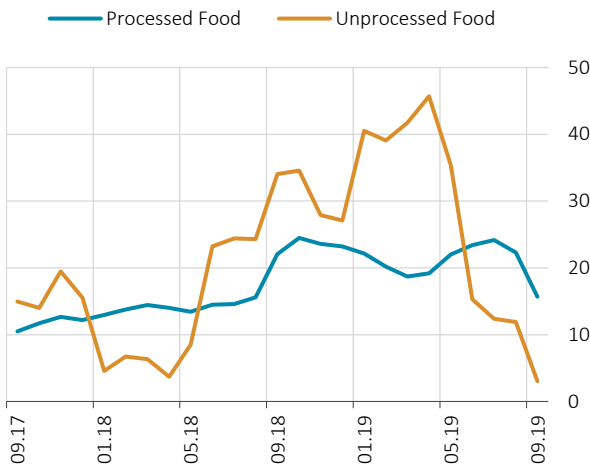
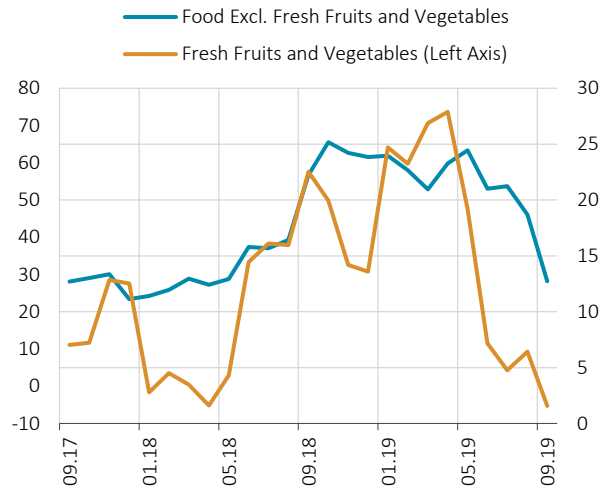


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In September, domestic producer prices increased by 0.13%, and annual inflation decreased by 11.0 points to 2.45% due to the base effect (Chart 11, Table 3). In this period, the downtrend in the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals continued (Chart 12).

Chart 11. D-PPI and Manufacturing (Annual % Change)

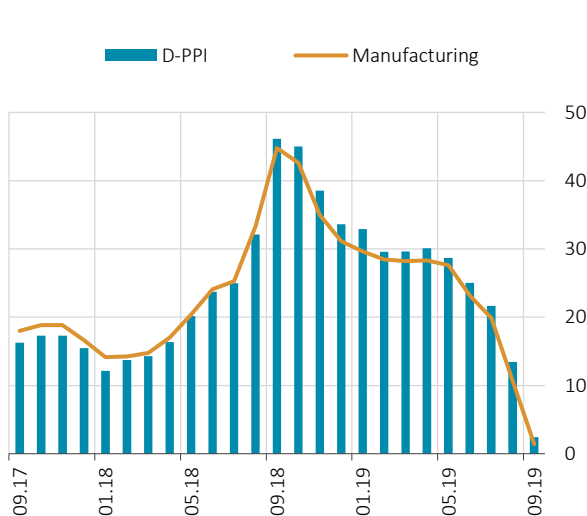
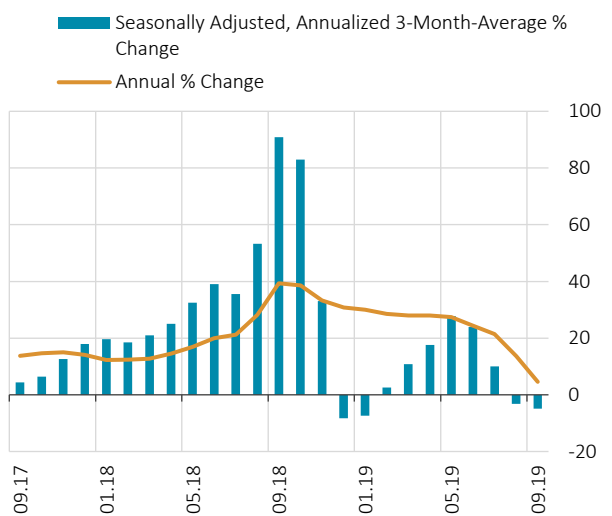


Chart 12. Manufacturing Excluding Petroleum and Base Metals



An analysis by main industrial groupings reveals that prices decreased in non-durable consumption goods and intermediate goods groups, increased significantly in the energy group, and displayed a moderate rise in other groups (Table 3, Chart 13 and Chart 14). The fall in non-durable consumption goods prices was mainly driven by meat and meat products, while the monthly fall in intermediate goods was led by iron-steel products. The rise in energy group prices was mainly determined by gas production and petroleum products. In this period, prices of capital goods increased on the back of the rise in motor vehicles, other special-purpose machines and medical equipment. Meanwhile, prices of durable consumption goods increased due to household appliances and jewelry. To sum up, the cost pressures on consumer prices stemming from producer prices significantly decreased in this period.

Chart 13. Intermediate and Capital Goods (Annual % Change)

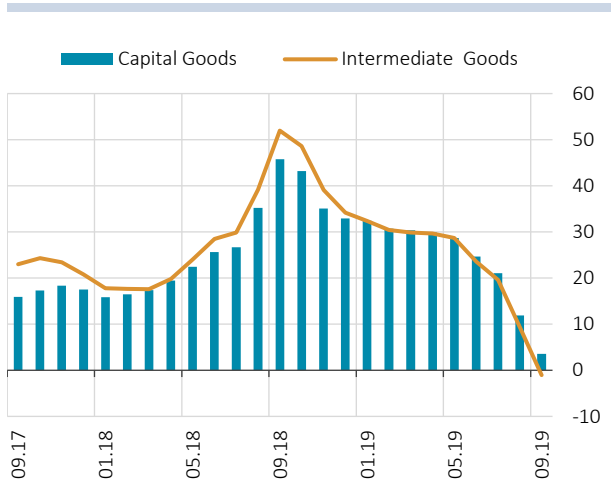
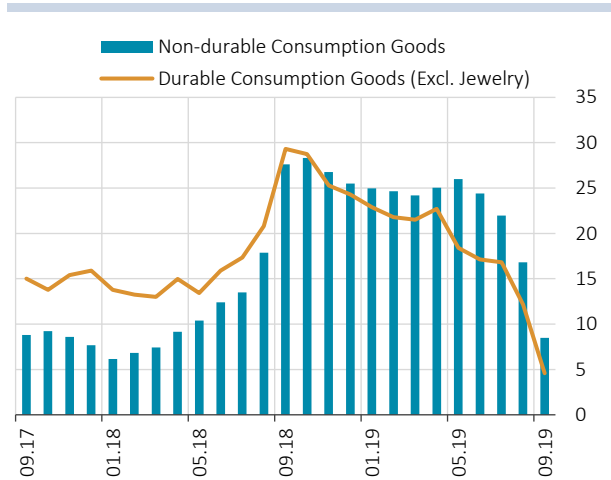


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	September 2019	September 2018	September 2019	September 2018
CPI	0.99	6.30	9.26	24.52
1. Goods	0.80	7.62	7.99	29.10
Energy	3.17	6.05	4.86	27.03
Food and non-alcoholic beverages	-0.60	6.40	9.52	27.70
Unprocessed food	-2.03	6.38	3.04	34.04
Fresh fruits and vegetables	-1.76	13.34	-5.29	57.62
Other unprocessed food	-2.17	2.47	7.86	22.48
Processed food	0.65	6.42	15.69	22.05
Bread and cereals	0.37	6.21	17.24	20.22
Other processed food	0.80	6.53	14.87	23.06
Goods excluding energy and food	0.90	9.04	8.07	30.82
Core goods	0.66	10.48	2.98	35.12
Durable goods (excluding gold)	-0.11	12.93	-2.82	46.45
Clothing and footwear (*)	2.14	3.99	2.60	17.15
Other core goods	0.86	11.22	12.76	32.17
Alcoholic beverages and tobacco	1.79	0.07	43.86	1.88
Gold	2.28	9.25	11.11	64.96
2. Services	1.47	2.96	12.54	13.97
Rents	0.90	0.90	10.15	10.03
Restaurants and hotels	1.54	4.77	14.87	19.09
Transport	6.57	5.35	12.67	14.17
Communication	-0.09	0.00	5.61	7.34
Other	0.40	2.67	13.99	14.30
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.99	6.70	8.90	23.71
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.06	6.76	7.54	24.05
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.33	6.64	8.32	24.79
F – CPI excluding administered prices	0.44	6.99	6.93	27.15

Source: TurkStat.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	September 2019		September 2018	
		Monthly	Annual	Monthly	Annual
CPI	100	0.99	9.26	6.30	24.52
Food and non-alcoholic beverages	23.29	-0.60	9.52	6.40	27.70
Alcoholic beverages and tobacco	4.23	1.79	43.86	0.07	1.88
Clothing and footwear	7.24	2.13	2.85	3.97	17.16
Housing	15.16	2.15	10.34	5.56	21.84
Household equipment	8.33	0.77	8.66	11.41	37.28
Health	2.58	0.51	15.41	2.30	14.67
Transport	16.78	1.61	-0.66	9.15	36.61
Communication	3.69	-0.07	2.37	1.11	8.26
Recreation and culture	3.29	-0.53	7.36	6.62	19.39
Education	2.40	0.81	14.00	3.98	10.67
Restaurants and hotels	7.86	1.54	14.87	4.77	19.09
Miscellaneous goods and services	5.15	2.09	14.98	7.42	30.61

Source: TurkStat.

Table 3. D-PPI and Subcategories (% Change)

	Weight	September 2019		September 2018	
		Monthly	Annual	Monthly	Annual
D-PPI	100	0.13	2.45	10.88	46.15
Mining	3.06	-0.86	7.83	5.65	37.20
Manufacturing	89.31	-0.05	1.41	9.00	44.77
Manufacturing excl. petroleum products	86.19	-0.20	2.41	8.99	42.52
Manufacturing excl. petroleum products and base metals	76.71	-0.07	4.58	8.59	39.33
Electricity, gas, steam and air-conditioning sup.	6.52	3.02	14.50	40.21	71.88
Water supply	1.11	0.23	-6.59	0.65	8.64
D-PPI (MIGs Classification)					
Intermediate Goods		-0.17	-1.04	10.26	51.96
Durable Consumption Goods		0.36	4.71	7.61	31.37
Durable Consumption Goods (Excl. Jewelry)		0.21	4.58	7.47	29.32
Non-Durable Consumption Goods		-0.57	8.49	7.08	27.63
Capital Goods		0.36	3.55	8.42	45.78
Energy		2.70	1.54	25.55	78.29

Source: TurkStat.