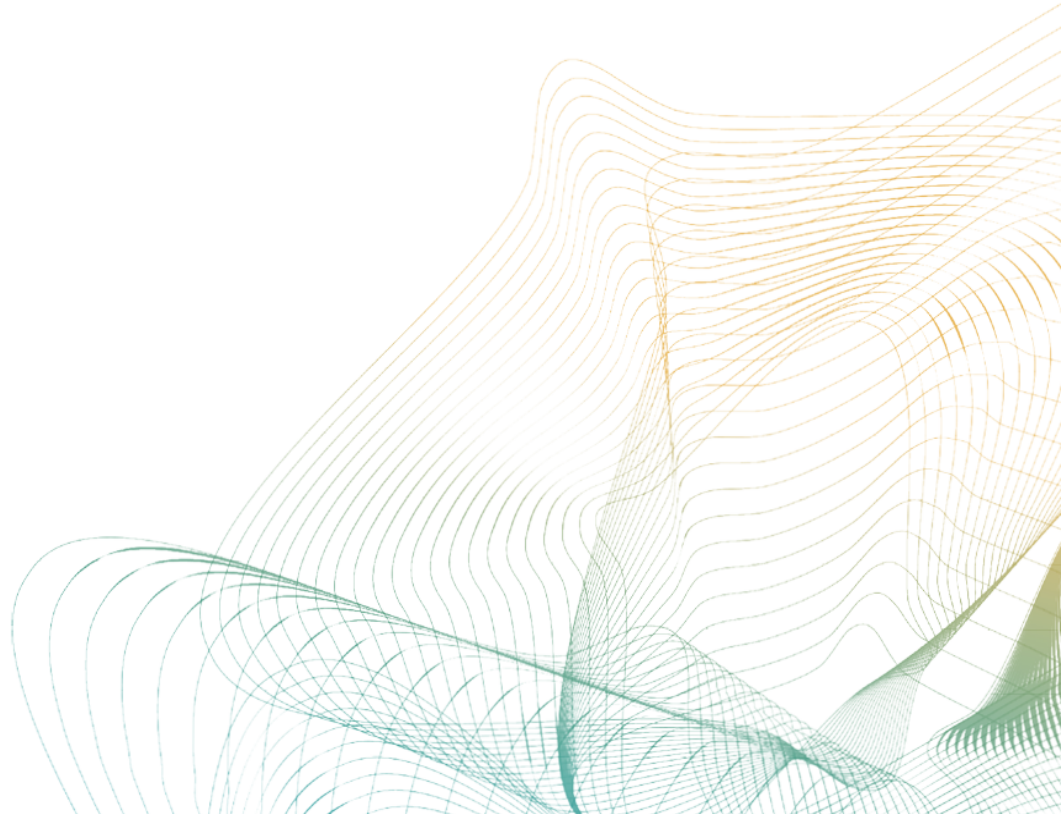




September Price Developments

6 October 2020



Summary

In September, consumer prices rose by 0.97%, and annual inflation remained almost flat at 11.75%. Annual inflation increased in core goods and food groups whereas it declined in energy and services groups. Durable consumption goods stood as the main driver of the hike in core goods inflation while food inflation increased due to both processed and unprocessed food prices. Annual energy inflation dropped on the back of the high base effect from natural gas prices, and services inflation lost pace. Against this background, annual inflation in the B and C indices rose whereas their trends somewhat declined.

Price Developments are published within one working day following the announcement of price statistics by the Turkish Statistical Institute (TurkStat). Price Developments, which include the 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 0.97%, and annual inflation stood at 11.75% (Chart 1). In this period, the annual rate of change in the B and C indices increased by 0.39 and 0.29 points to 11.57% and 11.32%, respectively (Chart 2).

Across subcategories, contributions of core goods and food groups to annual consumer inflation rose month-on-month by 0.43 and 0.28 points, respectively, whereas those of energy, services, and alcohol-tobacco-gold groups dropped by 0.33, 0.26 and 0.14 points, respectively.

Chart 1: CPI and D (Annual % Change)

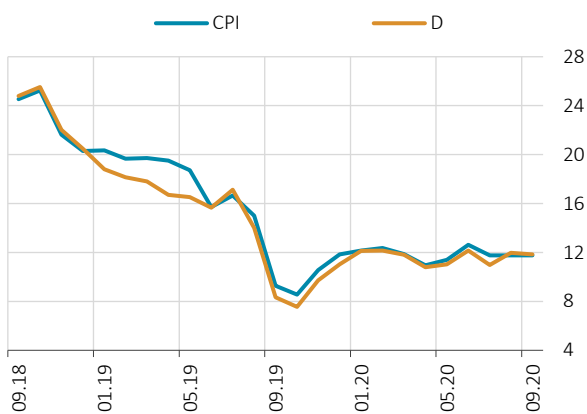
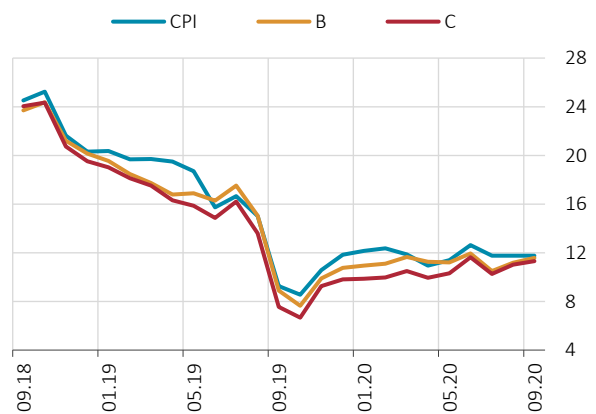


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators suggest a slight decline in the trends of B and C indices (Chart 3). In this period, the inflation trend remained high in the core goods group but decreased in services group (Chart 4).

Chart 3: B and C Indices (Seasonally adjusted, Annualized 3-Month Average % Change)

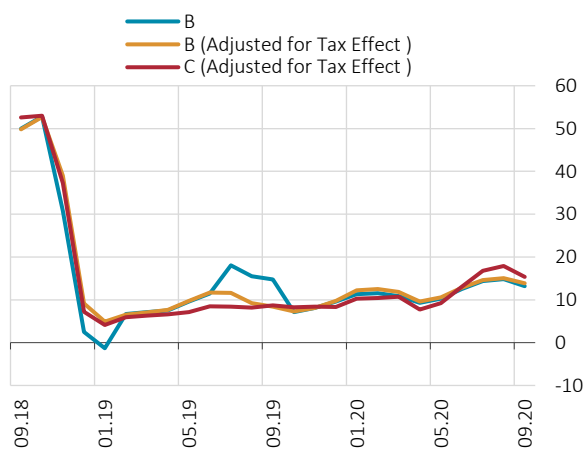
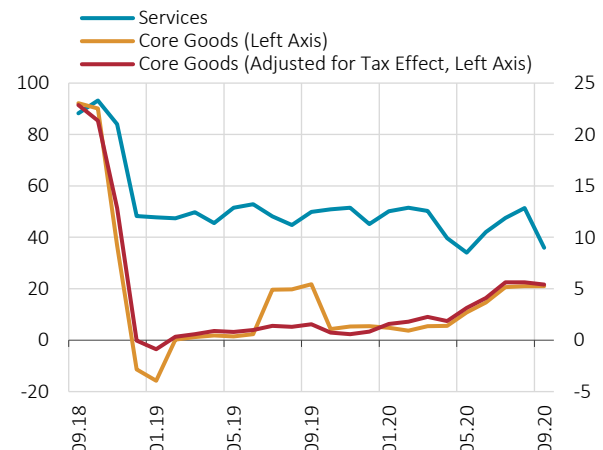


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In September, services prices increased by 0.58% while annual services inflation declined by 0.99 points to 10.84% (Chart 5). Annual inflation decreased in restaurants-hotels, rents, and most visibly in transport services whereas it rose in communication and other services (Chart 6). Annual inflation in transport services significantly decreased due to the base effect while the fall in monthly inflation was mainly triggered by intercity bus fares (-6.31%). In the restaurants-hotels group, prices of catering services were up by 0.83% in this period while the rise in prices of accommodation services remained limited to 0.12%. Across other services, the maintenance and repair of personal transport equipment and dental services,

which are exchange rate-sensitive items, posted price hikes while the VAT cut on educational services had a favorable effect on prices.

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

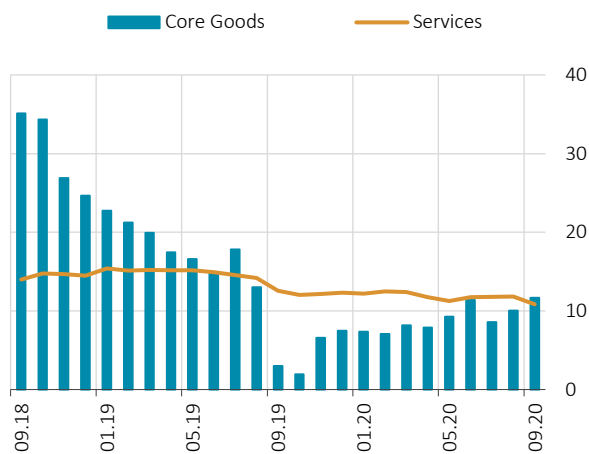
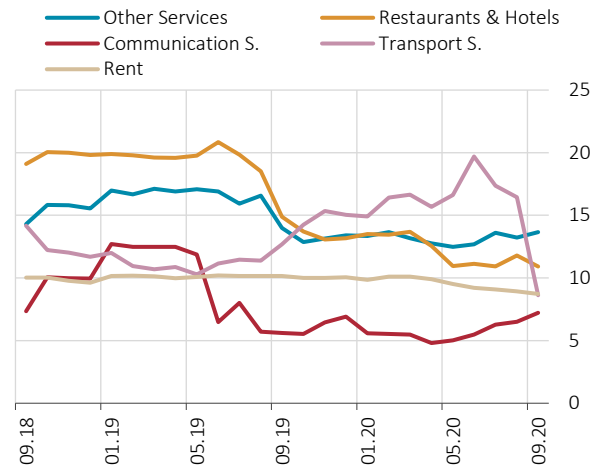


Chart 6. Services (Annual % Change)



Core goods inflation rose by 1.66 points to 11.68% in September (Chart 5). In this period, annual inflation increased in durable goods and other core goods but declined in the clothing and footwear group (Chart 7). Durable goods which was affected by exchange rate developments and demand conditions stood as the main driver of the rise in core goods inflation. Price increases in durable goods excluding gold continued at an accelerated pace across subcategories (3.70% on a monthly basis), led by white goods (7.14%), automobile (4.11%), and furniture (3.30%). Changes introduced to the tax base and SCT are believed to have been effective in the rise in automobile prices. In the clothing and footwear group, prices followed a very weak course compared to seasonal averages and remained almost flat, with annual inflation coming down to 6.79%. In this period, cumulative exchange rate effects pushed up the prices of other core goods by 1.54%.

Chart 7. Core Goods (Annual % Change)

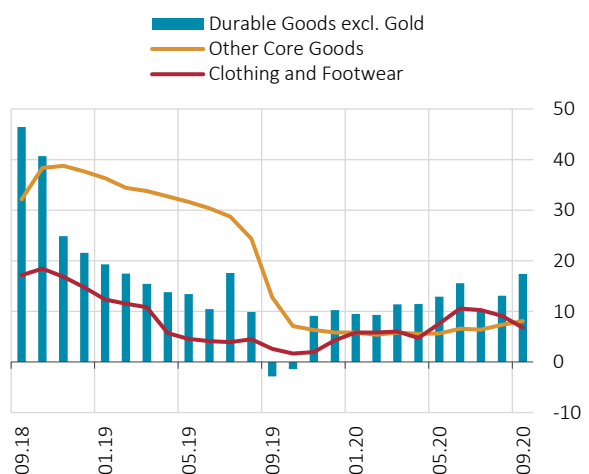
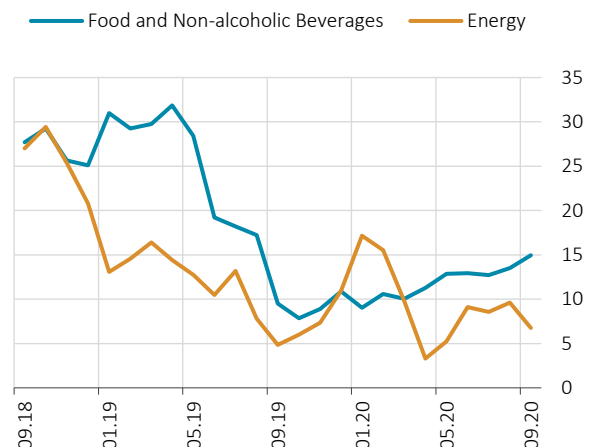


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In September, energy prices increased by 0.50% (Table 1). Price hikes in bottled gas, municipal water and fuel were particularly notable in this period. Annual energy inflation dropped by 2.82 points to 6.77% due to the high base effect from natural gas prices (Chart 8). The price increase to be effective from October in electricity used by households, industrial firms, and businesses is expected to put an upward pressure on energy inflation in the period ahead.

Annual inflation in food and non-alcoholic beverages went up by 1.44 points to 14.95% in September (Chart 8 and Table 2). This was driven mostly by the unprocessed food group whose annual inflation surged by 2.11 points to 17.47%, while annual processed food inflation rose by 0.93 points to 12.79% (Chart 9). In the unprocessed food group, the seasonally-adjusted data point to a limited increase in prices of fresh fruits and vegetables and a flat course in other unprocessed food prices in September. Processed food prices rose by 1.48% in September, with bread and cereals leading the way (1.96%) as was the case in August. In this period, price increases also accelerated in the other processed food group while annual inflation posted a rise led by fats and oils. Against this background, annual inflation in food excluding fresh fruits and vegetables increased slightly to 13.47% (Chart 10).

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

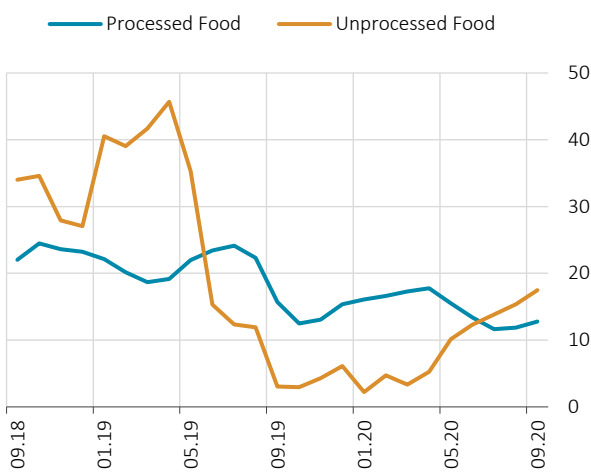
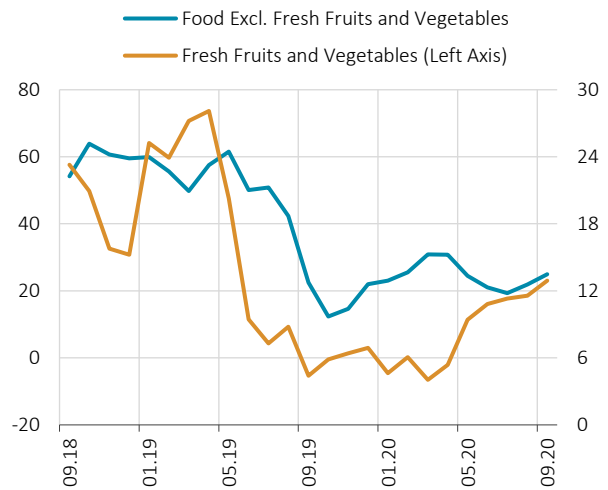


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In September, domestic producer prices rose by 2.65% while annual D-PPI inflation increased by 2.80 points to 14.33% (Chart 11 and Table 3). This rise in producer prices was mainly led by exchange rate developments. In this period, the seasonally adjusted trend of manufacturing industry prices excluding petroleum and base metals increased markedly (Chart 12).

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

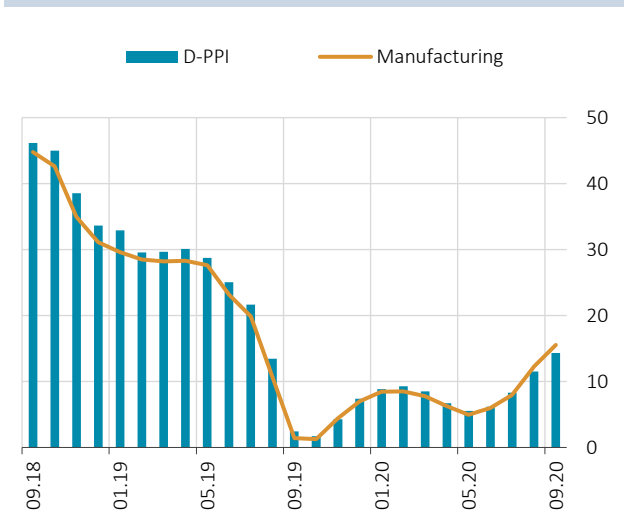
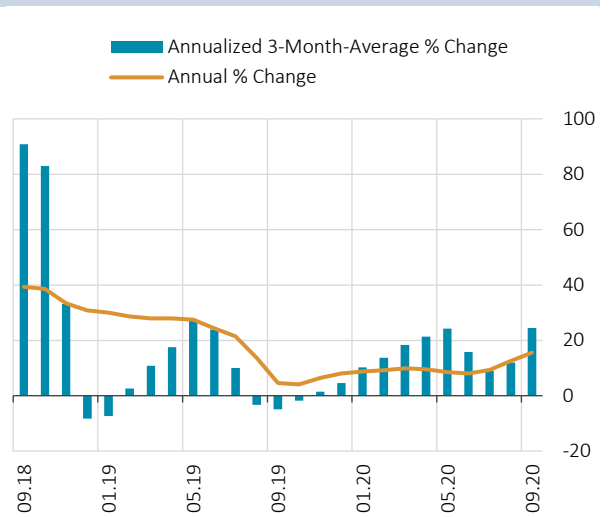


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation decreased in energy but rose in other subcategories (Table 3, Charts 13 and 14). In monthly terms, energy prices remained flat, and prices of electricity generation and distribution, water supply, and crude oil increased whereas prices of refined petroleum products and gas production declined. The rise in prices of intermediate goods was led mainly by iron-steel, plastic products, base chemicals, paper products, and textiles while the rise in prices of capital goods was driven by metal construction products, motor vehicles along with their parts and accessories, and machines. Furniture and consumer electronics pushed the prices of durable consumption goods up while fats and oils stood as the main driver of the price hike in non-durable consumption goods. Due to these developments, the producer prices-driven pressures on consumer prices further strengthened.

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

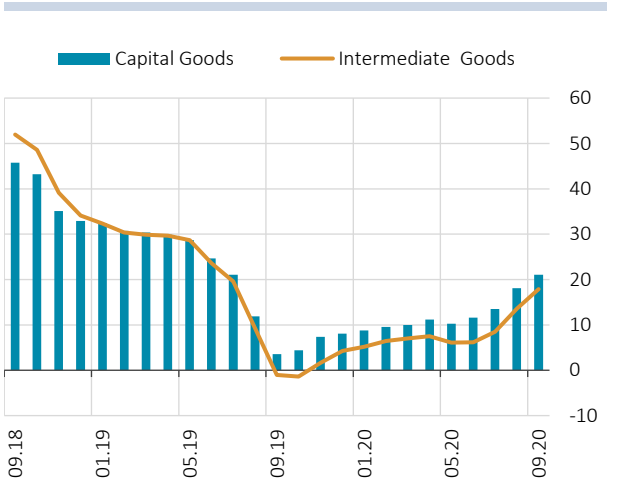
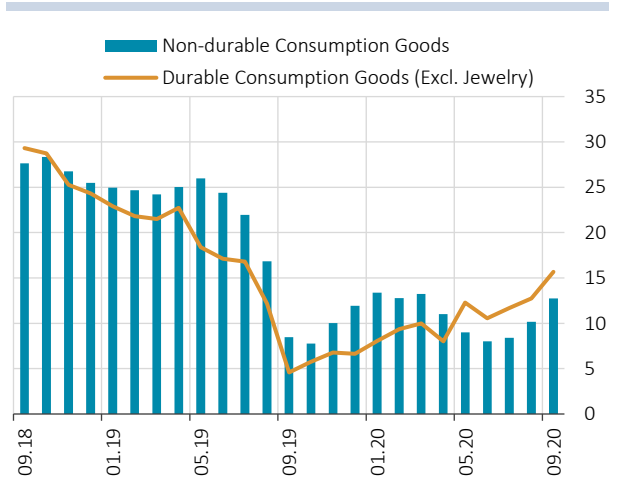


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	September 2020	September 2019	September 2020	September 2019
CPI	0.97	0.99	11.75	9.26
1. Goods	1.15	0.80	12.07	7.99
Energy	0.50	3.17	6.77	4.86
Food and non-alcoholic beverages	0.66	-0.60	14.95	9.52
Unprocessed food	-0.24	-2.03	17.47	3.04
Fresh fruits and vegetables	1.98	-1.76	23.02	-5.29
Other unprocessed food	-1.33	-2.17	14.61	7.86
Processed food	1.48	0.65	12.79	15.69
Bread and cereals	1.96	0.37	15.43	17.24
Other processed food	1.21	0.80	11.37	14.87
Goods excluding energy and food	1.69	0.90	12.05	8.07
Core goods	2.18	0.66	11.68	2.98
Durable goods (excluding gold)	3.70	-0.11	17.38	-2.82
Clothing and footwear (*)	-0.05	2.14	6.79	2.60
Other core goods	1.54	0.86	8.09	12.76
Alcoholic beverages and tobacco	0.04	1.79	0.68	43.86
Gold	-0.04	2.28	60.77	11.11
2. Services	0.58	1.47	10.84	12.54
Rents	0.71	0.90	8.72	10.15
Restaurants and hotels	0.74	1.54	10.92	14.87
Transport	-0.59	6.57	8.62	12.67
Communication	0.59	-0.09	7.21	5.61
Other	0.78	0.40	13.66	13.99
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.35	0.99	11.57	8.90
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.33	1.06	11.32	7.54
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.20	1.33	11.84	8.32
F – CPI excluding administered prices	1.10	0.44	12.81	6.93

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	September 2020		September 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	0.97	11.75	0.99	9.26
Food and non-alcoholic beverages	22.77	0.66	14.95	-0.60	9.52
Alcoholic beverages and tobacco	6.06	0.04	0.68	1.79	43.86
Clothing and footwear	6.96	-0.03	6.91	2.13	2.85
Housing	14.34	0.93	10.00	2.15	10.34
Household equipment	7.77	3.02	11.34	0.77	8.66
Health	2.80	0.87	15.09	0.51	15.41
Transport	15.62	1.84	12.95	1.61	-0.66
Communication	3.80	0.28	6.74	-0.07	2.37
Recreation and culture	3.26	0.88	8.12	-0.53	7.36
Education	2.58	-0.07	7.55	0.81	14.00
Restaurants and hotels	8.67	0.74	10.92	1.54	14.87
Miscellaneous goods and services	5.37	0.63	25.17	2.09	14.98

Source: TURKSTAT.

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

	Weight	September 2020		September 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	2.65	14.33	0.13	2.45
Mining	3.23	2.29	16.87	-0.86	7.83
Manufacturing	89.22	2.83	15.52	-0.05	1.41
Manufacturing excl. petroleum products	85.25	2.98	16.82	-0.20	2.41
Manufacturing excl. petroleum products and base metals	75.47	2.59	15.53	-0.07	4.58
Electricity, gas, steam and air-conditioning sup.	6.61	0.19	-2.62	3.02	14.50
Water supply	0.95	1.96	13.25	0.23	-6.59
D-PPI (MIGs Classification)					
Intermediate Goods		3.63	17.91	-0.17	-1.04
Durable Consumption Goods		2.63	19.72	0.36	4.71
Durable Consumption Goods (Excl. Jewelry)		2.83	15.69	0.21	4.58
Non-Durable Consumption Goods		1.75	12.74	-0.57	8.49
Capital Goods		2.90	21.09	0.36	3.55
Energy		-0.01	-4.23	2.70	1.54

Source: TURKSTAT.