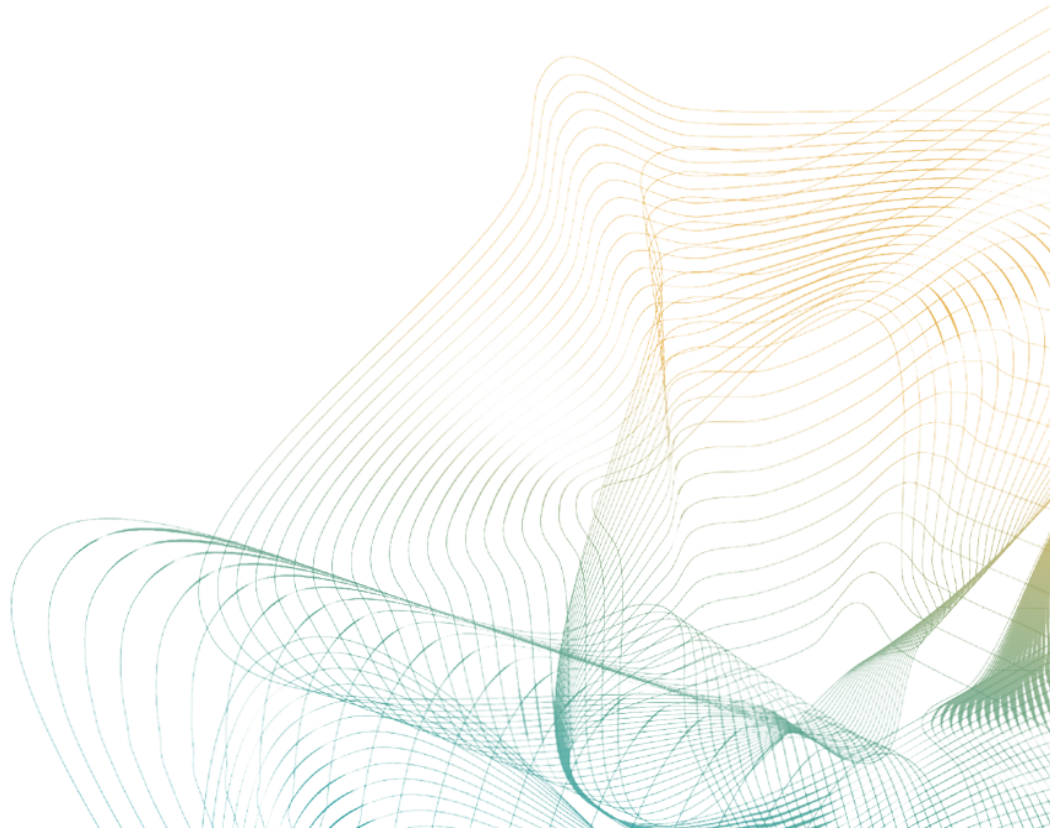




November Price Developments

4 December 2018



Summary

In November, consumer prices dropped by 1.44% and annual inflation decreased by 3.62 points to 21.62%. Annual inflation registered declines across all subcategories. Fresh fruit and vegetable prices stood out as the leading factor in the decrease in food inflation. Energy prices dropped due to the fall in oil prices and the appreciation in the Turkish lira. Annual core goods inflation significantly decreased on the back of the fall in prices of durable goods driven by temporary tax cuts. In this period, services inflation posted a moderate decline. November inflation data reflect the effects of tax cuts, the appreciation in the Turkish lira, and falling oil prices as well as demand-side effects due to weaker economic activity. Against this background, annual inflation and the underlying trend in core indicators both decelerated.

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 November, consumer prices dropped by 1.44% and annual inflation decreased by 3.62 points to 21.62% (Chart 1). The annual rate of change in the B and C indices declined by 3.16 and 3.62 points to 21.21% and 20.72%, respectively (Chart 2).

The contribution of subcategories to annual consumer inflation diminished across all subcategories over the previous month, and the most significant decline was registered in the core goods group with 2.06 points. Meanwhile, the contribution of food, energy, alcohol-tobacco-gold, and services groups dropped by 0.76, 0.50, 0.21 and 0.09 points, respectively.

Chart 1: CPI and D (Annual % Change)

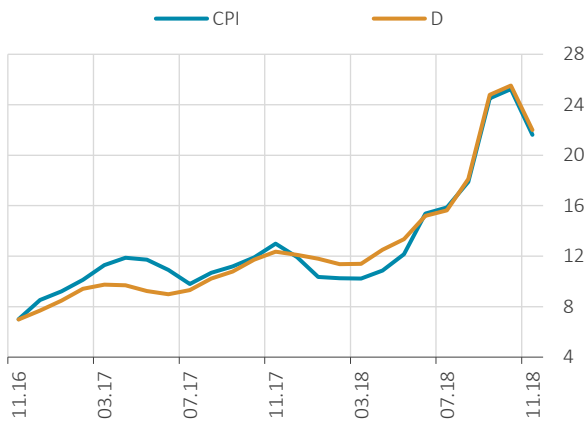
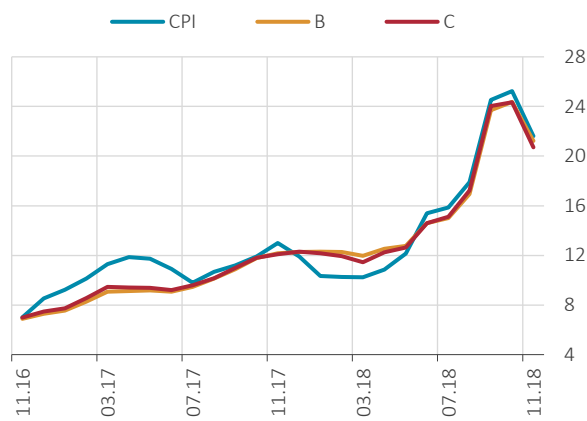


Chart 2: CPI, B and C (Annual % Change)



An analysis of the three-month averages of seasonally-adjusted core inflation indicators reveals a decrease in the underlying trend of inflation (Chart 3). The underlying trend decelerated in core goods and services, with the deceleration in core goods stemming mainly from temporary tax cuts (Chart 4). The deceleration in the underlying trend of inflation persists even when adjusted for the tax effect.

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

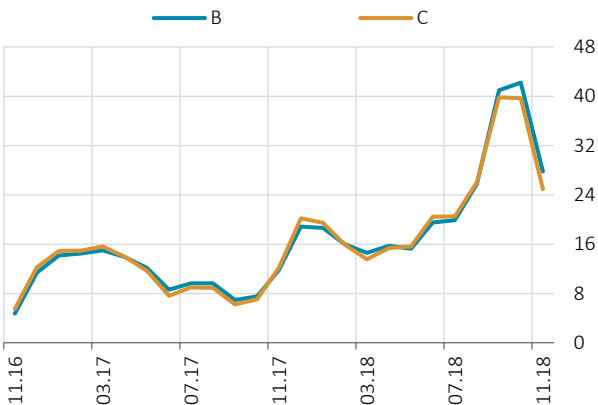
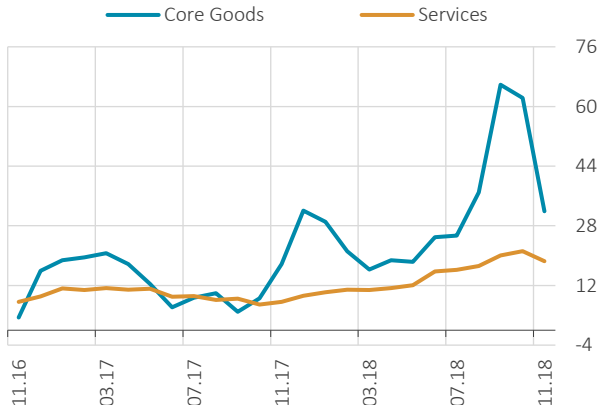


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In November, prices of services remained flat on a monthly basis while the annual services inflation fell by 0.09 points to 14.67% (Chart 5 and Table 1). Annual inflation declined by approximately 0.2 points in rents and transport services whereas the decline in other subcategories was rather limited (Chart 6). The decline in transport services was mostly triggered by prices of air and road passenger transport services

that decreased due to fuel oil prices. The seasonally-adjusted monthly rate of increase in rents was moderate. The uptrend in catering services inflation under the restaurants-hotels group lost pace due the favorable outlook in food prices while the accommodation services inflation also posted a significant decline for the second consecutive month. The fall in prices of package tours was noticeable in the other services group. In sum, the slowdown in the services inflation was driven by partially alleviated cost pressures as well as by weakening domestic demand.

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

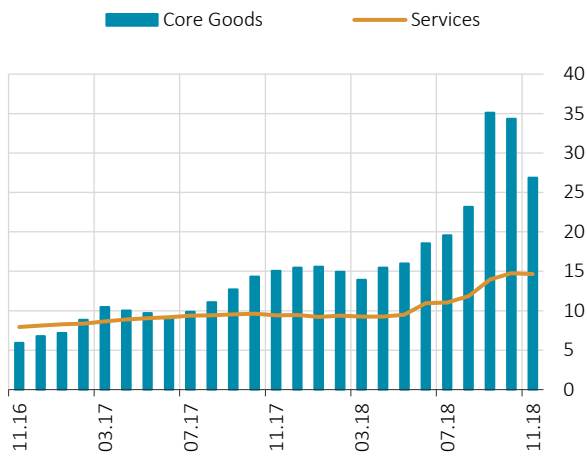
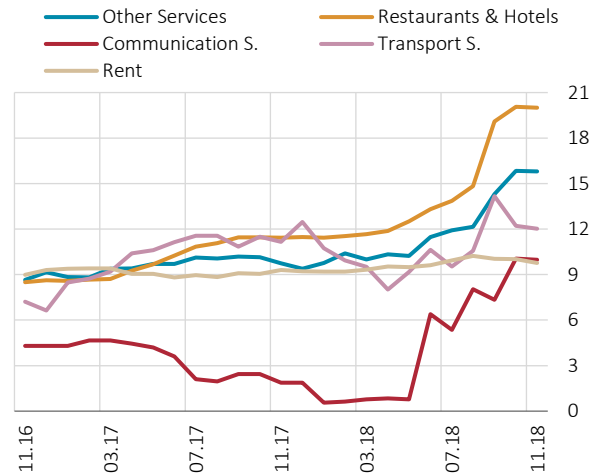


Chart 6. Services (Annual % Change)



Annual core goods inflation fell by 7.46 points in November to 26.89% owing mainly to the prices of durable goods that dropped on the back of temporary tax cuts (Charts 5 and 7). Prices of automobiles, furniture and white goods subject to tax cuts decreased by 13.59, 8.50 and 5.23% in this period. These price changes indicate that tax cuts were largely reflected in prices. Meanwhile, the increase in clothing prices remained significantly below seasonal averages. Cumulative effects of the exchange rate on other core goods persisted, albeit in a weaker manner. In sum, tax cuts were the main determinant of the decline in prices of core goods but the appreciation in the Turkish lira, seasonal discounts and weaker demand also had some impact.

Chart 7. Core Goods (Annual % Change)

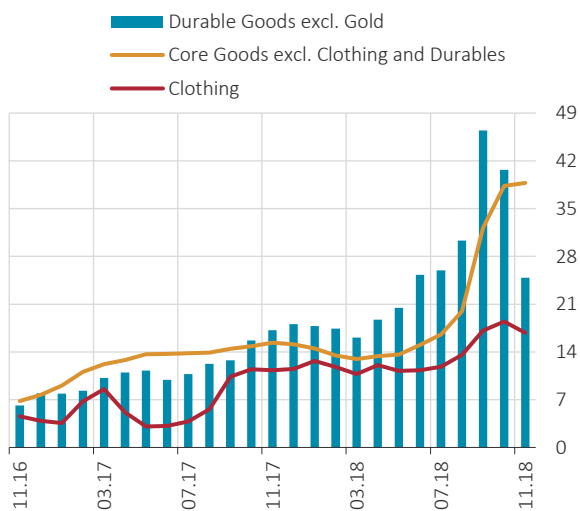
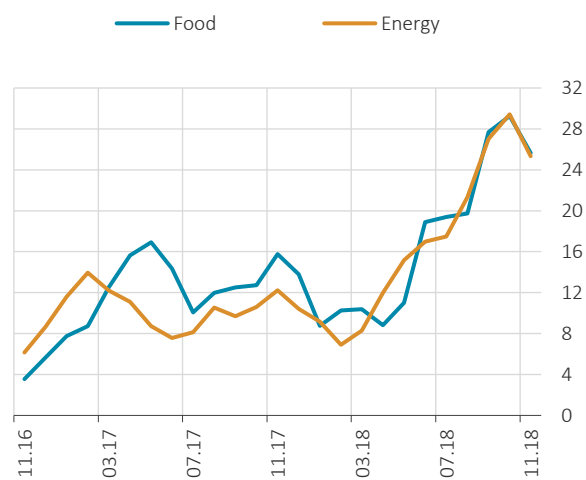


Chart 8. Food and Energy (Annual % Change)



Energy prices were down 0.71% in November (Table 1). Falling international oil prices and the recovering Turkish lira brought fuel prices down by 2.16%. While solid fuel prices were down 0.90%, tap water and natural gas prices increased. Accordingly, annual energy inflation fell by 4.08 points to 25.35% (Chart 8).

Annual inflation in food and nonalcoholic beverages went down by 3.60 points to 25.66% in November (Chart 8). This decline was mostly driven by the fall in unprocessed food prices led by fresh fruits and vegetables. On the other hand, potato and legume prices saw a remarkable rise. In this period, processed food prices inched up by 0.46% whereas annual processed food inflation edged down to 23.60% (Chart 9). In this category, prices of dairy products, tea, and fats and oils were down while prices of bread and cereals, and preserved products remained on the rise, albeit more slowly. Thus, annual food inflation excluding fresh fruits and vegetables inched down to 24.21% in November (Chart 10).

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

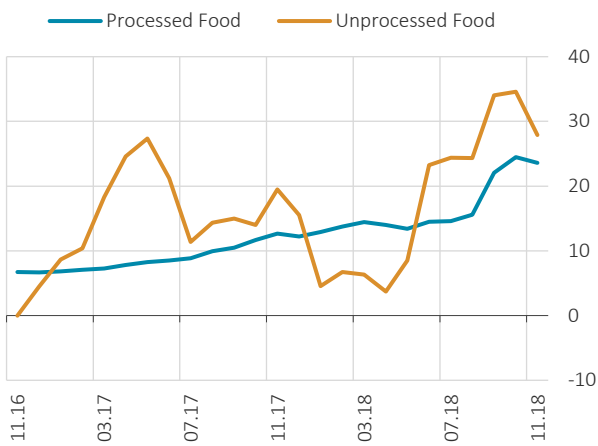


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

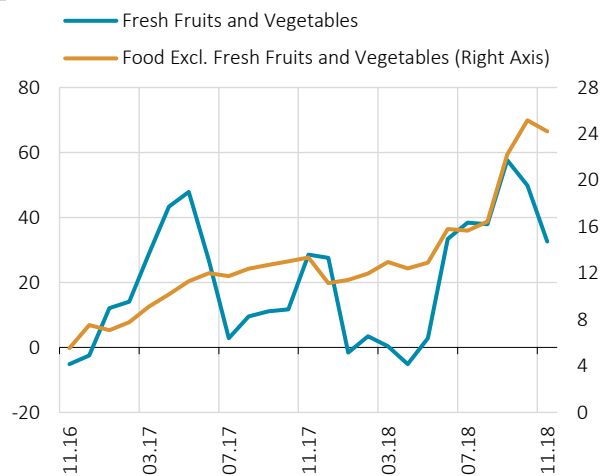


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	November 2018	November 2017	November 2018	November 2017
CPI	-1.44	1.49	21.62	12.98
1. Goods	-1.99	2.09	24.47	14.58
Energy	-0.71	2.53	25.35	12.23
Food and nonalcoholic beverages	-0.74	2.11	25.66	15.78
Unprocessed food	-1.95	3.17	27.91	19.48
Fresh fruits and vegetables	-5.13	7.24	32.55	28.50
Other unprocessed food	0.07	0.94	25.24	14.80
Processed food	0.46	1.17	23.60	12.68
Bread and cereals	1.47	0.89	23.64	9.48
Other processed food	-0.07	1.32	23.58	14.52
Goods excluding energy and food	-3.27	1.93	23.38	14.66
Core goods	-3.55	2.12	26.89	15.05
Durable goods (excluding gold)	-9.59	1.85	24.89	17.17
Clothing and footwear(*)	2.40	3.83	16.81	11.33
Other core goods	1.36	1.05	38.76	15.37
Alcoholic beverages and tobacco	0.17	0.01	2.23	10.41
Gold	-7.78	5.83	31.99	22.09
2. Services	0.03	0.11	14.67	9.42
Rents	0.62	0.85	9.77	9.31
Restaurants and hotels	0.41	0.46	20.01	11.43
Transport	-1.44	-1.27	12.01	11.15
Communication	0.04	0.12	9.97	1.87
Other	-0.02	0.01	15.81	9.75
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	-1.48	1.09	21.21	12.17
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	-1.87	1.07	20.72	12.08
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	-1.45	1.39	22.01	12.35

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices decreased by 2.53%, and annual D-PPI inflation fell by 6.47 points to 38.54% in November (Chart 11). The recovering Turkish lira and lower oil prices had positive effects on the whole index. Annual inflation in the manufacturing industry dropped by 7.65 points to 34.97% in this period. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals lost significant momentum (Chart 12).

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

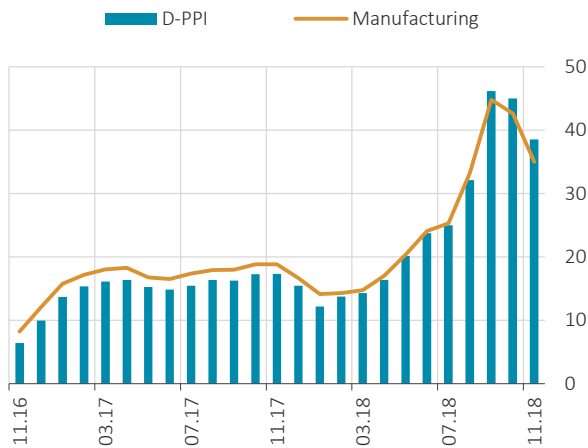
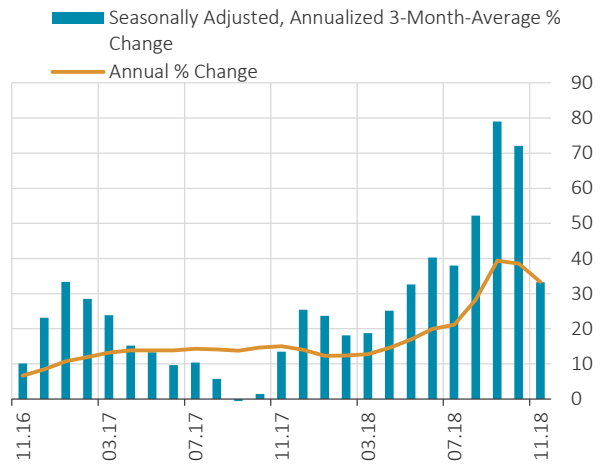


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation was down in all groups, with intermediate goods and capital goods in the lead (Table 3, Charts 13 and 14). Price drops in intermediate goods were mostly led by iron-steel and other metals, textiles, plastics and chemical products, while prices of capital goods were driven lower by machines, metal construction materials, and motor vehicles and their spare parts and accessories. Prices of nondurable goods were brought down by food products such as meat and oils, while prices of durable goods were pushed lower by furniture and home appliances. As a result, producer prices somewhat decelerated in November on the back of a firmer Turkish lira and lower international commodity prices, particularly for oil, although cost pressures led by producer prices remained elevated.

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

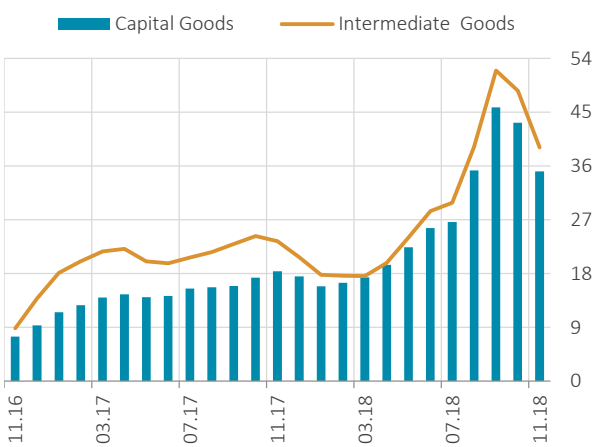
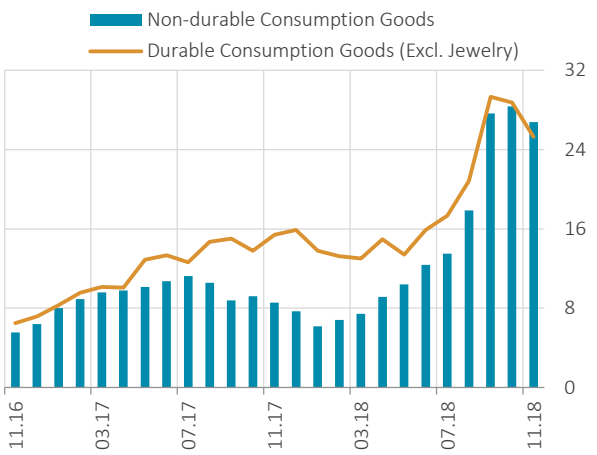


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	November 2018		November 2017	
		Monthly	Annual	Monthly	Annual
CPI	100	-1.44	21.62	1.49	12.98
Food and nonalcoholic	23.03	-0.74	25.66	2.11	15.78
Alcoholic beverages and tobacco	5.14	0.17	2.23	0.01	10.41
Clothing and footwear	7.21	2.37	16.86	3.77	11.30
Housing	14.85	0.47	24.76	1.25	9.81
Household equipment	7.66	-2.85	32.73	0.95	12.85
Health	2.64	0.57	16.25	0.21	12.38
Transport	17.47	-6.46	21.03	2.01	18.56
Communication	3.91	-0.60	9.56	0.25	1.44
Recreation and culture	3.39	-2.08	21.18	0.21	9.90
Education	2.67	0.02	10.20	0.08	10.46
Restaurants and hotels	7.27	0.41	20.01	0.46	11.43
Miscellaneous goods and	4.76	-0.96	27.87	1.84	13.39

Source: TurkStat.

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

	Weight	November 2018		November 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100	-2.53	38.54	2.02	17.30
Mining	3.26	-1.80	29.91	2.70	13.67
Manufacturing	89.02	-3.09	34.97	2.41	18.86
Manufacturing excl. petroleum products	86.52	-2.60	34.27	2.11	17.75
Manufacturing excl. petroleum products and base metals	79.60	-2.06	33.31	1.80	14.98
Electricity, gas, steam and air-conditioning sup.	6.74	2.35	94.41	-3.73	0.09
Water supply	0.98	1.25	9.57	0.93	11.59
D-PPI (MIGs Classification)					
Intermediate Goods		-3.56	39.11	3.02	23.43
Durable Consumption Goods		-1.24	26.05	2.13	15.54
Durable Consumption Goods (Excl. Jewelry)		-0.95	25.28	1.78	15.41
Non-Durable Consumption Goods		-1.01	26.77	0.21	8.58
Capital Goods		-2.97	35.08	2.87	18.36
Energy		-2.12	75.61	1.22	14.79

Source: TurkStat.