

# FEBRUARY PRICE DEVELOPMENTS



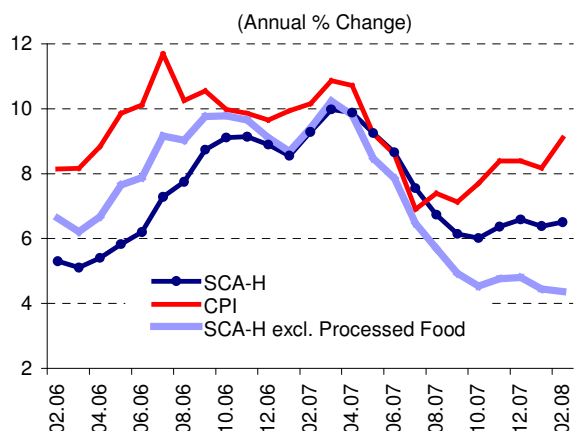
The Central Bank of the Republic of Turkey

4 March 2008

## SUMMARY...

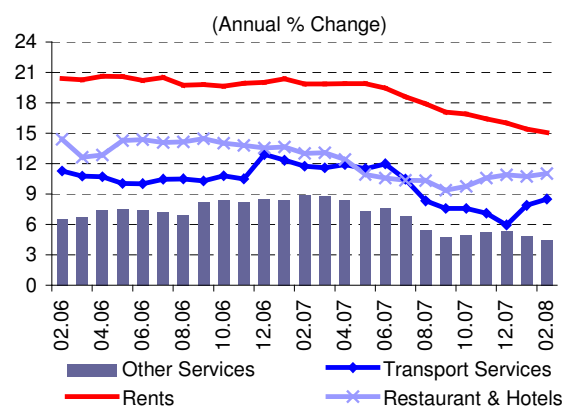
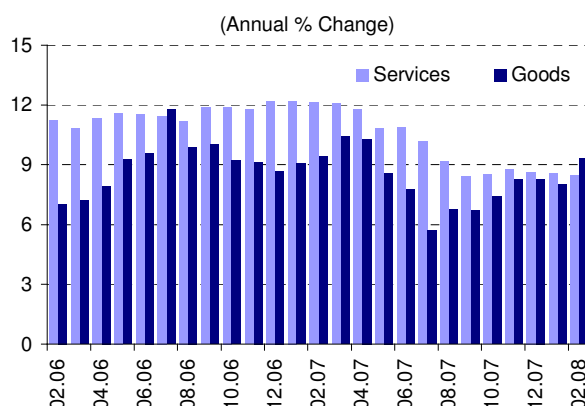
In February, consumer prices rose by 1.29 percent, pushing annual inflation up to 9.10 percent. The steep increase in food prices added around 1.4 percentage points and helped speed up annual inflation as stated in the Summary of the Monetary Policy Committee Meeting. The CPI index excluding food, energy and tobacco came in at almost 4 percent. Despite the continued moderation in rents, price hikes in catering and transport services put upward pressure on services inflation. Core inflation indicators are expected to ease further in the upcoming period, but energy and food prices will continue to pose both upside and downside risks.

## ...EVALUATIONS...



Consumer prices rose by 1.29 percent in February, bringing annual inflation up to 9.10 percent. The sharp increase in unprocessed food prices was the main driver of annual inflation. The annual growth rate of the CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) increased by 0.1 percentage points to 6.50 percent. With a further exclusion of processed food items, the index was down 0.1 percentage points to 4.36 percent year-on-year.

Prices of goods and services were up 1.56 and 0.52 percent, respectively. Annual inflation decreased to 8.48 percent in services, and increased to 9.31 percent in goods mainly on food prices.



Annual services inflation continues to edge down. The steep rise in food prices puts upward pressure on catering services while soaring oil prices raise the cost of transport services. Yet, the steady decline in the annual growth rate of rents and other services (services items excluding transport services, restaurants-hotels and rents) helps ease services inflation.

Energy prices increased by 0.30 percent, raising the whole group's annual inflation rate to 16.35 percent. Prices of fuel products went up along with rising world oil prices, while prices of energy for housing items remained almost unchanged. The growing volatility in international crude oil prices continues to pose a threat to domestic energy prices.

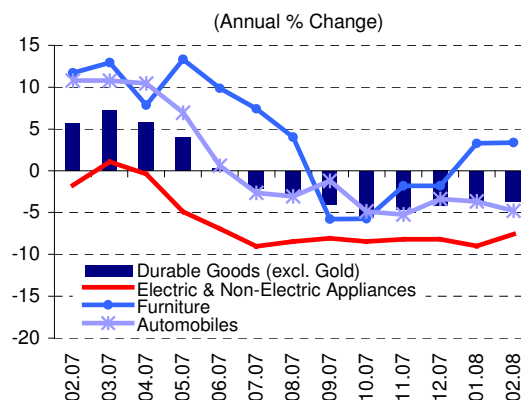
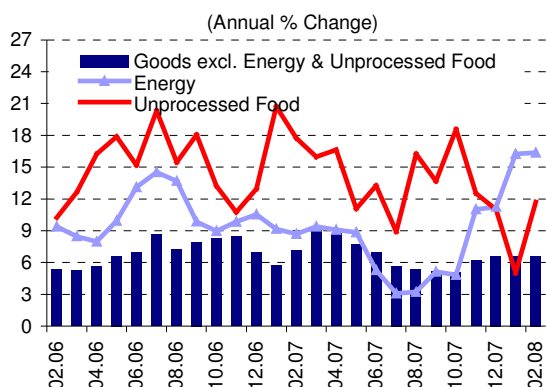
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The year-on-year increase in prices of goods excluding energy and unprocessed food has been flat for the third consecutive month. As regards sub-groups, prices of processed food rally to record highs, whereas clothing and footwear prices continue to decelerate in annual terms. With the spike in February, the gold price growth amounted to 16.28 percent for the first two months of the year.



Annual inflation of durables (excluding gold) was slightly down from January. After a steady downward trend for the past ten months, prices of electric and non-electrical appliances were up 0.46 percent in February, while prices of automobiles increased at a more modest rate than a year earlier.

	Monthly Percentage Change		Annual Percentage Change	
	February 2008	February 2007	February 2008	February 2007
CPI	1.29	0.43	9.10	10.16
<b>1. Goods</b>	<b>1.56</b>	<b>0.37</b>	<b>9.31</b>	<b>9.42</b>
Energy	0.30	0.22	16.35	8.70
Unprocessed Food	8.64	2.11	11.73	17.72
Goods excl. Energy and Unprocessed Food	-0.15	-0.14	6.60	7.15
Durable Goods	0.95	0.70	-1.83	8.52
Durable Goods excl. Gold	0.40	0.44	-3.66	5.70
Semi-Durable Goods	-1.64	-1.65	9.82	6.71
Non-Durable Goods	3.97	1.64	12.00	11.40
<b>2. Services</b>	<b>0.52</b>	<b>0.58</b>	<b>8.48</b>	<b>12.13</b>
Rent	0.99	1.32	15.06	19.84
Restaurants and Hotels	0.90	0.62	11.02	13.02
Transport Services	0.40	-0.16	8.49	11.74
Other Services	0.18	0.49	4.45	8.91

Source: TURKSTAT, CBRT.

Unprocessed food prices rose by 8.64 percent on the back of surging fresh vegetable prices. The CPI excluding unprocessed food increased by only 0.12 percent, which indicates that the group is the key driver of consumer inflation. Fresh vegetable prices grew at a significantly higher rate (20.13 percent) than the seasonal pattern due to adverse weather conditions and transportation difficulties. Besides, the sharp upturn in chicken prices that began in January continued into February with prices up as high as 20 percent, which shows that chicken prices have also helped push up unprocessed food prices. The changes in the first two months suggest that unprocessed food prices remain to be the main source of uncertainty regarding inflation.

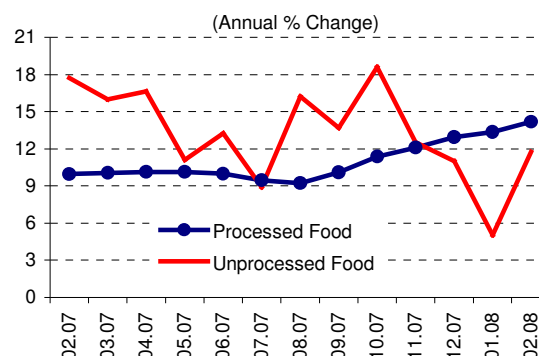
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Processed food prices surged by 1.82 percent. Bread and cereals prices continue to climb in response to soaring global wheat prices. The jump in prices of unprocessed food other than bread and cereals added to inflationary pressures on food prices.

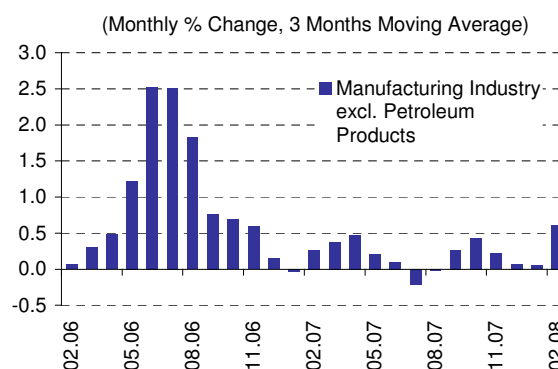
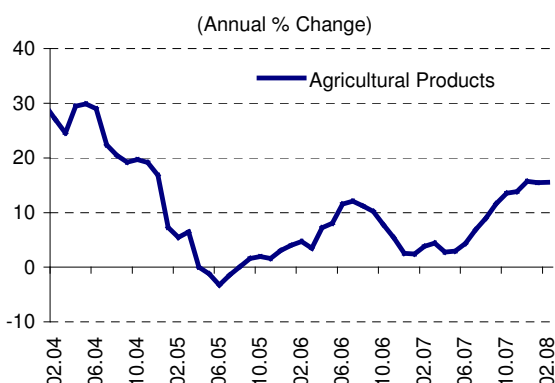


The steep increase in processed food prices put upward pressure on Special CPI Aggregates. Accordingly, the annual growth rate of indicators except for B and D went up in February, albeit at a subdued pace.

## ...PPI...

PPI increased by 2.56 percent in February to 8.15 percent per annum, mainly on rising prices of agricultural and industrial products that contributed 0.41 and 2.15 percentage points, respectively, to the index's performance.

Prices of agricultural products were up 15.58 percent from February 2007 and remained flat in annual terms for the third month in a row. Manufacturing industry prices rose by 1.64 percent compared to the previous month. Prices of refined petroleum products increased by 2.35 percent whereas manufacturing industry prices excluding petroleum products were up 1.54 percent. Prices of basic metals continued to climb in February by 6.55 percent up from January.



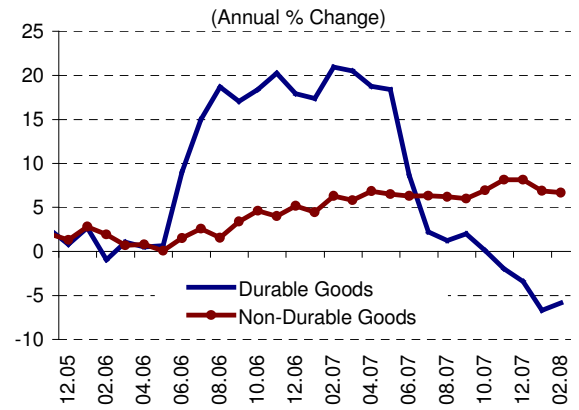
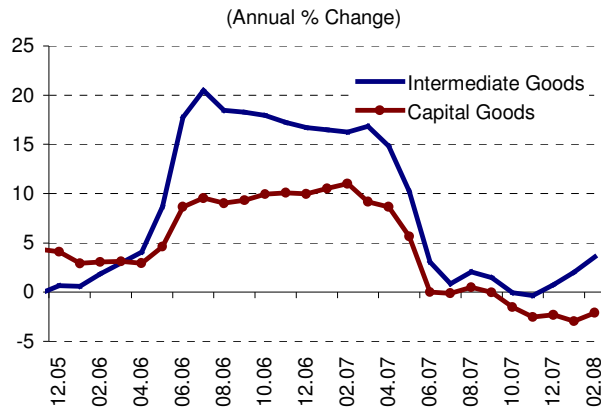
According to a PPI analysis based on MIGS classification, prices of all items went up in February. Prices of intermediate goods increased due to higher prices of basic metals, while prices of non-durables soared on the back of rising food, clothing and apparel prices. Electricity rates also saw a sharp upturn in February.

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## PPI Developments According to MIGS Classification

### Monthly Percentage Change

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Jan-Feb*
Intermediate Goods Prices	1.24	0.44	0.27	-0.13	-0.63	0.72	0.06	-1.13	-0.64	0.53	1.18	1.66	2.86
Capital Goods Prices	-1.41	-0.25	-0.64	-0.93	-0.27	0.43	-0.22	-0.59	-0.64	0.75	0.44	1.23	1.68
Durable Goods Prices	-0.48	-0.49	0.44	-0.46	-2.02	1.01	0.23	-0.02	-1.17	-1.9	-2.00	0.90	-1.12
Non-Durable Goods Prices	-0.3	1.28	-0.38	0.2	0.13	0.13	2.13	1.88	0.84	0.14	-1.15	1.63	0.46
Energy Prices	6.04	2.12	-0.54	-1.36	1.84	2.68	-0.32	-2.94	6.68	-0.86	0.60	7.74	8.38

Source: TURKSTAT, CBRT.

\* 2 Months Cumulative Increase

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## ...TABLES

February CPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
CPI	100	1.29	9.10	0.43	10.16
Food and Non-Alcoholic Beverages	28.63	5.05	12.93	1.60	13.70
Alcoholic Beverages and Tobacco	5.00	0.02	14.34	2.51	2.90
Clothing and Footwear	8.07	-6.93	1.55	-6.47	1.43
Housing	16.60	0.39	14.75	0.49	13.12
Household Equipments	7.42	0.86	4.83	0.75	9.60
Health	2.54	0.07	-0.02	0.45	7.72
Transport	12.59	0.54	6.56	0.67	9.02
Communication	4.30	0.12	-2.25	-0.09	1.30
Recreation and Culture	2.81	0.00	-1.57	-0.76	10.03
Education	2.24	-0.03	5.87	0.08	7.80
Restaurants and Hotels	5.64	0.90	11.02	0.62	13.02
Miscellaneous Goods and Services	4.16	1.73	7.53	1.20	11.10

Source: TURKSTAT.

February PPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
PPI	100	2.56	8.15	0.95	10.13
Agriculture	19.84	2.06	15.58	1.98	3.84
Industry	80.16	2.69	6.45	0.71	11.68
Mining	1.62	-0.08	13.26	-1.86	9.97
Manufacturing	73.33	1.64	5.91	0.66	11.22
Energy	5.21	18.12	11.39	2.06	18.32

Source: TURKSTAT.

Price Developments are published within two working days 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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.