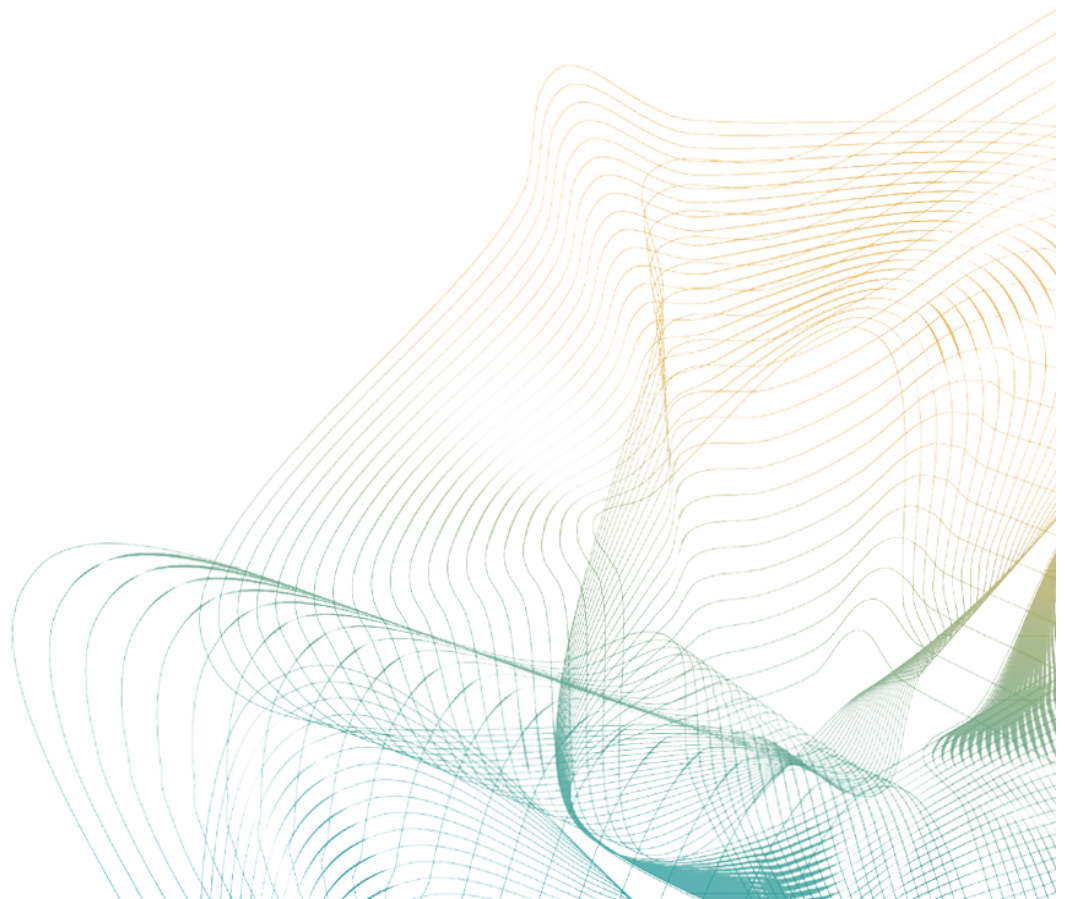


 July Price

Developments

6 August 2019



## Summary

In July, consumer prices rose by 1.36% and annual inflation picked up by 0.93 points to 16.65%. This was led by the expiry of temporary tax cuts in durable consumption goods and the electricity-driven price hikes in the energy group. The downtrend in annual food inflation continued due to the decline in unprocessed food prices. The uptick in annual inflation in core indicators is attributed to core goods inflation due to the change in tax rates in durable consumption goods in this period. When adjusted for temporary tax cuts, the underlying trend of indicators B and C reveals a more limited increase.

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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.

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## Evaluations

In July, consumer prices rose by 1.36% and annual inflation picked up by 0.93 points to 16.65% (Chart 1). In this period, the annual rates of change in the B and C indices increased by 1.25 and 1.34 points to 17.53% and 16.20%, respectively (Chart 2).

An analysis of the contribution of subgroups to annual consumer inflation indicated month-on-month decreases of 0.26 and 0.06 points in the food and services groups, but month-on-month increases of 0.89 and 0.34 points in the core goods and energy groups, respectively.

Chart 1: CPI and D (Annual % Change)

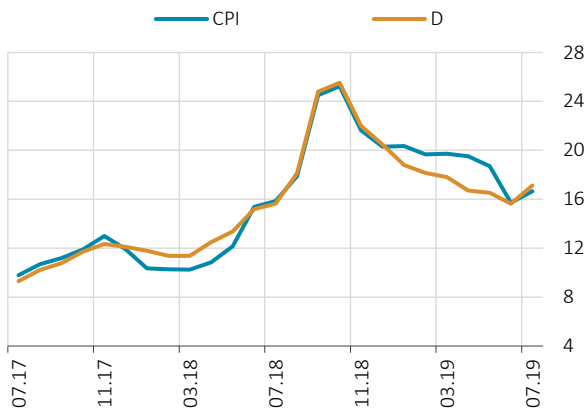
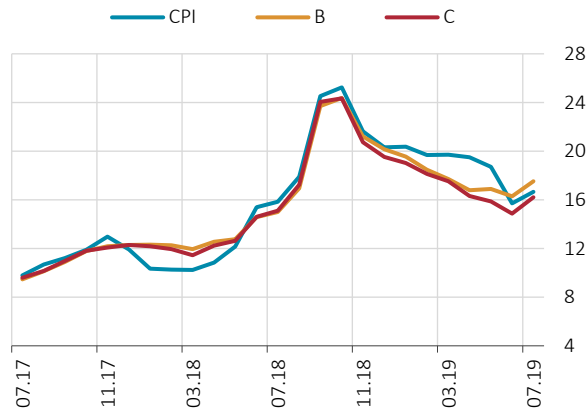


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators revealed an increase in the underlying trend of the Index B due to the core goods group (Charts 3 and 4). This increase is mainly attributed to the expiry of tax cuts in durable goods. Adjusted for the effects of temporary tax cuts, the underlying trends of core indicators B and C exhibited a more limited increase.

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

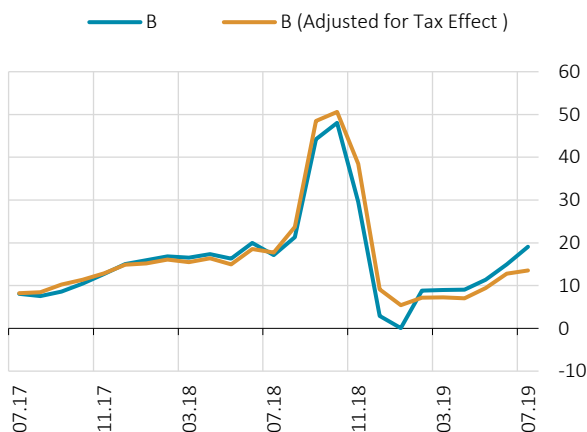
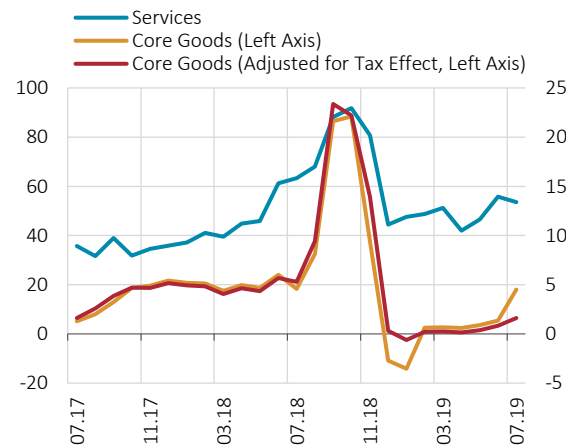


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In July, services prices rose by 1.03% and annual services inflation inched down by 0.35 points to 14.57% (Chart 5 and Table 1). While annual inflation receded in the restaurant-hotels and other services groups, it posted an increase in communication and transport services, and remained almost flat in rent (Chart 6). Annual inflation in communication services was shaped by the base effect as well as higher mobile phone tariffs, while price increases in air passenger transport fares (a monthly increase of 6.52%) led the increase in the transport group.

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

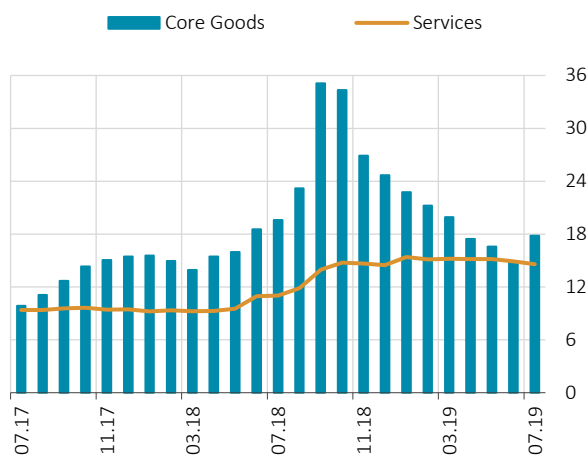
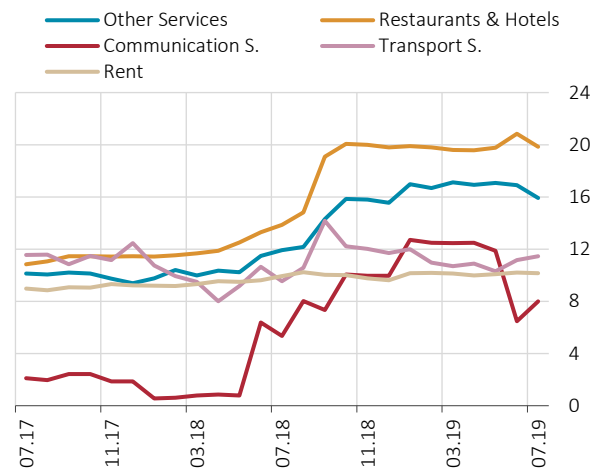


Chart 6. Services (Annual % Change)



In July, annual core goods inflation rose by 3.02 points to 17.81% (Chart 5). Annual inflation picked up in durable goods, but decreased in other subcategories in this period (Chart 7). Prices of durable goods increased (7.99% month-on-month) as the temporary tax cuts expired in the automobile, white goods and furniture groups. Price hikes in the white goods group stood below that implied by the tax change, while the furniture group recorded a price increase above the tax effect. In sum, core goods inflation increased due to the expiry of tax cuts despite the recent favorable exchange rate developments and the limiting effect of the mild course of economic activity.

Chart 7. Core Goods (Annual % Change)

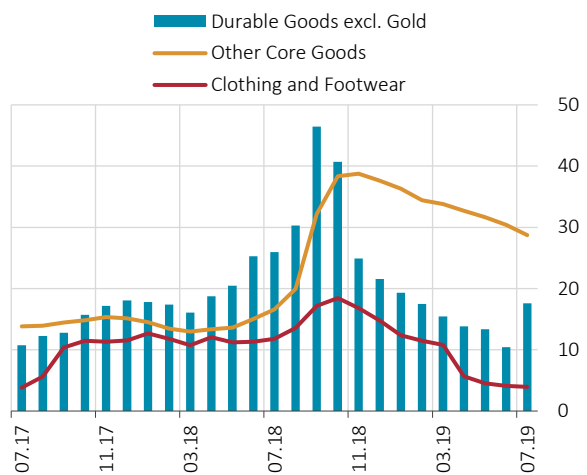
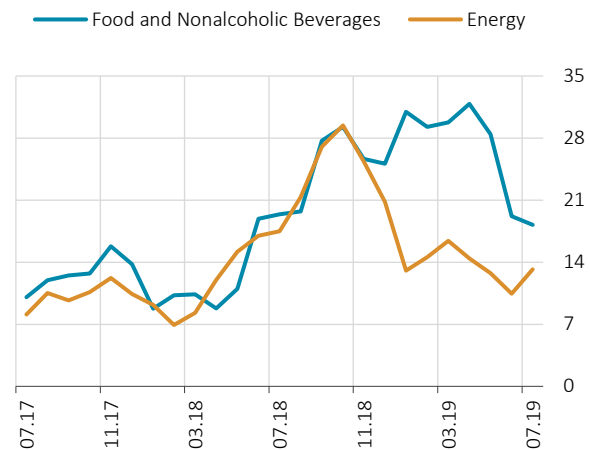


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



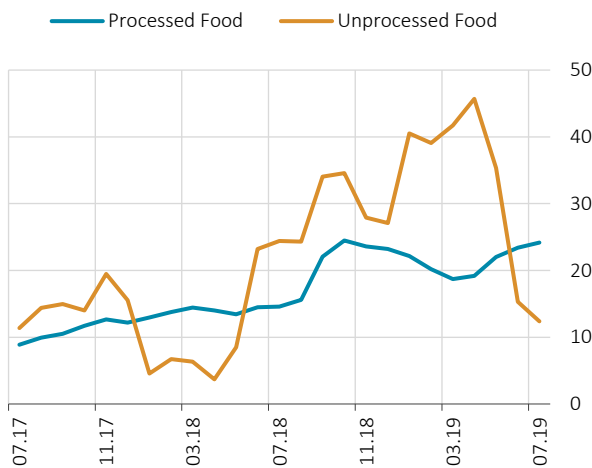
Energy prices increased by 3.01% in July (Table 1), which was led by the 15%-raise in electricity prices. Meanwhile, municipal water tariffs inched down and fuel prices declined somewhat due to exchange rate developments in this period. All in all, annual energy inflation picked up by 2.73 points to 13.19% (Chart 8).

Annual inflation in food and non-alcoholic beverages declined by 0.99 points to 18.21% in July (Chart 8 and Table 2). This fall was driven by annual unprocessed food inflation, which was pulled down to 12.37% by prices of fresh fruits-vegetables, whereas annual processed food inflation continued to rise (Chart 9). In this period, annual inflation in the fresh fruits-vegetables group fell to 4.30% on the back of sustained favorable supply conditions (Chart 10). On the other hand, prices in the processed food group maintained

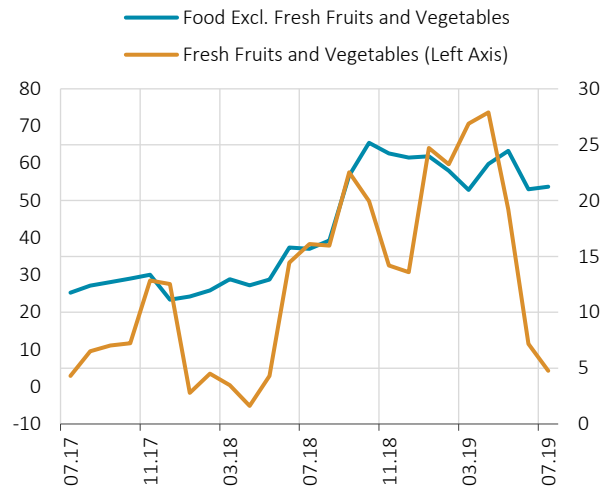
the trend of month-on-month hikes (1.74%), and the group’s annual inflation rose by 0.74 points to 24.15%. Prices increased across all subcategories in this group, with bread and cereals as well as tea and sugar in the lead.

Indexed to the six-month change in D-PPI, specific and minimum specific SCT on tobacco and alcoholic products were raised in the beginning of July. This resulted in price hikes of 8.44% in alcoholic beverages, while tobacco products recorded almost no change in prices. Meanwhile, the recent adjustments in tobacco products will have a noteworthy effect on August inflation.

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



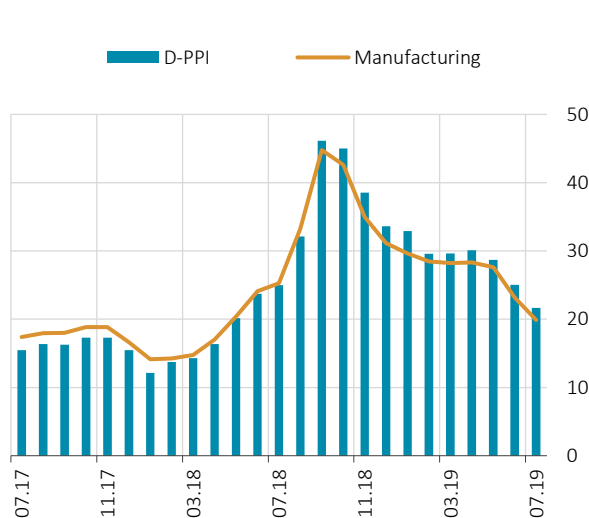
**Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)**



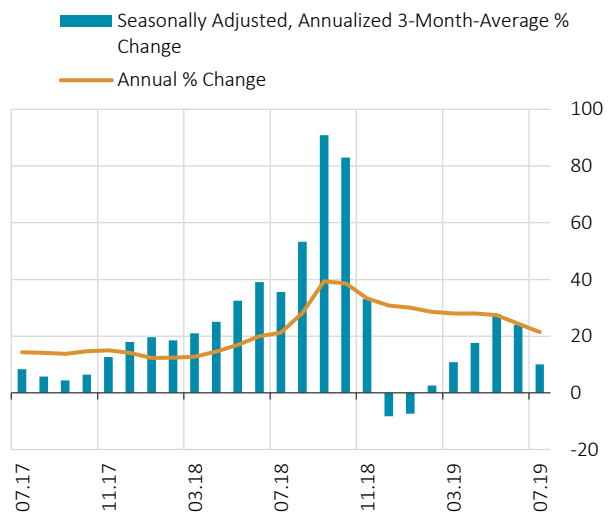
## D-PPI

Domestic producer prices inched down by 0.99% in July and annual inflation decreased by 3.38 points to 21.66% (Chart 11 and Table 3). This fall was driven by the recently-improved prospects in the Turkish lira. In this period, the seasonally-adjusted underlying trend of manufacturing prices excluding petroleum and base metals registered a significant decline (Chart 12).

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

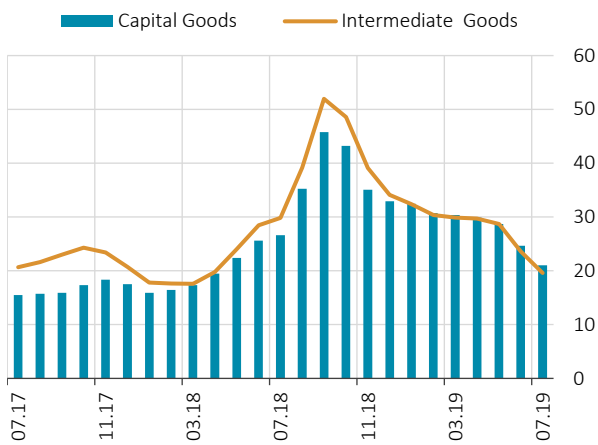


**Chart 12. Manufacturing Excluding Petroleum and Base Metals**

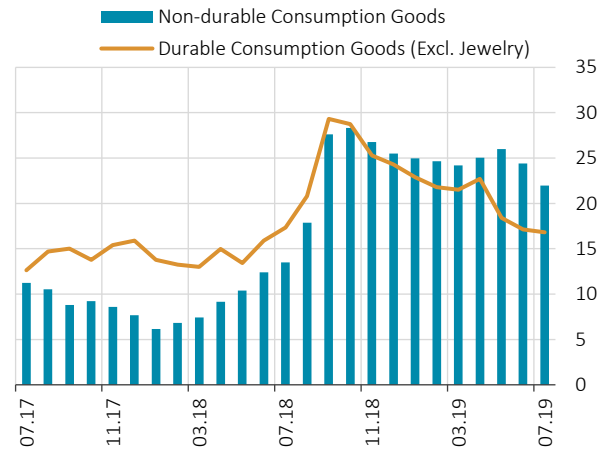


According to main industrial groupings, prices receded in all groups excluding durable consumption goods (Table 3, Charts 13 and 14). The month-on-month price decline in intermediate goods was driven by iron-steel, basic chemicals and textile threads and fibers and plastic products, while that in capital goods was led by other special and general-purpose machines as well as computer and metal construction products. Prices in the energy group were drawn down by electricity production, transmission and distribution, but price increases in gas manufacturing made an upward contribution. Prices in durable consumption goods were driven up by furniture products, while nondurable consumption goods saw decreasing prices on the back of meat products and fats and oils. As a result, producer-led cost pressures on consumer prices lost some pace.

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



**Chart 14. Consumption Goods (Annual % Change)**



## Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	July 2019	July 2018	July 2019	July 2018
<b>CPI</b>	<b>1.36</b>	<b>0.55</b>	<b>16.65</b>	<b>15.85</b>
<b>1. Goods</b>	<b>1.49</b>	<b>0.24</b>	<b>17.45</b>	<b>17.94</b>
Energy	3.01	0.54	13.19	17.49
Food and non-alcoholic beverages	-1.11	-0.28	18.21	19.40
Unprocessed food	-4.11	-1.60	12.37	24.41
Fresh fruits and vegetables	-9.36	-3.12	4.30	38.37
Other unprocessed food	-1.24	-0.67	16.80	17.16
Processed food	1.74	1.13	24.15	14.59
Bread and cereals	1.38	0.97	25.66	12.06
Other processed food	1.94	1.22	23.35	16.03
Goods excluding energy and food	2.75	0.50	18.48	17.09
Core goods	3.16	0.52	17.81	19.58
Durable goods (excluding gold)	7.99	1.43	17.58	25.96
Clothing and footwear (*)	-3.30	-3.16	3.95	11.81
Other core goods	0.70	2.00	28.73	16.59
Alcoholic beverages and tobacco	0.75	0.76	19.23	1.43
Gold	1.04	-0.93	33.38	33.16
<b>2. Services</b>	<b>1.03</b>	<b>1.33</b>	<b>14.57</b>	<b>11.04</b>
Rents	1.13	1.17	10.17	9.93
Restaurants and hotels	1.42	2.26	19.85	13.86
Transport	1.06	0.79	11.45	9.53
Communication	0.49	-0.94	8.00	5.35
Other	0.79	1.64	15.93	11.92
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	2.04	0.96	17.53	15.01
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	2.10	0.93	16.20	15.10
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	2.16	0.86	17.13	15.64
F – CPI excluding administered prices	1.01	0.53	16.94	17.65

Source: TurkStat.

(\*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	July 2019		July 2018	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	100	1.36	16.65	0.55	15.85
Food and non-alcoholic beverages	23.29	-1.11	18.21	-0.28	19.40
Alcoholic beverages and tobacco	4.23	0.75	19.23	0.76	1.43
Clothing and footwear	7.24	-3.20	4.18	-3.07	11.85
Housing	15.16	3.10	16.05	1.10	12.78
Household equipment	8.33	4.24	25.41	1.82	20.32
Health	2.58	0.25	17.93	1.20	11.78
Transport	16.78	4.46	13.67	1.09	24.21
Communication	3.69	0.83	6.29	-0.11	4.69
Recreation and culture	3.29	1.60	17.47	1.62	9.67
Education	2.40	0.90	13.68	1.06	10.81
Restaurants and hotels	7.86	1.42	19.85	2.26	13.86
Miscellaneous goods and services	5.15	0.63	26.93	0.58	17.24

Source: TurkStat.

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

	Weight	July 2019		July 2018	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100	-0.99	21.66	1.77	25.00
Mining	3.06	-0.43	20.59	0.86	24.86
Manufacturing	89.31	-0.84	19.88	1.87	25.28
Manufacturing excl. petroleum products	86.19	-0.88	20.24	1.90	23.75
Manufacturing excl. petroleum products and base metals	76.71	-0.58	21.42	1.81	21.17
Electricity, gas, steam and air-conditioning sup.	6.52	-3.36	47.57	0.99	23.06
Water supply	1.11	-0.67	-6.03	1.44	7.06
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		-1.23	19.57	2.08	29.86
Durable Consumption Goods		0.81	17.73	1.06	18.05
Durable Consumption Goods (Excl. Jewelry)		0.90	16.82	1.16	17.34
Non-Durable Consumption Goods		-0.56	21.96	1.43	13.50
Capital Goods		-0.50	21.05	2.48	26.64
Energy		-2.19	31.15	1.01	36.51

Source: TurkStat.