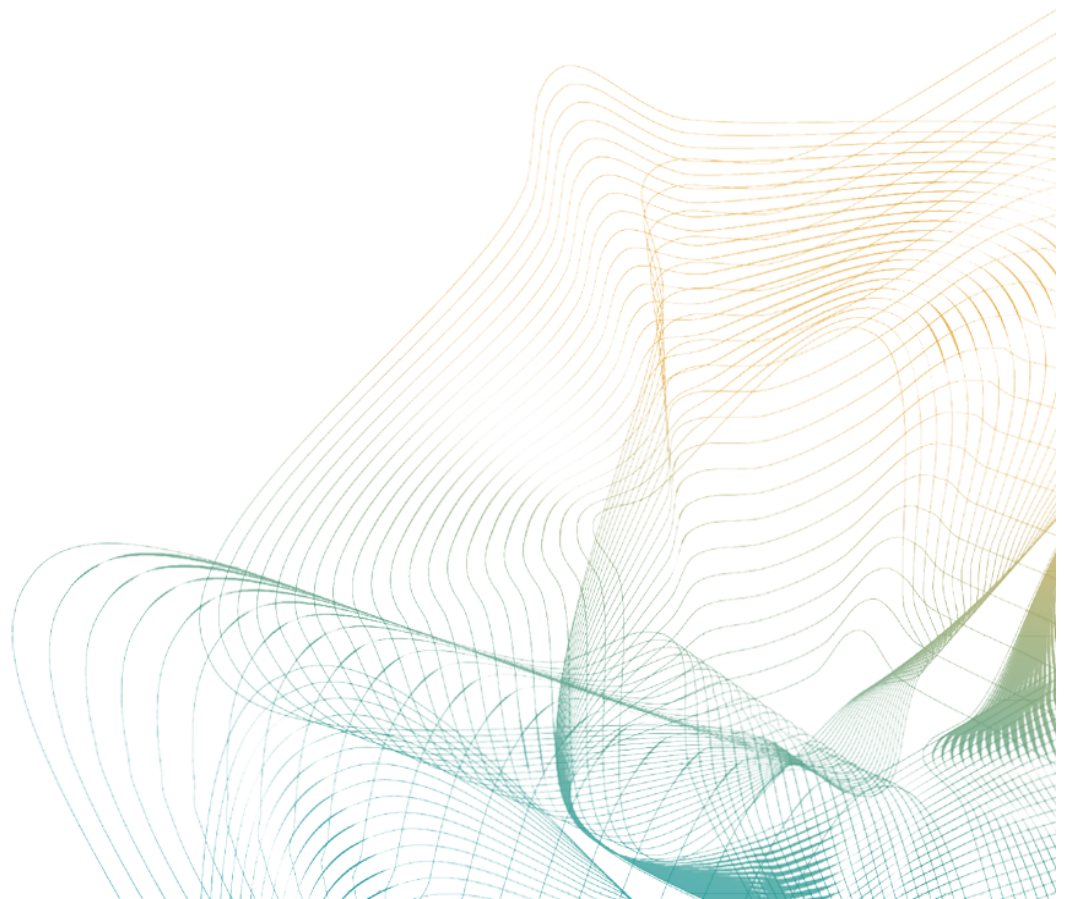




# August Price Developments

4 September 2019



## Summary

In August, consumer prices increased by 0.86% while annual inflation dropped by 1.64 points to 15.01%. Annual inflation decreased across most subcategories, driven mainly by core goods and energy groups. The downtrend in annual food inflation continued in this period. In addition to the stabilization in the Turkish lira, the improvement in inflation expectations and the course of domestic demand conditions supported the decline in the annual inflation in core indicators. Accordingly, the underlying trend of B and C indicators remained moderate.

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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 August, consumer prices increased by 0.86% while annual inflation dropped by 1.64 points to 15.01% (Chart 1). The annual rates of change in B and C indices decreased by 2.48 and 2.60 points in this period to 15.05% and 13.60%, respectively (Chart 2).

An analysis of the contribution of subcategories to annual consumer inflation indicates that the contribution of core goods, energy, food, and services groups decreased month-on-month by 1.35, 0.67, 0.32 and 0.14 points, respectively whereas the contribution of alcohol-tobacco group rose by 0.98 points.

Chart 1: CPI and D (Annual % Change)

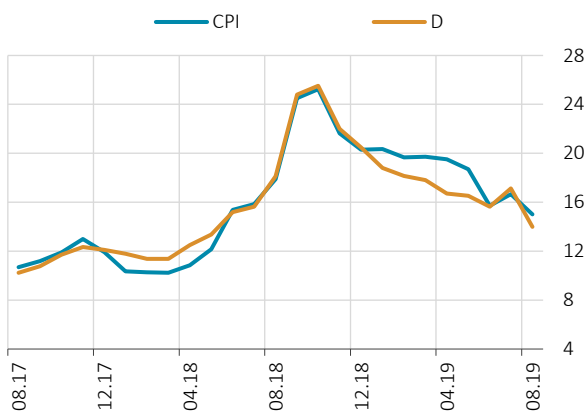
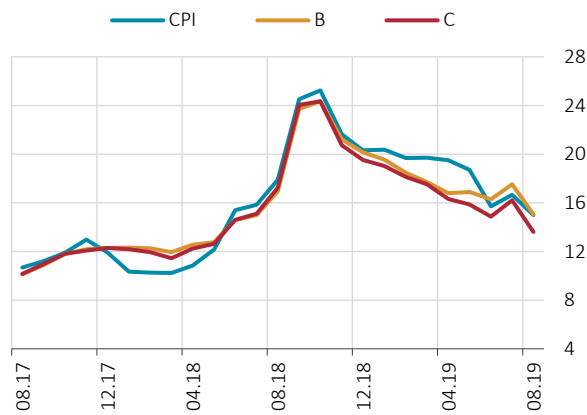


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators suggest a decline in the underlying trend of the B index (Chart 3). Core goods and services groups had a limited effect on this decline whereas the processed food group played a decisive role (Chart 4).

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

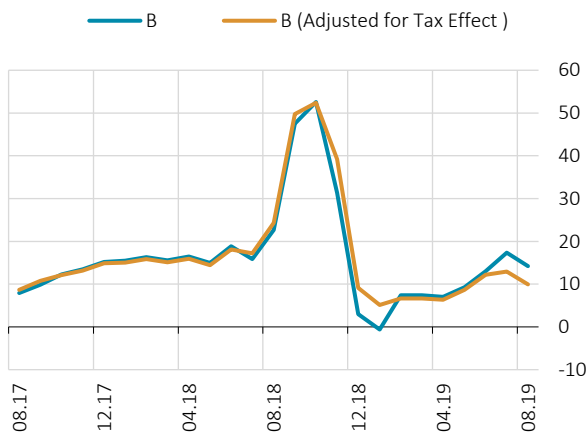
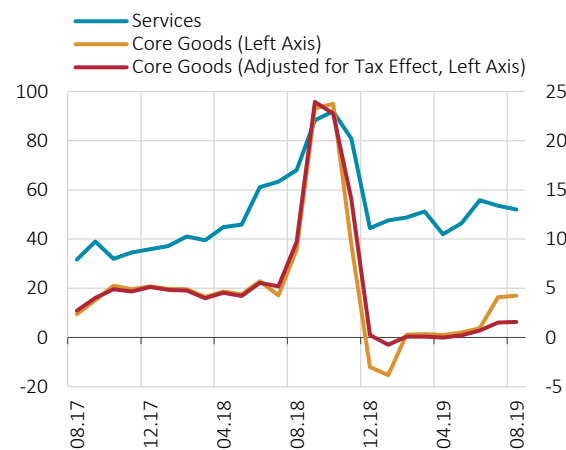


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In August, services prices rose by 1.12% and annual services inflation inched down by 0.38 points to 14.19% (Chart 5 and Table 1). While restaurants-hotels and communication groups supported the decline in annual inflation, rents and transport services remained flat and other services increased (Chart 6). The catering services-driven slowdown in the restaurants-hotels group is also attributed to the moderate course of food prices. The other services group posted a large monthly increase that was mainly triggered by the 16.39% rise in private university tuition fees. In September, there will be price increases in transport services due to urban transport fares.

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

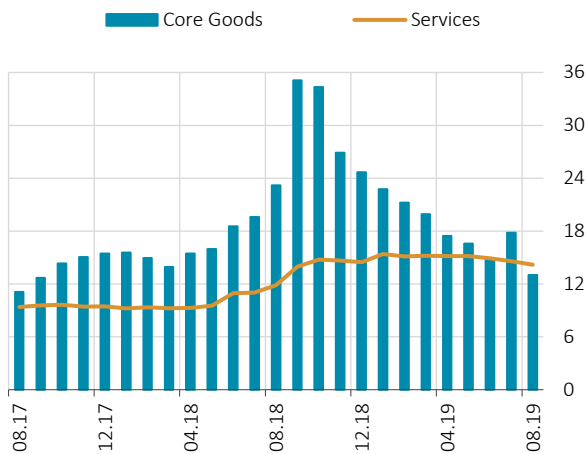
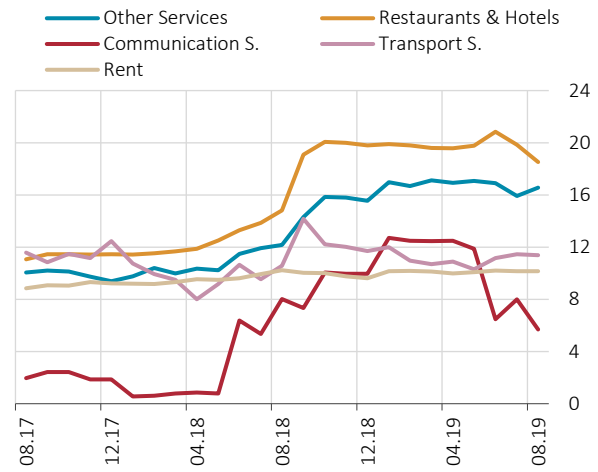


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 4.79 points to 13.02% (Chart 5). While durable and other core goods groups were the drivers of this decrease, annual inflation in the clothing group registered a limited increase (Chart 7). Despite the 1.05% rise in white goods prices, durable goods prices dropped by 1.42% led by automobile prices (-2.83%). In this period, the decline in the other core goods prices, albeit slightly, was noteworthy. Accordingly, the downtrend in core goods inflation continued due to the high base effect as well as the recent exchange rate developments and the moderate course of economic activity.

Chart 7. Core Goods (Annual % Change)

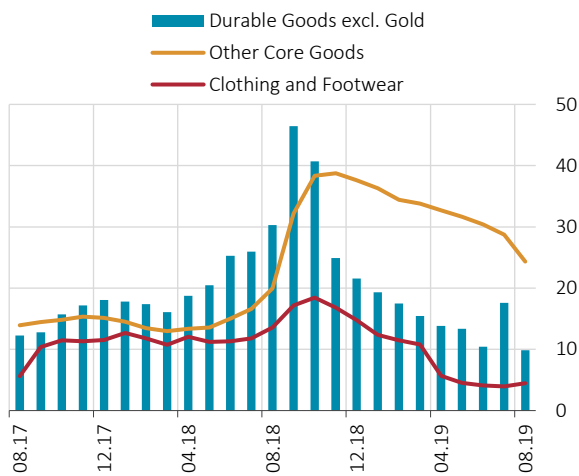
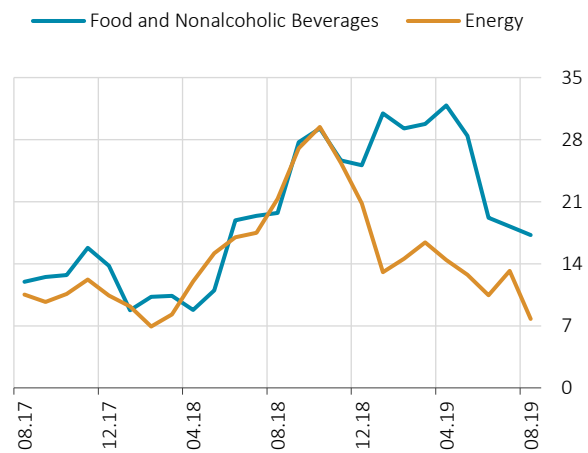


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



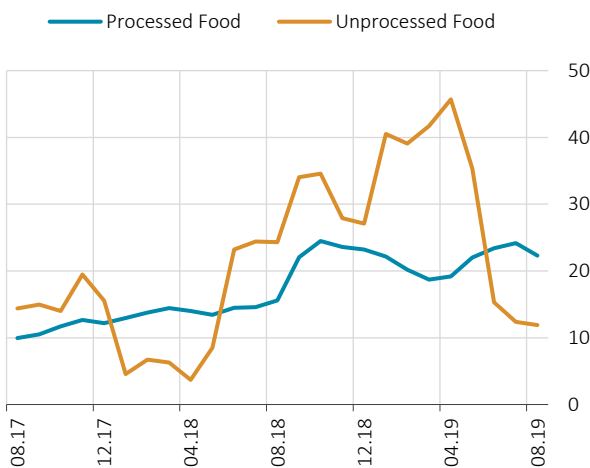
In August, energy prices increased by 0.34% (Table 1). In this period, the impact of the adjustment in natural gas prices (14.64%) was curbed by a decline of 4.24% in fuel prices owing to the moderate trend in Turkish lira and the decrease in oil prices. Thus, annual energy inflation decreased by 5.40% to 7.79% (Chart 8).

Annual inflation in food and non-alcoholic beverages declined by 0.99 points to 17.22% in August (Chart 8 and Table 2). This fall was driven by both the unprocessed and processed food inflation. Annual inflation in unprocessed food was down to 11.89% and 22.32% in processed food inflation (Chart 9). In this period, annual inflation in the fresh fruits-vegetables group slightly increased (Chart 10). Processed food prices, which had been posting significant increases due to deferred cost effects since May, posted a relatively low rise in August (0.61%). In this group, the uptrend in bread and cereals prices, observed over the last

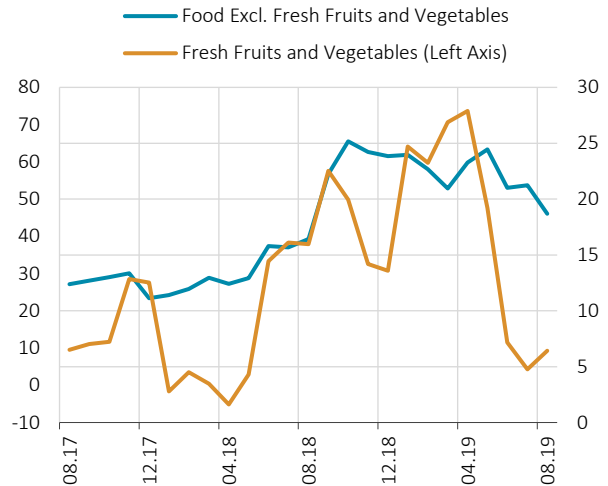
few months, decelerated and the rise in tea prices continued, albeit with some slowdown. As a result of these developments, annual inflation in food excluding the fresh fruits and vegetables group came down to 18.69% (Chart 10).

In August, prices of tobacco products increased by 20.84%. Due to this rise, annual inflation in alcoholic beverages-tobacco group was up by 22.19 points to 41.42%. It should be noted that the rise in tobacco products prices will have an impact that extends into September, though very limited.

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



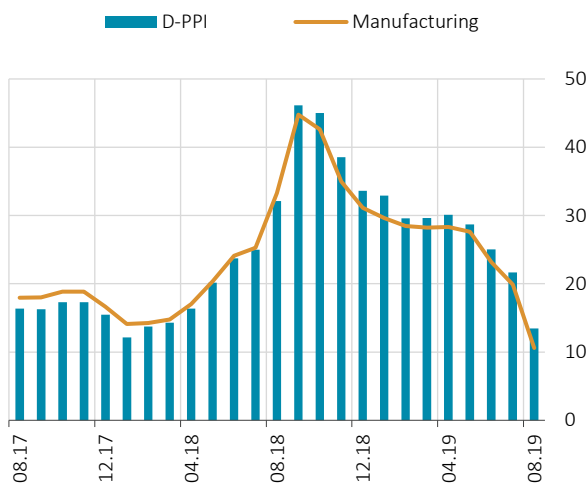
**Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)**



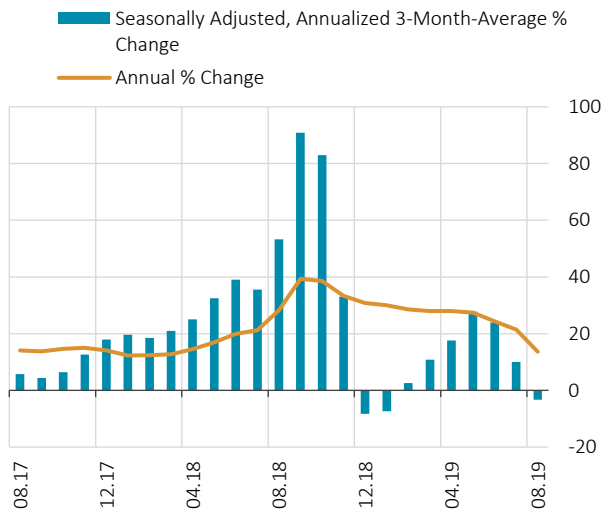
## D-PPI

While domestic producer prices inched down by 0.59% in August, annual inflation decreased by 8.21 points to 13.45% (Chart 11 and Table 3). The decline was mainly driven by the favorable trends in exchange rates and oil prices. In this period, the seasonally-adjusted underlying trend of manufacturing prices excluding petroleum and base metals posted a significant decline (Chart 12).

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

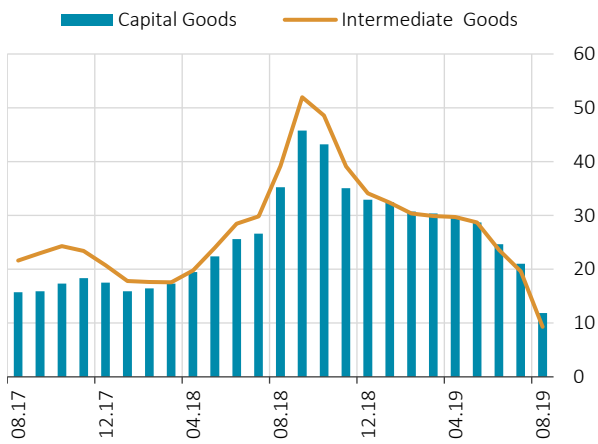


**Chart 12. Manufacturing Excluding Petroleum and Base Metals**

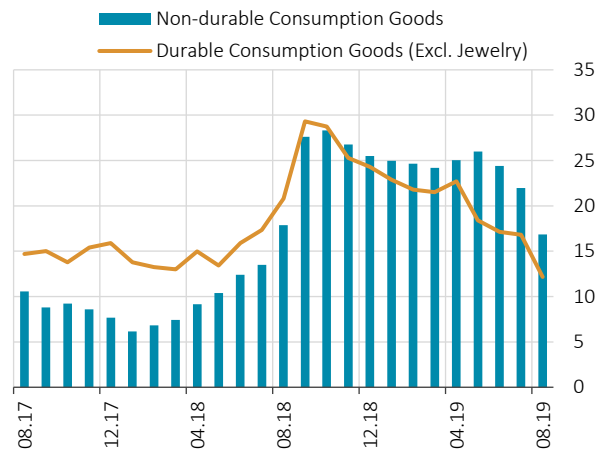


An analysis by main industrial groupings reveals that prices increased in durable consumption goods and energy groups while they decreased in other groups (Table 3, Charts 13 and 14). The rise in the prices of durable consumption goods was driven by mainly furniture, jewelry and household equipment. The rise in energy prices was driven by prices in gas and electricity production while refined petroleum products made a downward impact. The month-on-month decline in the prices of intermediate goods was driven by iron-steel, basic chemicals, textile threads and fibers, and paper products, while that in capital goods was led by other special-purpose machines, metal construction products and communication equipment. The fall in non-durable consumption goods was led by meat products while tobacco products made an upward impact. In sum, recently, there has been a considerable decrease in producer-driven cost pressures on consumer prices.

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



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



## Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	August 2019	August 2018	August 2019	August 2018
<b>CPI</b>	<b>0.86</b>	<b>2.30</b>	<b>15.01</b>	<b>17.90</b>
<b>1. Goods</b>	<b>0.75</b>	<b>2.63</b>	<b>15.30</b>	<b>20.53</b>
Energy	0.34	5.37	7.79	21.34
Food and non-alcoholic beverages	-0.77	0.06	17.22	19.75
Unprocessed food	-2.32	-1.90	11.89	24.31
Fresh fruits and vegetables	-1.64	-6.12	9.28	37.91
Other unprocessed food	-2.66	0.63	12.98	17.63
Processed food	0.61	2.12	22.32	15.57
Bread and cereals	0.69	1.99	24.06	13.75
Other processed food	0.57	2.19	21.40	16.59
Goods excluding energy and food	1.90	3.37	16.79	20.73
Core goods	-0.96	3.24	13.02	23.18
Durable goods (excluding gold)	-1.42	5.49	9.87	30.31
Clothing and footwear (*)	-1.16	-1.65	4.46	13.56
Other core goods	-0.13	3.39	24.35	19.96
Alcoholic beverages and tobacco	19.11	0.42	41.42	1.81
Gold	4.48	17.41	18.69	53.47
<b>2. Services</b>	<b>1.12</b>	<b>1.46</b>	<b>14.19</b>	<b>11.84</b>
Rents	1.03	1.04	10.16	10.23
Restaurants and hotels	0.75	1.88	18.52	14.83
Transport	1.20	1.26	11.38	10.57
Communication	0.22	2.40	5.70	8.03
Other	1.70	1.15	16.57	12.16
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.16	2.31	15.05	16.95
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.06	2.35	13.60	17.22
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.26	3.02	14.00	18.12
F – CPI excluding administered prices	-0.38	2.28	13.90	19.64

Source: TurkStat.

(\*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	August 2019		August 2018	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	100	0.86	15.01	2.30	17.90
Food and non-alcoholic beverages	23.29	-0.77	17.22	0.06	19.75
Alcoholic beverages and tobacco	4.23	19.11	41.42	0.42	1.81
Clothing and footwear	7.24	-1.10	4.70	-1.59	13.59
Housing	15.16	2.04	14.02	3.85	16.30
Household equipment	8.33	0.16	20.13	4.56	23.76
Health	2.58	0.48	17.47	0.88	12.57
Transport	16.78	-1.94	6.72	4.45	27.13
Communication	3.69	0.00	3.57	2.63	7.35
Recreation and culture	3.29	0.52	15.07	2.61	12.15
Education	2.40	4.26	17.59	0.79	8.65
Restaurants and hotels	7.86	0.75	18.52	1.88	14.83
Miscellaneous goods and services	5.15	0.89	20.98	5.85	23.23

Source: TurkStat.

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

	Weight	August 2019		August 2018	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100	-0.59	13.45	6.60	32.13
Mining	3.06	0.71	14.91	5.69	30.80
Manufacturing	89.31	-1.01	10.59	7.31	33.29
Manufacturing excl. petroleum products	86.19	-0.75	11.84	6.70	31.08
Manufacturing excl. petroleum products and base metals	76.71	-0.61	13.63	6.20	28.21
Electricity, gas, steam and air-conditioning sup.	6.52	4.33	55.83	-1.20	20.66
Water supply	1.11	1.35	-6.19	1.52	8.30
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		-0.89	9.30	8.42	39.16
Durable Consumption Goods		0.76	12.28	5.65	22.58
Durable Consumption Goods (Excl. Jewelry)		0.60	12.16	4.77	20.82
Non-Durable Consumption Goods		-0.73	16.83	3.63	17.86
Capital Goods		-0.50	11.86	7.67	35.23
Energy		0.37	24.13	6.05	42.23

Source: TurkStat.