



DECEMBER PRICE DEVELOPMENTS

5 JANUARY 2021

Summary

In December, consumer prices rose by 1.25%, and annual inflation increased by 0.57 points, hitting 14.60% at the end of 2020. The rise in inflation was mainly driven by core goods, while the durable goods and clothing groups diverged further. Price increases in durable goods proved strong owing to cumulative exchange rate effects, demand conditions and developments in international metal prices across subcategories. Against this backdrop, annual inflation as well as the trends of B and C indices increased. In this period, energy inflation picked up in tandem with rising oil prices, whereas the rise in services inflation remained relatively limited. Although annual food inflation fell to a limited extent due to the base effect, prices remained on an upward trend amid the developments in prices of agricultural commodities used as basic inputs.

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 December, consumer prices rose by 1.25%, and annual inflation inched up by 0.57 points to 14.60%. (Chart 1). In this period, annual rates of change in the B and C indices increased by 0.80 points and 1.05 points to 14.52% and 14.31%, respectively (Chart 2).

Across subcategories, contributions of core goods, energy and services groups to annual consumer inflation rose month-on-month by 0.49, 0.16 and 0.06 points, respectively, while those of alcohol-tobacco-gold and food declined by 0.13 and 0.01 points, respectively.

Chart 1: CPI and D (Annual % Change)

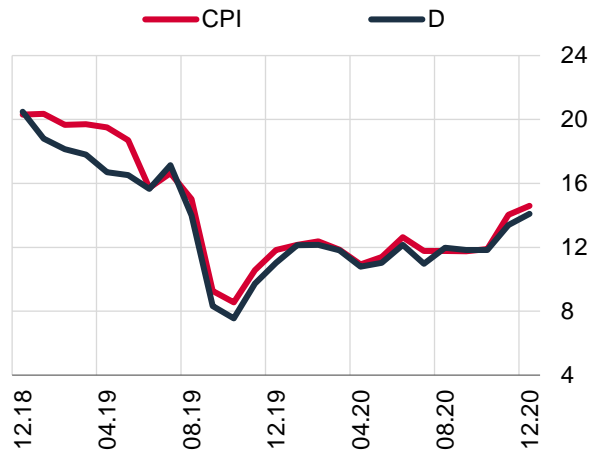
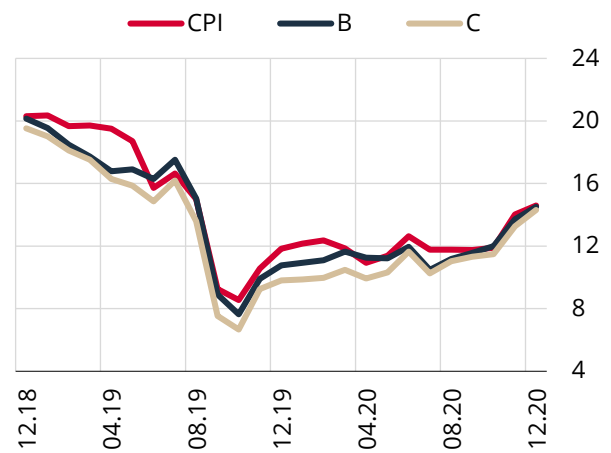


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators show that the trends of B and C indices recorded an increase (Chart 3). In this period, while the inflation trend remained high with an almost flat course in core goods, continued its gradual rise in services (Chart 4).

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

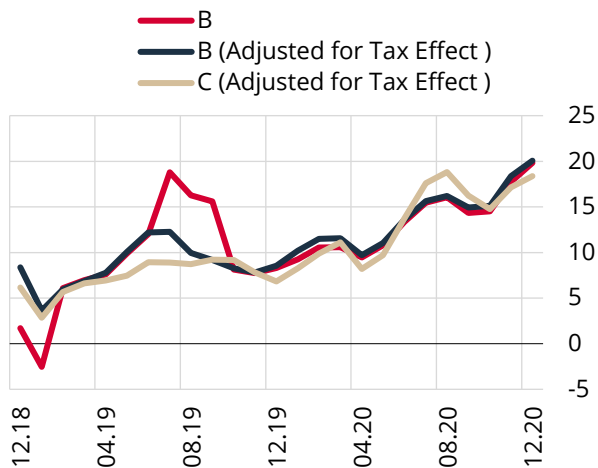
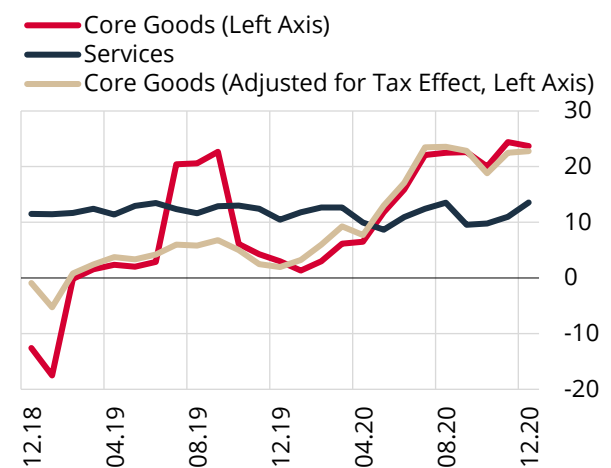
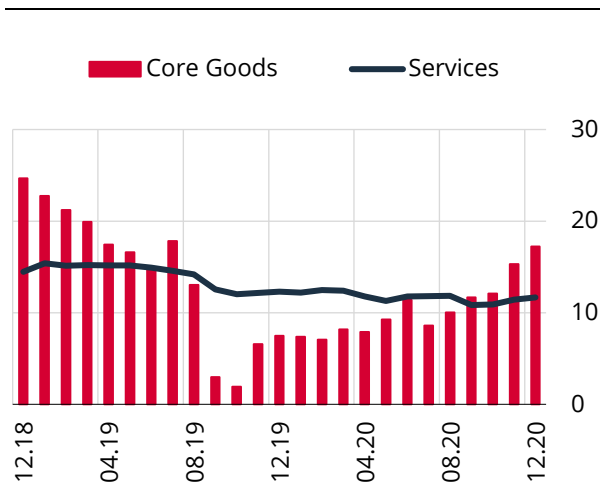
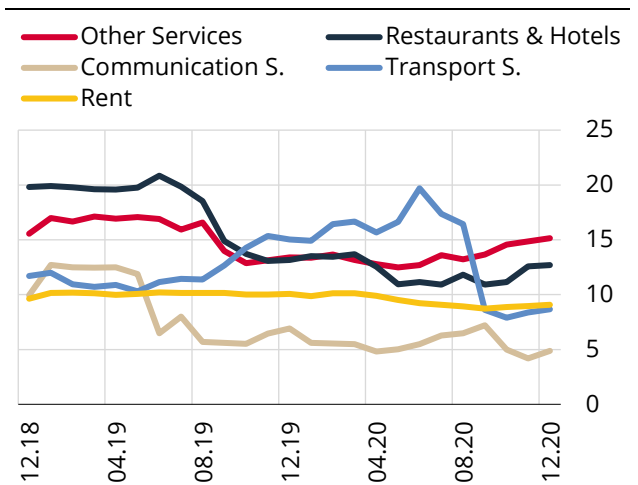


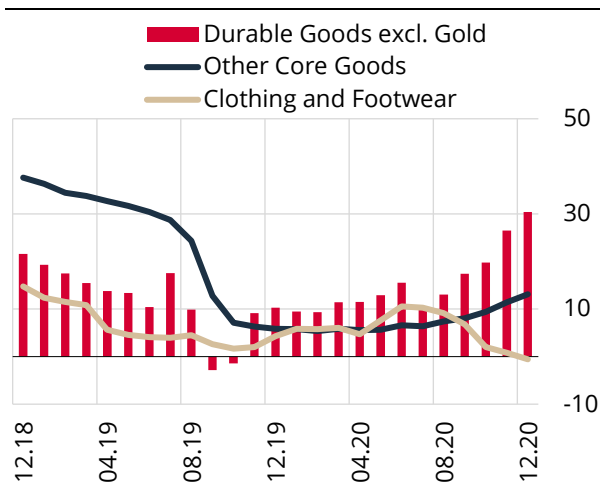
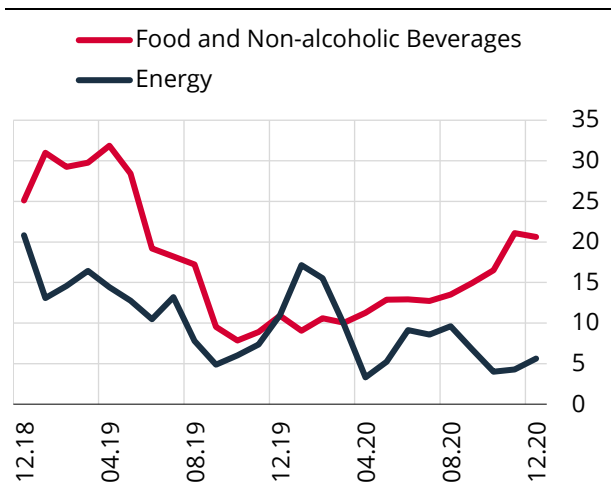
Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In December, services prices increased by 0.59%, and the group's annual inflation rose by 0.24 points to 11.66% (Chart 5). Annual inflation in restaurants-hotels and transport services remained almost flat, but increased in other subcategories (Chart 6). Seasonally adjusted data exhibited some deceleration in monthly price increases in the restaurants-hotels group, being more apparent in accommodation. Regarding communication services, price increases were led by internet fees. Meanwhile, health services, insurance and attorney fees stood out in the other services group.

Chart 5. Core Goods and Services (Annual % Change)**Chart 6. Services (Annual % Change)**

In December, core goods inflation rose by 1.92 points to 17.24% (Chart 5). In this period, annual inflation increased in durable and other core goods, but decreased in the clothing and footwear group (Chart 7). Price increases in durable goods spread across subcategories (white goods, automobile and furniture by 5.97%, 3.95% and 3.29%, respectively on a monthly basis) because of lagged effects of the depreciation in the Turkish lira as well as demand-side factors stemming from the strong credit impulse and hikes in international metal prices. Thus, annual inflation in durable goods reached 30.40%. In this period, the gradual rise in other core goods led by the lagged effects of the depreciation in the Turkish lira continued. Meanwhile, the weak sectoral demand for the clothing and footwear group pulled prices below the level of the previous year (with an annual inflation of -0.57%).

Chart 7. Core Goods (Annual % Change)**Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)**

In December, energy prices rose by 1.47% (Table 1). In this period, fuel prices increased by 3.50% following international oil prices, while solid fuel and natural gas prices increased by 0.75% and 0.68%, respectively. All in all, annual energy inflation increased by 1.36 points to 5.64% (Chart 8). In January, the impacts of price adjustments in electricity, natural gas and Istanbul tap water on the group annual inflation will be seen.

In December, annual food and non-alcoholic beverages inflation was up by 2.53 points; but the base effect pulled the group's annual inflation down by 0.47 points to 20.61% (Chart 8 and Table 2). In this period, annual inflation decreased by 0.68 points and 0.40 points to 26.34% and 15.52% in the unprocessed and processed food groups, respectively (Chart 9). Seasonally adjusted data for the unprocessed food group point to an increase in prices of fresh fruits and vegetables, with fresh fruits in the lead. The upsurge in

prices of other unprocessed food items such as egg (12.86%), rice (5.75%), chicken (5.49%) and legumes (2.62%) continued and annual inflation recorded a significantly high levels in December. Processed food prices registered increases across subcategories, which hit 1.70% on a monthly basis. International wheat prices pushed prices of the bread and cereals group up by 1.61%, while the lagged effects of the exchange rate coupled with international prices drove up the prices of fats and oils by 5.09% (Chart 10). Against this background, annual food inflation excluding fresh fruits and vegetables fell slightly to 18.06%. In short, despite the decline on the back of the base effect, annual food inflation was further shaped by the lagged effects of the exchange rate and international agricultural commodity prices.

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

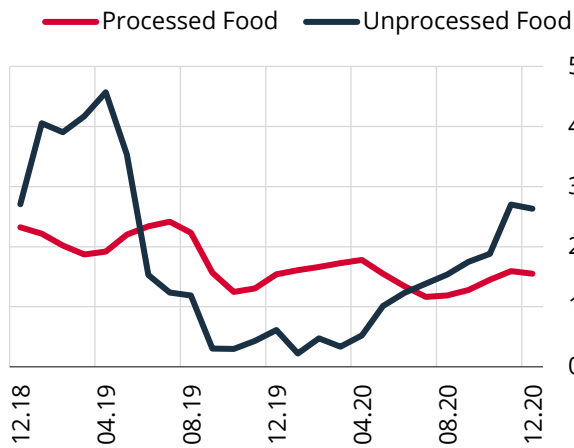
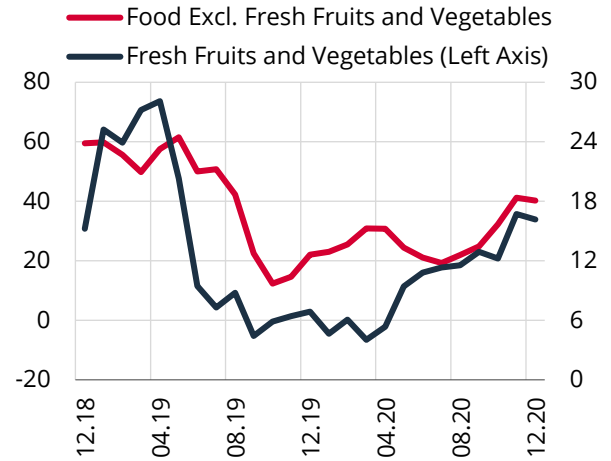


Chart 10. Fresh Fruits-Vegetables and Other Food
(Annual % Change)



D-PPI

In December, domestic producer prices rose by 2.36%, while annual D-PPI inflation increased by 2.04 points to 25.15% (Chart 11 and Table 3), mainly due to the cumulative exchange rate effects and the upward trend in international commodity prices as well as supply constraints and robust demand conditions in certain sectors. This period was marked by notable increases in industrial metal, oil and agricultural commodity prices, in particular. The trend of manufacturing industry prices excluding petroleum and base metals remained high, albeit with some deceleration in this period (Chart 12).

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

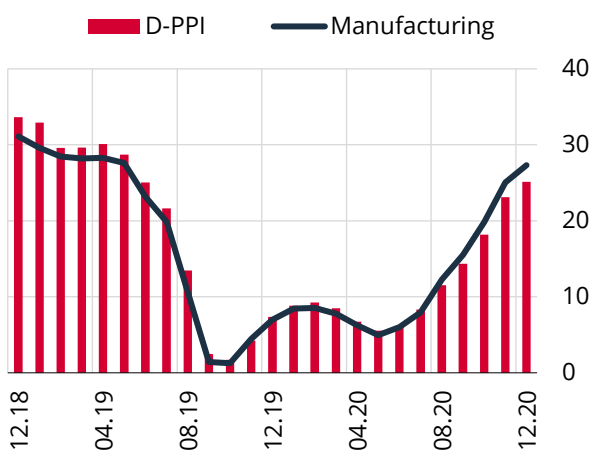
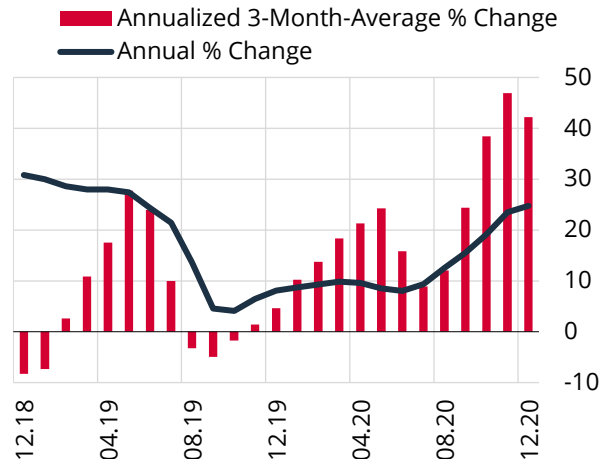


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation increased in all subcategories (Table 3, Charts 13 and 14). In monthly terms, prices of intermediate goods rose on the back of iron-steel, construction intermediate inputs and paper products, while the increase in prices of capital goods was driven by metal construction products and machines. In durable consumption goods, price increases were seen in home appliances and consumer electronics in contrast to some decline in the jewelry item due to the fall in international gold prices. Meanwhile, fats-oils, meat, and dairy products were the main drivers of the price hikes in nondurable consumption goods. Prices of petroleum products proved highly noticeable in the rise in energy prices. Overall, the producer prices-driven pressures on consumer prices continued.

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

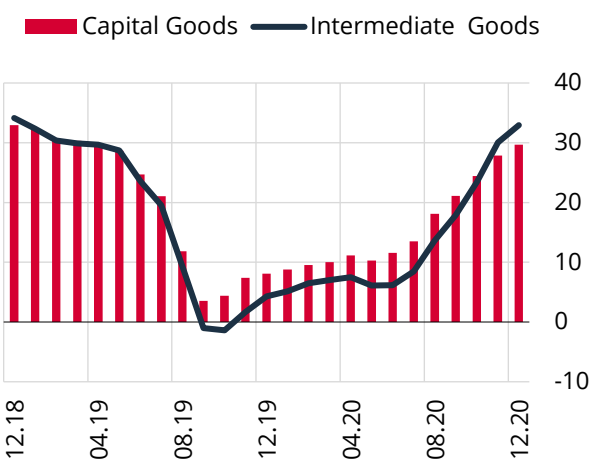
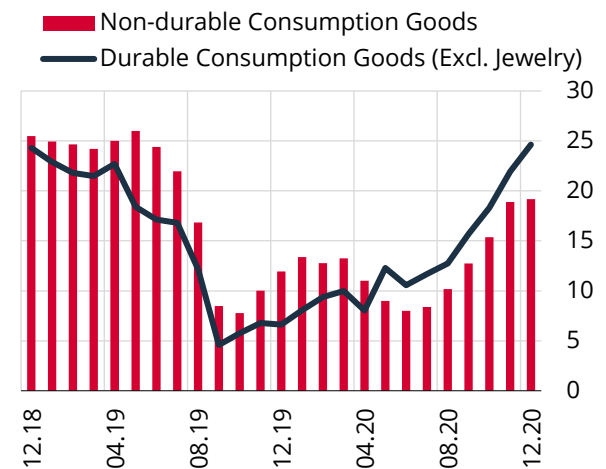


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	December 2020	December 2019	December 2020	December 2019
CPI	1.25	0.74	14.60	11.84
1. Goods	1.53	0.89	15.87	11.65
Energy	1.47	0.16	5.64	10.98
Food and non-alcoholic beverages	2.53	2.93	20.61	10.89
Unprocessed food	3.39	3.96	26.34	6.10
Fresh fruits and vegetables	4.67	6.07	33.92	2.94
Other unprocessed food	2.68	2.81	22.41	7.94
Processed food	1.70	2.05	15.52	15.39
Bread and cereals	1.61	1.59	19.31	16.59
Other processed food	1.76	2.30	13.47	14.75
Goods excluding energy and food	0.88	-0.12	16.35	12.39
Core goods	1.42	-0.25	17.24	7.48
Durable goods (excluding gold)	3.62	0.52	30.40	10.27
Clothing and footwear (*)	-3.26	-1.97	-0.57	4.32
Other core goods	1.41	-0.08	13.12	5.83
Alcoholic beverages and tobacco	-0.01	0.00	0.65	43.12
Gold	-3.58	1.88	62.27	26.27
2. Services	0.59	0.37	11.66	12.30
Rents	0.64	0.55	9.07	10.05
Restaurants and hotels	0.50	0.40	12.70	13.17
Transport	0.36	0.10	8.65	15.03
Communication	1.10	0.44	4.87	6.92
Other	0.57	0.33	15.14	13.40
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.11	0.41	14.52	10.76
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.99	0.06	14.31	9.81
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.03	0.40	14.10	11.04
F - CPI excluding administered prices	1.41	0.88	16.52	9.95

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	December 2020		December 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	1.25	14.60	0.74	11.84
Food and non-alcoholic beverages	22.77	2.53	20.61	2.93	10.89
Alcoholic beverages and tobacco	6.06	-0.01	0.65	0.00	43.12
Clothing and footwear	6.96	-3.18	-0.32	-1.91	4.53
Housing	14.34	0.67	9.59	0.24	9.90
Household equipment	7.77	3.46	18.04	0.12	9.79
Health	2.80	0.78	16.67	0.42	13.63
Transport	15.62	2.64	21.12	0.57	12.21
Communication	3.80	0.80	5.73	0.29	3.16
Recreation and culture	3.26	0.07	10.44	-0.11	7.03
Education	2.58	-0.03	6.84	0.12	14.46
Restaurants and hotels	8.67	0.50	12.70	0.40	13.17
Miscellaneous goods and services	5.37	-0.58	28.12	0.42	13.63

Source: TURKSTAT.

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

	Weight	December 2020		December 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	2.36	25.15	0.69	7.36
Mining	3.23	0.02	19.02	0.54	13.31
Manufacturing	89.22	2.67	27.32	0.83	6.98
Manufacturing excl. petroleum products	85.25	2.39	28.36	0.79	6.90
Manufacturing excl. petroleum products and base metals	75.47	1.75	24.74	0.71	8.09
Electricity, gas, steam and air-conditioning sup.	6.61	-1.21	0.25	-0.88	12.43
Water supply	0.95	1.18	14.83	-0.59	-7.94
D-PPI (MIGs Classification)					
Intermediate Goods		2.91	32.92	0.70	4.27
Durable Consumption Goods		1.31	27.70	-0.16	7.25
Durable Consumption Goods (Excl. Jewelry)		2.04	24.63	-0.17	6.63
Non-Durable Consumption Goods		1.47	19.18	1.24	11.93
Capital Goods		1.87	29.70	0.42	8.09
Energy		2.86	3.24	-0.01	9.02

Source: TURKSTAT.