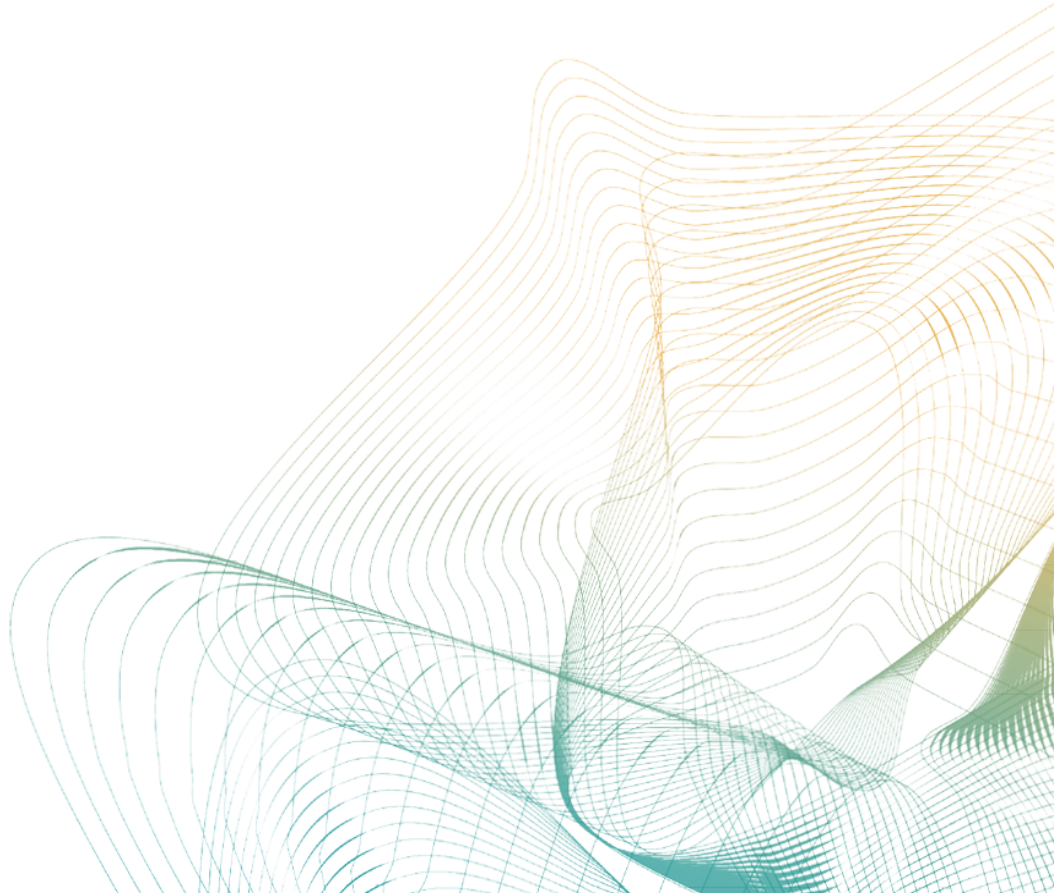




October Price Developments

5 November 2019



Summary

In October, consumer prices rose by 2.00% and annual inflation decreased by 0.71 points to 8.55%. The decline in inflation was mainly driven by food and core goods, and annual inflation was down across all main subgroups except energy. In this period, food inflation slowed due to processed food prices while the base effect from the other core goods group brought core goods inflation down. Annual services inflation continued to fall with the support of all subcategories excluding transport. Meanwhile, energy prices rose sharply for the second month in a row. The decline in core inflation indicators continued to be underpinned by the stability in the Turkish lira, improved inflation expectations and the course of domestic demand while the trend of indices B and C remained moderate.

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 October, consumer prices rose by 2.00% and annual inflation decreased by 0.71 points to 8.55% (Chart 1). The annual rate of change in the B and C indices decreased by 1.26 and 0.87 points to 7.64% and 6.67%, respectively (Chart 2).

Across subcategories, food, core goods, services and alcohol-tobacco contributed 0.39, 0.29, 0.19 and 0.06 points less month-on-month, respectively, to annual consumer inflation whereas the contribution from energy was up by 0.13 points.

Chart 1: CPI and D (Annual % Change)

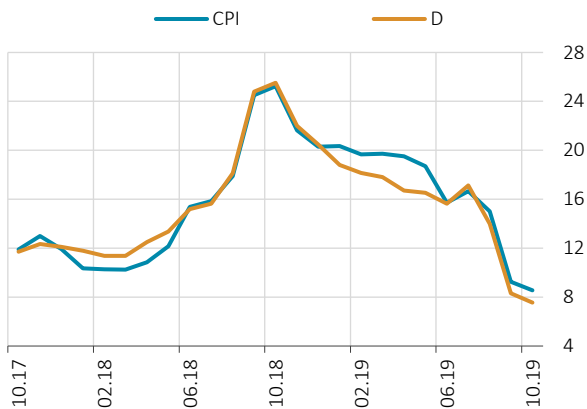
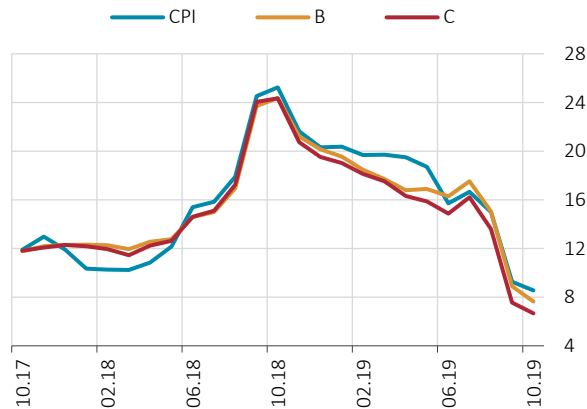


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of tax and seasonally adjusted core inflation indicators suggest that the trend of indices B and C was slightly down (Chart 3). This fall was largely due to core goods whereas the trend of services was relatively flat (Chart 4).

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

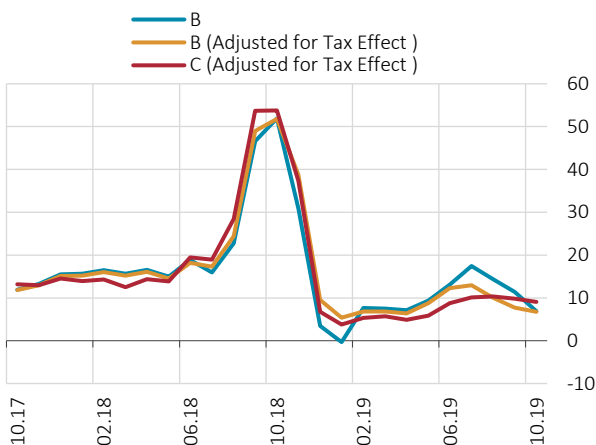
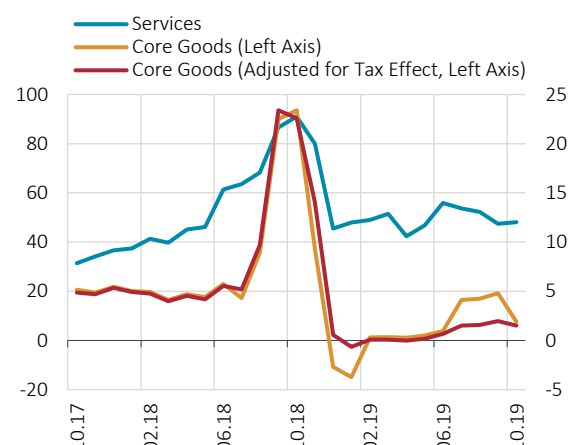


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In October, services prices increased by 0.64% and annual services inflation decreased by 0.53 points to 12.01% (Chart 5 and Table 1). By subcategories, annual inflation was down in other services and restaurants-hotels, up in transport and relatively flat in rents and communication (Chart 6). In this period, monthly price increases in communication and transport were noteworthy. Communication prices were driven up by higher mobile call charges while transport services were affected by price hikes in passenger transport by air (9.93%) and intercity transport by railway (20.64%). In the restaurants-hotels group,

prices recorded a moderate increase in catering services, yet fell significantly in accommodation services in this period.

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

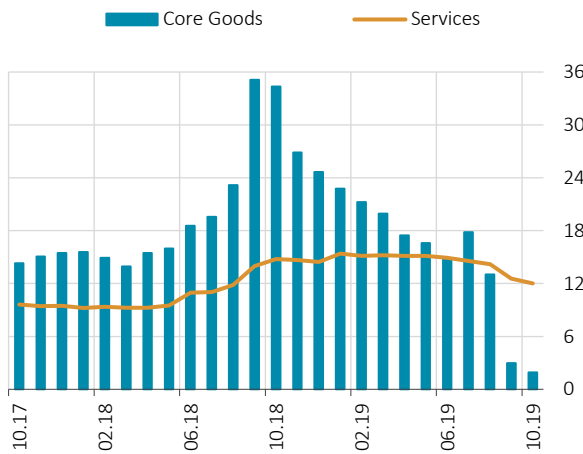
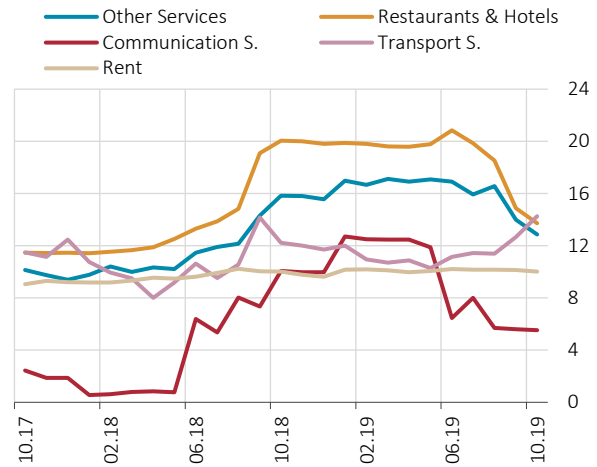


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 1.06 points to 1.92% (Chart 5). This fall was mostly caused by a strong base effect, a modest domestic demand and prices of the other core goods group remaining relatively flat month-on-month thanks to a stable Turkish lira. In this period, the downtrend in annual clothing inflation continued while annual durable goods inflation increased (Chart 7). Despite the decline in prices of other electric and nonelectric appliances (1.59%), prices of durable goods surged by 0.75% in October due to rising prices of furniture, automobiles and white goods (2.61, 0.75 and 0.72%, respectively).

Chart 7. Core Goods (Annual % Change)

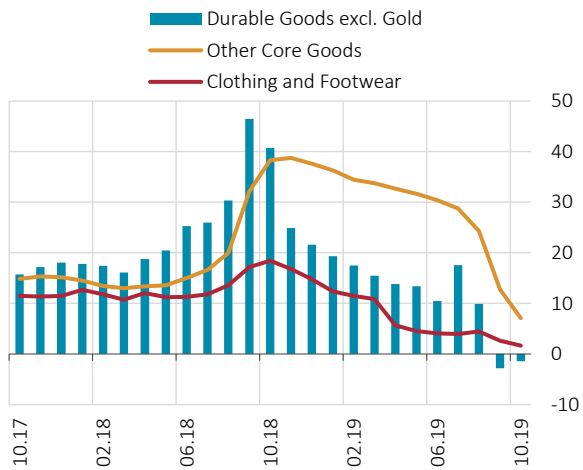
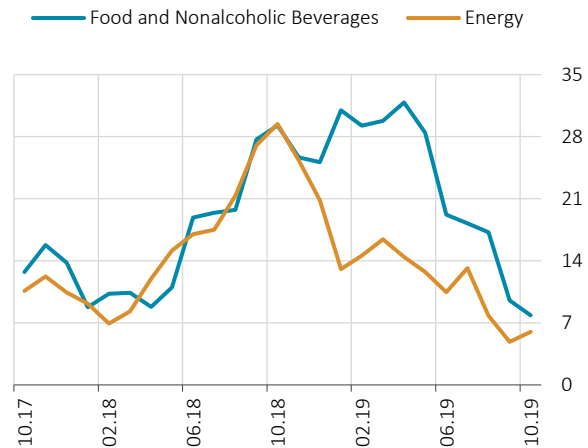


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



Energy prices increased by 4.82% in October (Table 1). This was mainly driven by electricity prices that rose by 14.90%, and bottled gas and fuel prices went up by 5.16% and 2.67%, respectively. Thus, annual energy inflation increased by 1.14 points to 6.00% (Chart 8).

Annual inflation in food and non-alcoholic beverages decreased by 1.67 points to 7.85% (Chart 8 and Table 2). While this development was led by processed food prices, annual inflation in the unprocessed food group remained almost flat at 2.96% in this period (Chart 9). Processed food prices that had been on a favorable path since August also posted a mild monthly increase (0.66%) in October, and annual

inflation in this group declined to 12.47% due also to the high base effect from last year (Chart 9). In this group, while price hikes in bread and cereals were noticeable, the recent uptrend in tea prices lost pace considerably. In this period, annual inflation in fresh fruits and vegetables increased by 4.83 points to -0.46% (Chart 10). In the other unprocessed food group, the fall in red and white meat came to the fore. All in all, annual food inflation excluding fresh fruits and vegetables declined to 9.70% (Chart 10).

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

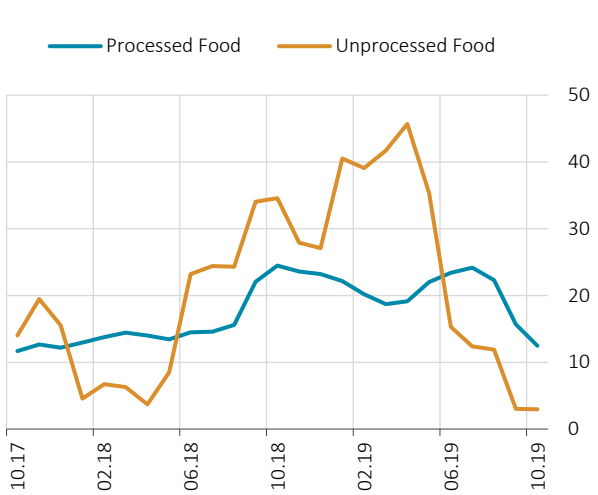
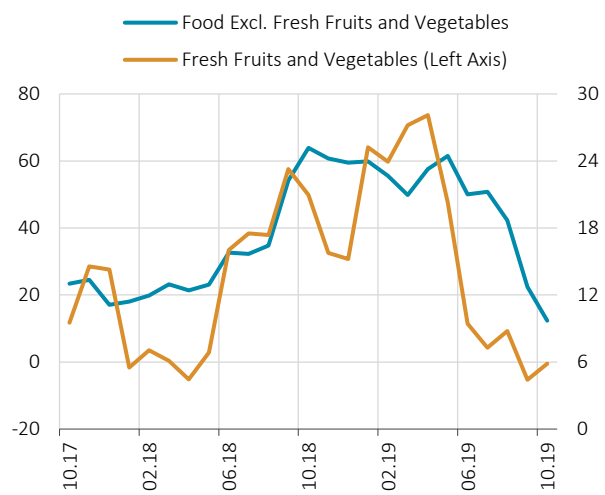


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In October, domestic producer prices increased by 0.17% and annual inflation remained low at 1.70% (Chart 11 and Table 3). In this period, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals petrol remained negative (Chart 12).

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

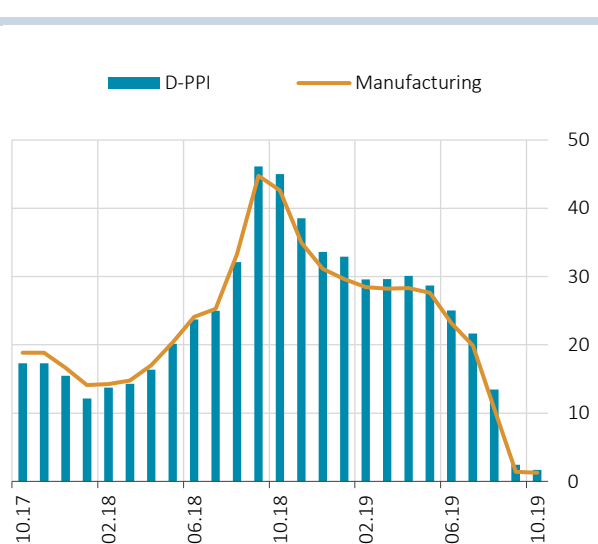
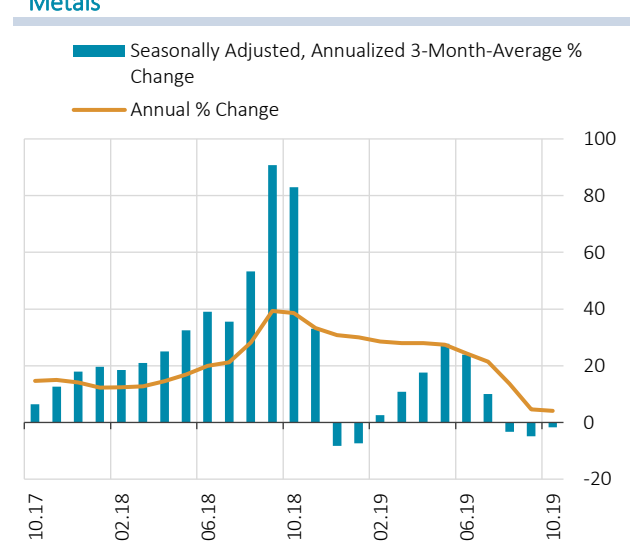


Chart 12. Manufacturing Excluding Petroleum and Base Metals



An analysis by main industrial groupings reveals that prices decreased in the intermediate goods group, followed a mild course in the nondurable consumption goods group and increased in other groups (Table 3, Chart 13 and Chart 14). While iron-steel and paper products were the main drivers of the decline in

intermediate goods prices, the fall in meat and meat products was determinant in the course of nondurable consumption goods prices. The rise in prices was led by furniture and household appliances in durable consumption goods, by metal construction products and motor vehicles in capital goods and by electricity prices in the energy group. In sum, the cost pressures on consumer prices stemming from producer prices remained weak.

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

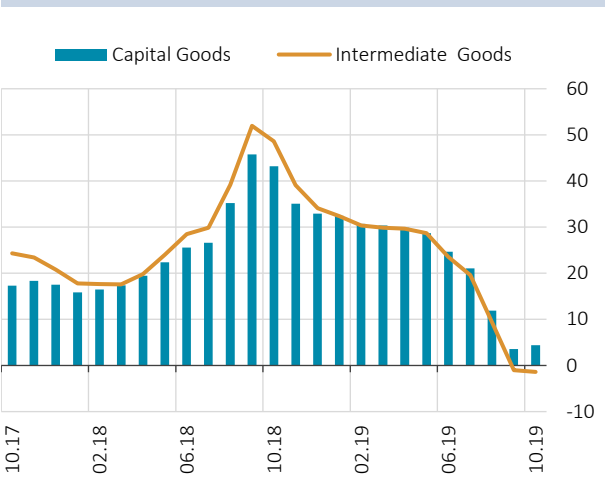
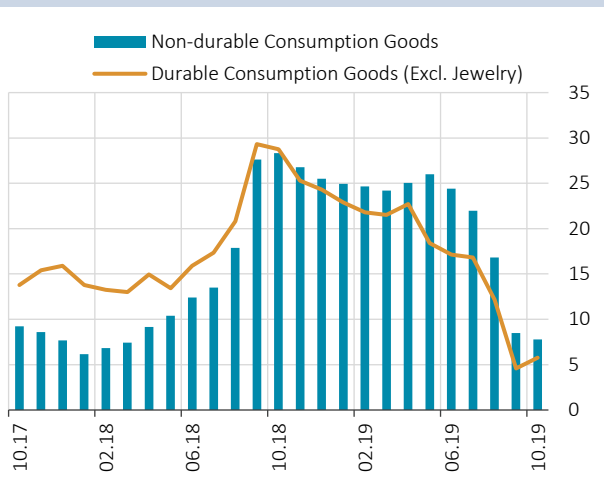


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

| | Monthly | | Annual | |
|---|--------------|--------------|--------------|--------------|
| | October 2019 | October 2018 | October 2019 | October 2018 |
| CPI | 2.00 | 2.67 | 8.55 | 25.24 |
| 1. Goods | 2.56 | 3.26 | 7.26 | 29.65 |
| Energy | 4.82 | 3.70 | 6.00 | 29.43 |
| Food and non-alcoholic beverages | 1.65 | 3.22 | 7.85 | 29.26 |
| Unprocessed food | 2.82 | 2.91 | 2.96 | 34.58 |
| Fresh fruits and vegetables | 9.56 | 4.24 | -0.46 | 49.82 |
| Other unprocessed food | -0.61 | 2.07 | 5.03 | 26.34 |
| Processed food | 0.66 | 3.54 | 12.47 | 24.48 |
| Bread and cereals | 1.26 | 2.97 | 15.29 | 22.94 |
| Other processed food | 0.35 | 3.84 | 11.00 | 25.30 |
| Goods excluding energy and food | 2.36 | 3.11 | 7.28 | 30.01 |
| Core goods | 2.92 | 3.98 | 1.92 | 34.35 |
| Durable goods (excluding gold) | 0.75 | -0.69 | -1.42 | 40.69 |
| Clothing and footwear (*) | 11.92 | 12.96 | 1.66 | 18.44 |
| Other core goods | 0.21 | 5.51 | 7.09 | 38.33 |
| Alcoholic beverages and tobacco | 0.00 | 0.18 | 43.60 | 2.06 |
| Gold | 0.36 | -5.85 | 18.44 | 51.48 |
| 2. Services | 0.64 | 1.11 | 12.01 | 14.76 |
| Rents | 0.70 | 0.82 | 10.01 | 10.02 |
| Restaurants and hotels | 0.50 | 1.52 | 13.71 | 20.06 |
| Transport | 0.73 | -0.67 | 14.26 | 12.21 |
| Communication | 2.45 | 2.53 | 5.53 | 10.05 |
| Other | 0.19 | 1.19 | 12.86 | 15.84 |
| 3. Core Measures | | | | |
| B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold | 1.58 | 2.77 | 7.64 | 24.37 |
| C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold | 1.78 | 2.61 | 6.67 | 24.34 |
| D - CPI excluding unprocessed food, alcoholic beverages and tobacco | 2.03 | 2.76 | 7.55 | 25.52 |
| F – CPI excluding administered prices | 1.86 | 2.65 | 6.10 | 27.46 |

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

| | Weight | October 2019 | | October 2018 | |
|----------------------------------|--------|--------------|--------|--------------|--------|
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100 | 2.00 | 8.55 | 2.67 | 25.24 |
| Food and non-alcoholic beverages | 23.29 | 1.65 | 7.85 | 3.22 | 29.26 |
| Alcoholic beverages and tobacco | 4.23 | 0.00 | 43.60 | 0.18 | 2.06 |
| Clothing and footwear | 7.24 | 11.70 | 1.90 | 12.74 | 18.45 |
| Housing | 15.16 | 3.55 | 9.70 | 4.15 | 25.72 |
| Household equipment | 8.33 | 0.96 | 6.06 | 3.44 | 37.92 |
| Health | 2.58 | 0.44 | 14.24 | 1.48 | 15.83 |
| Transport | 16.78 | 1.17 | 1.36 | -0.85 | 32.00 |
| Communication | 3.69 | 1.43 | 1.74 | 2.05 | 10.48 |
| Recreation and culture | 3.29 | -0.59 | 4.57 | 2.07 | 24.02 |
| Education | 2.40 | 0.18 | 14.20 | 0.01 | 10.27 |
| Restaurants and hotels | 7.86 | 0.50 | 13.71 | 1.52 | 20.06 |
| Miscellaneous goods and services | 5.15 | 0.24 | 13.43 | 1.61 | 31.50 |

Source: TURKSTAT.

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

| | Weight | October 2019 | | October 2018 | |
|--|--------|--------------|--------|--------------|--------|
| | | Monthly | Annual | Monthly | Annual |
| D-PPI | 100 | 0.17 | 1.70 | 0.91 | 45.01 |
| Mining | 3.06 | 1.32 | 8.04 | 1.12 | 35.87 |
| Manufacturing | 89.31 | 0.03 | 1.26 | 0.17 | 42.62 |
| Manufacturing excl. petroleum products | 86.19 | -0.02 | 2.13 | 0.25 | 40.76 |
| Manufacturing excl. petroleum products and base metals | 76.71 | 0.23 | 4.09 | 0.70 | 38.56 |
| Electricity, gas, steam and air-conditioning sup. | 6.52 | 1.35 | 6.82 | 8.62 | 82.87 |
| Water supply | 1.11 | 0.96 | -6.53 | 0.89 | 9.22 |
| D-PPI (MIGs Classification) | | | | | |
| Intermediate Goods | | -0.39 | -1.39 | -0.04 | 48.59 |
| Durable Consumption Goods | | 1.02 | 6.09 | -0.30 | 30.34 |
| Durable Consumption Goods (Excl. Jewelry) | | 1.02 | 5.77 | -0.11 | 28.73 |
| Non-Durable Consumption Goods | | 0.15 | 7.77 | 0.82 | 28.33 |
| Capital Goods | | 0.90 | 4.38 | 0.09 | 43.21 |
| Energy | | 1.41 | -2.28 | 5.37 | 81.61 |

Source: TURKSTAT.