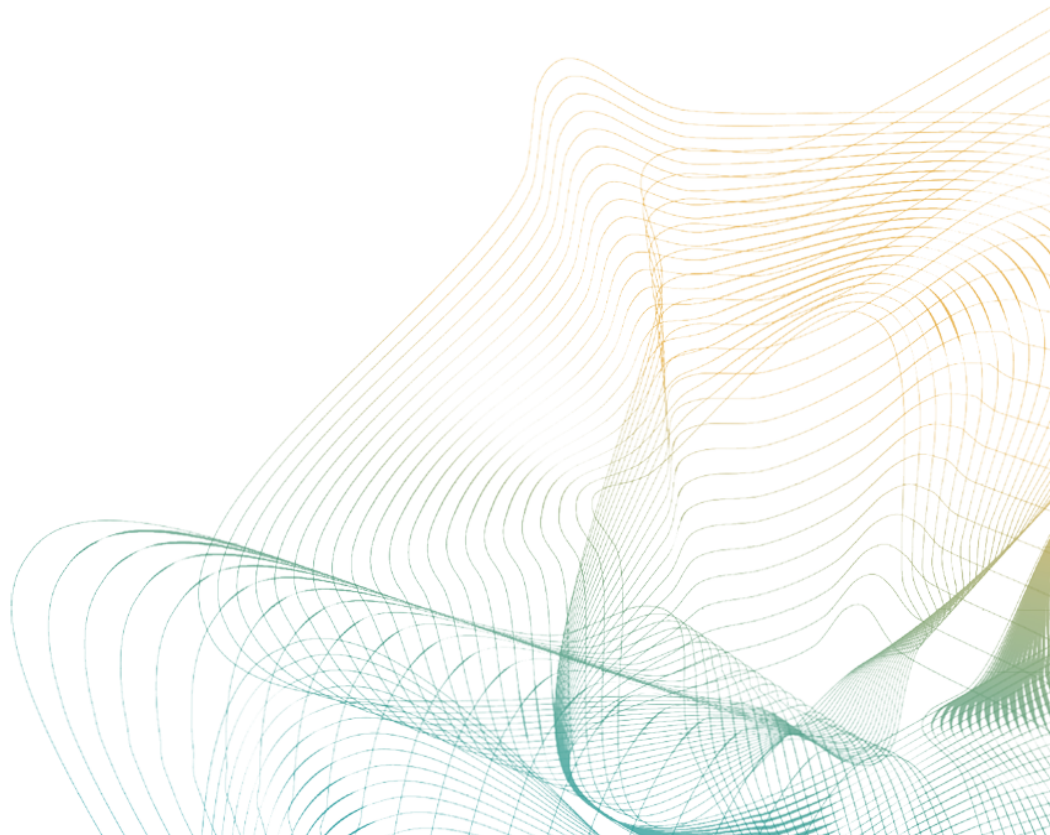




August Price Developments

4 September 2018



Summary

In August, consumer prices rose by 2.30 percent and annual inflation increased by 2.05 points to 17.90 percent. Food inflation increased somewhat due to the unfavorable course of the processed food group. Core goods and energy prices proved to be the main drivers of the uptick in inflation. Core goods with high imported content registered notable price increases. The strong rising trend in energy prices is expected to continue in September. This period was marked by price hikes across the services sector. Producer prices pointed at quite strong cost pressures. Against this background, core indicators recorded considerable increases both in annual inflation and the underlying trend.

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.

Evaluations

In August, consumer prices rose by 2.30 percent and annual inflation increased by 2.05 points to 17.90 percent (Chart 1). The annual rate of change in the B and C indices rose by 1.94 and 2.12 points to 16.95 and 17.22 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to inflation indicates month-on-month increases of 0.98, 0.54, 0.24 and 0.23 points in the core goods, energy, services and gold groups, respectively. The contribution of food and alcohol-tobacco groups did not register a noticeable change in this period.

Chart 1: CPI and D (Annual % Change)

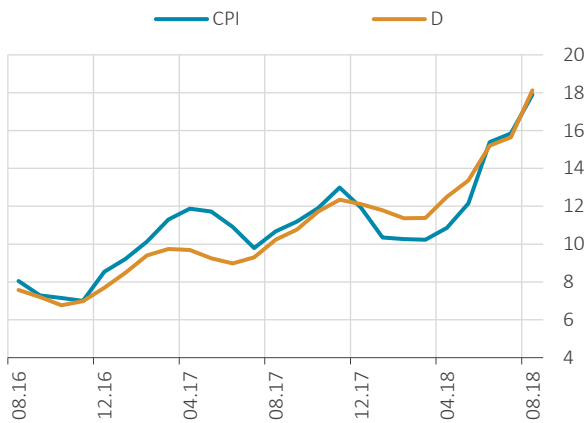
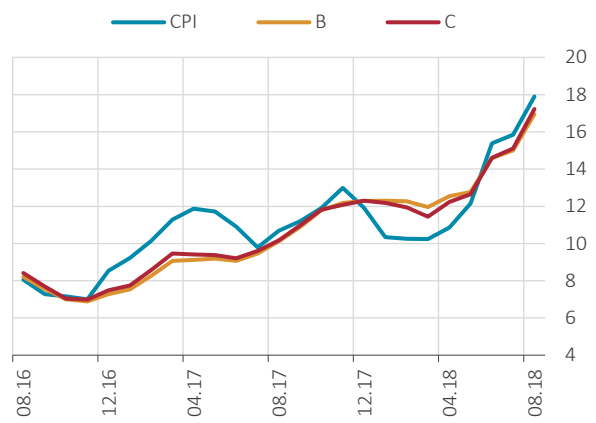


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators exhibit a significant increase in the underlying trend of inflation (Chart 3). In this period, the underlying trend surged in the core goods group, and increased slightly in services (Chart 4). All in all, the underlying trend of core inflation displayed a remarkable deterioration.

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

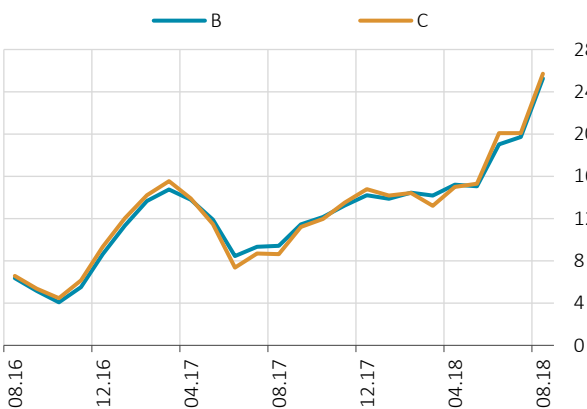
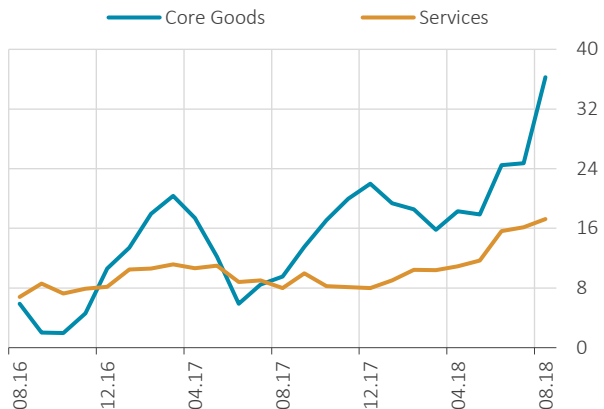


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)



Prices of services increased by 1.46 percent and annual services inflation rose by 0.80 points to 11.84 percent in August (Chart 5 and Table 1). Annual inflation registered increases in all subgroups in this period, chiefly in communication, transport and restaurant-hotel services (Chart 6). Prices of communication services were pushed up by mobile phone communication tariffs. Inflation in communication, which had been low for a long time unlike the group as a whole, recorded an uptrend in

recent months in line with the deteriorated inflation outlook. In this period, accommodation prices within the restaurant-hotel group recorded a monthly upsurge due to the exchange rate developments and the brisk course of tourism (5.30 percent), and the uptrend in prices of catering services continued. In the transport group, led both by the favorable course of tourism and the price hikes in fuel oil, highway and airway passenger transport services saw noticeable price increases. Other services witnessed rising prices in health services and maintenance-repair items that are sensitive to the exchange rate. The uptrend in rent inflation led by the rise in headline inflation continued in August.

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

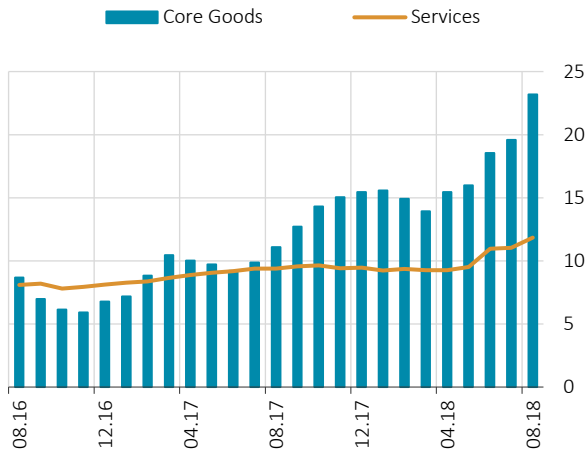
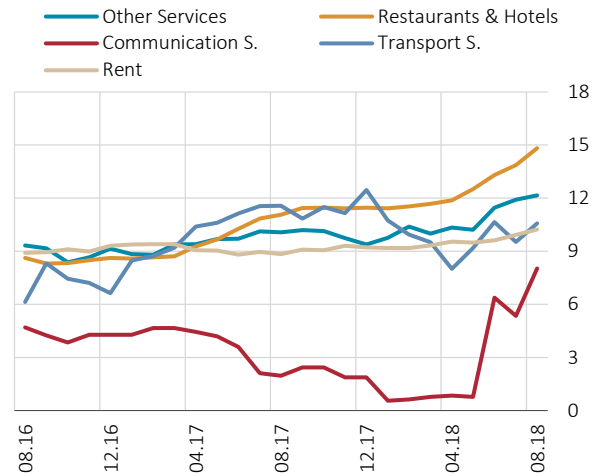


Chart 6. Services (Annual % Change)



Annual core goods inflation increased by 3.60 points and hit 23.18 percent in August (Chart 5). Annual inflation registered increases in all subgroups in this period (Chart 7). Widespread price hikes stemming from exchange rate effects in durable goods and other core goods continued. Registering a price increase by 5.49 percent, the durable goods group saw a particular surge in prices in furniture (6.58 percent), automobiles (5.99 percent) and white goods (5.17 percent). In the other core goods group, monthly price increases were driven by products with high imported content such as housing maintenance-repair items and personal care materials. Seasonal discounts in clothing and footwear remained limited compared to seasonal norms. In sum, the upward course of core goods inflation was mainly led by exchange rate developments.

Chart 7. Core Goods (Annual % Change)

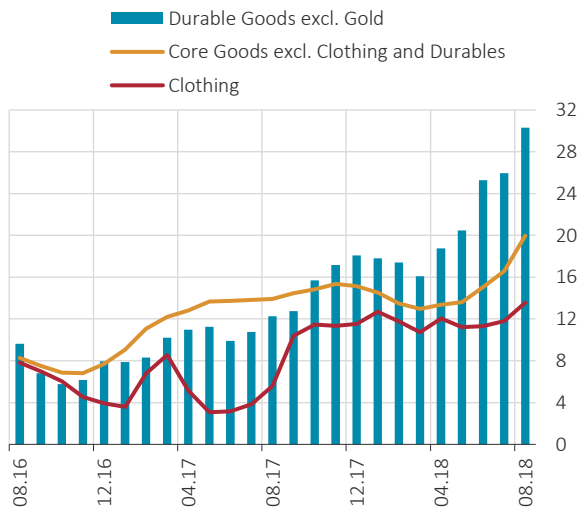
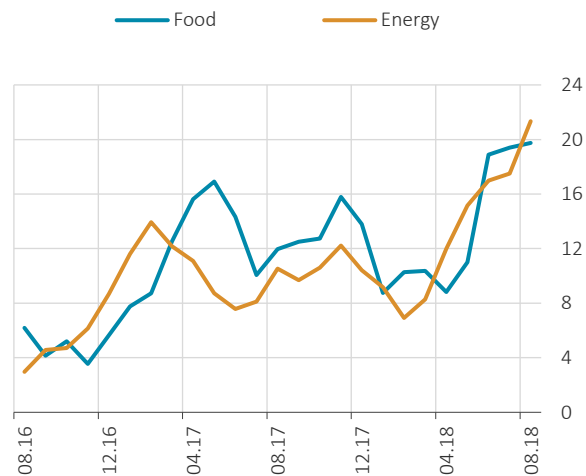


Chart 8. Food and Energy (Annual % Change)



Energy prices were up 5.37 percent in August (Table 1). Price hikes spread across subcategories, while electricity, natural gas and solid fuel prices rose by 9.00, 7.45 and 5.34 percent, respectively in this period. Fuel prices picked up by 5.25 percent on account of the SCT adjustment. Thus, annual energy inflation rose by 3.85 points to 21.34 percent (Chart 8). Energy prices are expected to increase further in September due to the price hikes in electricity and natural gas coupled with the remaining effect of the SCT adjustment in fuel oil products.

Annual inflation in food and nonalcoholic beverages inched up by 0.35 points to 19.75 percent in August (Chart 8). Annual inflation climbed to 15.75 percent in the unprocessed food group, but remained relatively flat at 24.31 percent in the processed food group (Chart 9). Despite a partial correction in vegetable prices, seasonally adjusted unprocessed food prices remained practically flat. Red meat prices receded, while egg, milk and rice prices picked up in this group. Impacted by the exchange rate as well as prices of unprocessed food products serving as inputs, the processed food group saw a sharp increase in prices by 2.12 percent. This group witnessed an uptrend across all subcategories, mainly in bread and cereals, dairy products, canned products and fats and oils. Against these developments, annual food inflation excluding fresh fruits and vegetables also reached 16.43 percent and remained on an upward trajectory (Chart 10).

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

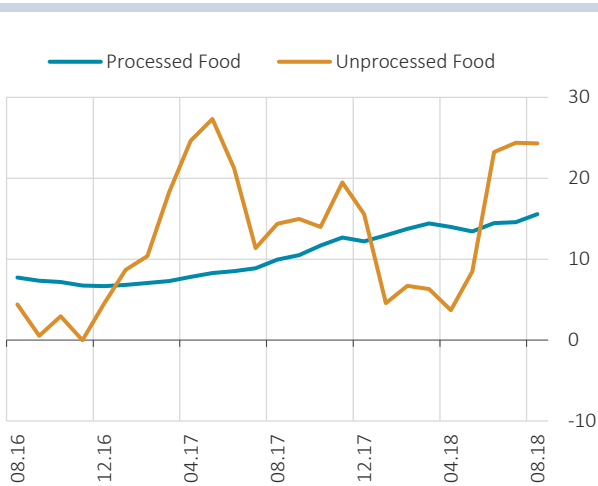


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

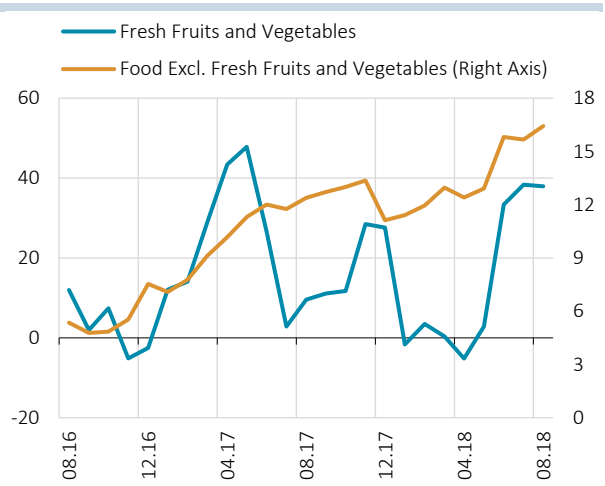


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	August 2018	August 2017	August 2018	August 2017
CPI	2.30	0.52	17.90	10.68
1. Goods	2.63	0.43	20.53	11.26
Energy	5.37	2.03	21.34	10.54
Food and nonalcoholic beverages	0.06	-0.22	19.75	11.97
Unprocessed food	-1.90	-1.83	24.31	14.37
Fresh fruits and vegetables	-6.12	-5.80	37.91	9.54
Other unprocessed food	0.63	0.23	17.63	16.89
Processed food	2.12	1.25	15.57	9.95
Bread and cereals	1.99	0.48	13.75	8.54
Other processed food	2.19	1.69	16.59	10.75
Goods excluding energy and food	3.37	0.26	20.73	11.12
Core goods	3.24	0.22	23.18	11.08
Durable goods (excluding gold)	5.49	1.98	30.31	12.26
Clothing and footwear(*)	-1.65	-3.16	13.56	5.59
Other core goods	3.39	0.49	19.96	13.91
Alcoholic beverages and tobacco	0.42	0.05	1.81	10.40
Gold	17.41	1.87	53.47	13.02
2. Services	1.46	0.73	11.84	9.40
Rents	1.04	0.76	10.23	8.85
Restaurants and hotels	1.88	1.03	14.83	11.07
Transport	1.26	0.31	10.57	11.57
Communication	2.40	-0.14	8.03	1.96
Other	1.15	0.93	12.16	10.06
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	2.31	0.62	16.95	10.12
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	2.35	0.49	17.22	10.16
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	3.02	0.85	18.12	10.23

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices increased by 6.60 percent in August, and annual inflation rose by 7.13 points and hit 32.13 percent, the highest level in the index history (Chart 11). The surge in prices that spread throughout all the subgroups was mainly driven by the depreciation trend in the Turkish lira. Annual inflation in the manufacturing industry rose by 8.01 points to 33.29 percent in this period. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals also gained substantial momentum (Chart 12).

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

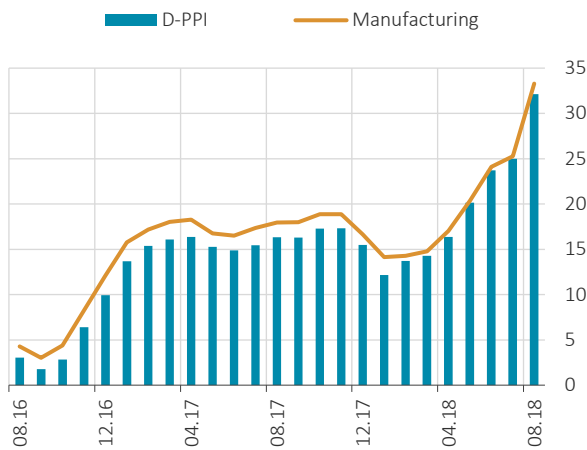
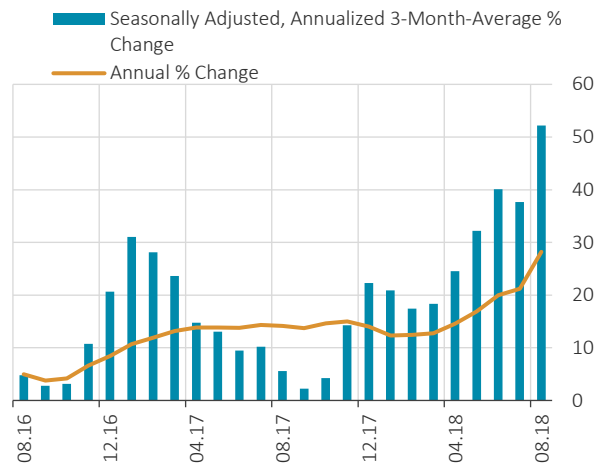


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to the Main Industrial Groupings (MIGs), all subcategories saw sharp price increases and higher annual inflation rates (Table 3, Charts 13 and 14). In August, price hikes in intermediate goods were mostly led by iron-steel, plastics, basic chemical products, textiles and paper products, while prices of capital goods were pushed up by metal construction materials, motor vehicles and their spare parts and accessories and machines. In this period, furniture, home appliances and consumer electronics accounted for higher prices of durable goods, while prices of non-durable goods were driven higher by consumer textiles, clothing, food products and printing services. All in all, producer-driven cost pressures on consumer prices grew quite stronger in August.

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

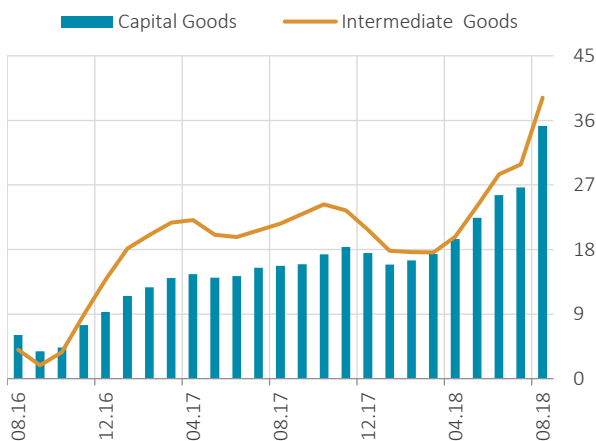
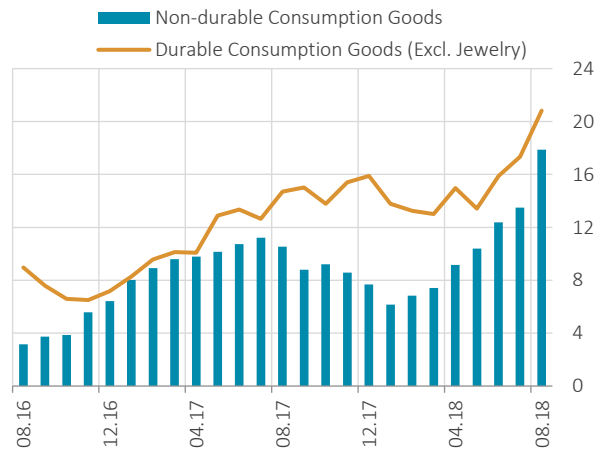


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	August 2018		August 2017	
		Monthly	Annual	Monthly	Annual
CPI	100.00	2.30	17.90	0.52	10.68
Food and nonalcoholic beverages	23.03	0.06	19.75	-0.22	11.97
Alcoholic beverages and tobacco	5.14	0.42	1.81	0.05	10.40
Clothing and footwear	7.21	-1.59	13.59	-3.09	5.65
Housing	14.85	3.85	16.30	0.71	7.76
Household equipment	7.66	4.56	23.76	1.66	8.73
Health	2.64	0.88	12.57	0.18	11.66
Transport	17.47	4.45	27.13	2.05	17.38
Communication	3.91	2.63	7.35	0.08	1.77
Recreation and culture	3.39	2.61	12.15	0.34	11.19
Education	2.67	0.79	8.65	2.79	10.30
Restaurants and hotels	7.27	1.88	14.83	1.03	11.07
Miscellaneous goods and services	4.76	5.85	23.23	0.71	10.89

Source: TurkStat.

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

	Weight	August 2018		August 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	6.60	32.13	0.85	16.34
Mining	3.26	5.69	30.80	0.89	11.35
Manufacturing	89.02	7.31	33.29	0.86	17.94
Manufacturing excl. petroleum products	86.52	6.70	31.08	0.74	17.02
Manufacturing excl. petroleum products and base metals	79.60	6.20	28.21	0.37	14.14
Electricity, gas, steam and air-conditioning sup.	6.74	-1.20	20.66	0.77	0.11
Water supply	0.98	1.52	8.30	0.36	11.26
D-PPI (MIGs Classification)					
Intermediate Goods		8.42	39.16	1.17	21.61
Durable Consumption Goods		5.65	22.58	1.74	14.21
Durable Consumption Goods (Excl. Jewelry)		4.77	20.82	1.75	14.71
Non-Durable Consumption Goods		3.63	17.86	-0.21	10.55
Capital Goods		7.67	35.23	0.84	15.71
Energy		6.05	42.23	1.79	12.51

Source: TurkStat.