

SEPTEMBER PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

4 October 2006

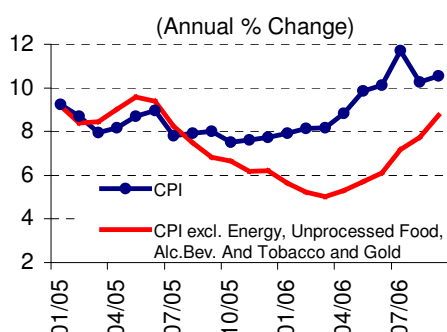
...SUMMARY OUTLOOK...

In September, annual inflation increased compared to the previous month and became 10.55 percent. High rates of increase in the prices of seasonal products became a factor pushing up inflation. The price increments in the food group due to the Holy month of Ramadan, increase in prices of the education and recreation-culture group due to the start of the academic year and the continued rise in prices of the home furniture and health services group stemming from the lagged effects of the changes in exchange rates had a negative impact on consumer prices while the decrease in energy and gold prices made a positive contribution in September.

The *special CPI aggregate, the SCA-H indicator, excluding prices of energy, unprocessed food, alcoholic beverages, tobacco products and gold*, formerly released by the Central Bank to measure the general inflation trend, began to be released by TURKSTAT from September onwards. The SCA-H indicator, rose by 8.74 percent in annual terms, as of September.

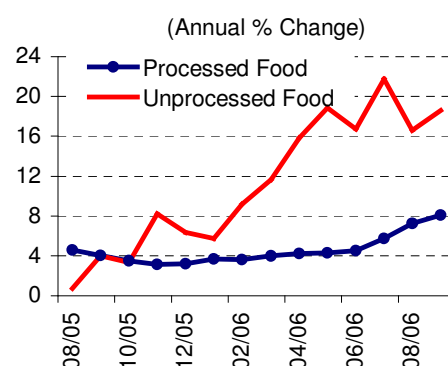
The effect of Ramadan on September inflation was calculated to be around 0.2 percentage points and it is forecasted that this effect will be stronger on October inflation. In addition, when seasonal price adjustments in the clothing group are taken into account, it is predicted that October inflation will temporarily be high. In November, it is possible to have a movement in the food prices that can be considered as a price correction. We maintain the opinion presented in the previous report that there might be temporary fluctuations in inflation in the short-run due to Ramadan and other seasonal factors.

...SUMMARY OUTLOOK...



Annual inflation in consumer prices increased in September, as seasonal price increments in food, clothing and education groups exceeded the rates of increase of past years and as the lagged effects of the increase in exchange rates on some sub-groups continue, albeit rather weaker now. The rise in the *special CPI aggregate excluding prices of energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H)* continued in September too.

The 2.86 percent rise in the prices of food and non-alcoholic beverages in September became the highest rise recorded for the Septembers of the last 4 years. The rise in the prices of processed and unprocessed foods both contributed to this high rise. Unprocessed food group prices increased by 4.92 percent in September following a significant decline in August, and consumer inflation excluding the unprocessed food group became 0.77 percent. The price increases in the fresh fruits and vegetables group, which is a determinant factor of the unprocessed food group, comprised 1.5 percent of the total rise in the food and non-alcoholic beverages group in September. Meanwhile, the upward trend in processed food group prices observed in the last two months continued in September as well.



It is believed that Ramadan affected food prices especially via the channel of processed food products. It should be taken into account that the said effect may also continue in October and the annual increase in prices of processed food products may be high as well.

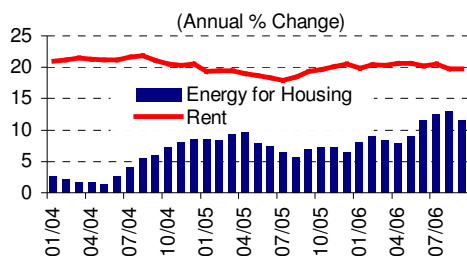
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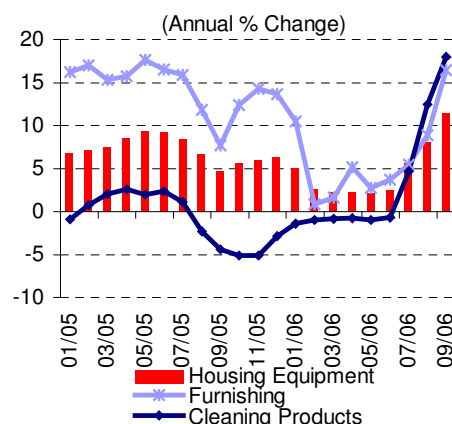
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While clothing prices in the clothing and footwear group did not show a significant increase in September (0.49 percent), footwear prices increased at a high rate by 8.25 percent and became the main determinant of prices in this group. Despite the high increase in September, annual inflation in the footwear group was 0.83 percent. Besides, clothing and leather articles manufacturing prices within producer prices increased more rapidly in September compared to previous years, which indicates that the rate of increase in the clothing and footwear group may be higher in the new season in October compared to previous years.



In September, rents increased by 2.38 percent, which is close to the rate of increase of the previous year. In this respect, the annual rate of increase in this group remained at around 20 percent. Meanwhile, there was a slowdown in the monthly rate of increase in housing group-oriented energy prices. It is observed that the only energy group that increased in September was the solid fuels group (wood and coal), whose rate of increase reached 8 percent after May.

In September, the annual rate of increase in the household goods group, which was around 2 percent prior to the fluctuations in financial markets, maintained its upward trend observed since June and reached 11.38 percent. As it is known, durable goods such as furniture, electrical and non-electrical equipment have a significant share in this group. Among these goods, while prices of electrical and non-electrical equipments decreased (-1.46 percent), furniture prices increased at a high rate by 4.07 percent. It can be marked as a significant development that annual inflation in the furniture group reached 16.44 percent, following the high rated increases in the last four month-period. As for cleaning products, which are mainly influenced by exchange rate developments, rapid increases (2.73 percent) continued albeit at a lower pace.



Medicine prices that were increased at the beginning of September became influential in prices of the health group. Added the last two months' increases in medicine prices, the annual rate of increase in the health group reached 7.88 percent. When transportation group prices are analyzed, it is observed that automobile prices, which had been increasing since May, decreased by 1.1 percent in September. Fuel oil prices, which had increased by a total of 15.81 percent in the April-July period, dropped by 7.82 percent in the August-September period due to the decline in international oil prices and exchange rates and the fall in September. Despite the decline in automobile and fuel oil prices, transportation prices increased as a result of the rise (7.88 percent) in school bus fees included in the land transportation group. The cumulative increase in prices of transportation services reached 9.07 percent in September.

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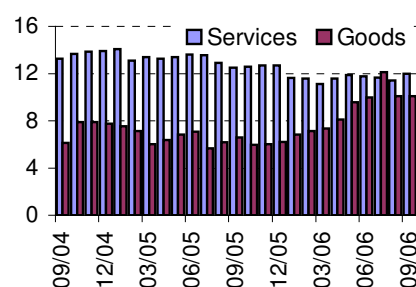
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The increase in entertainment and culture group prices derived from the prices of schoolbooks and stationary products that increased with the opening of schools in September. In the same period, although prices of local tours declined due to seasonal factors, package tour prices increased in annual terms as a result of the increase observed in prices of tours abroad. On the other hand, prices of some technology-intensive products declined parallel to exchange rate developments.

The main determinant of the price developments in the education group is considered to be the university fees that were announced in September. The university fees that are set by the public sector increased by 5.5 percent. However, the increase in private university fees, which take place for the first time in the price index, spread to the July-September period and the said increase was quite above (15.6 percent) the price adjustment made to public universities.

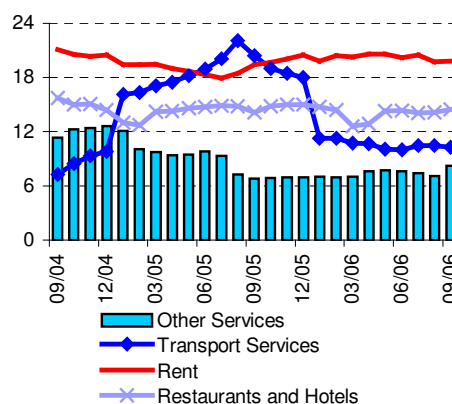
In September, the annual inflation of the goods group did not change while that of the services group increased compared to the previous month. In the services group, the rents item did not display a significant change whereas the annual inflation of transportation services declined in a limited manner. In the restaurants and hotels group, the prices of both food and accommodation services increased in annual terms in September. The main determinant of this rise was the increase in the dormitory fees included in accommodation services. The increase in the other services group derived from the rise in education, entertainment and culture services (package tour prices did not decline seasonally) and home related services.

(Annual % Change)



The services group inflation followed an unstable course in the first three quarters of the year and did not display a significant slow down excluding transportation services. It is foreseen that the upward trend of services prices will lose pace in the upcoming period along with the slow down in domestic demand.

(Annual % Change)



	Monthly Change		Annual Change	
	September 2006	September 2005	September 2006	September 2005
CPI	1.29	1.02	10.55	7.99
1. Goods	1.18	1.18	10.09	6.58
Energy	-1.24	2.27	9.74	11.61
Unprocessed Food	4.92	3.16	18.60	3.98
Goods excl. Energy and Unprocessed Food	0.96	0.32	8.07	5.63
Durable Goods	-0.78	-0.19	13.10	5.83
Durable Goods excl.	0.11	-1.05	7.44	7.27
Semi-Durable Goods	0.16	1.75	6.79	7.67
Non-Durable Goods	2.41	1.06	11.82	5.95
2. Services	1.53	1.03	11.96	12.51
Rent	2.38	2.35	19.77	19.39
Restaurants and Hotels	1.92	1.63	14.48	14.13
Transportation Services	1.51	1.70	10.28	20.39
Other Services	1.00	-0.07	8.23	6.83

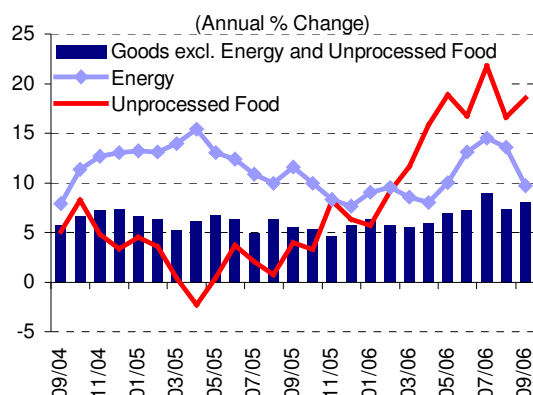
Source: TURKSTAT, CBRT

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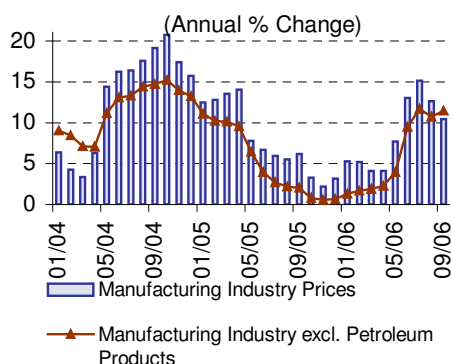
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When prices in the goods group are analyzed, it is observed that the decline in annual rates of increase in energy group prices continued in September, and the annual increase in unprocessed food prices continued to follow its recent unstable course. The annual rate of increase in prices of goods excluding energy and unprocessed foods increased in September.

Price increases of durable goods, which gained momentum in the post-May period, decelerated considerably as of August and in September no significant changes were observed in the prices. When the sub-groups of durable goods are analyzed, it is seen that the increasing effect, caused by the FX rates, on electrical and non-electrical goods along with automobile prices has to a great extent come to an end and prices dropped in September. Meanwhile, the upsurge in the prices of furniture group products continues.

In September, the PPI decreased by 0.23 percent. The industrial sector had a decreasing effect of 0.34-percentage point, whereas agricultural sector had an increasing effect of 0.11 percentage point. With the ongoing decline in oil prices, the prices of the manufacturing industry dropped by 0.47 percent.



The fall in manufacturing industry prices resulted mainly from decreases in prices of coke coal and refined petroleum products, and furniture manufacturing industry. However, excluding the effect of petroleum products, it is observed that the annual rate of increase in manufacturing industry prices increased by 1.16 percent. This increase was affected by the increase in the prices of clothing, food, textile, chemicals, leather products, and manufacturing of media products.

In September, while there was a decline in the prices of durable goods production that have been rising since April, the consistent positive course - with a 2.35 percent increase - in the prices of non-durable goods is also striking. The fall in the prices of petroleum products has had an impact on the decline of energy prices in the last two months.

WPI Developments According to MIGS Classification									
	Monthly Percentage Change								
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Intermediate Goods Prices	0.11	0.31	0.74	2.20	4.43	6.84	1.55	-0.46	0.62
Capital Goods Prices	0.60	-0.09	0.23	0.24	2.19	4.66	-0.15	-0.17	0.28
Durable Consumption Goods Prices	1.90	-2.94	-0.13	1.00	0.73	8.46	4.16	1.97	-0.50
Non-Durable Consumption Goods Prices	0.71	0.05	0.16	0.30	-0.04	0.37	0.13	0.24	2.35
Energy Prices	8.36	1.32	0.32	6.87	6.70	9.65	4.11	-4.28	-8.60

Source: TURKSTAT, CBRT.

* PPI with 2003 base year is published in the NACE (Nomenclature Generale des Activites Economique dans les Communautés Europeennes) classification. The prices in the above table are calculated by the CBRT, using a passkey from NACE classification to MIGS (Main Industrial Groupings) classification.

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... UPCOMING DEVELOPMENTS...

- The temporary effect of the religious month Ramadan on prices is expected to continue in October as well.
- The period when high-level increases of the new season start to occur in the clothing and footwear group is starting.

... TABLES

September CPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
CPI	100	1.29	10.55	6.65	1.02	7.99	3.93
Food and Non-Alc. Bev.	27.68	2.86	12.45	6.78	1.34	4.38	-0.37
Alc. Bev. and Tobacco	5.62	0.17	10.21	5.03	0.00	22.36	21.86
Clothing and Footwear	8.28	2.42	-0.13	-9.53	1.15	1.77	-9.52
Housing	16.29	1.02	13.65	10.36	1.80	10.11	6.68
Household Equipment	6.89	1.62	11.38	7.29	-1.40	4.68	2.36
Health	2.54	1.72	7.88	7.51	0.18	0.34	-0.75
Transportation	10.48	-1.76	9.31	9.97	1.76	18.17	11.68
Communication	4.55	-0.10	2.54	1.81	0.54	2.37	0.99
Recreation and Culture	3.63	0.66	6.44	7.39	-2.73	5.70	7.59
Education	2.41	3.65	8.10	7.85	2.51	7.36	6.97
Restaurants and Hotels	6.74	1.92	14.48	11.05	1.63	14.13	11.54
Misc. Goods and Services	4.89	-0.98	17.33	11.63	1.64	5.53	3.25

Source: TURKSTAT

September PPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
PPI	100	-0.23	11.19	11.54	0.78	4.38	2.98
Agriculture	19.78	0.59	10.20	4.16	1.53	1.58	-2.62
Industry	80.22	-0.42	11.21	13.36	0.58	5.14	4.55
Mining	1.47	-1.56	13.17	17.06	3.10	11.82	13.40
Manufacturing	73.98	-0.47	10.43	12.74	1.54	6.15	5.32
Energy	4.77	0.54	23.45	21.70	-14.34	-11.53	-9.68

Source: TURKSTAT

*Percentage change with respect to December of the previous year.

Price Developments are published within two working days 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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.