



# JULY PRICE DEVELOPMENTS

4 AUGUST 2021

## Summary

Consumer prices increased by 1.80% in July, and annual inflation rose by 1.42 points to 18.95%, mainly on the back of food and energy prices. Annual food inflation surged significantly as price increases spread across subcategories. Producer prices and the drought weighed on the outlook for food inflation. Energy inflation was up due to electricity and natural gas prices, while the sliding scale system continued to curb consumer inflation. Annual inflation fell in core goods with the recent course of the Turkish lira, but went slightly up in services amid the gradual normalization and the resulting uptick in prices of restaurants-hotels and transport services. In July, international energy prices rose, while non-energy commodity prices were more moderate. Despite this outlook, producer inflation remained on the rise due to lagged effects. In this period, annual inflation increased in the B index but decreased in the C index, while the recent trends of these core indicators remained high.

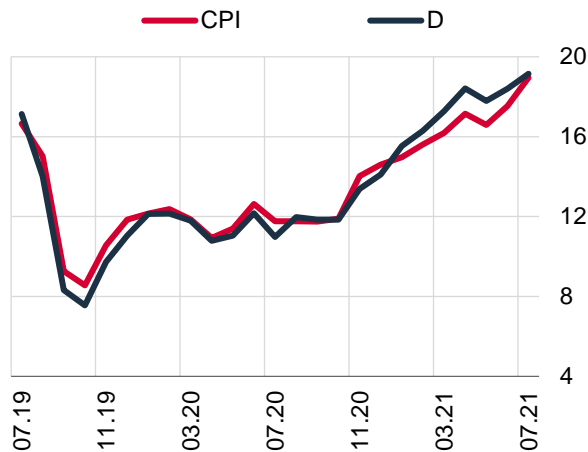
Price Developments are published within one working day following the announcement of price statistics by the Turkish Statistical Institute (TurkStat). Price Developments, which include the CBRT's initial remarks on the inflation figures of the previous month, aim to contribute to a sounder interpretation 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

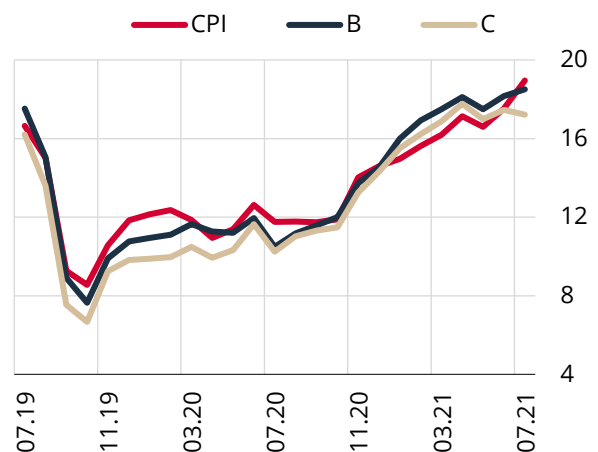
Consumer prices rose by 1.80% in July, and annual inflation increased by 1.42 percentage points to 18.95% (Chart 1). In this period, annual inflation was up by 0.35 points to 18.51% in the B index but down by 0.25 points to 17.22% in the C index (Chart 2).

Across subcategories, the contributions of food, energy and services to annual consumer inflation increased by 1.12, 0.58 and 0.07 points month-on-month whereas those of core goods and alcohol-tobacco-gold dropped by 0.19 and 0.16 points, respectively.

**Chart 1: CPI and D (Annual % Change)**

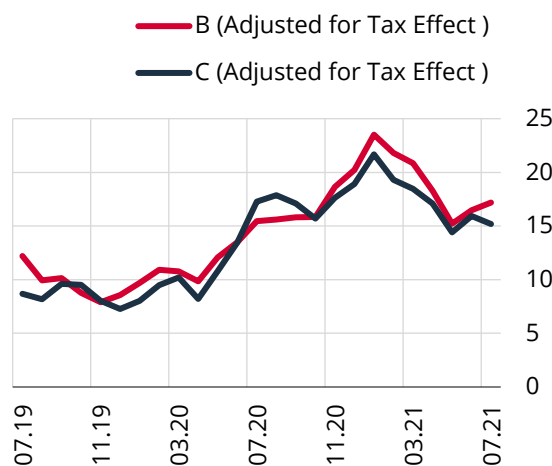


**Chart 2: CPI, B and C (Annual % Change)**

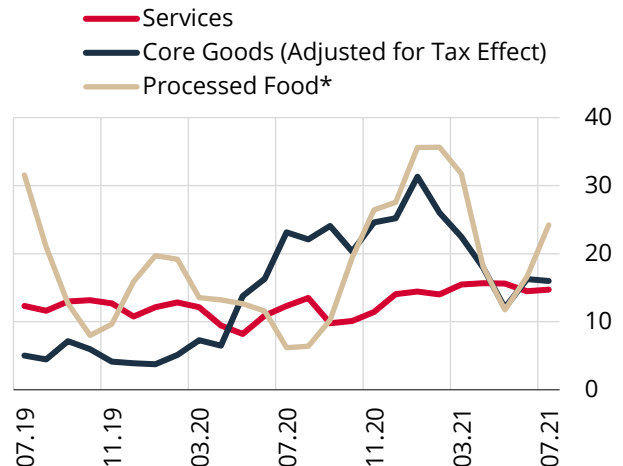


Three-month averages of seasonally adjusted core inflation indicators suggest a rise in the trend of the B index and a fall in the trend of the C index (Chart 3). In this period, the inflation trend was higher in processed food, but remained almost flat in core goods and services (Chart 4). The outlook for processed food led to a divergence in the trends of the B and C indices.

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



**Chart 4: Main Components of B Index** (Seasonally adjusted, Annualized 3-Month Average % Change)

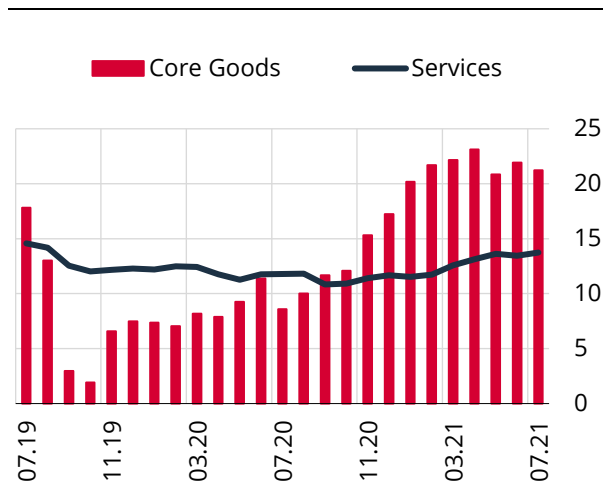


\*There is no seasonal effect in the processed food group.

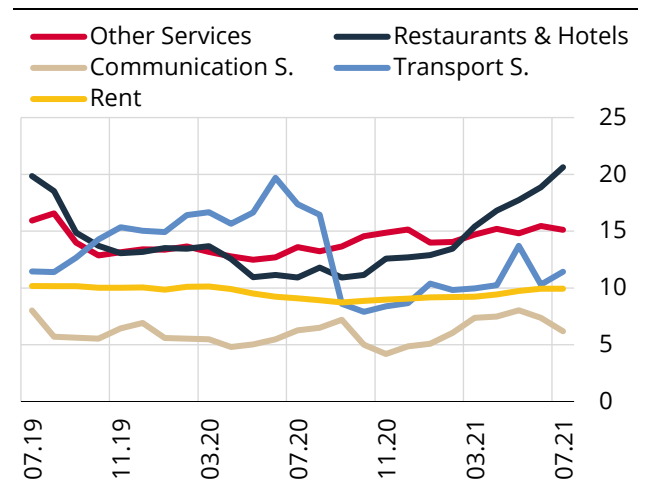
Prices of services rose by 1.32% in July, and annual group inflation increased by 0.29 points to 13.75% (Chart 5). Annual inflation increased in restaurants-hotels and transport services, decreased in communication and other services, and remained flat in rents (Chart 6). In the restaurants-hotels group, high price increases continued in this period in both catering (up 2.59%) and accommodation services (up 4.51%) following the reopening. High food inflation fed into the negative outlook for catering services. Prices of transport services were moderate in this period, while annual inflation in this subcategory surged due to the base effect from the decrease in intercity bus fares at the same period of last year. Drivers of the

monthly inflation in other services were maintenance and repair services as well as education, recreation and cultural services. Monthly price increase in package tours was more modest compared to its historical averages, causing annual inflation to remain low in this subcategory.

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

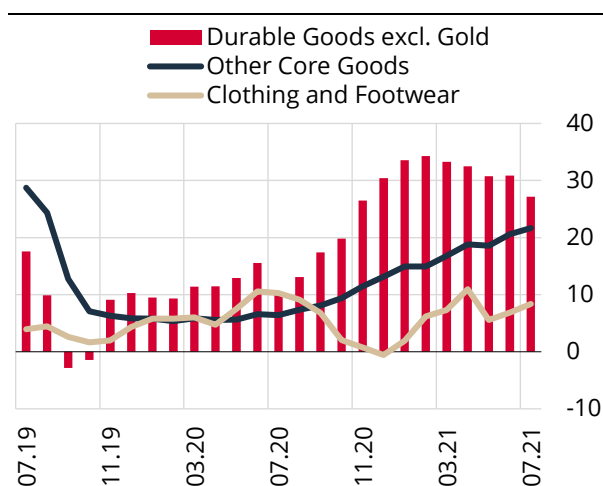


**Chart 6. Services (Annual % Change)**

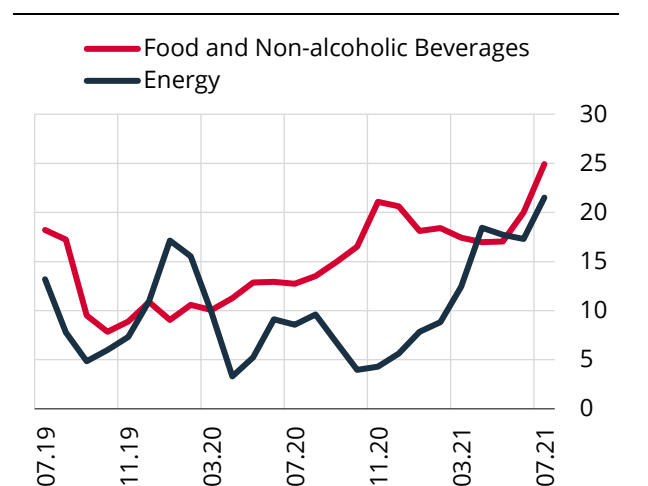


In July, annual core goods inflation decreased by 0.70 points to 21.22% (Chart 5). In this period, annual inflation declined in durable goods, but rose in other subcategories (Chart 7). Durable goods prices receded by 0.11% in July, while furniture prices posted a notable decline (-4.34%), and monthly increases (2.53%) in white goods prices continued. The group's annual inflation rate fell by 3.68 points to 27.18% on the back of all subcategories. The clothing and footwear inflation that followed a moderate course due to pandemic restrictions maintained its post-normalization increase in this period, and annual inflation in this group went up by 1.51 points to 8.37%. The lagged effects of exchange rate and commodity price developments continued to have an effect on the other core goods group, driving the group's annual inflation up by 1.08 points to 21.69%. In sum, although the upward effects of the cumulative cost pressures and normalization steps prevail in some groups, annual inflation in the core goods group fell on the back of durable consumption goods.

**Chart 7. Core Goods (Annual % Change)**



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



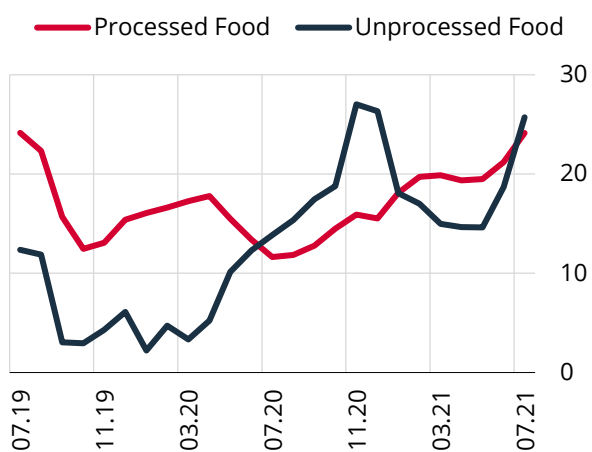
Energy prices rose by 6.19% in July (Table 1). Electricity and natural gas prices increased by 15.01% and 9.84%, respectively, becoming the main drivers of this increase. In this period, while some part of the required price increase in LPG was met by the SCT through the sliding scale system, some of it was reflected in prices. On the back of the increase in LPG prices, fuel prices rose by 2.64%. Bottled gas prices surged by

12.00% in parallel to the increase in the prices of LPG. All in all, annual energy inflation increased by 4.23 points to 21.51% (Chart 8).

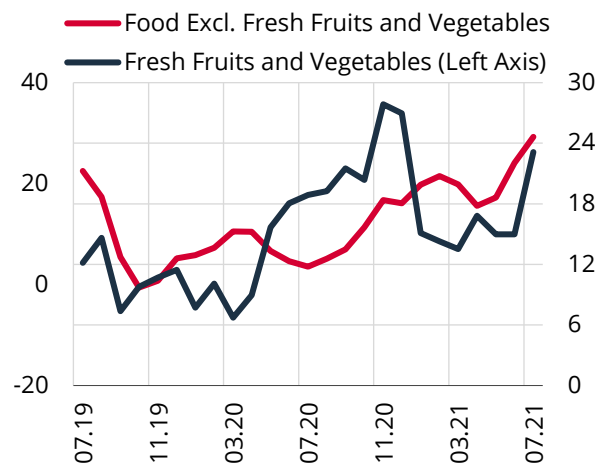
In July, prices of food and non-alcoholic beverages increased by 2.77%, and the group's annual inflation rose by 4.93 points to 24.92%, led both by unprocessed and processed food prices (Chart 8 and Table 2). In this period, annual inflation increased by 7.03 points to 25.73% in the unprocessed food group, and by 2.93 points to 24.13% in the processed food group (Chart 9). Seasonally adjusted data in the unprocessed food group pointed to a monthly upsurge in the prices of fresh fruits and vegetables, with fruits in the lead. In this period, prices in the other unprocessed food group were driven by milk prices due to the adjustment in raw milk reference prices as well as white and red meat coupled with pulses such as lentils and chickpeas. In the processed food group, which saw accelerated monthly price hikes (2.58%), indirect effects of raw milk price adjustments spilled over into cheese and other dairy products, and price increases became more broad-based, chiefly in bread and cereals, processed meat products and fats and oils. Against this background, inflation in the food group excluding fresh fruits and vegetables hit 24.63% (Chart 10). In brief, the current high levels of international agricultural commodity and food prices, cumulative exchange rate effects and drought-led supply constraints for certain products affected food producer inflation adversely, and these increases spilled over into consumer prices with the reopening.

In July, annual inflation in the alcoholic beverages and tobacco group decreased slightly as the increase in the PPI of the last six months was not incorporated into lump-sum and minimum lump-sum taxes.

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



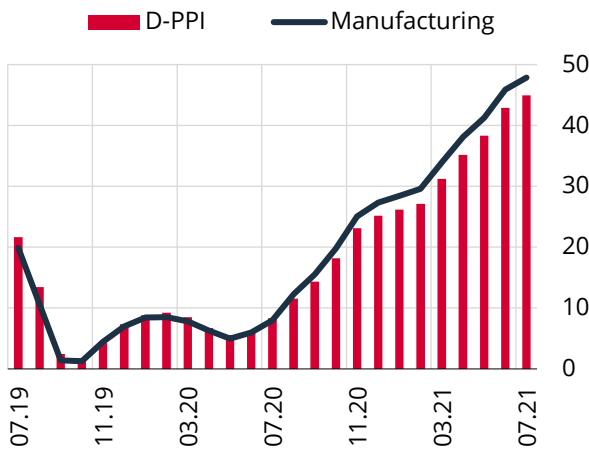
**Chart 10. Fresh Fruits-Vegetables and Other Food**  
(Annual % Change)



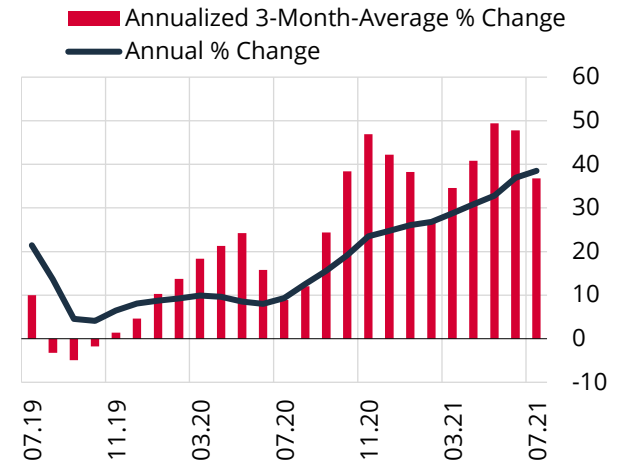
## D-PPI

In July, domestic producer prices rose by 2.46%, and annual D-PPI increased by 2.03 points to 44.92% (Chart 11 and Table 3). Cumulative external price pressures, energy price developments and ongoing supply constraints continued to be the determinants of this rise in producer prices. Meanwhile, a slight deceleration in monthly manufacturing inflation caused the trend of manufacturing industry prices excluding petroleum and base metals to recede in this period (Chart 12).

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

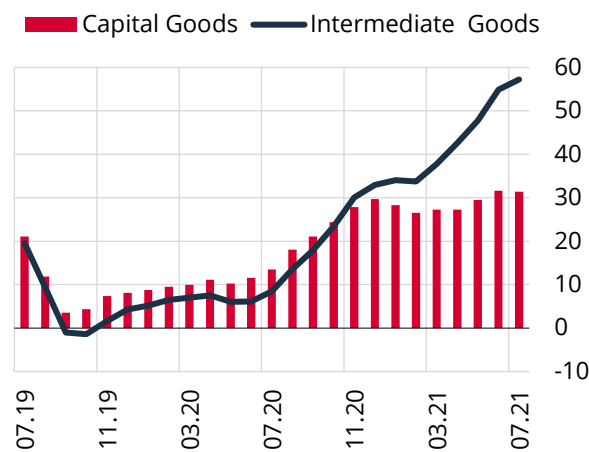


**Chart 12. Manufacturing Excluding Petroleum and Base Metals**

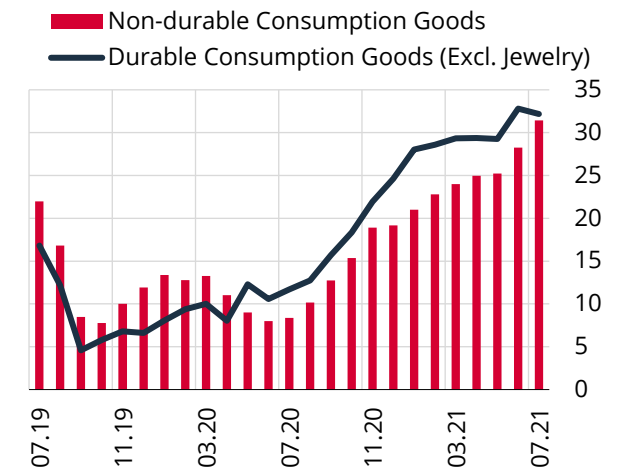


According to main industrial groups, the increase in annual inflation of the non-durable consumption goods and intermediate goods became more prominent (Table 3, Chart 13 and Chart 14). The increase in energy prices in July (4.12%) was driven by refined petroleum products and the production and distribution of electricity and gas. The 2.46% increase in intermediate goods prices is attributed mostly to iron-steel and ferroalloys, wood and cork products accompanied by items made of concrete, cement and plaster. In the capital goods group, notable price increases were seen in machinery and motor vehicles along with their parts and accessories as well as metal construction products. The increase in the prices of durable consumption goods was driven by furniture, household appliances and consumer electronics, while the rise in prices of non-durable consumption goods was led by food items such as meat and dairy products and other textile products. Overall, producer prices continued to exert pressure on consumer prices with an increasing magnitude.

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



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



## Tables

**Table 1. CPI and Subcategories (% Change)**

	Monthly		Annual	
	July 2021	July 2020	July 2021	July 2020
<b>CPI</b>	<b>1.80</b>	<b>0.58</b>	<b>18.95</b>	<b>11.76</b>
<b>1. Goods</b>	<b>1.98</b>	<b>0.38</b>	<b>21.19</b>	<b>11.70</b>
Energy	6.19	2.50	21.51	8.57
Food and non-alcoholic beverages	2.77	-1.28	24.92	12.73
Unprocessed food	2.99	-2.77	25.73	13.85
Fresh fruits and vegetables	5.59	-8.08	26.27	17.73
Other unprocessed food	1.74	0.08	25.48	11.78
Processed food	2.58	0.16	24.13	11.64
Bread and cereals	2.93	0.38	23.36	12.90
Other processed food	2.40	0.04	24.48	10.96
Goods excluding energy and food	-0.06	0.83	18.34	12.05
Core goods	-0.02	0.56	21.22	8.58
Durable goods (excluding gold)	-0.11	2.79	27.18	9.98
Clothing and footwear (*)	-2.21	-3.57	8.37	10.28
Other core goods	1.45	0.54	21.69	6.41
Alcoholic beverages and tobacco	0.02	0.23	1.80	21.78
Gold	-1.90	6.36	25.16	51.12
<b>2. Services</b>	<b>1.32</b>	<b>1.06</b>	<b>13.75</b>	<b>11.80</b>
Rents	0.98	1.00	9.92	9.07
Restaurants and hotels	2.72	1.22	20.63	10.92
Transport	0.12	-0.91	11.43	17.37
Communication	0.13	1.24	6.18	6.26
Other	1.33	1.61	15.13	13.61
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.00	0.71	18.51	10.49
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.62	0.83	17.22	10.25
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.72	1.08	19.15	10.97
F - CPI excluding administered prices	1.43	0.64	20.23	10.60

Source: TURKSTAT.

(\*) Does not cover clothing services.

**Table 2. CPI and Subcategories (% Change)**

	Weight	July 2021		July 2020	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	<b>100</b>	1.80	18.95	0.58	11.76
Food and non-alcoholic beverages	25.94	2.77	24.92	-1.28	12.73
Alcoholic beverages and tobacco	4.88	0.02	1.80	0.23	21.78
Clothing and footwear	5.87	-2.13	8.54	-3.48	10.34
Housing	15.36	5.07	19.31	0.93	12.53
Household equipment	8.64	-0.06	22.70	2.38	7.78
Health	3.25	0.41	18.61	0.80	14.17
Transport	15.49	1.08	24.62	2.44	8.81
Communication	4.64	0.12	4.41	1.76	5.81
Recreation and culture	3.01	1.30	12.17	1.33	6.04
Education	2.28	1.51	10.61	1.74	12.60
Restaurants and hotels	5.91	2.72	20.63	1.22	10.92
Miscellaneous goods and services	4.73	0.13	17.30	2.39	21.90

Source: TURKSTAT.

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

	Weight	July 2021		July 2020	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100	<b>2.46</b>	<b>44.92</b>	<b>1.02</b>	<b>8.33</b>
Mining	3.51	3.35	34.35	4.11	8.94
Manufacturing	87.27	2.37	47.86	0.99	7.95
Manufacturing excl. petroleum products	83.46	2.19	45.35	0.66	9.23
Manufacturing excl. petroleum products and base metals	75.28	1.80	38.51	0.63	9.35
Electricity, gas, steam and air-conditioning sup.	8.38	3.03	15.10	-0.44	12.69
Water supply	0.85	3.54	28.34	3.74	12.06
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		2.46	57.23	0.94	8.47
Durable Consumption Goods		1.03	31.58	2.15	14.54
Durable Consumption Goods (Excl. Jewelry)		1.45	32.18	1.93	11.70
Non-Durable Consumption Goods		2.27	31.44	-0.21	8.38
Capital Goods		1.01	31.38	1.22	13.50
Energy		4.12	42.42	3.62	0.65

Source: TURKSTAT.