

# DECEMBER PRICE DEVELOPMENTS



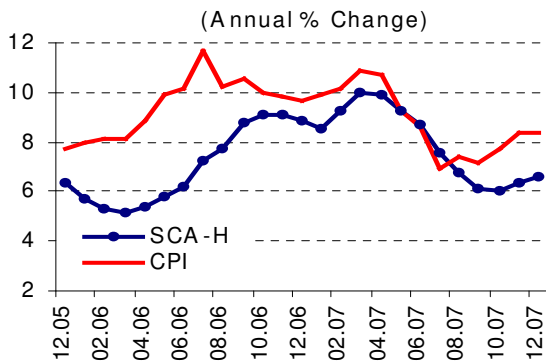
Central Bank of the Republic of Turkey

4 January 2008

## SUMMARY...

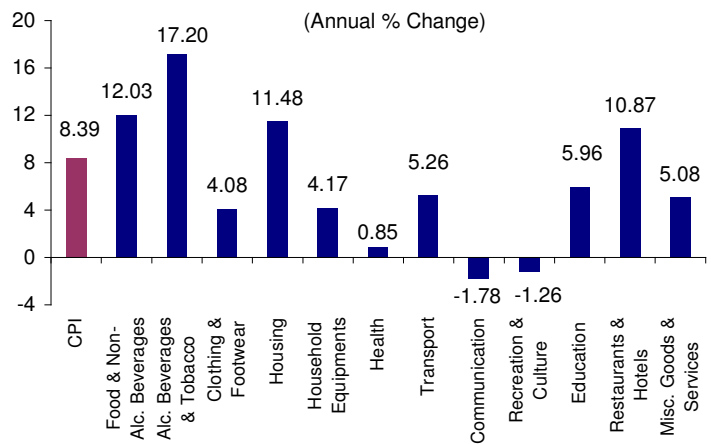
In December, consumer prices rose by 0.22 percent and inflation ended the year at 8.39 percent. The steep increase in processed food prices, which has been observed since mid-2007, continued into December, albeit at a slower rate. Further aggravated by the lagged effects of drought on processed food prices, this dramatic upsurge continued to put upward pressure on special CPI aggregates. On the other hand, services inflation edged down again in response to favorable rents and transportation rates. The effects of the January 2008 VAT cut in certain goods and services will be closely monitored. Besides, although the hikes in electricity and natural gas prices will have an adverse impact on the inflation rate, inflation is expected to further decelerate over the medium term.

## ...EVALUATIONS...

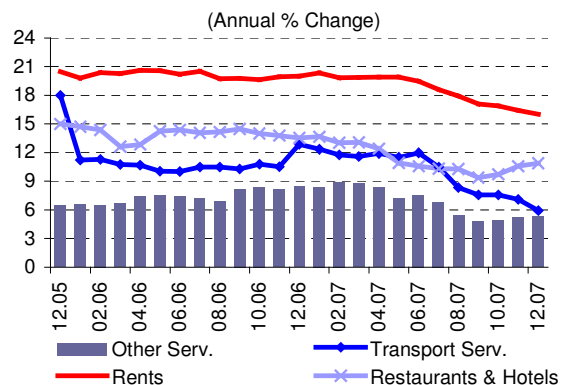
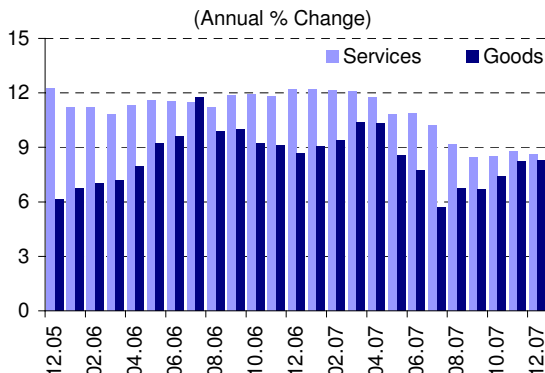


Annual consumer inflation remained unchanged from November and ended 2007 at 8.39 percent. The steep increase in processed food prices continued to put upward pressure on special aggregates. Therefore, the annual rate of change of CPI excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) further increased in December.

In 2007, price hikes in alcoholic beverages, tobacco products, food and non-alcoholic beverages, housing and restaurants-hotels far outpaced the average inflation rate, whereas price changes in communication, recreation-culture and health services pulled inflation down.



Prices of goods and services rose by 0.05 and 0.70 percent, respectively, in December. Annual inflation increased to 8.29 percent in goods, mainly on prices of processed food and clothing, and decreased to 8.64 percent in services.



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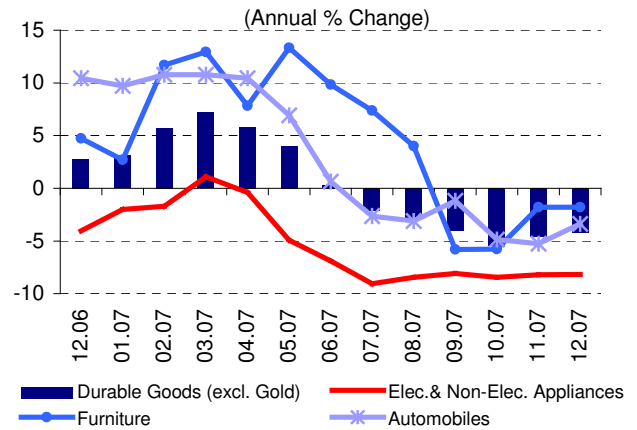
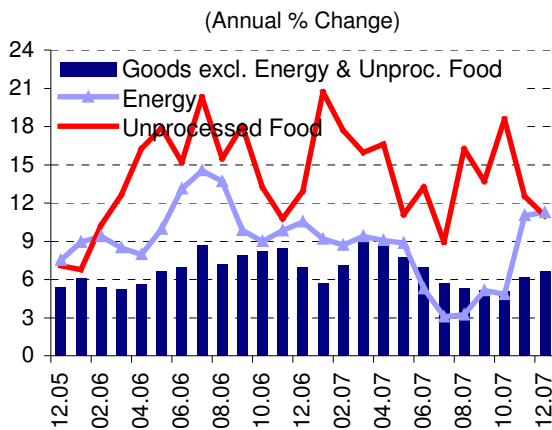
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The rise in services inflation was largely due to increased mobile call rates and maintenance-repair costs of household appliances. However, the ongoing decline in rents and transport rates curbed the annual increase in services inflation. Although prices of the restaurants-hotels group continued to rise in annual terms, its monthly rate of increase has considerably slowed compared to the past three months.

Energy prices rose by 0.89 percent due to increased housing-related energy prices, raising the whole group's annual inflation rate to 11.25 percent. Annual inflation in the energy group is expected to accelerate significantly in January on the back of higher prices of electricity and natural gas.

The year-on-year increase in prices of goods excluding energy and unprocessed food amounted to 6.60 percent owing to higher prices of processed food and the negative base effect from clothing and footwear prices. The fall in clothing and footwear prices totaled as low as 1.25 percent compared to the same period in 2006, because above-average temperatures in 2006 had led to larger discounts. The impact of November price cuts in all medicines spilled over into December.



Prices of durables (excluding gold) continued to trend downward and decreased by 0.91 percent in December. Furniture prices remained unchanged, while prices of automobiles and electric and non-electric appliances were down by 1.59 and 0.87 percent, respectively. Prices of automobiles followed a steady downward trend over the last quarter, whereas prices of electric and non-electric appliances have been on the decline for the past three quarters. In this sense, prices of durables (excluding gold) have fallen by 4.63 percent over the past seven months.

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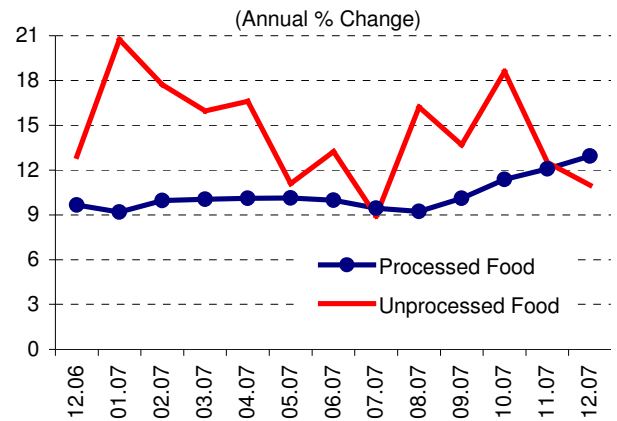
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	Monthly Percentage Change		Annual Percentage Change	
	December 2007	December 2006	December 2007	December 2006
CPI	0.22	0.23	8.39	9.65
<b>1. Goods</b>	<b>0.05</b>	<b>0.01</b>	<b>8.29</b>	<b>8.69</b>
Energy	0.89	0.69	11.25	10.52
Unprocessed Food	-0.64	0.72	10.99	12.94
Goods excl. Energy and Unprocessed Food	-0.01	-0.41	6.60	6.93
Durable Goods	-1.04	-1.36	-3.34	6.61
Durable Goods excl. Gold	-0.91	-1.36	-4.21	2.78
Semi-Durable Goods	0.15	-0.18	7.86	7.81
Non-Durable Goods	0.23	0.47	11.69	9.82
<b>2. Services</b>	<b>0.70</b>	<b>0.80</b>	<b>8.64</b>	<b>12.21</b>
Rent	0.76	1.11	16.01	20.01
Restaurants and Hotels	0.57	0.31	10.87	13.54
Transport Services	1.16	2.28	5.93	12.89
Other Services	0.62	0.51	5.29	8.45

Source: TURKSTAT, CBRT.

The partial correction in unprocessed food prices continued into December, bringing the prices down by 0.64 percent. The annual inflation in unprocessed food prices, which displayed a volatile pattern throughout 2007, declined to 10.99 percent in response to the developments of the last two months. Yet, prices of pulses continued to rise in December, up to 20.54 percent per annum, due to adverse weather conditions.



The steep increase in processed food prices, which has been observed since mid-2007, continued into December, albeit at a slower rate. The 9.80 percent increase in group prices in the last 6 months clearly indicates the negative effect of adverse weather conditions. During the said period, especially prices of bread and cereals as well as solid and liquid fats increased sharply (10.28 percent and 18.78 percent, respectively).

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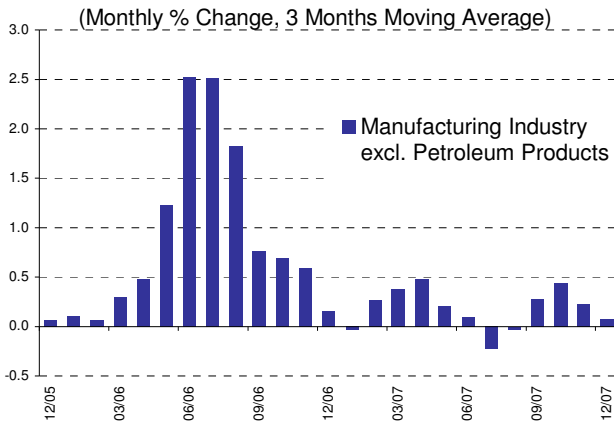


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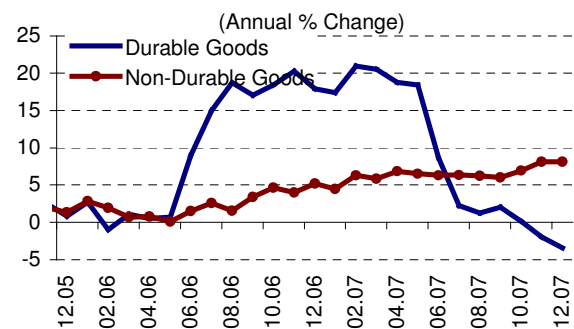
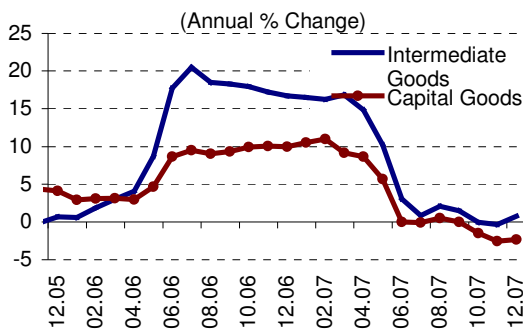
## ...PPI...

PPI increased by 0.15 percent in December while its annual inflation rose up to 5.94 percent due to 15.70 percent increase in agricultural prices.



In December, manufacturing industry prices showed no significant change. Refined petroleum products prices went down by 1.47 percent whereas manufacturing industry excluding petroleum products increased at a limited rate of 0.27 percent owing to the price developments in chemical products, textiles, machinery and equipment industries. On the other hand, other branches of manufacturing industry displayed a favorable course.

According to a PPI analysis based on MIGS classification, while prices of durable goods and energy declines, prices of all remaining items went up. The fall in furniture and brown goods prices was the main source of decline in durable goods prices, however, increase in white goods prices limited the extent of that fall. On the other hand, apparel manufacturing was key to the monthly increase in non-durable goods prices and rise in agricultural prices led to the increase of group prices on annual basis.



PPI Developments According to MIGS Classification

	Monthly Percentage Change												
	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Intermediate Goods Prices	-0.57	-0.08	0.12	1.24	0.44	0.27	-0.13	-0.63	0.72	0.06	-1.13	-0.64	0.53
Capital Goods Prices	0.53	1.11	0.34	-1.41	-0.25	-0.64	-0.93	-0.27	0.43	-0.22	-0.59	-0.64	0.75
Durable Goods Prices	-0.43	1.43	0.02	-0.48	-0.49	0.44	-0.46	-2.02	1.01	0.23	-0.02	-1.17	-1.90
Non-Durable Goods Prices	0.13	0.03	1.82	-0.30	1.28	-0.38	0.20	0.13	0.13	2.13	1.88	0.84	0.14
Energy Prices	1.53	-3.82	0.64	6.04	2.12	-0.54	-1.36	1.84	2.68	-0.32	-2.94	6.68	-0.86

Source: TURKSTAT, CBRT.

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## ...TABLES

December CPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
CPI	100	0.22	8.39	0.23	9.65
Food and Non-Alcoholic Beverages	28.47	0.36	12.03	0.60	11.17
Alcoholic Beverages and Tobacco	5.06	0.01	17.20	0.01	5.06
Clothing and Footwear	7.86	-1.25	4.08	-2.00	1.91
Housing	16.62	0.97	11.48	0.71	14.04
Household Equipments	7.22	0.19	4.17	0.14	7.31
Health	2.66	-0.67	0.85	0.02	7.93
Transport	11.60	-0.08	5.26	0.36	10.15
Communication	4.41	1.46	-1.78	-0.14	1.34
Recreation and Culture	3.16	-0.43	-1.26	1.20	8.25
Education	2.15	-0.05	5.96	0.03	7.73
Restaurants and Hotels	6.40	0.57	10.87	0.31	13.54
Miscellaneous Goods and Services	4.39	-0.60	5.08	-0.12	12.33

Source: TURKSTAT

December PPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
PPI	100	0.15	5.94	-0.12	11.58
Agriculture	18.17	0.52	15.70	-1.07	2.53
Industry	81.83	0.06	3.78	0.10	13.81
Mining	1.49	2.69	15.49	0.30	13.57
Manufacturing	74.49	0.07	4.27	0.06	12.33
Energy	5.85	-0.92	-5.59	0.44	36.90

Source: TURKSTAT

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.