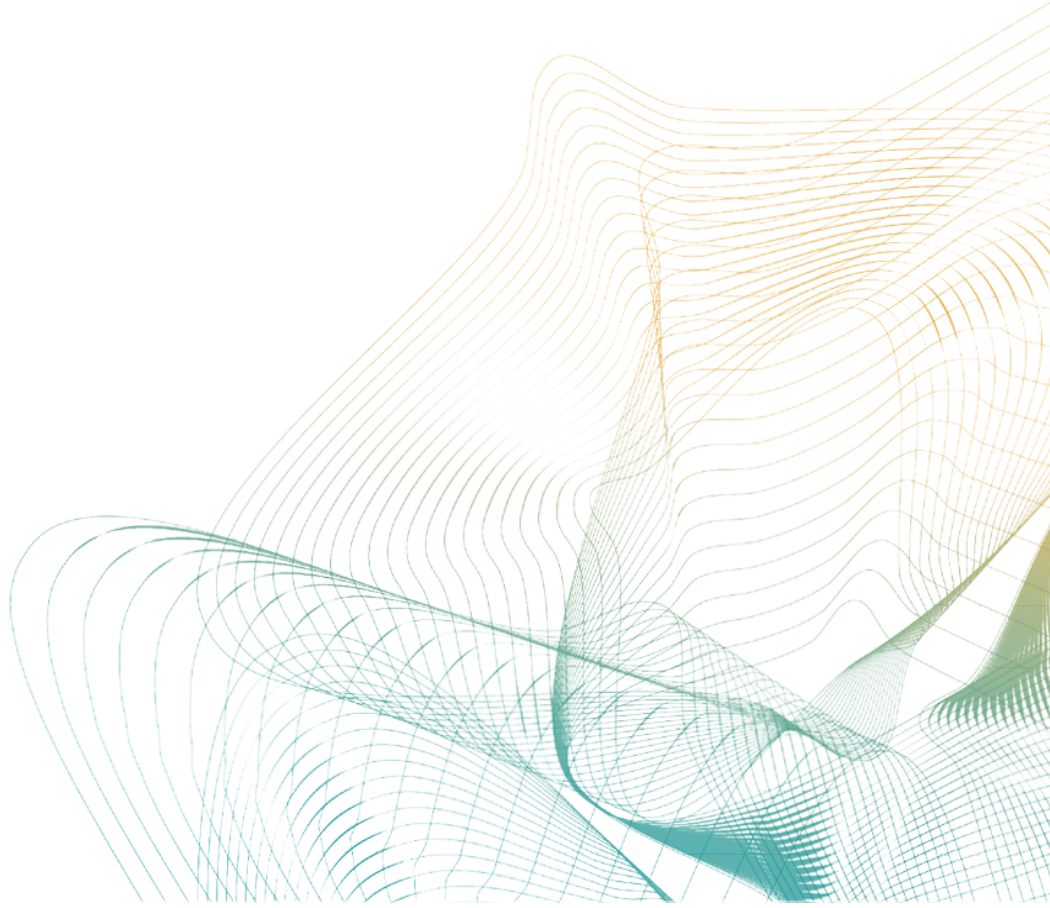




March Price Developments

4 April 2018



Summary

In March, consumer prices rose by 0.99 percent and annual inflation remained almost flat at 10.23 percent. Annual inflation receded in core goods and services, but increased in food and energy. The uptick in annual food inflation was led by processed food prices, while that in energy inflation was triggered mostly by base effects. Core goods inflation witnessed some deceleration spreading across sub-groups, while services inflation recorded a relatively limited decline. All in all, both the annual inflation and the underlying trend of core indicators registered a slight fall, yet 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 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 March, consumer prices rose by 0.99 percent and annual inflation fell by 0.03 points to 10.23 percent (Chart 1). The annual rate of change in the B and C indices inched down by 0.31 and 0.50 points to 11.95 and 11.44 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to annual inflation reveals month-on-month increases of 0.16 and 0.07 points in the energy and food groups in contrast to declines in the core goods and services groups of 0.23 and 0.05 points, respectively. Meanwhile, the contribution of the alcohol-tobacco and gold group registered no noticeable change.

Chart 1: CPI and D (Annual % Change)

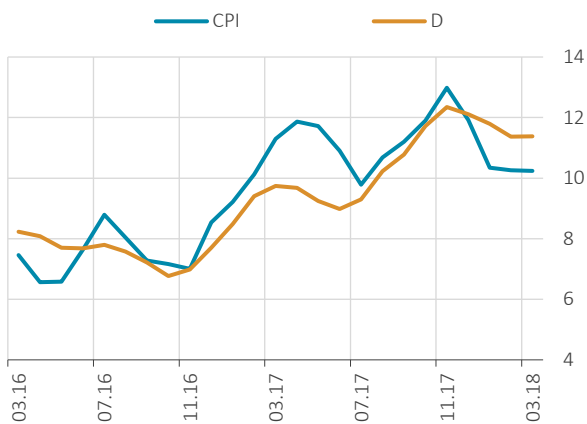
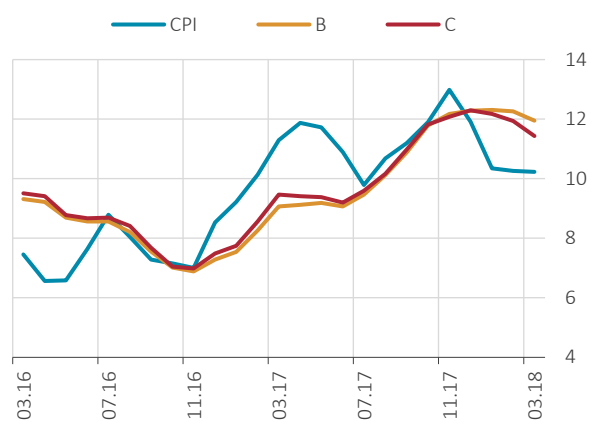


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators show that the underlying trend recorded a decline (Chart 3). The unfavorable outlook in processed food prices led to a more limited improvement in the B indicator. The underlying trend in March exhibited a relatively flat course in services, but continued to fall in core goods (Chart 4). All in all, the underlying trend in core inflation indicators remained high, despite some deceleration.

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

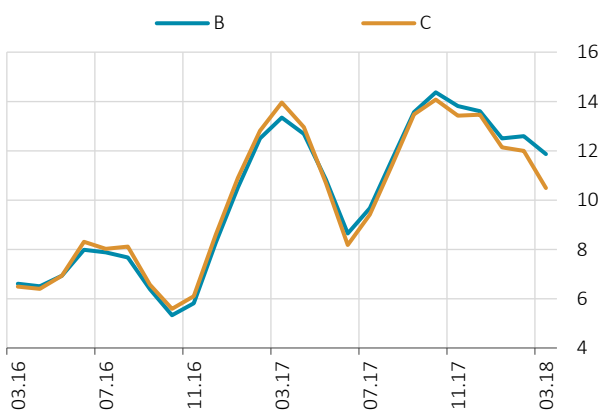
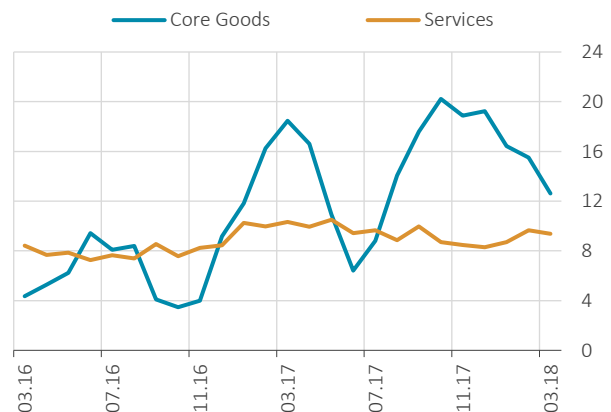


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)



Prices of services rose by 0.53 percent and annual services inflation fell by 0.11 points to 9.26 percent in March (Chart 5 and Table 1), which was led by transport and other services items (Chart 6). Inflation in the transport group decreased on account of road and intercity passenger transport services, while base

effects led by the repair of home utensils and package tours stood out in the other services group. On the other hand, stimulated by the rebound in tourism, the uptrend in accommodation services inflation continued.

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

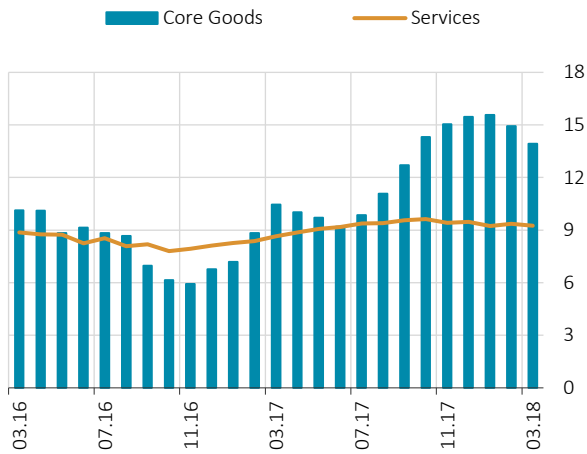
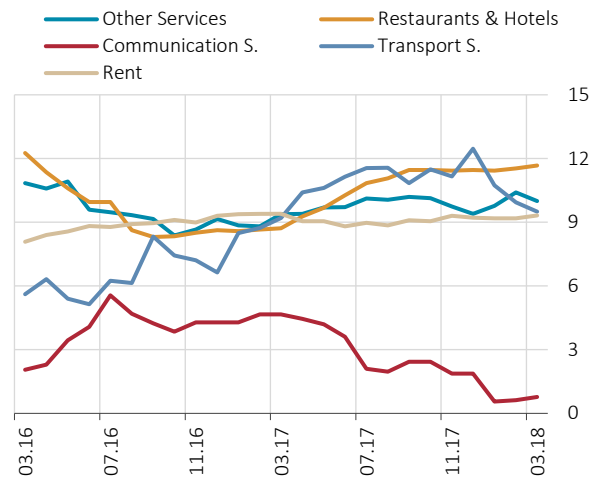


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 1.00 points to 13.93 percent in March (Chart 5). Driven by the high base from the previous year, annual inflation receded across all sub-groups in this period, despite monthly price increases in sub-categories (Chart 7). Durable goods saw rising prices, which was triggered by automobiles (1.44 percent) and white goods (1.12 percent). Prices of other core goods picked up by 1.24 percent due to the lagged exchange rate effects as well as the resulting rise in medicine prices, the effect of which also appeared in March. In sum, core goods inflation remained high on account of the cumulative cost effects and the course of demand conditions.

Chart 7. Core Goods (Annual % Change)

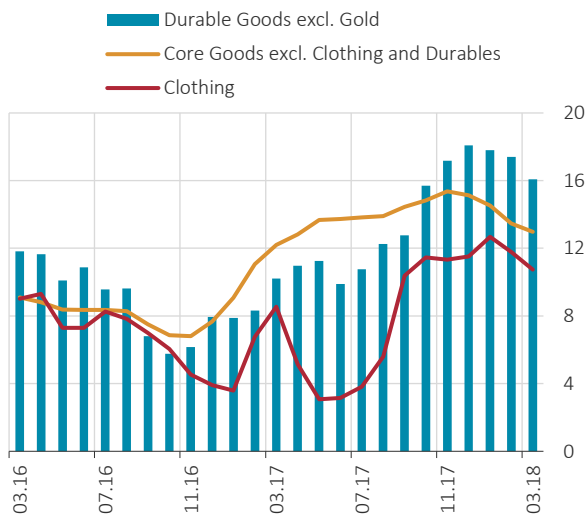
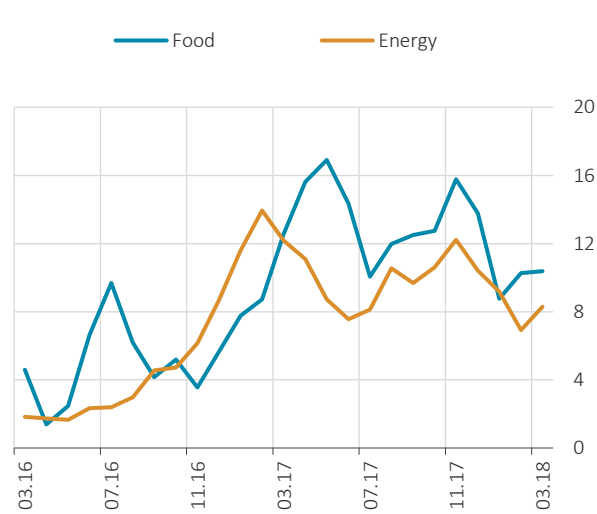


Chart 8. Food and Energy (Annual % Change)



Energy prices increased by 0.32 percent in March (Table 1). Fuel prices were up 0.53 percent due to rising international oil prices and the weakening Turkish lira. Municipal tap water tariffs rose by 0.73 percent whereas bottled gas prices fell by 0.97 percent. Annual energy inflation increased by 1.37 points to 8.29 percent, mainly on the back of base effects (Chart 8).

Annual inflation in food and nonalcoholic beverages was up 0.10 points to 10.37 percent in March (Chart 8). Annual inflation edged down in unprocessed food but went up in processed food (Chart 9). Unprocessed food saw its annual inflation rate decelerate to 6.31 percent amid moderating prices of fresh fruits and vegetables whereas in the other processed food group, prices went up due to red meat. Having jumped by 5.12 percent in March, red meat prices rose by a cumulative 8.05 percent in the first three months. Remaining on an upward track, milk prices recorded an annual inflation rate close to 30 percent. On the other hand, annual processed food inflation amounted to 14.42 percent. Prices of cheese and other dairy goods and nonalcoholic beverages posted continued sharp increases of 2.51 and 1.46 percent, respectively, with the latter reflecting January’s SCT adjustment. Moreover, sugar prices saw an upsurge (of 5.49 percent) in this period. Accordingly, annual food inflation excluding fresh fruits and vegetables hit 12.96 percent (Chart 10).

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

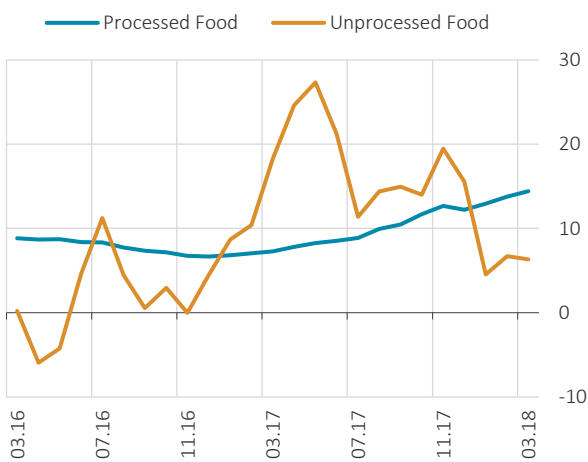


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

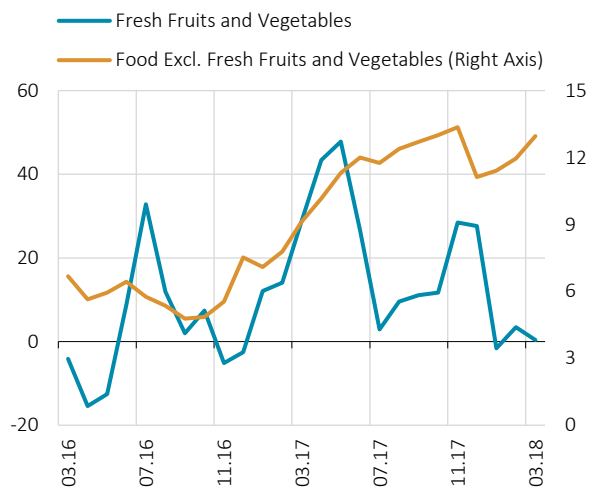


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	March 2018	March 2017	March 2018	March 2017
CPI	0.99	1.02	10.23	11.29
1. Goods	1.19	1.18	10.66	12.47
Energy	0.32	-0.95	8.29	12.19
Food and nonalcoholic beverages	2.03	1.93	10.37	12.53
Unprocessed food	2.56	2.95	6.31	18.28
Fresh fruits and vegetables	2.10	5.24	0.39	28.95
Other unprocessed food	2.85	1.39	10.53	12.61
Processed food	1.51	0.93	14.42	7.28
Bread and cereals	0.84	0.86	12.08	6.82
Other processed food	1.87	0.97	15.74	7.55
Goods excluding energy and food	0.94	1.53	11.68	12.81
Core goods	1.06	1.95	13.93	10.46
Durable goods (excluding gold)	0.95	2.10	16.08	10.21
Clothing and footwear ^(*)	1.06	2.01	10.74	8.54
Other core goods	1.24	1.69	12.97	12.19
Alcoholic beverages and tobacco	0.00	0.00	0.90	21.71
Gold	1.93	-0.13	13.64	25.36
2. Services	0.53	0.63	9.26	8.64
Rents	0.60	0.48	9.32	9.40
Restaurants and hotels	0.83	0.70	11.67	8.71
Transport	0.17	0.57	9.51	9.20
Communication	0.16	0.00	0.78	4.66
Other	0.52	0.89	9.99	9.38
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.92	1.20	11.95	9.07
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.79	1.25	11.44	9.46
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.84	0.82	11.38	9.75

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices rose by 1.54 percent in March and annual PPI inflation edged up by 0.57 points to 14.28 percent (Chart 11). The rise in producer prices was driven mostly by the recent changes in exchange rates and commodity prices, particularly for oil. In this period, annual inflation accelerated to 14.77 percent in manufacturing prices. For a long time, there have been large price hikes for intermediate inputs, such as wood and cork, base metals, paper, plastics and rubber, nonmetallic minerals and chemicals. Thus, the seasonally adjusted underlying trend of manufacturing industry prices excluding oil and base metals remained increasingly high (Chart 12).

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

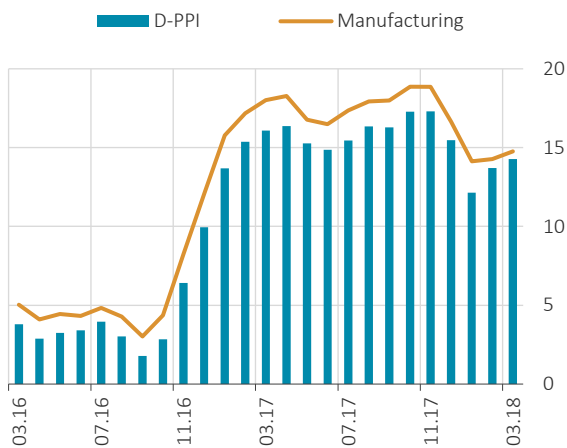
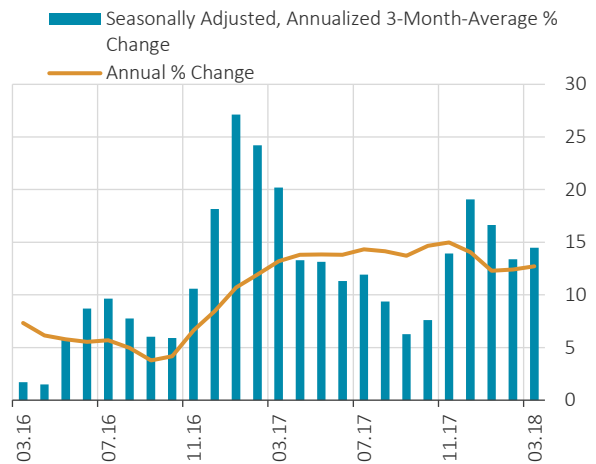


Chart 12. Manufacturing Excluding Petroleum and Basic Metals



According to the Main Industrial Groupings (MIGs), prices were flat in energy, moderately higher in durable goods and significantly up across other subcategories in March (Table 3). Price increases in intermediate goods were mostly led by iron-steel, plastics, animal feeds and base chemicals, while prices of capital goods were pushed up by motor vehicles and their spare parts and accessories, metal construction materials and machines. Prices of durable goods were driven higher by rising prices of furniture and home appliances, while meat and meat products, dairy products, medicines, fruits and vegetables, and oils and fats accounted for the price increases across nondurable goods. On the whole, producer-driven cost pressures continued to weigh on consumer prices at a stronger rate than a month ago.

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

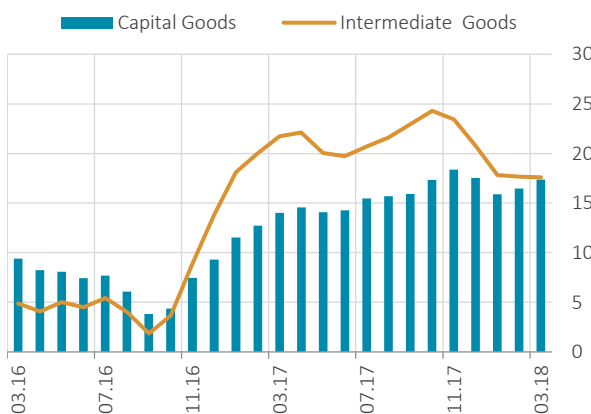
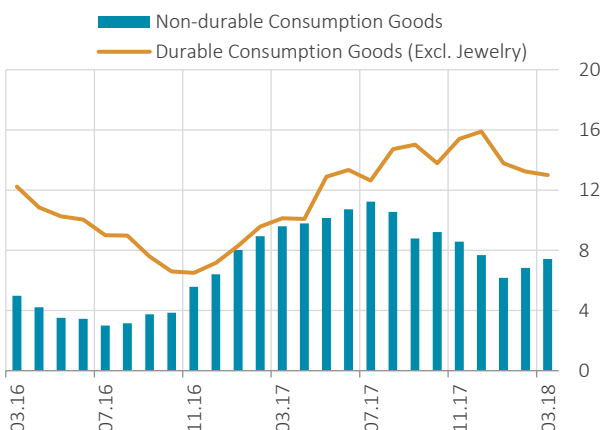


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	March 2018		March 2017	
		Monthly	Annual	Monthly	Annual
CPI	100.00	0.99	10.23	1.02	11.29
Food and nonalcoholic beverages	23.03	2.03	10.37	1.93	12.53
Alcoholic beverages and tobacco	5.14	0.00	0.90	0.00	21.71
Clothing and footwear	7.21	1.05	10.74	1.99	8.52
Housing	14.85	0.44	9.46	0.43	7.71
Household equipment	7.66	0.78	15.41	1.00	5.33
Health	2.64	1.90	9.96	1.88	13.28
Transport	17.47	0.76	13.41	0.56	17.69
Communication	3.91	0.10	-0.04	0.01	4.47
Recreation and culture	3.39	0.51	7.14	1.55	9.30
Education	2.67	0.94	10.87	0.94	9.84
Restaurants and hotels	7.27	0.83	11.67	0.70	8.71
Miscellaneous goods and services	4.76	0.69	10.87	0.59	12.51

Source: TurkStat.

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

	Weight	March 2018		March 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	1.54	14.28	1.04	16.09
Mining	3.26	0.23	12.94	0.37	19.94
Manufacturing	89.02	1.79	14.77	1.35	18.01
Manufacturing excl. petroleum products	86.52	1.77	14.33	1.53	16.42
Manufacturing excl. petroleum products and basic metals	79.60	1.62	12.72	1.35	13.21
Electricity, gas, steam and air-conditioning sup.	6.74	-0.84	9.18	-2.69	-6.56
Water supply	0.98	0.76	4.63	0.66	10.46
D-PPI (MIGs Classification)					
Intermediate Goods		1.86	17.58	1.93	21.73
Durable Consumption Goods		0.68	13.13	0.76	13.59
Durable Consumption Goods (Excl. Jewelry)		0.61	13.01	0.82	10.13
Non-Durable Consumption Goods		1.70	7.42	1.14	9.59
Capital Goods		1.87	17.36	1.10	14.01
Energy		-0.07	15.09	-2.59	14.26

Source: TurkStat.