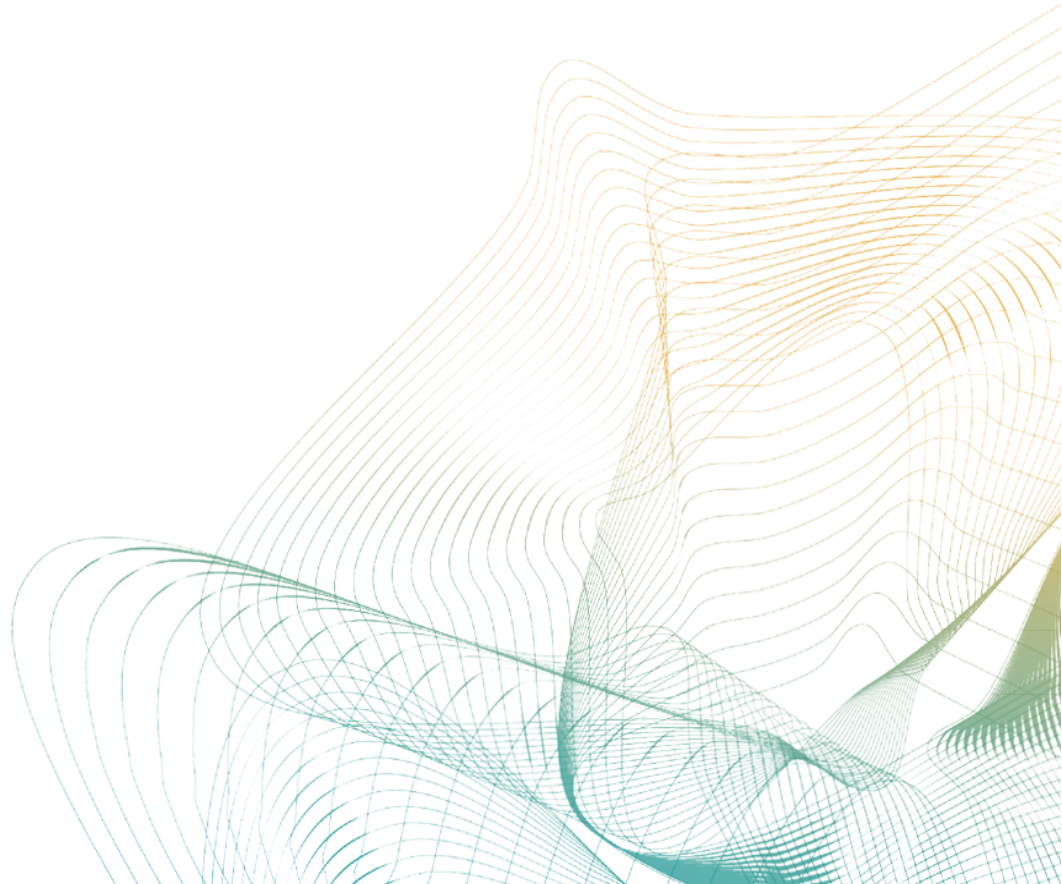




February Price Developments

4 March 2020



Summary

In February, consumer prices rose by 0.35%, while annual inflation was up by 0.22 points to 12.37%. The rise in inflation was mainly driven by food prices; annual inflation in both processed and unprocessed food groups displayed an uptrend. Energy prices decreased led by fuel prices owing to the drop in oil prices and annual inflation in the energy group declined. In this period, services inflation inched up while core goods inflation remained moderate on the back of the broad-based price decreases in the core goods group. Against this background, annual inflation in B and C indices inched up, displaying a relatively flat 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 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

In February, consumer prices rose by 0.35%, while annual inflation was up by 0.22 points to 12.37% (Chart 1). Meanwhile, the annual rate of change in the B and C indices rose by 0.17 and 0.09 points to 11.10% and 9.97%, respectively (Chart 2).

Across subcategories, the contribution of food and services groups to annual consumer inflation increased month-on-month by 0.39 and 0.11 points, respectively, while that of energy, alcoholic beverages-tobacco and core goods groups decreased by 0.18, 0.10 and 0.09 points, respectively.

Chart 1: CPI and D (Annual % Change)

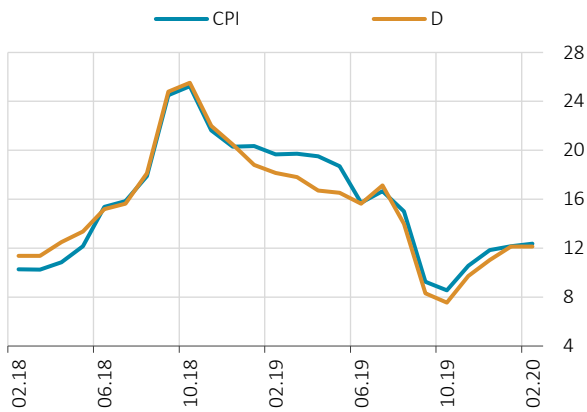
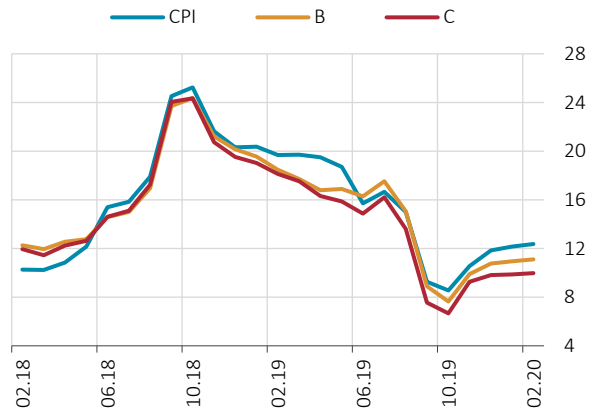


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of the B and C indices were almost flat (Chart 3). In this period, the trend of the services group posted a small uptick, whereas there was no significant change in that of the core goods (adjusted for tax effect) (Chart 4).

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

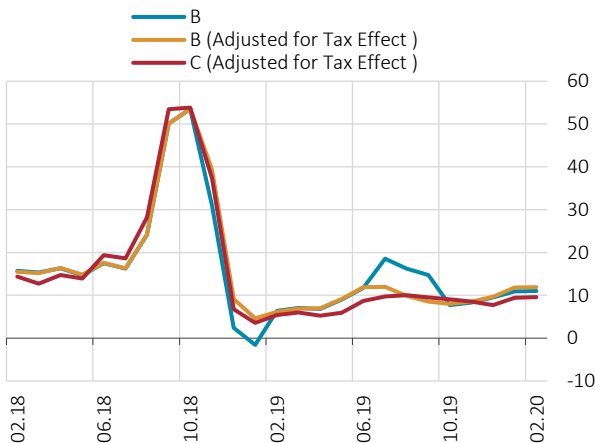
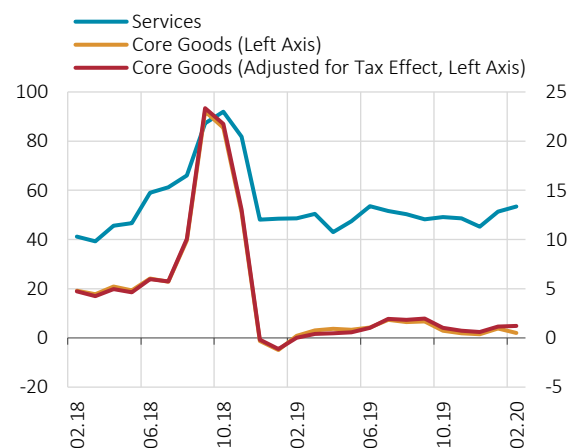


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In February, services prices increased by 0.84% and annual services group inflation rose by 0.29 points to 12.49% (Chart 5). In this period, annual inflation increased in transport services, rents, and other services but remained almost flat in restaurants-hotels and communication groups (Chart 6). While price increases in the transportation group spread across the sub-categories, the rise in other services group was mainly driven by developments in maintenance-repair and health services (dentistry, laboratory, visualization fees etc.) and package tour sensitive to exchange rates.

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

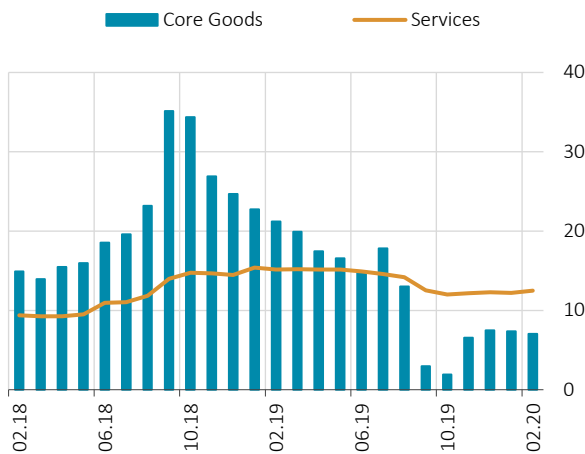
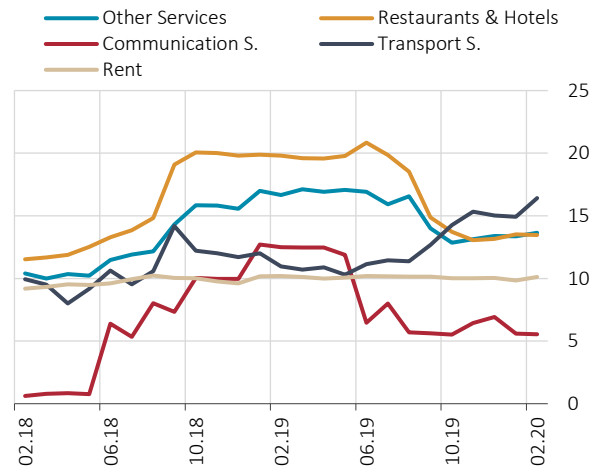


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 0.30 points to 7.05% in February (Chart 5). In this period, annual inflation remained flat in the clothing group while dropped in durable goods and other core goods (Chart 7). The durable goods prices decreased on the back of the decline in the prices of electrical and non-electrical appliances (-0.67%), furniture (-0.36%) and automobile prices (-0.20%). It was considered that there was the pending effect of the VAT reduction in furniture prices in the previous month in February. In this period, despite the rise in medicine prices (3.63%), a limited decline was observed in other core goods prices. In sum, despite the depreciation of the Turkish lira, core goods prices remained moderate.

Chart 7. Core Goods (Annual % Change)

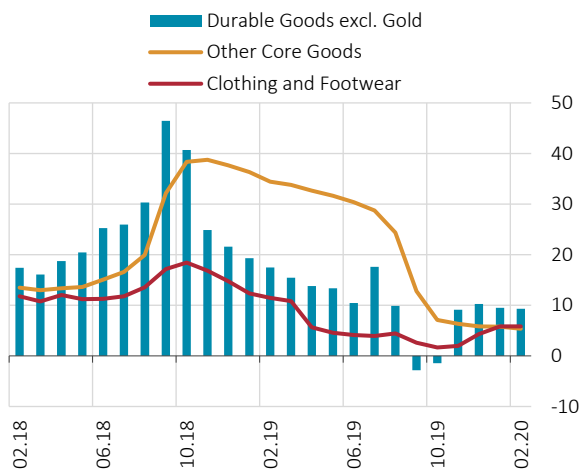
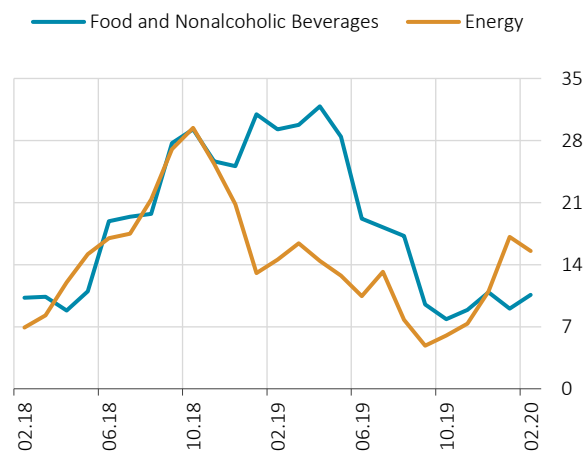


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In February, monthly energy prices decreased by 0.63% (Table 1). This decrease was mainly driven by the decrease in international oil prices due to the epidemic, and monthly fuel prices decreased by 2.30% despite the depreciation in exchange rates. Meanwhile, municipal water tariffs, which increased by 1.08%, contained further decrease in energy prices. Consequently, annual energy inflation dropped by 1.60 points to 15.54% (Chart 8).

Annual inflation in food and non-alcoholic beverages rose by 1.54 points to 10.58% (Chart 8 and Table 2). Both processed and unprocessed food prices played a role in this increase, while the rise in the unprocessed food group was more remarkable. Annual inflation in unprocessed food increased to 4.73%

and to 16.61% in processed food (Chart 9). In this period, annual inflation in the fresh fruits and vegetables group increased, but remained at low levels. As for the other unprocessed food group, the uptrend in red meat prices further accelerated (3.27%). The increase in the processed food group continued led by bread-cereal, meat products and fats-oils. Against this background, annual food inflation excluding fresh fruits and vegetables reached 13.65% (Chart 10).

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

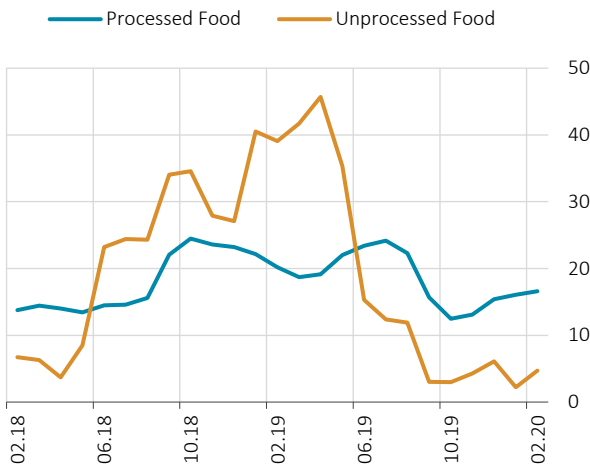
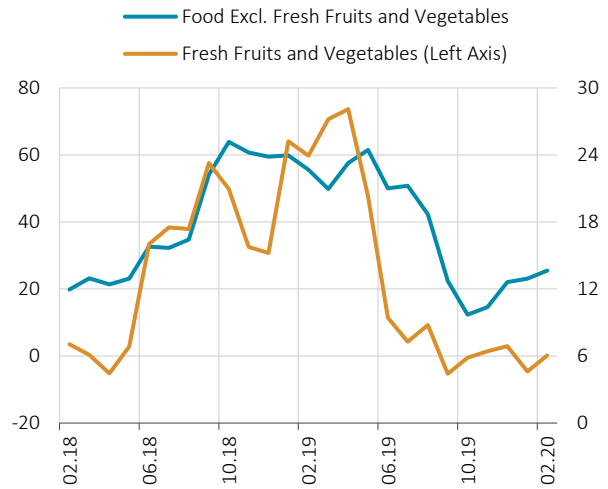


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In February, domestic producer prices increased by 0.48% and annual inflation rose by 0.42 points to 9.26% (Chart 11 and Table 3). In this period, commodity prices decreased while the underlying trend of manufacturing prices excluding petroleum and base metals increased due to the depreciation of the Turkish lira (Chart 12).

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

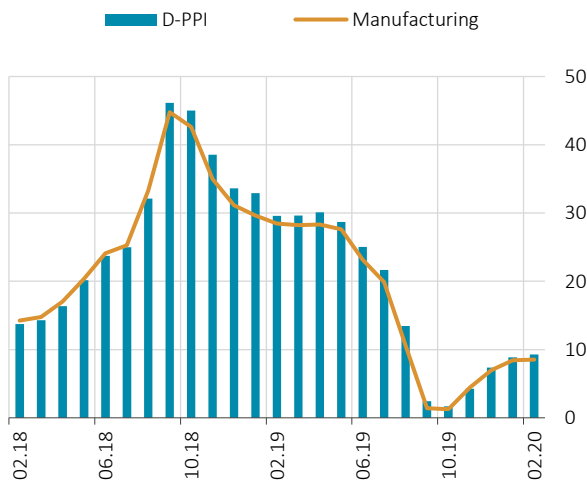
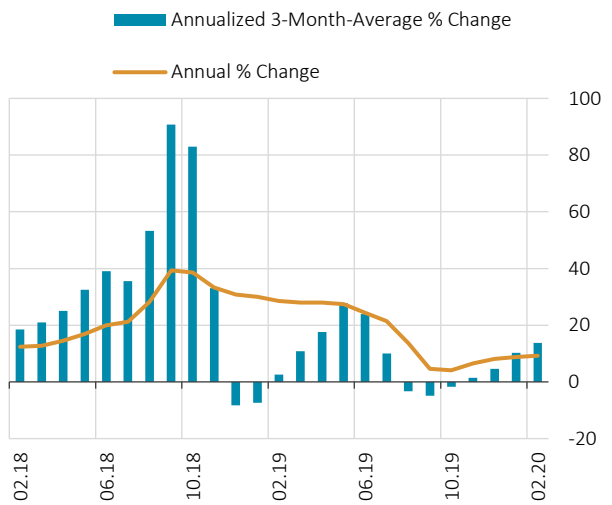


Chart 12. Manufacturing Excluding Petroleum and Base Metals



An analysis by main industrial groupings reveals that annual inflation in energy and non-durable consumption goods groups decreased while it increased across other groups (Table 3, Charts 13 and 14). Monthly developments suggest that prices increased across all groups except for energy. Refined petroleum products and the electricity item drove the significant decline in producer prices in energy. In this period, the rise in durable goods prices was mainly determined by the furniture item; while the rise in the prices of capital goods were driven by structural metal products, motor vehicles and machinery; and the rise in intermediate goods prices was driven by iron-steel and metal products and items providing input to the textile sector. As for the prices of non-durable consumption goods, producer prices for food products increased while producer prices for tobacco products decreased. In sum, the producer-led cost pressures on consumer inflation inched up in this period.

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

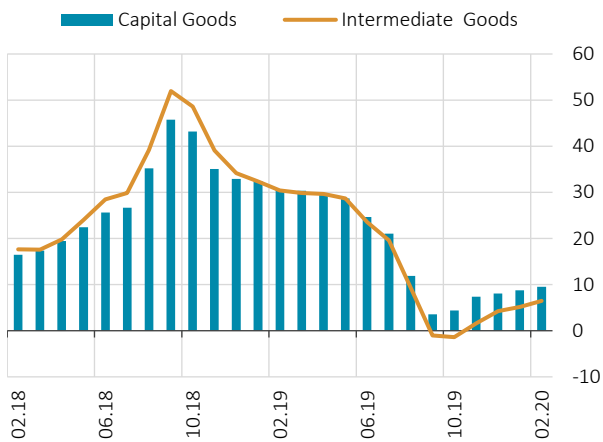
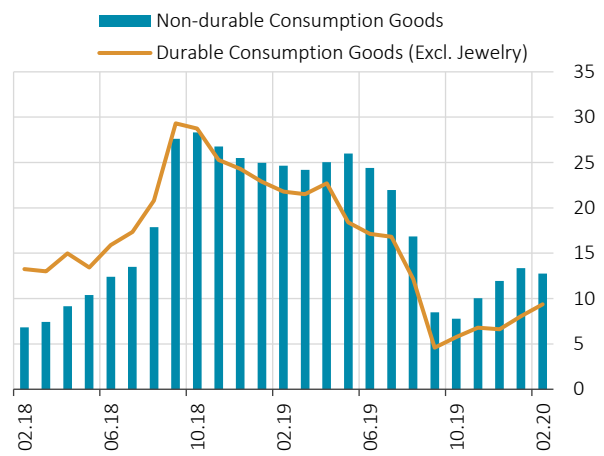


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	February 2020	February 2019	February 2020	February 2019
CPI	0.35	0.16	12.37	19.67
1. Goods	0.14	-0.01	12.27	21.51
Energy	-0.63	0.75	15.54	14.57
Food and non-alcoholic beverages	2.33	0.90	10.58	29.25
Unprocessed food	3.85	1.36	4.73	39.07
Fresh fruits and vegetables	6.83	1.78	0.18	59.75
Other unprocessed food	2.02	1.05	8.70	26.93
Processed food	0.89	0.42	16.61	20.18
Bread and cereals	1.20	0.97	17.78	20.84
Other processed food	0.71	0.13	15.98	19.83
Goods excluding energy and food	-1.10	-0.90	12.26	18.98
Core goods	-1.37	-1.09	7.05	21.22
Durable goods (excluding gold)	-0.29	-0.15	9.32	17.48
Clothing and footwear (*)	-4.95	-4.93	5.80	11.49
Other core goods	-0.19	0.21	5.37	34.42
Alcoholic beverages and tobacco	-1.34	0.11	40.15	2.71
Gold	4.16	-0.09	35.00	36.69
2. Services	0.84	0.58	12.49	15.14
Rents	0.81	0.57	10.11	10.19
Restaurants and hotels	0.82	0.87	13.45	19.79
Transport	0.79	-0.51	16.42	10.95
Communication	0.18	0.22	5.54	12.49
Other	1.09	0.83	13.65	16.67
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.00	-0.15	11.10	18.48
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	-0.18	-0.27	9.97	18.12
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	-0.01	-0.02	12.14	18.15
F – CPI excluding administered prices	0.44	0.19	9.87	21.85

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	February 2020		February 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	0.35	12.37	0.16	19.67
Food and non-alcoholic beverages	22.77	2.33	10.58	0.90	29.25
Alcoholic beverages and tobacco	6.06	-1.34	40.15	0.11	2.71
Clothing and footwear	6.96	-4.83	5.98	-4.81	11.62
Housing	14.34	0.48	15.31	0.01	16.56
Household equipment	7.77	-0.08	7.36	0.06	27.59
Health	2.80	2.03	13.58	2.48	17.89
Transport	15.62	-0.38	11.73	0.71	15.18
Communication	3.80	-0.22	2.27	-0.34	10.92
Recreation and culture	3.26	-0.04	6.01	-0.37	20.43
Education	2.58	0.86	14.23	1.64	11.60
Restaurants and hotels	8.67	0.82	13.45	0.87	19.79
Miscellaneous goods and services	5.37	0.85	16.44	-0.39	28.08

Source: TURKSTAT.

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

	Weight	February 2020		February 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	0.48	9.26	0.09	29.59
Mining	3.23	1.44	12.26	1.89	22.58
Manufacturing	89.22	0.66	8.52	0.60	28.47
Manufacturing excl. petroleum products	85.25	1.12	8.77	0.45	28.24
Manufacturing excl. petroleum products and base metals	75.47	0.97	9.25	0.49	28.58
Electricity, gas, steam and air-conditioning sup.	6.61	-2.38	19.24	-7.43	47.38
Water supply	0.95	-0.07	5.27	-1.02	1.33
D-PPI (MIGs Classification)					
Intermediate Goods		1.29	6.46	0.05	30.39
Durable Consumption Goods		1.30	10.40	-0.05	22.60
Durable Consumption Goods (Excl. Jewelry)		1.17	9.37	-0.03	21.80
Non-Durable Consumption Goods		0.94	12.77	1.48	24.66
Capital Goods		0.93	9.55	0.22	30.69
Energy		-4.17	12.34	-2.97	39.78

Source: TURKSTAT.