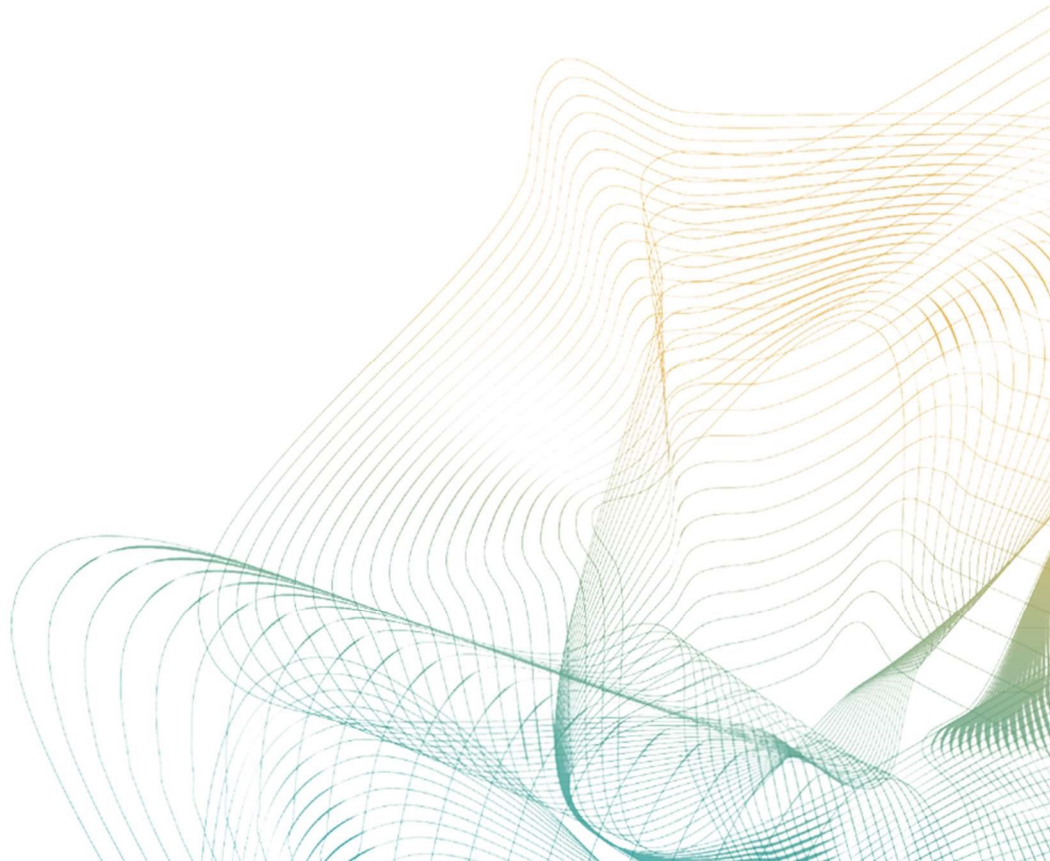


 June Price

Developments

4 July 2019



## Summary

In June, consumer prices rose by 0.03% and annual inflation declined by 2.99 points to 15.72%. The annual rate of change in the core inflation indicator B index decreased by 0.62 points to 16.28%. The main driver of the slowdown in consumer inflation was unprocessed food prices that fell due to the outlook in vegetable products. Energy prices receded and affected consumer inflation positively. In addition to last year's high base, weak domestic demand conditions contributed to the slowdown in annual inflation in core indicators. However, despite the mild course in the underlying trend of core goods, the underlying trend of the services group revealed an increase on the back of brisk tourism demand.

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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.

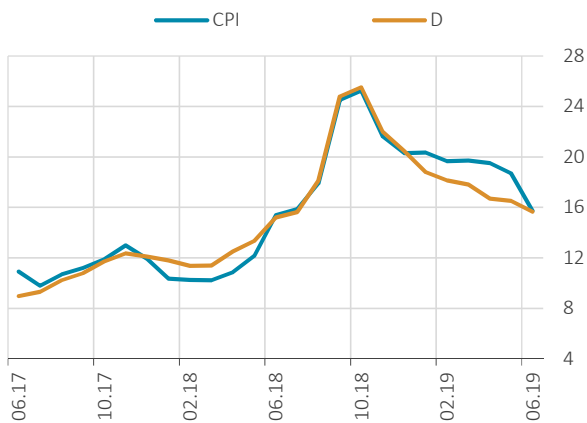
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## Evaluations

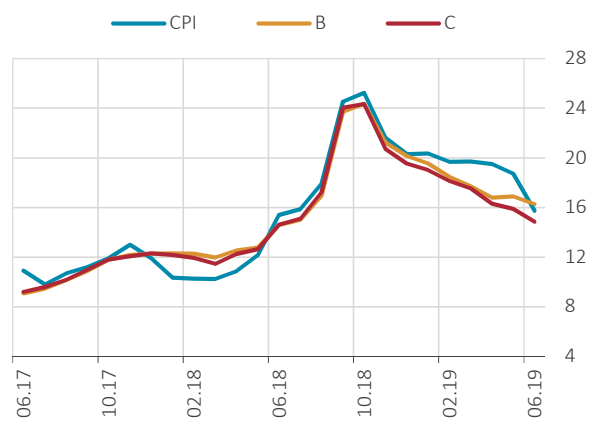
In June, consumer prices rose by 0.03% and annual inflation declined by 2.99 points to 15.72% (Chart 1). In this period, the annual rates of change in the B and C indices declined by 0.62 and 1.01 points to 16.28% and 14.86%, respectively (Chart 2).

An analysis of the contribution of subgroups to annual consumer inflation indicated month-on-month declines of 1.99, 0.55, 0.32, and 0.08 points in the food, core goods, energy, and services groups, respectively.

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

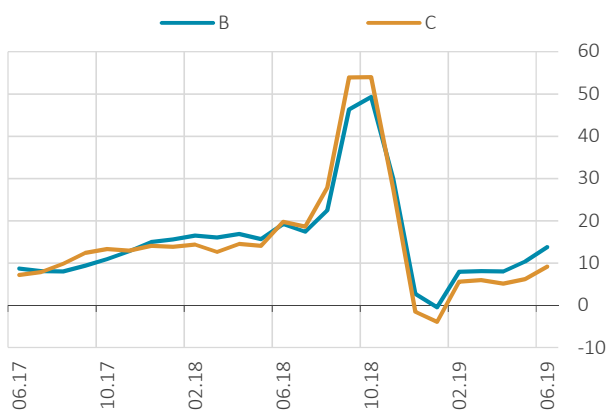


**Chart 2: CPI, B and C (Annual % Change)**

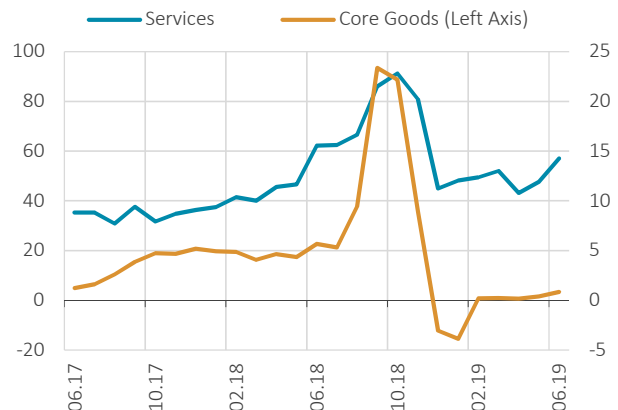


Three-month averages of seasonally-adjusted core inflation indicators revealed an increase in the underlying trend (Chart 3). This increase is mainly attributed to the services prices (Chart 4).

**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)**



In June, services prices rose by 1.65% and annual services inflation inched down by 0.23 points to 14.92% (Chart 5 and Table 1). While annual inflation receded in communication and other services, it posted an increase in other subcategories (Chart 6). The annual inflation in communication declined due to the base effect, whereas the prices of both catering and accommodation in the restaurant-hotels group posted significant increases driven also by the brisk tourism. The rise in transport services inflation was primarily led by intercity road passenger transport fares (a monthly increase of 15.80%). Inflation in education services continued to rise due to backward indexation.

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

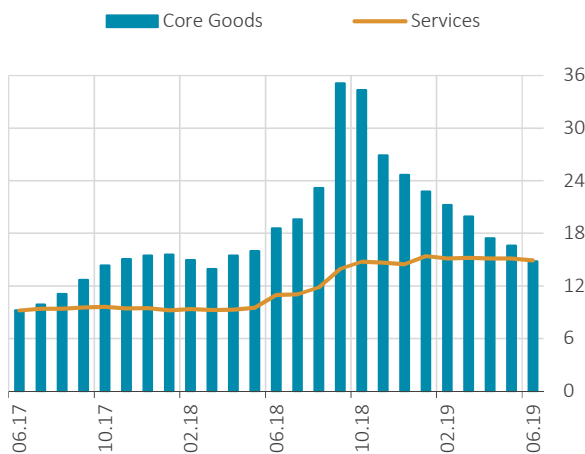
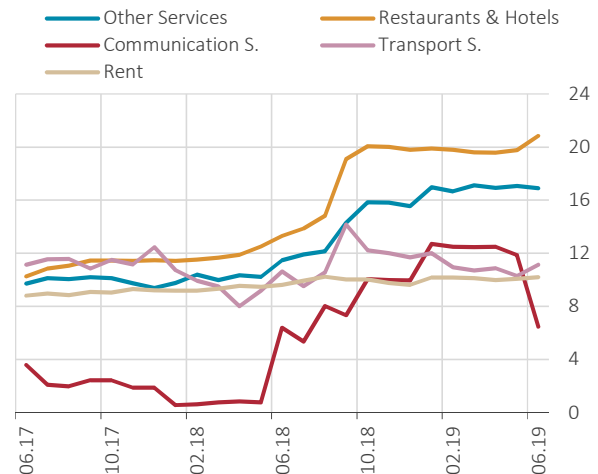


Chart 6. Services (Annual % Change)



In June, annual core goods inflation declined by 1.80 points to 14.79% (Chart 5). Annual inflation fell further across all subcategories in this period (Chart 7). Despite a 1.04% increase in automobile prices, durable goods prices posted a moderate increase due to other subcategories. Price changes in the clothing group continued to remain below periodic averages. In the other core goods, the monthly price increases that had remained subdued for a while gained pace in this period. In addition to the high base effect, the recent exchange rate developments and weak economic activity contributed to the fall in core goods inflation.

Chart 7. Core Goods (Annual % Change)

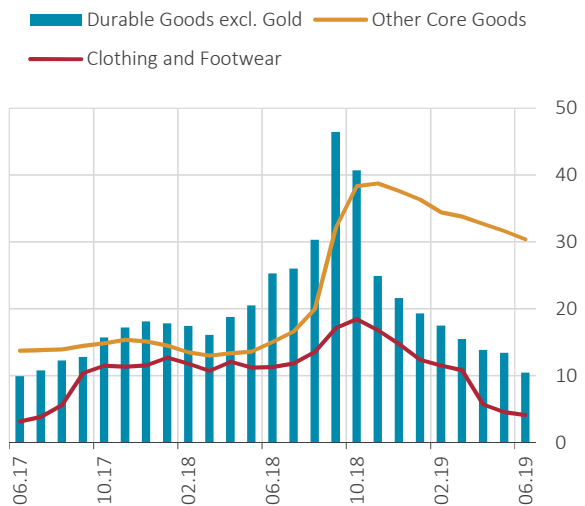
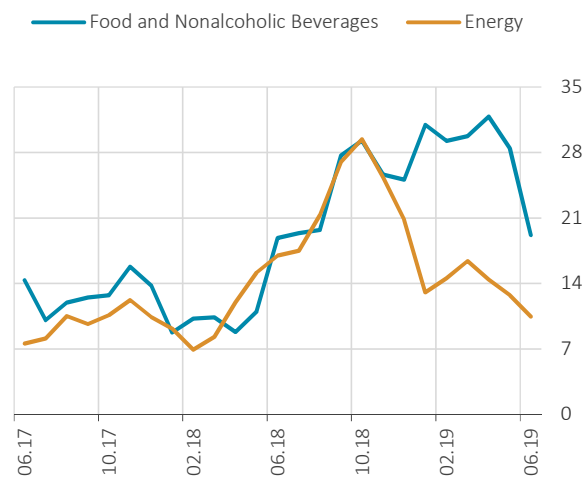


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)

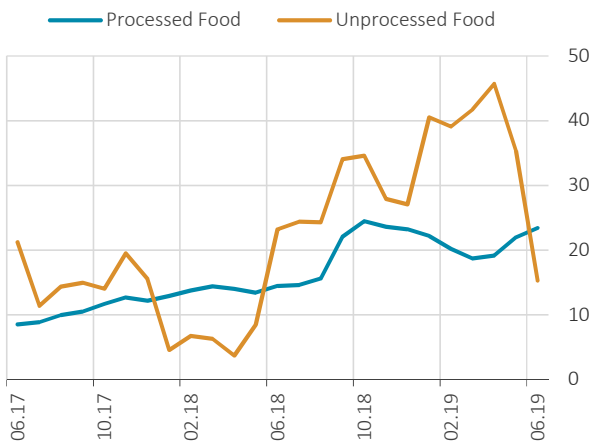


Energy prices decreased by 1.04% in June (Table 1). This fall was led by municipal water tariffs and fuel prices. In this period, exchange rate developments and falling oil prices pulled fuel prices down by 2.23%, while the decline in municipal water tariffs was triggered by the price cut in Istanbul province. On the other hand, bottled gas and natural gas prices rose by 0.88% and 0.44%, respectively. All in all, annual energy inflation fell by 2.29 points to 10.46% (Chart 8).

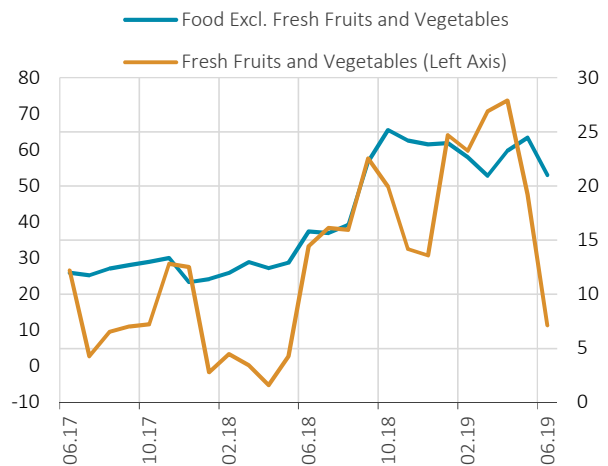
Annual inflation in food and non-alcoholic beverages plummeted by 9.24 points to 19.20% in June (Chart 8 and Table 2). This fall was driven by annual unprocessed food inflation, which was pulled down to 15.31%

by vegetable prices, whereas annual processed food inflation increased further (Chart 9). In this period, annual inflation in the fresh fruits-vegetables group fell to 11.48% due to the base effects accompanied by a decline in vegetable prices that was higher than seasonal averages (Chart 10). In the other unprocessed food group, prices of potatoes and eggs maintained the downtrend, whereas price increases continued in other items, particularly in white meat (4.67%) and milk (4.57%). Prices in the processed food group surged by 2.44% due to the lagged reflection of increased costs into prices, and the group’s annual inflation rose by 1.42 points to 23.41%. Prices climbed across all subcategories in this group, with bread and cereals as well as dairy products in the lead.

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



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



## D-PPI

Domestic producer prices rose by 0.09% in June and annual inflation decreased by 3.67 points to 25.04% (Chart 11). This mild rise was led by developments in the exchange rate and oil prices. In this period, the seasonally-adjusted underlying trend of manufacturing prices excluding petroleum and base metals revealed a decrease, yet maintained its high level (Chart 12).

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

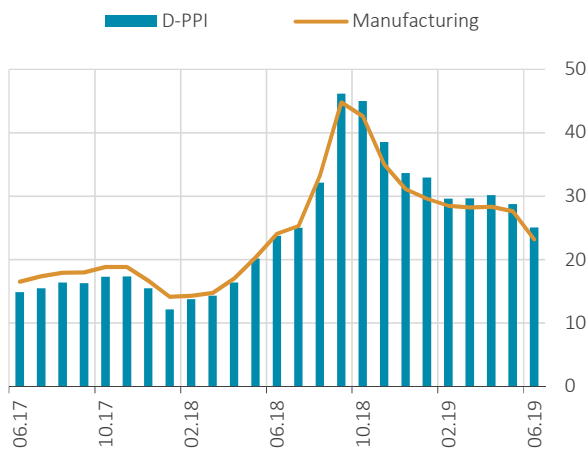
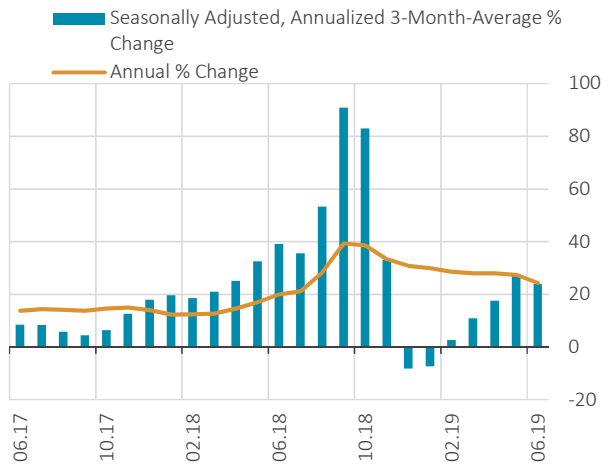


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, prices receded in intermediate goods and capital goods, but picked up in the durable and nondurable consumption goods as well as energy groups (Table 3). This month-on-month price fall in intermediate goods was driven by base metals, basic chemicals and textiles, while that in capital goods was led by metal construction products and parts and accessories of motor vehicles. The drivers of the rise in energy prices were electricity and gas production, while oil prices offered a downward contribution to energy prices. Durable consumption goods posted price increases owing to electronics and home appliances in particular. Meanwhile, the course of prices in nondurable consumption goods was shaped by price increases in the manufacturing of food products, which were also seen in consumer prices. As a result, producer-led cost pressures on consumer prices lost some pace.

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

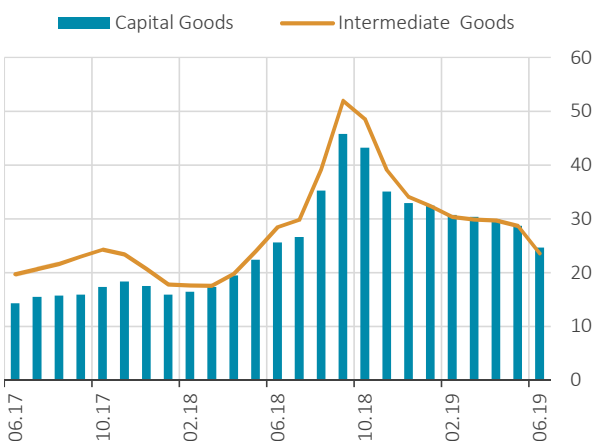
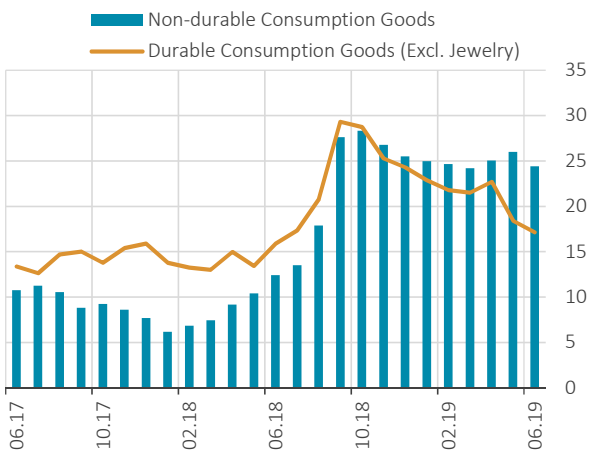


Chart 14. Consumption Goods (Annual % Change)



## Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	June 2019	June 2018	June 2019	June 2018
<b>CPI</b>	<b>0.03</b>	<b>2.61</b>	<b>15.72</b>	<b>15.39</b>
<b>1. Goods</b>	<b>-0.62</b>	<b>2.92</b>	<b>16.01</b>	<b>17.26</b>
Energy	-1.04	1.01	10.46	16.99
Food and non-alcoholic beverages	-1.65	5.98	19.20	18.89
Unprocessed food	-5.61	10.78	15.31	23.23
Fresh fruits and vegetables	-11.26	17.51	11.48	33.37
Other unprocessed food	-2.22	7.00	17.48	17.63
Processed food	2.44	1.27	23.41	14.47
Bread and cereals	1.94	1.02	25.16	11.74
Other processed food	2.71	1.39	22.48	16.03
Goods excluding energy and food	0.25	1.60	15.88	16.21
Core goods	0.21	1.78	14.79	18.55
Durable goods (excluding gold)	0.53	3.20	10.44	25.27
Clothing and footwear (*)	-1.62	-1.19	4.10	11.30
Other core goods	1.04	2.02	30.39	15.04
Alcoholic beverages and tobacco	0.04	0.02	19.24	1.06
Gold	1.64	3.53	30.78	32.96
<b>2. Services</b>	<b>1.65</b>	<b>1.85</b>	<b>14.92</b>	<b>10.96</b>
Rents	0.86	0.74	10.20	9.62
Restaurants and hotels	2.65	1.74	20.84	13.30
Transport	2.94	2.15	11.15	10.64
Communication	0.50	5.60	6.47	6.38
Other	1.12	1.27	16.91	11.47
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.19	1.72	16.28	14.58
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.92	1.81	14.86	14.60
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.87	1.64	15.65	15.20
F – CPI excluding administered prices	0.05	3.04	16.39	17.13

Source: TurkStat.

(\*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	June 2019		June 2018	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	100	0.03	15.72	2.61	15.39
Food and non-alcoholic beverages	23.29	-1.65	19.20	5.98	18.89
Alcoholic beverages and tobacco	4.23	0.04	19.24	0.02	1.06
Clothing and footwear	7.24	-1.57	4.33	-1.15	11.34
Housing	15.16	0.26	13.80	1.03	12.04
Household equipment	8.33	0.57	22.51	2.24	18.91
Health	2.58	0.57	19.05	0.84	10.83
Transport	16.78	0.47	10.00	2.66	24.26
Communication	3.69	0.38	5.30	4.76	4.94
Recreation and culture	3.29	-0.04	17.48	2.16	9.39
Education	2.40	1.50	13.87	0.85	10.79
Restaurants and hotels	7.86	2.65	20.84	1.74	13.30
Miscellaneous goods and services	5.15	1.86	26.88	1.75	16.79

Source: TurkStat.

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

	Weight	June 2019		June 2018	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100	0.09	25.04	3.03	23.71
Mining	3.06	0.50	22.15	2.44	24.09
Manufacturing	89.31	-0.45	23.15	3.16	24.10
Manufacturing excl. petroleum products	86.19	0.03	23.60	3.03	22.51
Manufacturing excl. petroleum products and base metals	76.71	0.37	24.34	2.85	19.96
Electricity, gas, steam and air-conditioning sup.	6.52	7.83	54.20	1.97	19.95
Water supply	1.11	0.43	-4.04	1.20	6.13
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		-0.59	23.57	3.52	28.47
Durable Consumption Goods		1.22	18.03	2.31	16.64
Durable Consumption Goods (Excl. Jewelry)		1.20	17.12	2.31	15.88
Non-Durable Consumption Goods		1.08	24.41	2.36	12.39
Capital Goods		-0.34	24.67	2.85	25.60
Energy		0.57	35.44	3.21	34.87

Source: TurkStat.