

MAY PRICE DEVELOPMENTS



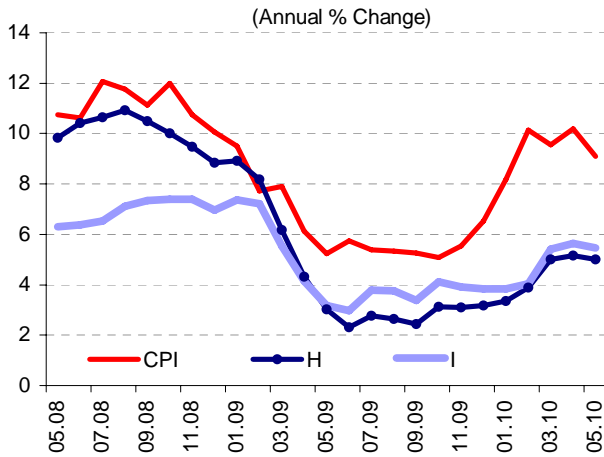
Central Bank of Turkey

June 4, 2010

SUMMARY...

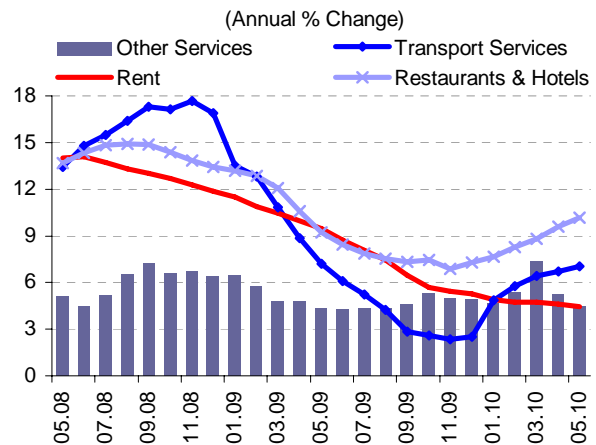
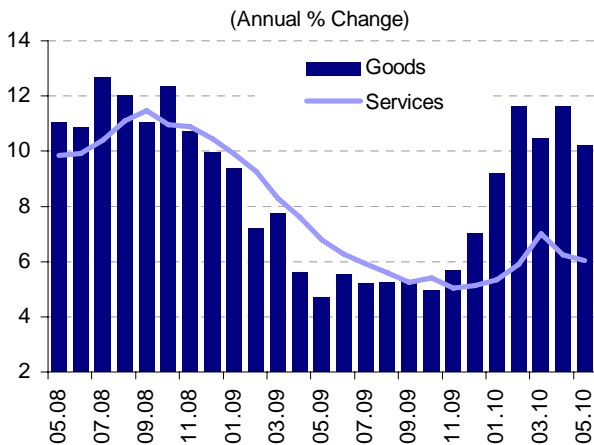
In May, consumer prices decreased by 0.36 percent, pushing inflation down by 1.09 percentage points to 9.1 percent year-on-year. As stated in the summary of May's Monetary Policy Committee Meeting, the decline in annual inflation was largely due to plunging unprocessed food prices, while core inflation indicators were in line with medium-term targets. On balance, although the extreme volatility in unprocessed food prices creates fluctuations at times, inflation may hover around lower levels than predicted in the April Inflation Report in coming months and continue falling once the temporary factors phase out.

...EVALUATIONS...



In May, consumer prices were down 0.36 percent, driving inflation lower by 1.09 percentage points to 9.10 percent year-on-year. The rate of increase in the CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (SCA-H) declined to 5 percent year-on-year. With a further exclusion of processed food, the rate of increase in the index (SCA-I) fell to 5.46 percent year-on-year.

Prices were down 0.51 percent in goods and up 0.08 percent in services. Accordingly, annual inflation dropped to 10.19 and 6.05 percent in goods and services, respectively.



Annual services inflation was down about 0.2 percentage points in May. The lagged impact of the cumulative increase in red meat prices put further upward pressure on catering prices, while communication prices went down on lower mobile call rates. Meanwhile, annual rent inflation continued to trend steadily down. Hence, the average rate of increase in prices of services dropped further in seasonally adjusted terms.

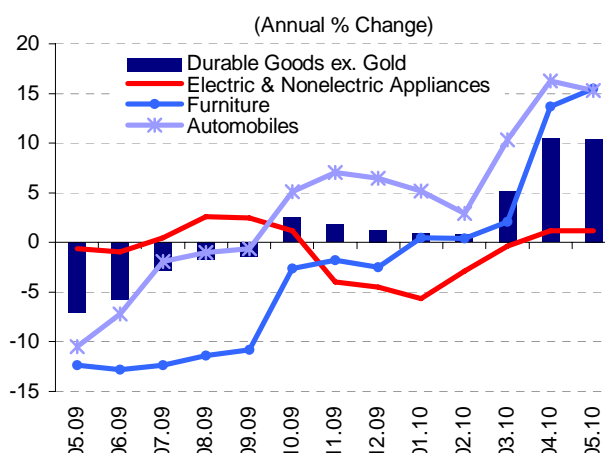
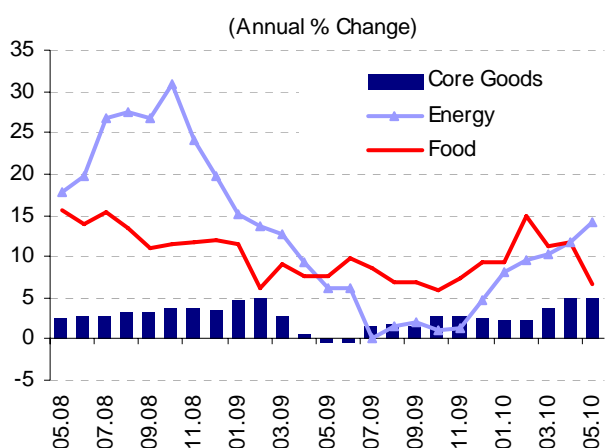
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Solid fuel and water prices soared in May, whereas fuel and bottled gas prices went down, leaving energy prices basically unchanged. As predicted in previous bulletins, annual energy inflation rose by 2.5 percentage points to 14.24 percent on the back of the low base from 2009.



Annual inflation in core goods (goods excluding food, energy, alcoholic beverages, tobacco and gold) was down 0.22 percentage points to 4.84 percent. Seasonal hikes in clothing prices were smaller in May, compared to a year earlier, while prices of durable goods (excluding gold) had a favorable outlook. It should be noted that the base effect from last year's tax incentives on durable goods that drove annual core goods inflation higher during March and April will go into reverse in the upcoming period.

Gold prices surged by 8.59 percent in May, largely due to higher international prices, and moderated the slowdown in CPI inflation. Overall, the contribution of gold prices to annual inflation amounted to about 0.3 percentage points.

	Monthly Percentage Change		Annual Percentage Change	
	May 2010	May 2009	May 2010	May 2009
CPI	-0.36	0.64	9.10	5.24
1. Goods	-0.51	0.77	10.19	4.72
Energy	0.09	-2.09	14.24	6.22
Unprocessed Foods	-8.61	0.30	10.18	13.59
Processed Food	-0.18	0.07	3.49	2.68
Goods excl. Energy and Food	2.69	2.79	11.40	1.44
Core Goods	3.20	3.42	4.84	-0.40
Durable Goods	0.77	0.31	11.87	-4.53
ex. Gold	0.17	0.25	10.37	-7.10
Semi-Durable Goods	3.11	1.82	9.62	4.71
Non-Durable Goods	-3.25	0.14	10.27	7.45
2. Services	0.08	0.27	6.05	6.78
Rents	0.22	0.40	4.44	9.49
Restaurants and Hotels	0.90	0.40	10.16	9.23
Transport	0.54	0.23	7.06	7.19
Other	-0.52	0.16	4.51	4.37

Source: TURKSTAT, CBRT

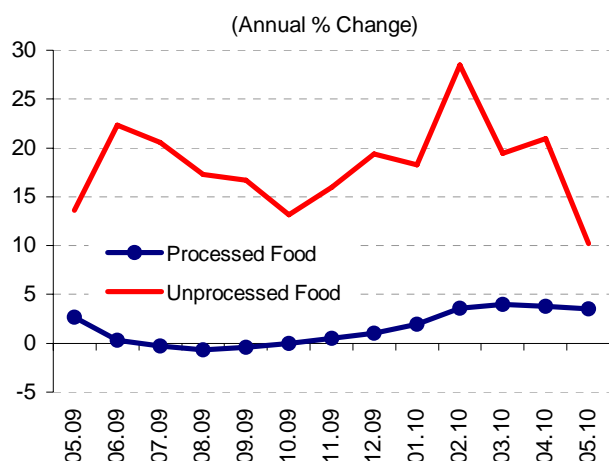
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As noted in the summary of May's Monetary Policy Committee Meeting, unprocessed food prices slumped (by 8.61 percent) in May, bringing unprocessed food inflation down by 10.8 percentage points to 10.18 percent year-on-year.



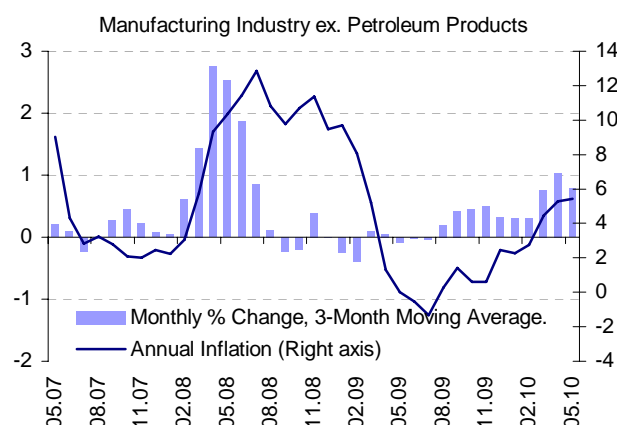
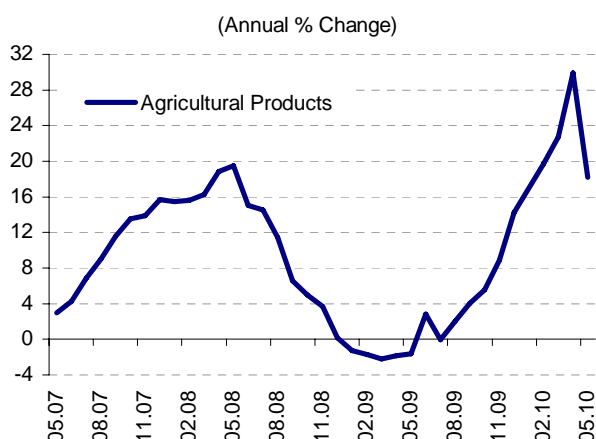
The marked fall in unprocessed food prices was mainly driven by prices of fresh vegetables that plunged by 34.6 percent month-on-month with the massive flow of products into the market amid warm weather. Moreover, lower meat prices – induced by the government's decision to allow meat imports – were another driver of the decline in unprocessed food prices.

Although processed meat prices rose further in May and restrained the fall in food prices, annual inflation in food and non-alcoholic beverages dropped to 6.66 percent amid plunging unprocessed food prices.

...PPI...

Producer prices decreased by 1.15 percent in May, bringing PPI inflation down to 9.21 percent year-on-year. This drop was on account of agricultural prices that fell by 5.66 percent.

Industrial prices were also down in May. Manufacturing industry prices declined by 0.31 percent – a trend spreading across all subcategories. Having increased markedly during the last two months, prices for base metals and petroleum products started falling in May. Meanwhile, manufacturing industry prices excluding base metals and petroleum products remained roughly unchanged month-on-month.



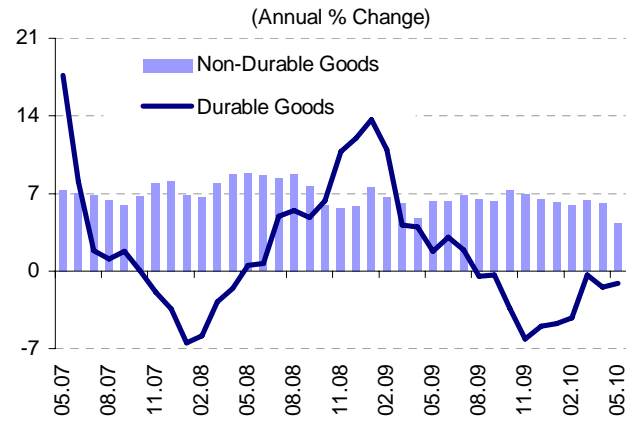
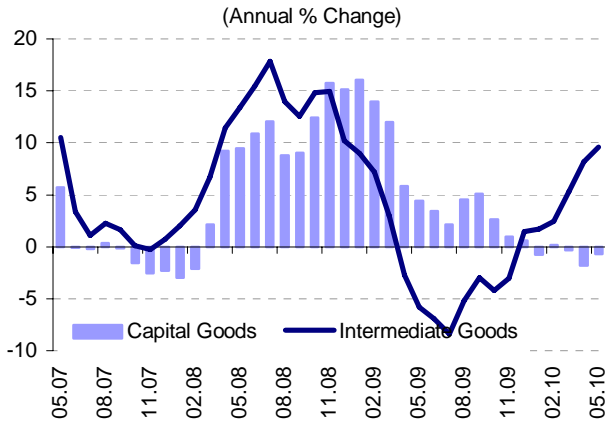
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Based on the MIGs classification, prices of intermediate goods remained flat month-on-month, while prices of capital and non-durable goods were down from April. Having soared in recent months, producer prices for meat and meat products fell in May, bringing prices of non-durable goods down. On the other hand, producer prices for durable goods soared on rising furniture prices.



Changes in PPI based on MIGS Classification

Monthly Percentage Change

	May.09	Jun.09	Jul.09	Aug.09	Sep.09	Oct.09	Nov.09	Dec.09	Jan.10	Feb.10	Mar.10	Apr.10	May.10	Annual
Intermediate goods	-1.24	0.54	-0.23	0.81	1.16	-0.41	0.63	0.89	0.28	0.66	3.06	1.80	0.00	9.56
Capital goods	-1.75	-0.66	-0.42	-0.24	0.61	0.03	0.67	-0.15	-0.16	0.36	0.59	-0.72	-0.59	-0.67
Durable goods	0.45	0.90	1.03	-0.85	-0.26	-1.63	-0.01	0.43	-0.36	-0.92	0.28	-0.48	0.78	-1.14
Non-durable goods	1.19	0.06	0.40	0.13	0.91	1.23	0.20	-0.02	0.12	0.54	0.73	0.45	-0.49	4.33
Energy	-3.31	3.51	-1.36	1.54	-0.54	-0.12	4.31	0.25	0.54	4.88	1.99	0.91	0.47	17.43

Source: TURKSTAT, CBRT.

... TABLES

May CPI and Sub-Items (Percentage Change)					
	Weight	2010		2009	
		Monthly	Annual	Monthly	Annual
CPI	100	-0.36	9.10	0.64	5.24
Food and nonalcoholic beverages	27.60	-4.38	6.66	0.19	7.63
Alcoholic beverages and tobacco	5.31	-0.01	42.96	0.04	7.15
Clothing and footwear	7.30	11.16	3.81	11.46	-0.78
Housing	16.83	0.39	8.63	-1.91	11.79
Household equipment	6.78	0.15	3.58	-0.19	-0.59
Health	2.55	-0.02	0.42	0.17	4.26
Transport	13.90	-0.03	13.79	0.79	-5.15
Communication	4.94	-1.34	0.46	0.17	3.58
Recreation and culture	2.83	-0.46	5.29	-0.28	7.64
Education	2.48	0.60	5.90	0.70	6.40
Restaurants and hotels	5.51	0.90	10.16	0.40	9.23
Miscellaneous goods and services	3.97	1.97	10.84	0.35	10.79

Source: TURKSTAT.

May PPI and Sub-Items (Percentage Change)					
	Weight	2010		2009	
		Monthly	Annual	Monthly	Annual
PPI	100	-1.15	9.21	-0.05	-2.46
Agriculture	17.07	-5.66	18.17	3.70	-1.62
Industry	82.93	-0.08	7.34	-0.89	-2.61
Mining	2.62	2.82	11.06	0.37	8.74
Manufacturing	72.95	-0.31	7.53	-0.07	-5.00
Electricity, gas and water	7.36	1.13	1.07	-10.10	23.36

Source: TURKSTAT.

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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.