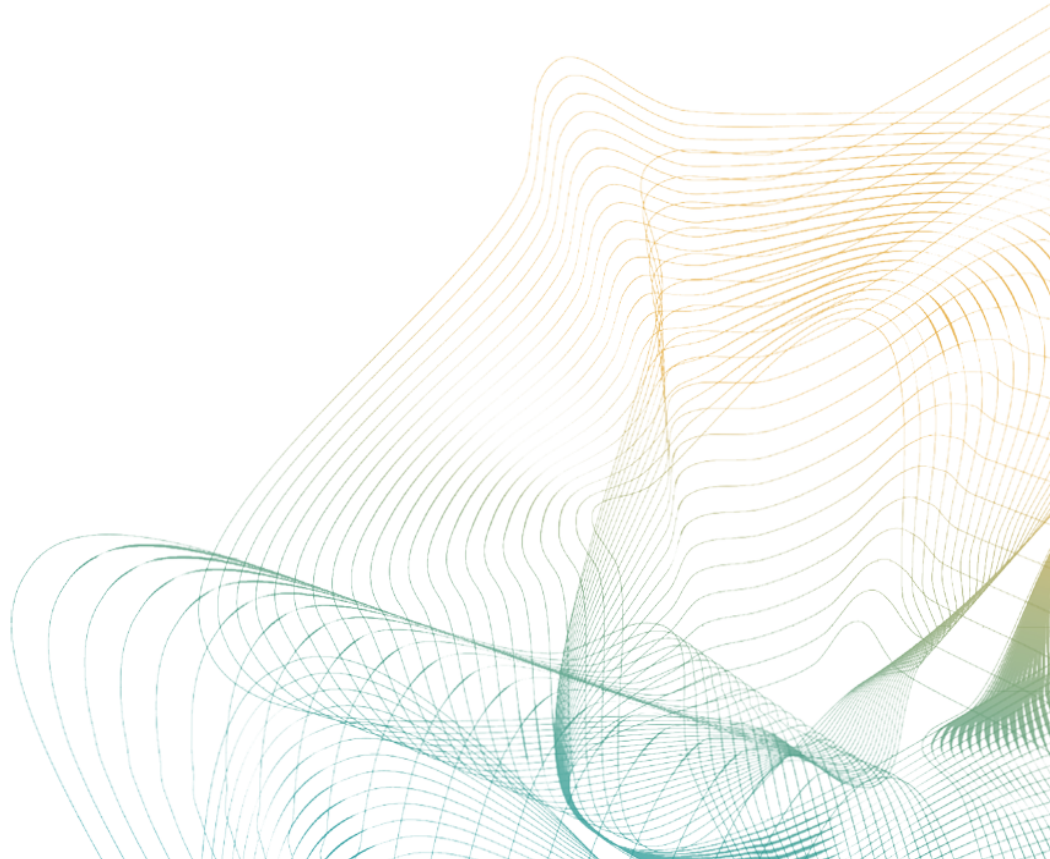


 May Price

Developments

3 June 2019



Summary

In May, consumer prices rose by 0.95% and annual inflation declined by 0.79 points to 18.71%. Despite the upsurge in processed food prices, annual food inflation receded on the back of the prices of fresh fruits and vegetables. Energy prices posted a limited rise, yet annual energy inflation decreased due to base effects. Services inflation was flat in this period, while annual inflation in core indicators remained mild due to core goods. The underlying trend of core indicators inched up, which proved more notable in the index B on account of the processed food group.

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 May, consumer prices rose by 0.95% and annual inflation declined by 0.79 points to 18.71% (Chart 1). In this period, the annual rate of change in the index B inched up by 0.12 points to 16.90%, while in the index C the same rate declined by 0.43 points to 15.87% (Chart 2).

Across subcategories, month-on-month contributions of food, energy and core goods groups to annual CPI inflation declined by 0.80, 0.22 and 0.21 points, respectively, whereas that of the alcohol-tobacco group was up by 0.44 points.

Chart 1: CPI and D (Annual % Change)

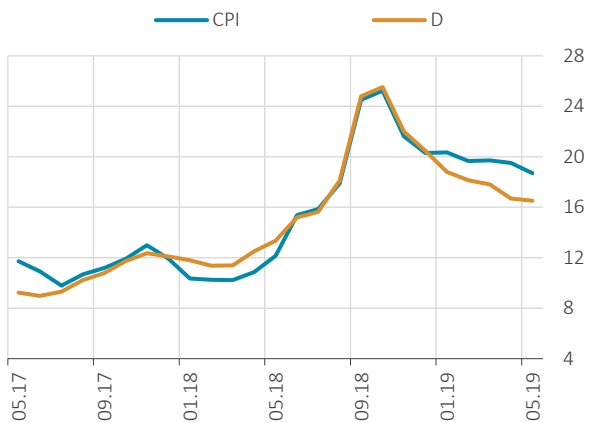
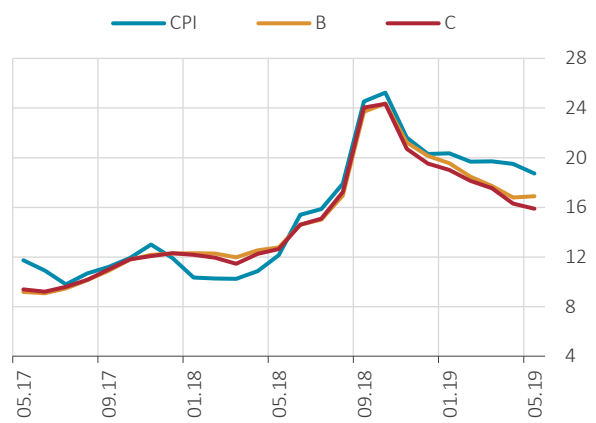


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators revealed an increase in the underlying trend due to both the services and core goods (Charts 3 and 4).

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

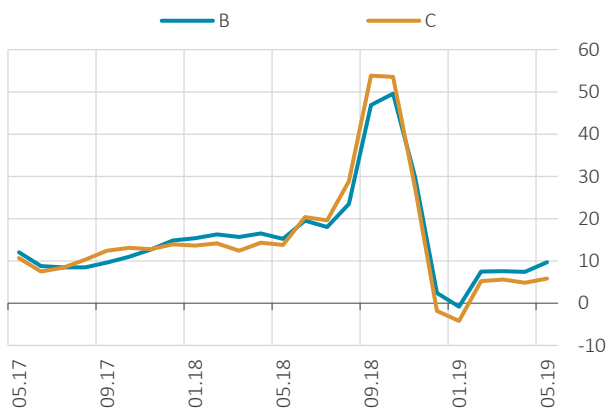
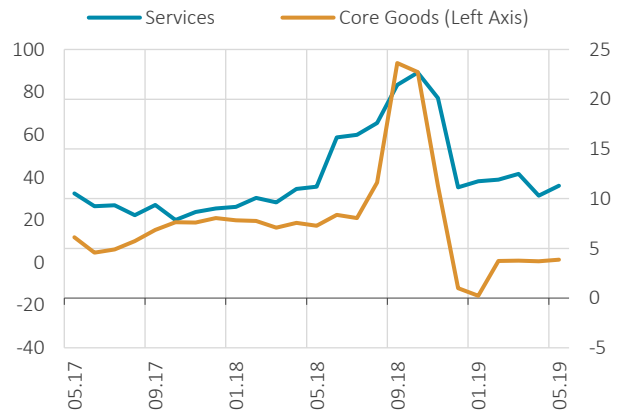


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In May, prices of services rose by 1.17% and annual services inflation remained flat at 15.15% (Chart 5 and Table 1). Annual inflation receded in communication and transport services, but inched up in other subcategories (Chart 6). The uptrend in catering services in the restaurants-hotels group continued due also to the outlook in food prices, while the annual inflation in accommodation services declined. Inflation in other services was pushed up mainly by package tour prices.

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

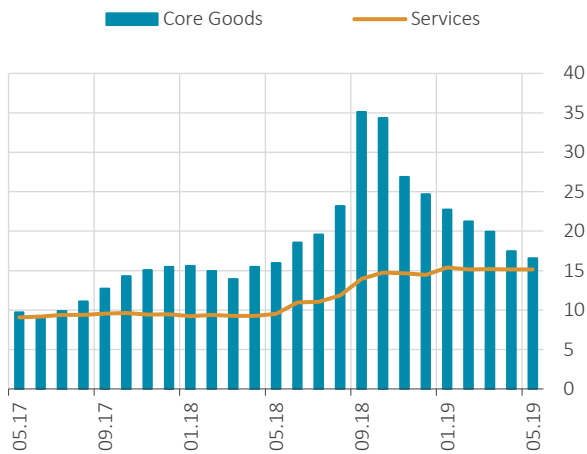
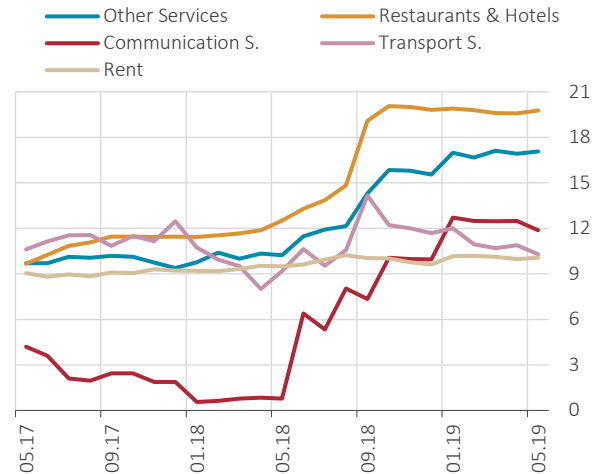


Chart 6. Services (Annual % Change)



Annual core goods inflation fell by 0.86 points to 16.59% in May (Chart 5). Annual inflation fell across all subcategories (Chart 7). On a monthly basis, depreciation in Turkish lira pushed automobile prices up by 3.82%, whereas furniture prices decreased considerably by 4.89%. In this period, increases in clothing prices remained lower than seasonal averages. On the other core goods front, prices followed a moderate course. In sum, despite the depreciating Turkish lira, core goods inflation decelerated due to the weak course of domestic demand.

Chart 7. Core Goods (Annual % Change)

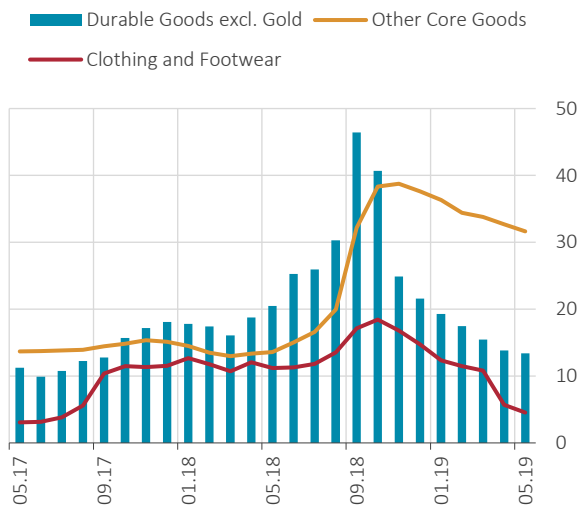
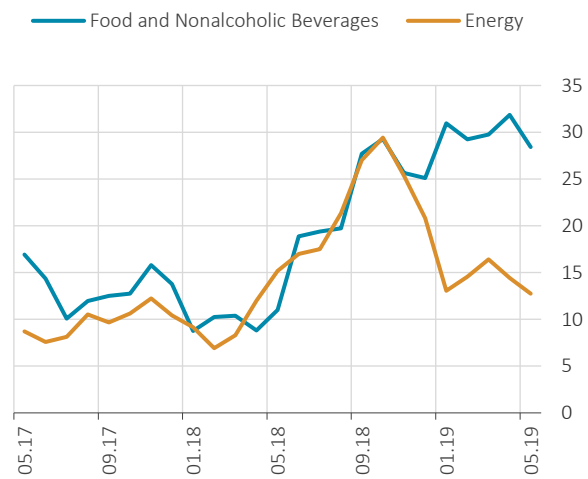


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



In May, energy prices inched up by 0.25% (Table 1). Despite the increases in bottled gas, fuel and natural gas prices (by 1.36, 0.82 and 0.48%, respectively) in this period, the fall in water tariffs by 1.52% curbed the monthly price increase in the energy group. Depreciation of Turkish lira in May notwithstanding, the sliding scale tariff prevented a higher increase in fuel prices. All in all, annual energy inflation fell by 1.67 points to 12.75% (Chart 8).

Annual inflation in food and non-alcoholic beverages decreased by 3.42 points to 28.44% in May (Chart 8 and Table 2). This fall was driven by annual unprocessed food inflation, which was pulled down to 35.33% by prices of fresh fruits and vegetables, whereas annual inflation in processed food posted an increase (Chart 9). In this period, annual inflation in the fresh fruits-vegetables group fell to 47.62% in tandem with the supply of new products (Chart 10). In the other unprocessed food group, prices of potatoes and eggs posted a decline, yet upsurges were recorded in prices of white meat (13.04%), red meat (3.95%) and milk (5.97%). In this period, prices of inputs such as meat and milk along with exchange rate developments drove processed food prices up by 2.75%, and the group’s annual inflation surged by 2.83 points to 21.99%. Prices climbed across all subcategories in this group, with bread and cereals, dairy products and fats-oils in the lead. Thus, annual inflation increased further in food excluding fresh fruits and vegetables in this period after April (Chart 10).

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

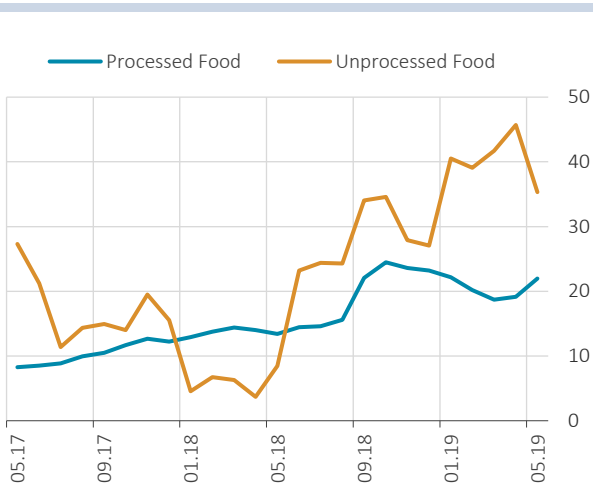
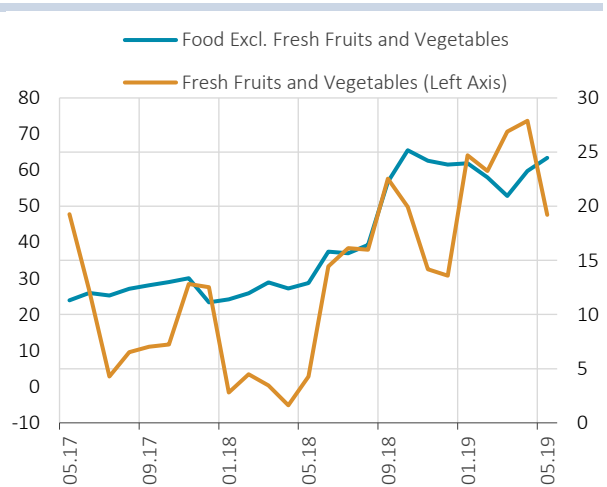


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

Domestic producer prices rose by 2.67% in May and annual inflation decreased by 1.41 points to 28.71% (Chart 11). This rise was led by the depreciated Turkish lira as well as increased oil prices. In this period, the seasonally-adjusted underlying trend of manufacturing prices excluding petroleum and base metals maintained its uptrend (Chart 12).

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

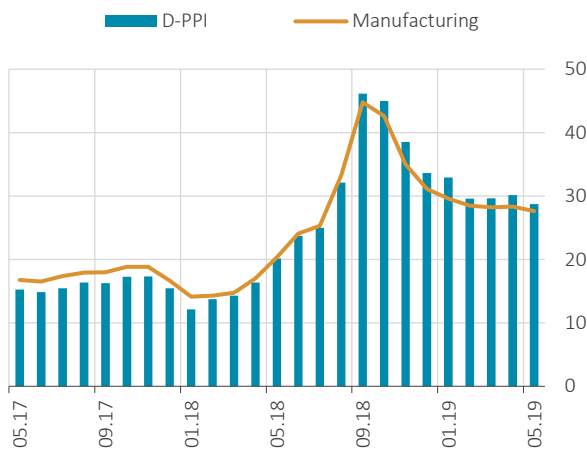
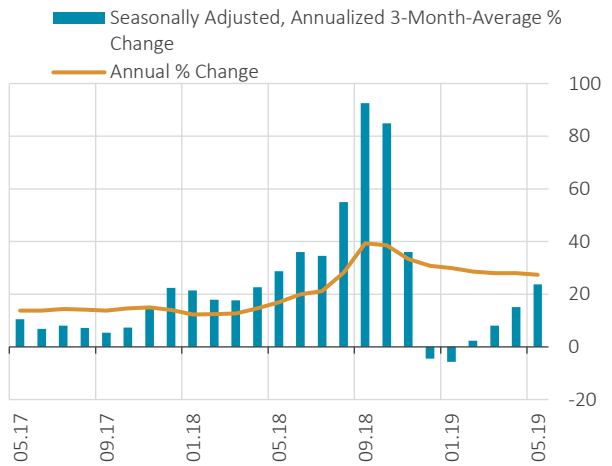


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, prices were up in all subgroups, excluding durable consumption goods (Table 3). Drivers of the month-on-month price increase in intermediate goods were iron-steel, textiles, plastics and basic chemicals; while those of capital goods were metal construction products, parts and accessories of motor vehicles and other machinery. The rise in energy prices was led by price hikes in petroleum products and gas. Prices of durable consumption goods were driven lower by furniture. Meanwhile, prices of nondurable goods were largely pushed up by meat and dairy products, which was also reflected in consumer prices. As a result, producer-led cost pressures on consumer prices continued at a stronger pace.

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

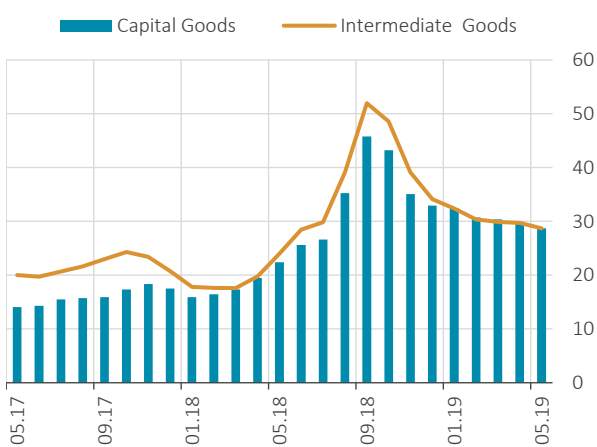
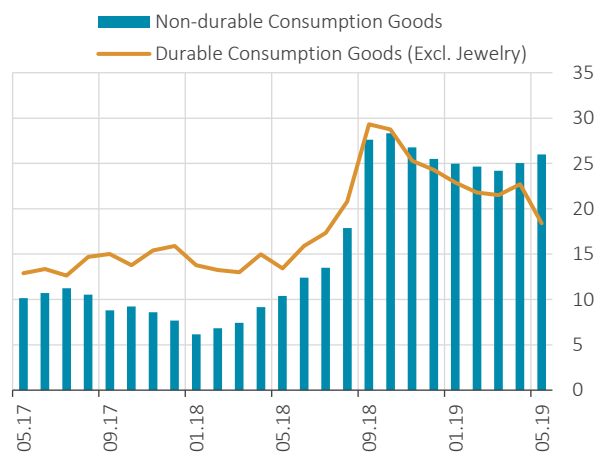


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	May 2019	May 2018	May 2019	May 2018
CPI	0.95	1.62	18.71	12.15
1. Goods	0.86	1.81	20.13	13.25
Energy	0.25	1.74	12.75	15.17
Food and non-alcoholic beverages	-1.18	1.45	28.44	11.00
Unprocessed food	-4.71	2.58	35.33	8.49
Fresh fruits and vegetables	-14.98	0.02	47.62	2.87
Other unprocessed food	2.75	4.08	28.56	11.94
Processed food	2.75	0.37	21.99	13.42
Bread and cereals	3.23	0.65	24.02	11.16
Other processed food	2.50	0.22	20.91	14.71
Goods excluding energy and food	2.55	2.07	17.45	14.00
Core goods	1.48	2.23	16.59	15.98
Durable goods (excluding gold)	0.99	1.37	13.38	20.47
Clothing and footwear (*)	4.16	5.28	4.55	11.20
Other core goods	0.36	1.14	31.66	13.59
Alcoholic beverages and tobacco	8.88	0.15	19.22	1.05
Gold	4.81	6.11	33.22	28.77
2. Services	1.17	1.17	15.15	9.52
Rents	0.80	0.71	10.07	9.49
Restaurants and hotels	1.61	1.45	19.77	12.51
Transport	0.99	1.53	10.29	9.18
Communication	0.26	0.81	11.87	0.77
Other	1.30	1.16	17.08	10.22
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.57	1.47	16.90	12.77
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.32	1.70	15.87	12.64
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.43	1.58	16.53	13.36
F – CPI excluding administered prices	0.67	1.88	19.88	13.28

Source: TurkStat.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	May 2019		May 2018	
		Monthly	Annual	Monthly	Annual
CPI	100	0.95	18.71	1.62	12.15
Food and non-alcoholic beverages	23.29	-1.18	28.44	1.45	11.00
Alcoholic beverages and tobacco	4.23	8.88	19.22	0.15	1.05
Clothing and footwear	7.24	4.09	4.78	5.21	11.23
Housing	15.16	0.40	14.68	0.95	11.24
Household equipment	8.33	-1.58	24.54	0.87	16.87
Health	2.58	0.03	19.37	0.34	10.09
Transport	16.78	2.18	12.40	2.32	20.02
Communication	3.69	0.06	9.89	0.34	-0.22
Recreation and culture	3.29	1.86	20.06	1.24	6.93
Education	2.40	1.32	13.14	1.03	11.01
Restaurants and hotels	7.86	1.61	19.77	1.45	12.51
Miscellaneous goods and services	5.15	1.48	26.75	2.06	15.38

Source: TurkStat.

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

	Weight	May 2019		May 2018	
		Monthly	Annual	Monthly	Annual
D-PPI	100	2.67	28.71	3.79	20.16
Mining	3.06	1.87	24.49	2.63	19.61
Manufacturing	89.31	2.87	27.61	3.43	20.37
Manufacturing excl. petroleum products	86.19	2.72	27.31	3.17	19.11
Manufacturing excl. petroleum products and base metals	76.71	2.60	27.42	3.03	16.91
Electricity, gas, steam and air-conditioning sup.	6.52	1.00	45.83	9.34	18.69
Water supply	1.11	-2.51	-3.30	1.15	5.25
D-PPI (MIGs Classification)					
Intermediate Goods		2.89	28.69	3.69	24.02
Durable Consumption Goods		-1.57	19.30	1.94	14.25
Durable Consumption Goods (Excl. Jewelry)		-1.81	18.40	1.77	13.42
Non-Durable Consumption Goods		3.32	25.99	2.53	10.39
Capital Goods		2.16	28.67	3.11	22.41
Energy		2.51	39.00	8.81	29.59

Source: TurkStat.