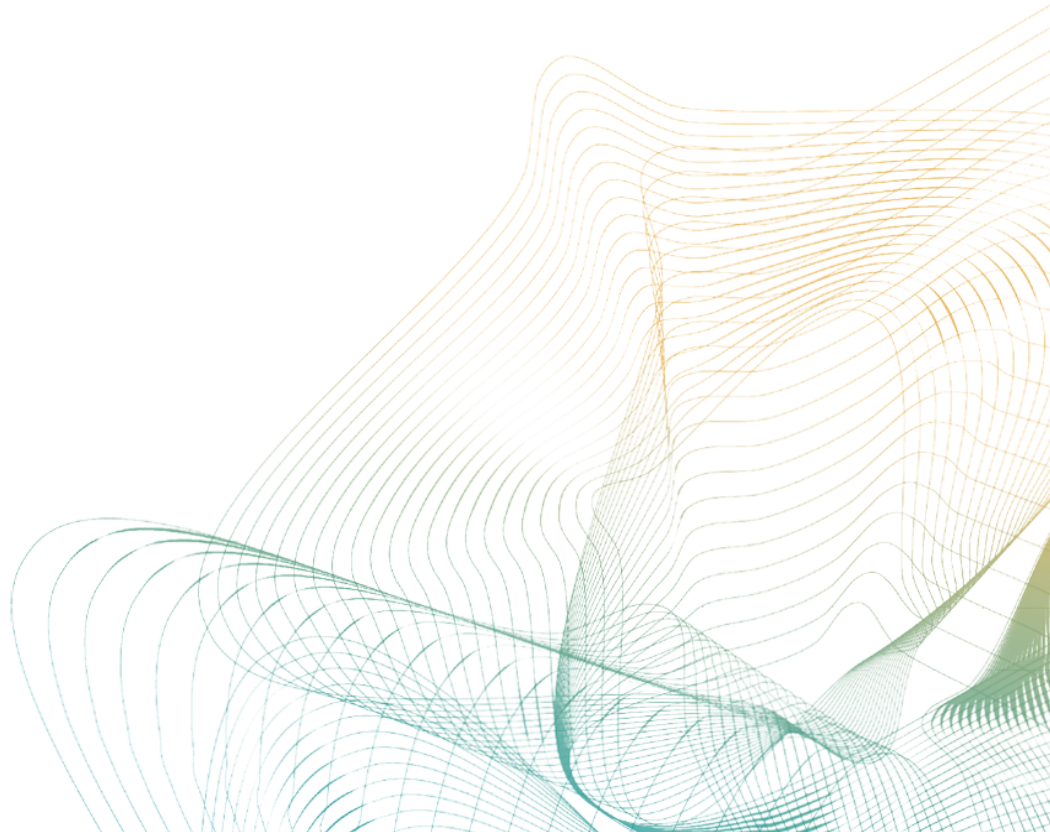


# February Price Developments

5 March 2019



## Summary

In February, consumer prices rose by 0.16% and annual inflation fell by 0.68 points to 19.67%. Annual inflation increased in the energy group due to oil prices, while it decreased across other subgroups. Annual food inflation remained high despite showing a decline in this period. The slowdown in the core goods annual inflation prevailed across subgroups. Having soared in January, services prices posted a relatively moderate increase in this period. Against this background, annual inflation in core indicators decelerated and the underlying trend remained low.

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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.

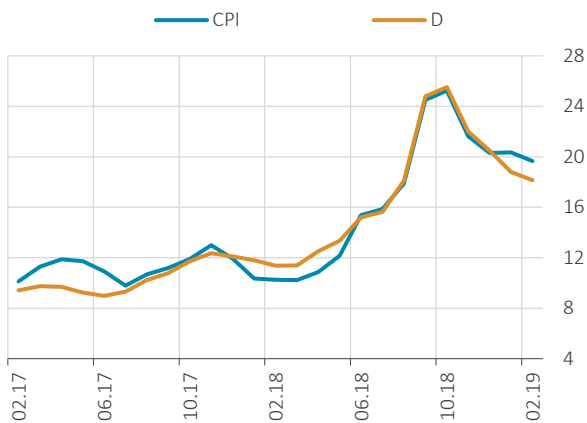
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## Evaluations

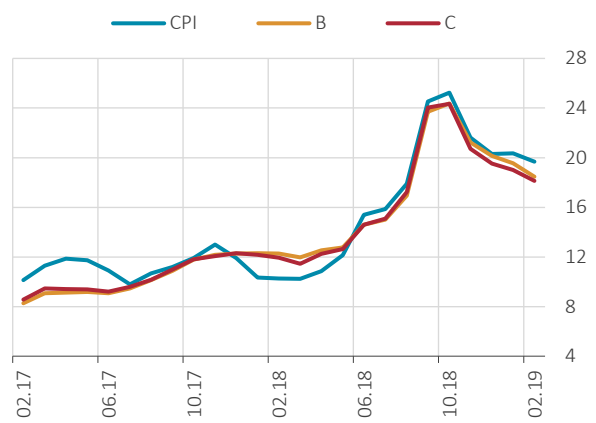
In February, consumer prices rose by 0.16% and annual inflation decreased by 0.68 points to 19.67% (Chart 1). In this period, annual rates of change in the B and C indices declined by 1.07 points and 0.90 points to 18.48% and 18.12%, respectively (Chart 2).

An analysis of the contribution of subgroups to annual consumer inflation indicates month-on-month declines of 0.47, 0.30 and 0.07 points in the core goods, food, and services groups, respectively, as opposed to an increase in the energy group by 0.17 points.

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

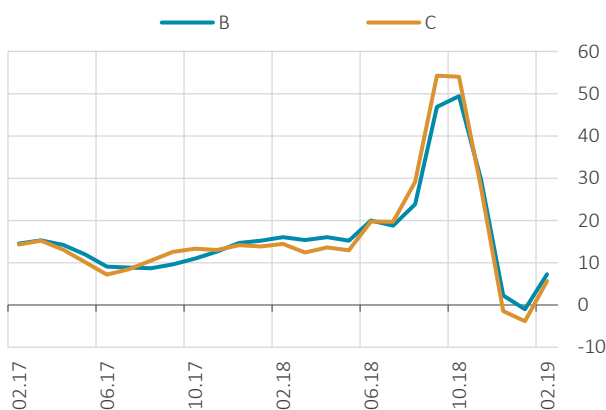


**Chart 2: CPI, B and C (Annual % Change)**

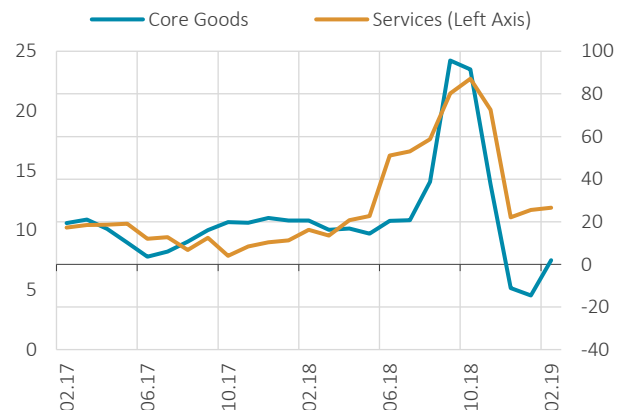


Three-month averages of seasonally-adjusted core inflation indicators suggest an increase in the underlying trend (Chart 3). Tax cuts applied to durable goods since November 2018 stopped having a restraining effect on the underlying trend in this month, which played a role in this increase. Driven by this effect, the underlying trend in core goods group increased while it remained almost flat in the services group (Chart 4). Adjusted for the effect of tax cuts, the underlying trend in core indicators still shows an increase.

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



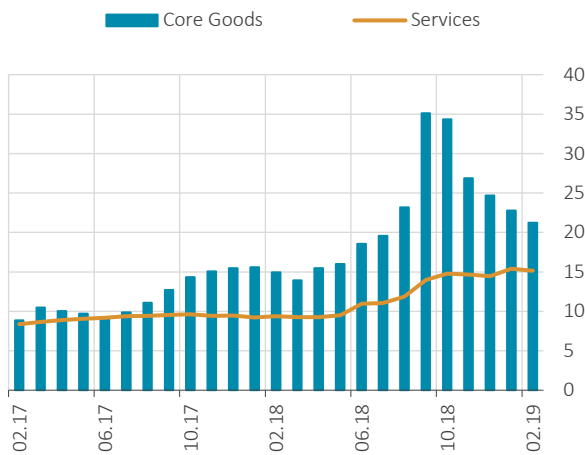
**Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)**



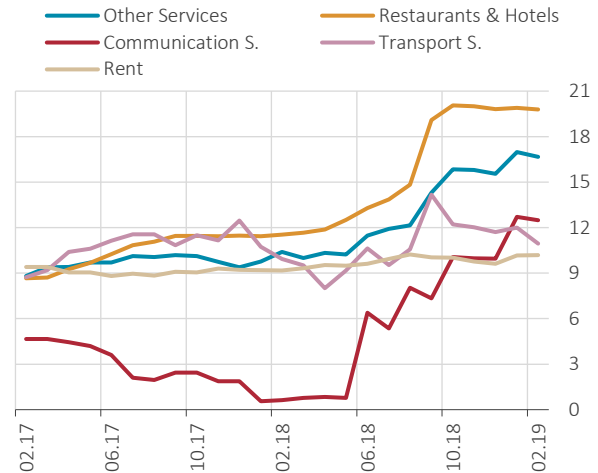
After a run-up in January, services inflation remained relatively mild and posted an increase by 0.58% in February. Annual inflation in this group fell by 0.26 points to 15.14% (Chart 5). While rent inflation had a flat course, annual inflation in other subcategories declined (Chart 6). On a monthly basis, highway and

airway transport prices posted a decrease, whereas, in the other services group, tuition fees of private schools started to increase earlier than in previous years. The restaurants and hotels group, on the other hand, witnessed a rise in catering prices due to food prices, yet accommodation services prices remained mild. Thus, notwithstanding the weak course of domestic demand conditions, annual services inflation continued to hover around high levels due to the cost effects.

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

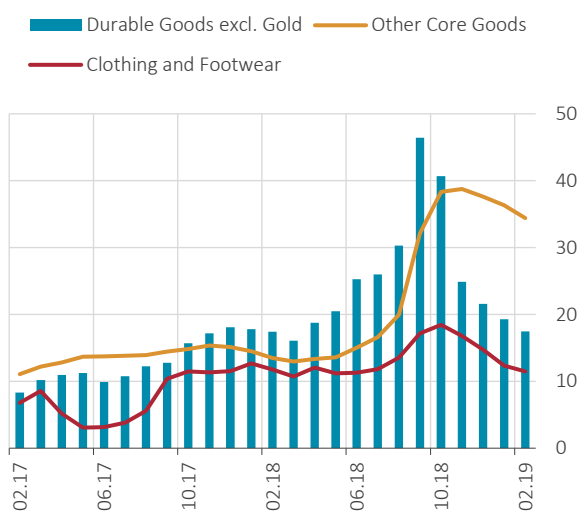


**Chart 6. Services (Annual % Change)**

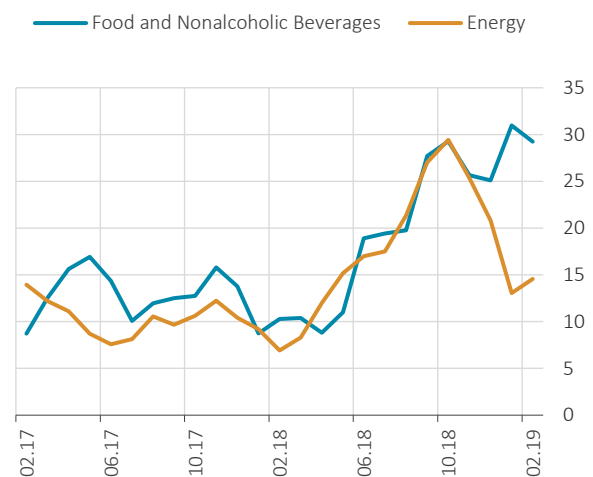


Annual inflation in the core goods group fell by 1.53 points to 21.22% in February (Chart 5). The positive contribution of all subgroups to this decline continued (Chart 7). Prices in the durable goods group maintained its fall in this period. Annual clothing inflation continued to decline at a reduced pace in this period. While price increases in other core goods group remained moderate, medicine prices were adjusted upwards due to the update in the reference exchange rate.<sup>1</sup> In sum, the outlook of the Turkish lira and the weak course of domestic demand proved influential in the mild course of core goods prices.

**Chart 7. Core Goods (Annual % Change)**



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

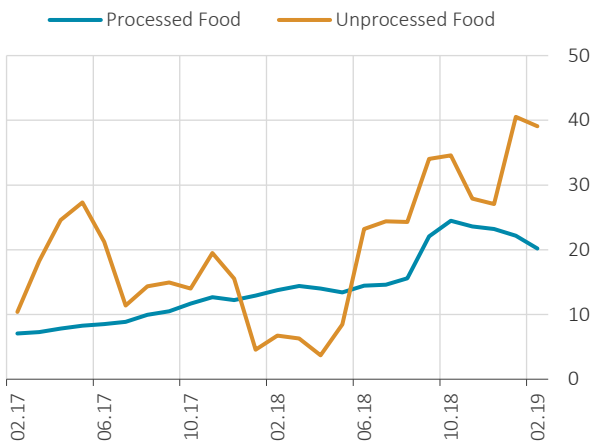


<sup>1</sup> Medicine prices increased by 26.40% on February 19, 2019. Part of the increase was reflected on the February price index (8.66%), the rest of the impact is to be observed in the March index.

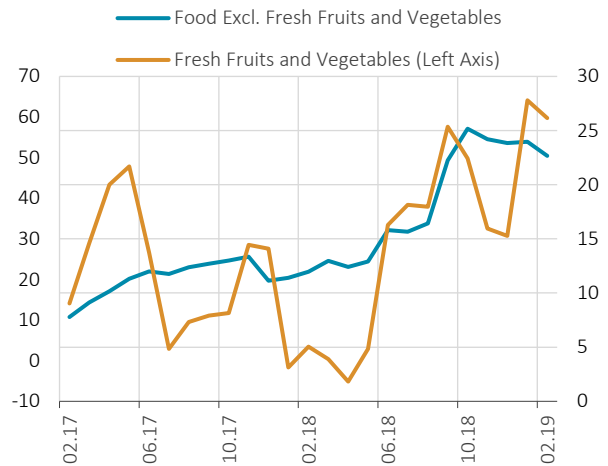
In February, energy prices increased by 0.75% (Table 1). In this group, the rise in international oil prices pushed bottled gas and fuel prices up by 3.18% and 2.72%, respectively. On the other hand, municipal water and natural gas prices dropped. All in all, annual energy group inflation rose by 1.51 points to 14.57% (Chart 8).

Annual inflation in food and non-alcoholic beverages decreased by 1.72 points to 29.25% in February (Chart 8 and Table 2). Annual unprocessed and processed food inflation fell to 39.07% and 20.18%, respectively (Chart 9). The fall in annual unprocessed food inflation was mainly driven by fresh fruit and vegetable prices. Although annual inflation in the fresh fruits and vegetables group declined by 4.36 points in this period, it remained high at 59.75%. In the processed food group, prices of dairy products, tea, and fats and oils dropped whereas prices of bread and cereals and canned products increased. Accordingly, annual food inflation excluding fresh fruits and vegetables receded by 1.29 points to 22.67% (Chart 10).

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



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



## D-PPI

Domestic producer prices increased by 0.09% in February and annual inflation declined by 3.34 points to 29.59% (Chart 11). Annual inflation in the manufacturing industry decreased by 1.14 points to 28.47%. In this period, the seasonally adjusted underlying trend of manufacturing prices excluding petroleum and base metals increased (Chart 12).

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

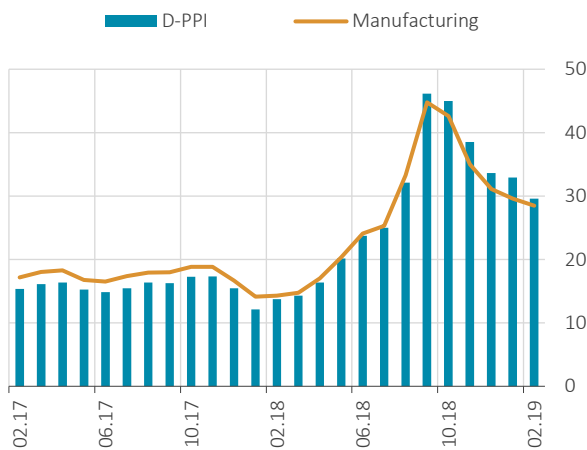
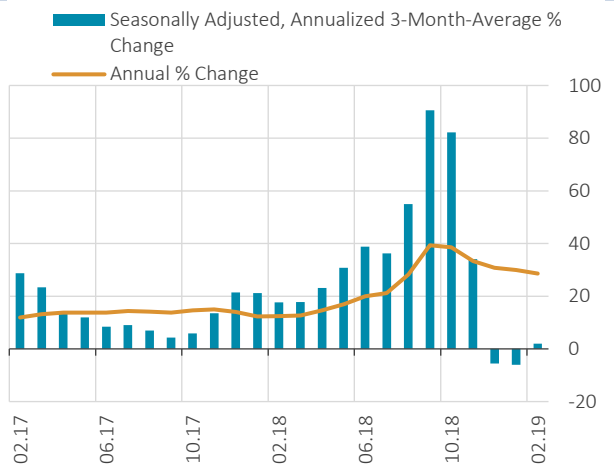


Chart 12. Manufacturing Excluding Petroleum and Base Metals



As for main industrial groupings, energy prices declined in February due to the fall in gas, electricity and water prices whereas prices of non-durable consumption goods increased and prices in other subcategories showed no remarkable change (Table 3, Charts 13 and 14). In the intermediate goods group, prices of concrete, cement, gypsum products, and cabling products rose. Meanwhile, the increase in prices of capital goods was largely triggered by metal construction products and the parts and accessories of motor vehicles. In this period, processed fruits and vegetables, pharmaceuticals, printing services, and meat and bakery products led to an increase in the prices of non-durable consumption goods. Thus, producer prices continued to exert cost pressures on consumer prices in February.

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

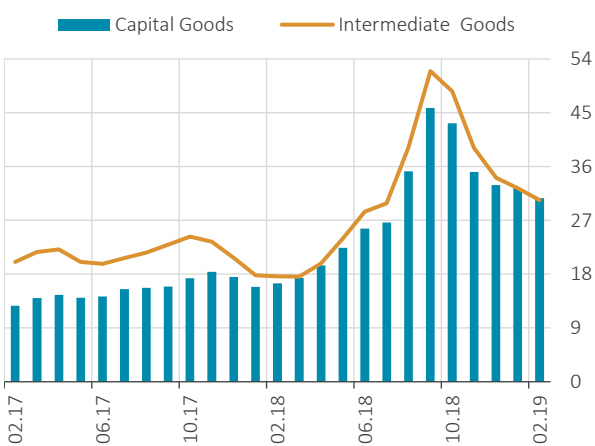
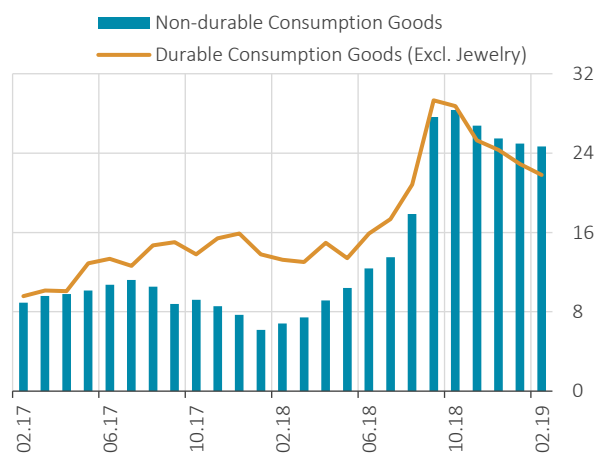


Chart 14. Consumption Goods (Annual % Change)



## Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	February 2019	February 2018	February 2019	February 2018
<b>CPI</b>	0.16	0.73	19.67	10.26
<b>1. Goods</b>	-0.01	0.70	21.51	10.65
Energy	0.75	-0.58	14.57	6.92
Food and non-alcoholic beverages	0.90	2.24	29.25	10.27
Unprocessed food	1.36	2.43	39.07	6.71
Fresh fruits and vegetables	1.78	4.56	59.75	3.47
Other unprocessed food	1.05	1.12	26.93	8.96
Processed food	0.42	2.07	20.18	13.76
Bread and cereals	0.97	1.87	20.84	12.10
Other processed food	0.13	2.18	19.83	14.72
Goods excluding energy and food	-0.90	0.16	18.98	12.34
Core goods	-1.09	0.16	21.22	14.93
Durable goods (excluding gold)	-0.15	1.40	17.48	17.40
Clothing and footwear (*)	-4.93	-4.19	11.49	11.78
Other core goods	0.21	1.62	34.42	13.47
Alcoholic beverages and tobacco	0.11	0.03	2.71	0.89
Gold	-0.09	0.62	36.69	11.35
<b>2. Services</b>	0.58	0.81	15.14	9.37
Rents	0.57	0.55	10.19	9.19
Restaurants and hotels	0.87	0.95	19.79	11.53
Transport	-0.51	0.43	10.95	9.94
Communication	0.22	0.42	12.49	0.62
Other	0.83	1.10	16.67	10.40
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	-0.15	0.76	18.48	12.26
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	-0.27	0.49	18.12	11.94
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	-0.02	0.54	18.15	11.37
F – CPI excluding administered prices	0.19	0.74	21.85	11.17

Source: TurkStat.

(\*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	February 2019		February 2018	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	100	0.16	19.67	0.73	10.26
Food and non-alcoholic beverages	23.29	0.90	29.25	2.24	10.27
Alcoholic beverages and tobacco	4.23	0.11	2.71	0.03	0.89
Clothing and footwear	7.24	-4.81	11.62	-4.09	11.77
Housing	15.16	0.01	16.56	0.52	9.46
Household equipment	8.33	0.06	27.59	1.23	15.66
Health	2.58	2.48	17.89	2.57	9.94
Transport	16.78	0.71	15.18	0.31	13.19
Communication	3.69	-0.34	10.92	0.22	-0.13
Recreation and culture	3.29	-0.37	20.43	1.89	8.24
Education	2.40	1.64	11.60	0.20	10.88
Restaurants and hotels	7.86	0.87	19.79	0.95	11.53
Miscellaneous goods and services	5.15	-0.39	28.08	0.82	10.77

Source: TurkStat.

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

	Weight	February 2019		February 2018	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100	0.09	29.59	2.68	13.71
Mining	3.06	1.89	22.58	1.82	13.10
Manufacturing	89.31	0.60	28.47	1.49	14.27
Manufacturing excl. petroleum products	86.19	0.45	28.24	1.56	14.07
Manufacturing excl. petroleum products and base metals	76.71	0.49	28.58	1.57	12.43
Electricity, gas, steam and air-conditioning sup.	6.52	-7.43	47.38	21.10	7.14
Water supply	1.11	-1.02	1.33	0.42	4.52
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		0.05	30.39	1.56	17.66
Durable Consumption Goods		-0.05	22.60	0.82	13.23
Durable Consumption Goods (Excl. Jewelry)		-0.03	21.80	0.86	13.24
Non-Durable Consumption Goods		1.48	24.66	1.71	6.83
Capital Goods		0.22	30.69	1.56	16.47
Energy		-2.97	39.78	12.10	12.19

Source: TurkStat.