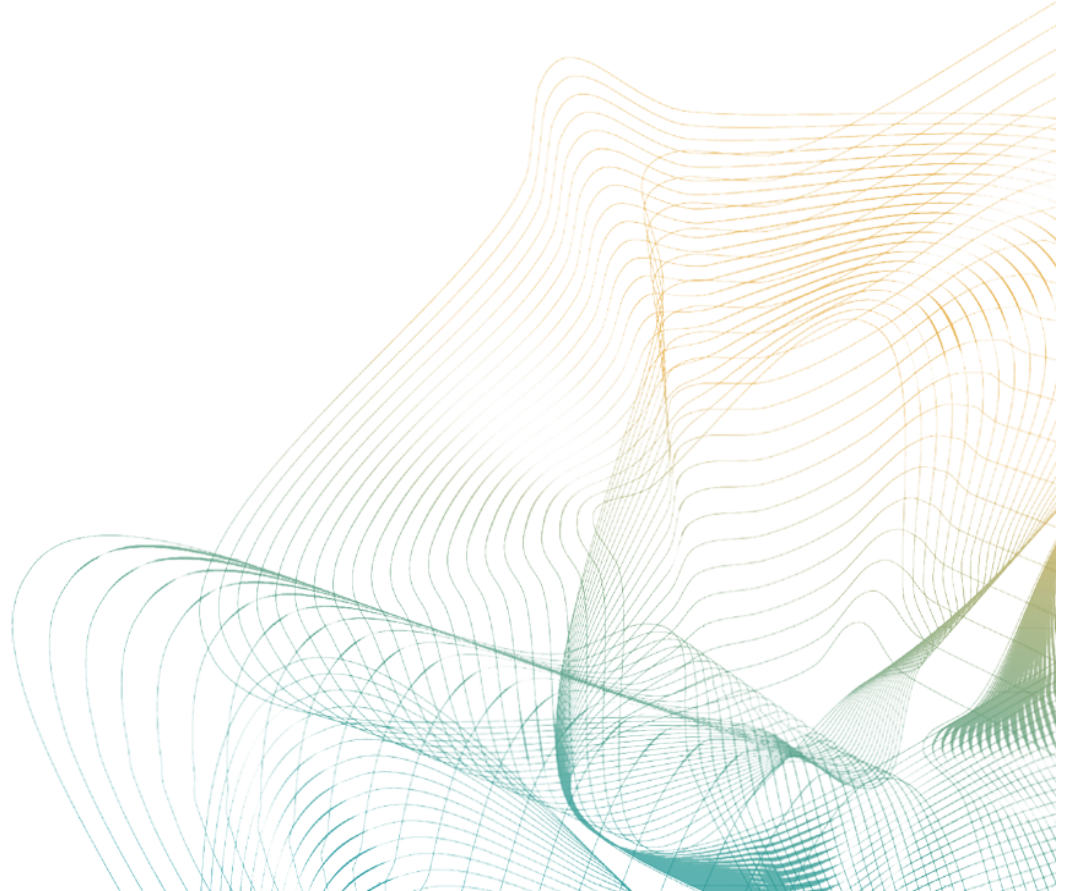




December Price Developments

6 January 2020



Summary

In December, consumer prices rose by 0.74% while annual inflation was up by 1.28 points, closing the year at 11.84%. In this period, annual inflation increased across all subcategories, albeit at a limited pace in the services group. The most visible increase was recorded in energy inflation, driven primarily by the low base effect from the same period of the previous year. Food inflation displayed an upward trend both in unprocessed and processed food subcategories. Annual core goods inflation increased due to cost factors as well as the low base effect from the same period of the previous year. Against this background, although annual inflation in core indicators rose slightly, the trend of the B and C indices remained mild.

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 December, consumer prices were up by 0.74%, and annual inflation increased by 1.28 points to 11.84% (Chart 1). Meanwhile, the annual rate of change in the B and C indices rose by 0.86 and 0.56 points to 10.76% and 9.81%, respectively (Chart 2).

Across subcategories, the contribution of food, energy, core goods, and services groups to annual consumer inflation increased month-on-month by 0.49, 0.45, 0.25 and 0.06 points, respectively.

Chart 1: CPI and D (Annual % Change)

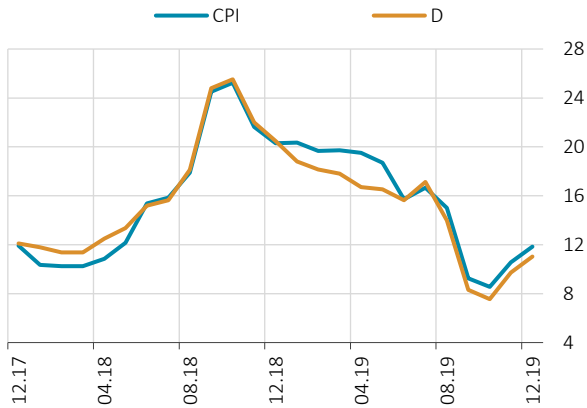
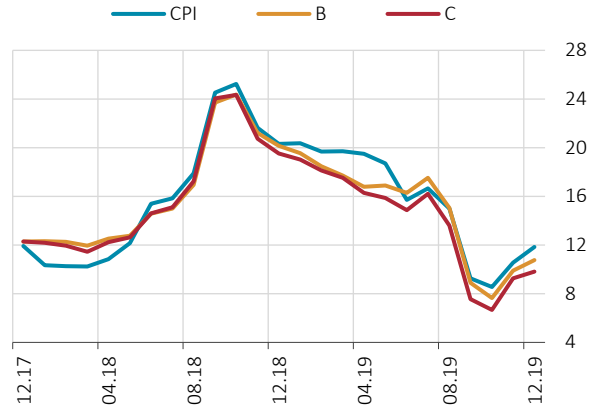


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest that the trend of the B index rose slightly whereas that of the C index somewhat decreased (Chart 3). In this period, despite the moderate decline in the trend of the services group, the trend of the core goods group remained almost flat (Chart 4). The upward trend of the B index was triggered by processed food price developments.

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

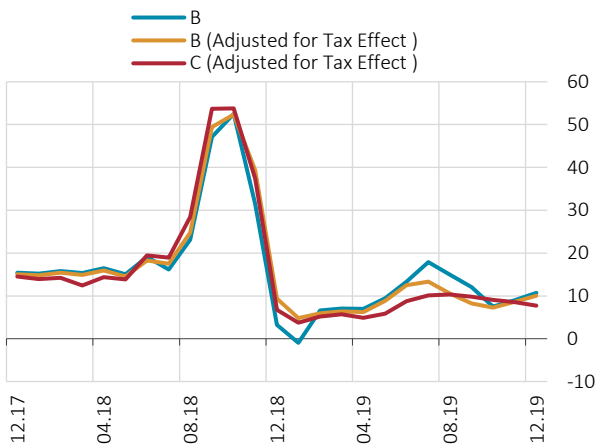
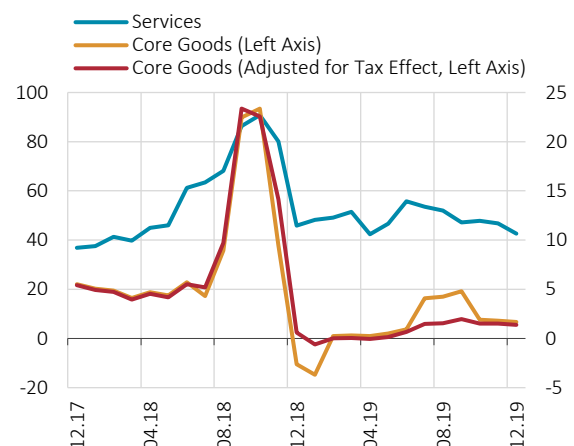


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In December, services prices increased by 0.37% and annual services inflation rose by 0.14 points to 12.30% (Chart 5 and Table 1). In this period, while annual inflation modestly increased in communication and other services, it declined in transport services and remained almost flat in restaurants-hotels and rents (Chart 6). The increase in communication prices was led by phone call and internet charges while the rise in other services prices was driven by price developments in domestic services, repair of household appliances, and dental services. In the restaurants-hotels group, catering services prices increased in December whereas accommodation prices dropped.

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

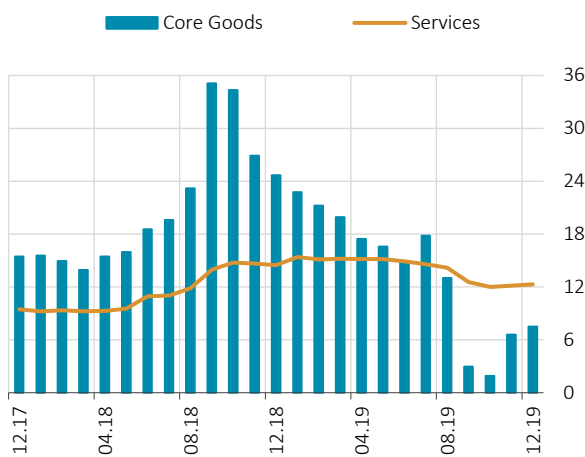
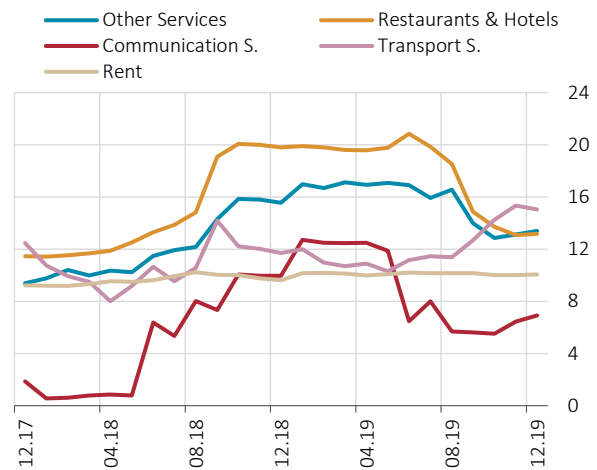


Chart 6. Services (Annual % Change)



Annual core goods inflation increased by 0.91 points to 7.48% in December due to the low base effect from the same period of the previous year (Chart 5). In this period, annual inflation accelerated in clothing and durable goods but slightly decreased in other core goods (Chart 7). Durable goods prices edged up by 0.52% due to the depreciation of the Turkish lira. The 0.99% increase in automobile prices stood out in this group. Although clothing and footwear prices posted a decline in December below their seasonal averages, annual inflation in this group remained low at 4.32%.

Chart 7. Core Goods (Annual % Change)

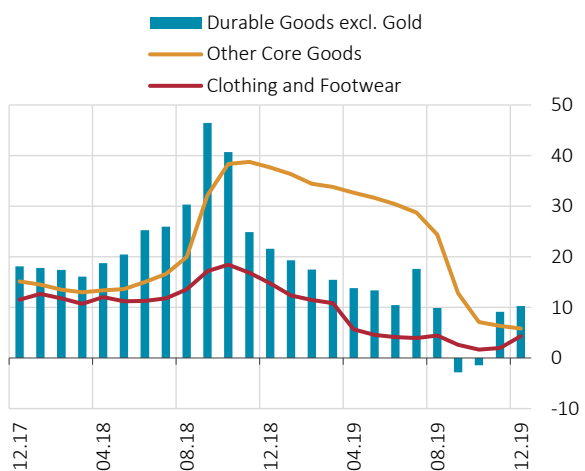
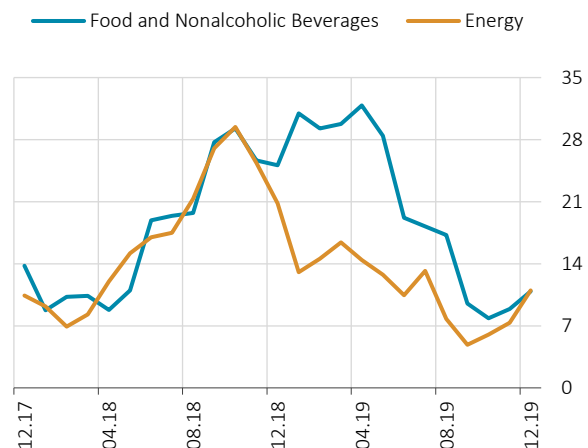


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



Energy prices moderately rose by 0.16% in December (Table 1). This rise was mainly due to the price hikes in bottled gas and fuel (by 1.14% and 0.37%, respectively) triggered by the increase in oil prices and the recent exchange rate developments. In this period, the sliding-scale tariff in fuel prices and the decline in municipal water prices limited a more adverse outlook in energy prices. Thus, notwithstanding the limited increase in energy prices, annual energy inflation rose by 3.64 points to 10.98% due to the base effect (Chart 8).

In December, annual inflation in food and non-alcoholic beverages increased by 2.00 points to 10.89% (Chart 8 and Table 2). Both processed and unprocessed food prices played a role in this increase, with the processed food group posting a more visible rise. Annual inflation surged to 6.10% in the unprocessed food group and to 15.39% in the processed food group (Chart 9). The monthly rate of increase in

processed food prices was quite evident at 2.05%. This development was led by the rise in prices of dairy products in line with the changes in the purchasing prices of raw milk. The recent months' uptrend in bread and cereals prices also continued in this period. Vegetable prices increased in the fresh fruits and vegetables group in December while annual inflation in this group rose by 1.57 points to 2.94%, closing the year at a relatively low level. As for the other unprocessed food group, price hikes in milk, eggs and white meat were significant. Against this background, annual food inflation excluding fresh fruits and vegetables reached 12.61% (Chart 10).

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

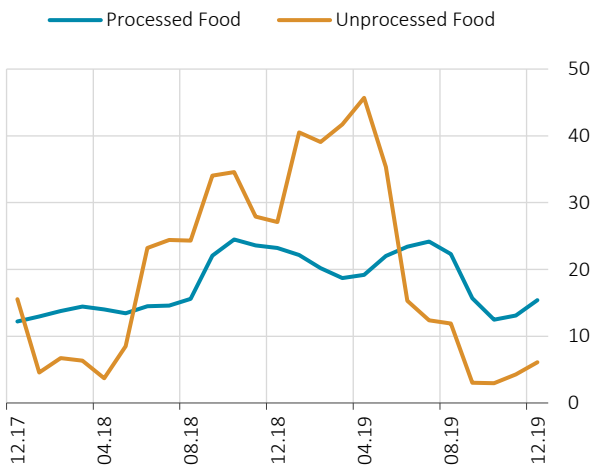
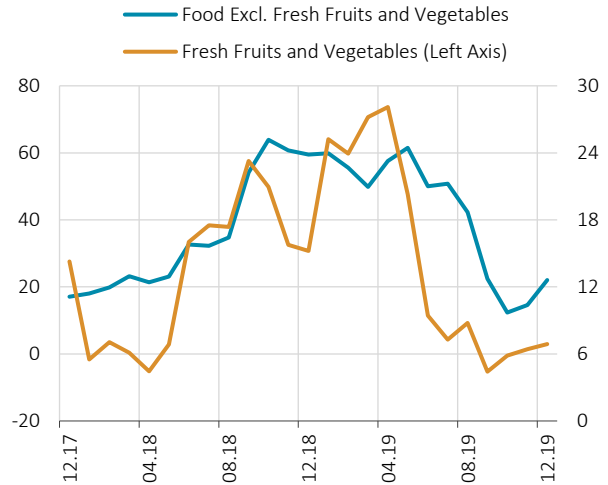


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In December, domestic producer prices increased by 0.69% and annual inflation rose to 7.36% due to the low base effect (Chart 11, Table 3). In this period, the mild course in the seasonally adjusted underlying trend of manufacturing prices excluding petroleum and base metals continued (Chart 12).

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

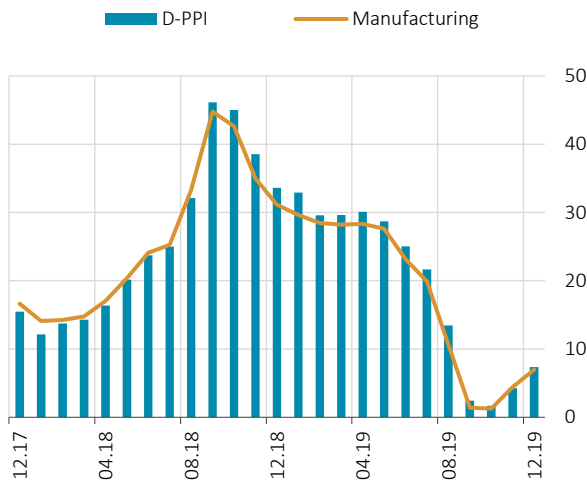
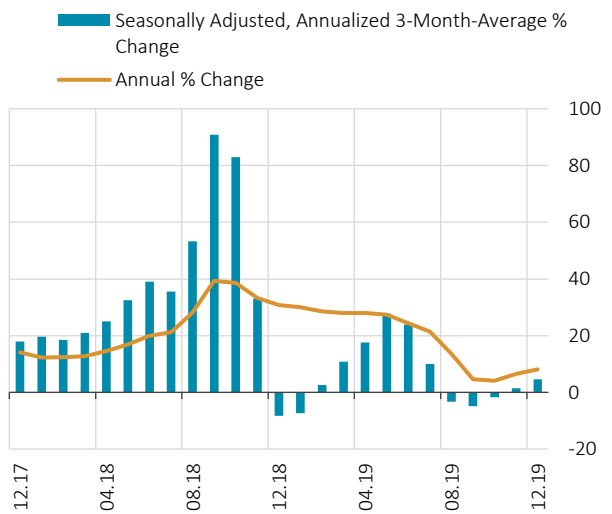


Chart 12. Manufacturing Excluding Petroleum and Base Metals



An analysis by main industrial groupings reveals that prices increased month-on-month in non-durable consumption, intermediate and capital goods whereas they slightly decreased in durable consumption goods (Table 3, Charts 13 and 14). While dairy and meat products as well as fats and oils stood out as the main drivers of the sharp increase (1.24%) in prices of non-durable consumption goods, price hikes in metal products had a determining role in the intermediate goods group. Meanwhile, the surge in prices of capital goods was led by metal construction products, parts and accessories for motor vehicles, and machines. In this period, despite the increase in the prices for production and distribution of electricity and in prices of petroleum products, energy prices followed a flat course due to the decrease in the prices for production and distribution of gas. In sum, the cost pressures on consumer inflation stemming from producer prices remained moderate in December.

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

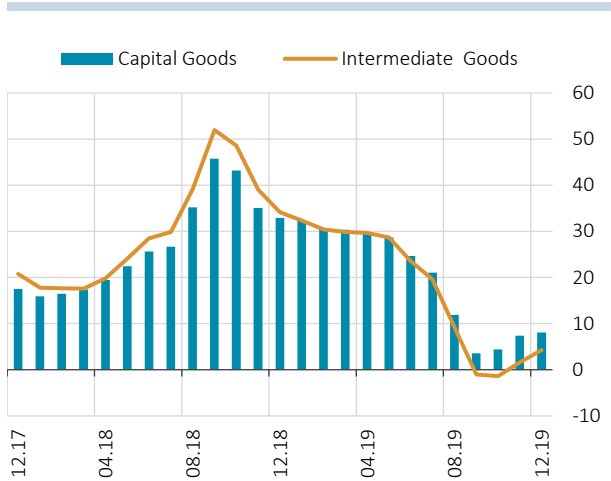
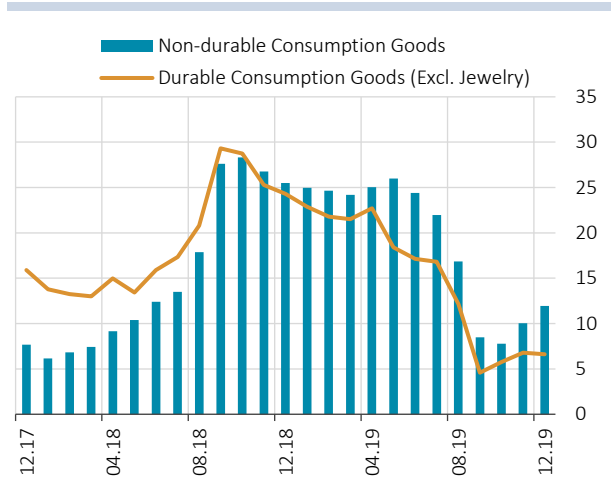


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	December 2019	December 2018	December 2019	December 2018
CPI	0.74	-0.40	11.84	20.30
1. Goods	0.89	-0.65	11.65	22.68
Energy	0.16	-3.12	10.98	20.82
Food and non-alcoholic beverages	2.93	1.08	10.89	25.11
Unprocessed food	3.96	2.18	6.10	27.09
Fresh fruits and vegetables	6.07	4.45	2.94	30.77
Other unprocessed food	2.81	0.81	7.94	24.90
Processed food	2.05	0.00	15.39	23.22
Bread and cereals	1.59	0.34	16.59	23.67
Other processed food	2.30	-0.17	14.75	22.97
Goods excluding energy and food	-0.12	-0.85	12.39	21.78
Core goods	-0.25	-1.09	7.48	24.67
Durable goods (excluding gold)	0.52	-0.53	10.27	21.57
Clothing and footwear (*)	-1.97	-4.17	4.32	14.75
Other core goods	-0.08	0.39	5.83	37.63
Alcoholic beverages and tobacco	0.00	0.16	43.12	2.39
Gold	1.88	1.33	26.27	36.69
2. Services	0.37	0.25	12.30	14.46
Rents	0.55	0.51	10.05	9.61
Restaurants and hotels	0.40	0.31	13.17	19.81
Transport	0.10	0.37	15.03	11.70
Communication	0.44	-0.01	6.92	9.96
Other	0.33	0.10	13.40	15.56
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.41	-0.37	10.76	20.15
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.06	-0.45	9.81	19.53
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.40	-0.79	11.04	20.48
F – CPI excluding administered prices	0.88	-0.48	9.95	21.49

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	December 2019		December 2018	
		Monthly	Annual	Monthly	Annual
CPI	100	0.74	11.84	-0.40	20.30
Food and non-alcoholic beverages	23.29	2.93	10.89	1.08	25.11
Alcoholic beverages and tobacco	4.23	0.00	43.12	0.16	2.39
Clothing and footwear	7.24	-1.91	4.53	-4.08	14.83
Housing	15.16	0.24	9.90	-0.06	23.73
Household equipment	8.33	0.12	9.79	0.13	31.36
Health	2.58	0.42	13.63	0.62	16.70
Transport	16.78	0.57	12.21	-2.56	15.97
Communication	3.69	0.29	3.16	-0.11	9.62
Recreation and culture	3.29	-0.11	7.03	-0.25	20.86
Education	2.40	0.12	14.46	0.02	10.19
Restaurants and hotels	7.86	0.40	13.17	0.31	19.81
Miscellaneous goods and services	5.15	0.42	13.63	0.78	28.80

Source: TURKSTAT.

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

	Weight	December 2019		December 2018	
		Monthly	Annual	Monthly	Annual
D-PPI	100	0.69	7.36	-2.22	33.64
Mining	3.06	0.54	13.31	-2.46	24.34
Manufacturing	89.31	0.83	6.98	-1.56	31.11
Manufacturing excl. petroleum products	86.19	0.79	6.90	-1.16	30.95
Manufacturing excl. petroleum products and base metals	76.71	0.71	8.09	-0.80	30.81
Electricity, gas, steam and air-conditioning sup.	6.52	-0.88	12.43	-8.47	75.02
Water supply	1.11	-0.59	-7.94	-0.13	9.13
D-PPI (MIGs Classification)					
Intermediate Goods		0.70	4.27	-1.85	34.14
Durable Consumption Goods		-0.16	7.25	-0.08	24.92
Durable Consumption Goods (Excl. Jewelry)		-0.17	6.63	-0.02	24.31
Non-Durable Consumption Goods		1.24	11.93	-0.49	25.49
Capital Goods		0.42	8.09	-0.24	32.92
Energy		-0.01	9.02	-8.91	57.13

Source: TURKSTAT.