



MAY PRICE DEVELOPMENTS

4 JUNE 2021

Summary

In May, consumer prices were up by 0.89%, and annual inflation decreased by 0.55 points to 16.59%. Annual inflation declined in energy and core goods groups, remained almost unchanged in the food group, but increased in services. In this period, energy prices increased due to the developments in TL-denominated oil prices in addition to the adjustment in the sliding scale system and the termination of ceiling price practices; but the group's annual inflation declined amid the high base effect. Price increases in some items followed a low course following the interruption in activity during the May lockdown. Accordingly, core goods inflation displayed a mild course, the clothing sector in particular, despite the exchange rate developments. The course of services inflation was shaped by soaring transport prices due to capacity restrictions. In this period, there has been a widespread and accelerated rise in commodity prices. The developments in TL-denominated import prices and ongoing supply constraints in some products caused producer prices to retain their rising trend, maintaining cost pressures. Against this background, annual inflation and trends of the B and C indices remained high, albeit with some decline.

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 May, consumer prices were up by 0.89%, and annual inflation decreased by 0.55 points to 16.59% (Chart 1). In this period, annual rates of change in the B and C indices fell by 0.62 and 0.78 points to 17.49% and 16.99%, respectively (Chart 2).

Contributions of subcategories to annual consumer inflation increased by 0.09 points in services month-on-month, while core goods, energy and alcohol-tobacco-gold group and the food group declined by 0.52, 0.05, 0.04 and 0.03 points, respectively.

Chart 1: CPI and D (Annual % Change)

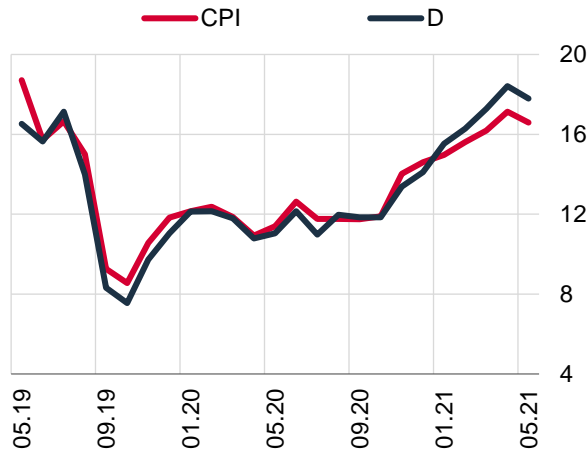
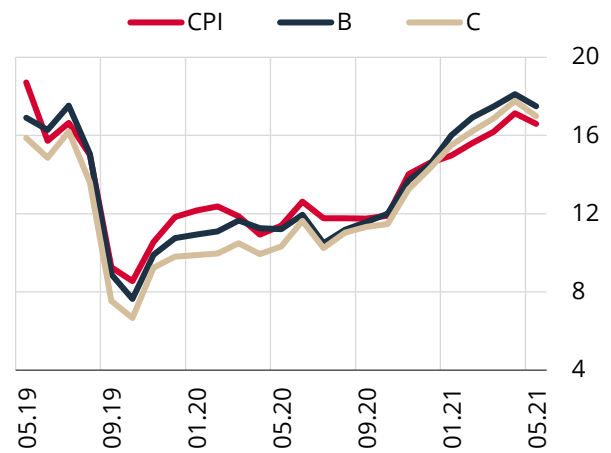


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of B and C indices declined (Chart 3). In this period, the inflation trend continued to slow down in core goods and processed food groups, but remained almost flat in the services group (Chart 4).

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

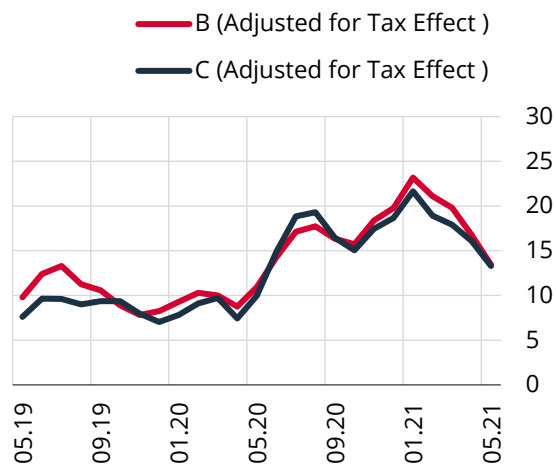
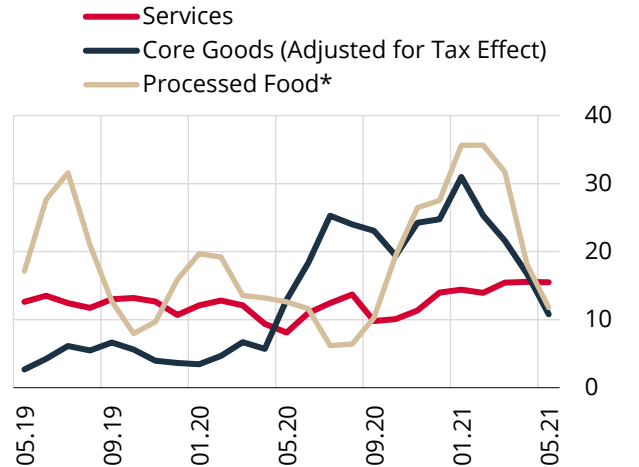


Chart 4: Main Components of B Index (Seasonally adjusted, Annualized 3-Month Average % Change)



*There is no seasonal effect in the processed food group.

In May, services prices increased by 1.18%, and the group's annual inflation rose by 0.50 points to 13.62% (Chart 5). Annual inflation surged in the transport services group, increased rather slightly in restaurants-

hotels, communication and rent, but declined somewhat in other services (Chart 6). Annual transport services inflation was pushed upwards by increased intercity bus fares (29.46% month-on-month) due to the pandemic-induced capacity restrictions. Price increases in restaurants-hotels were driven by catering services, while the monthly price increase proved more limited (0.95%) owing also to the lockdown. However, stimulated by the low base in the same month of the previous year, the group's annual inflation remained on an upward track. In communication services, monthly price increases were attributed to internet services tariffs.

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

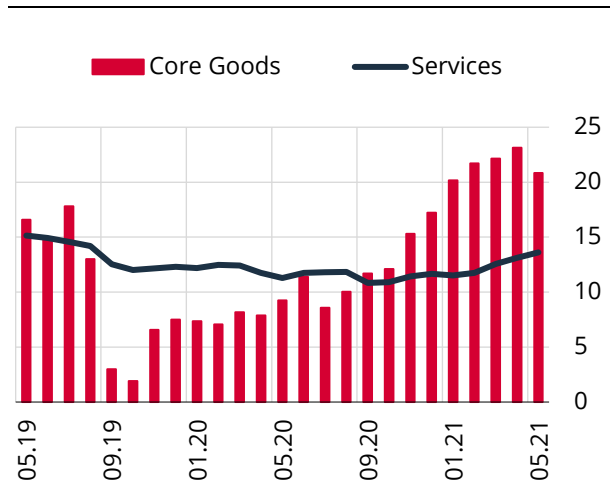
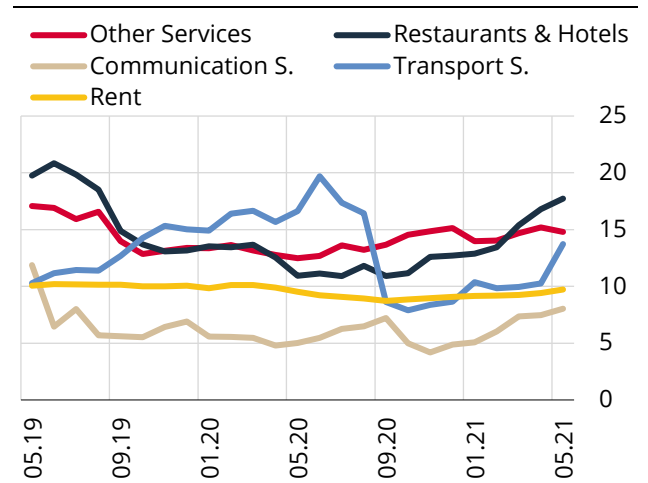


Chart 6. Services (Annual % Change)



In May, annual core goods inflation dropped by 2.29 points to 20.84% (Chart 5). In this period, annual inflation decreased across all subcategories, with clothing and footwear in the lead (Chart 7). The ongoing upward course in clothing and footwear prices lost considerable pace due to the pandemic-led restrictions, and the group's annual inflation decreased by 5.40 points to 5.56%. Prices of durable consumption goods remained on the rise in this period (0.91% month-on-month), and automobile and furniture groups were shaped by exchange rate developments and commodity prices, while the monthly price fall in electrical and non-electrical appliances (-0.35%) restricted the group's inflation. In other core goods, prices exhibited a limited uptick (0.21% month-on-month), and the group's annual inflation remained almost unchanged at 18.59%.

Chart 7. Core Goods (Annual % Change)

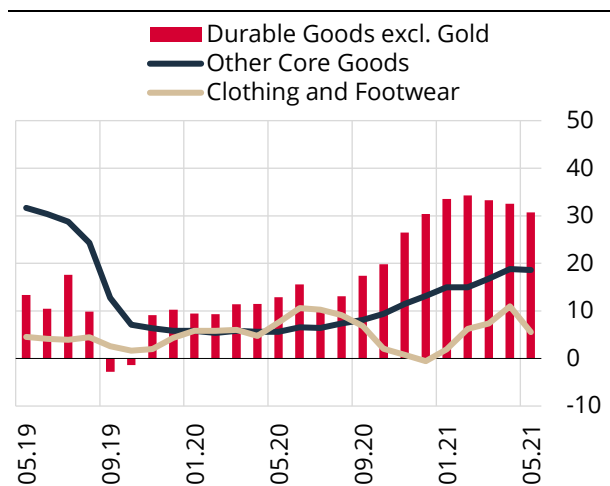
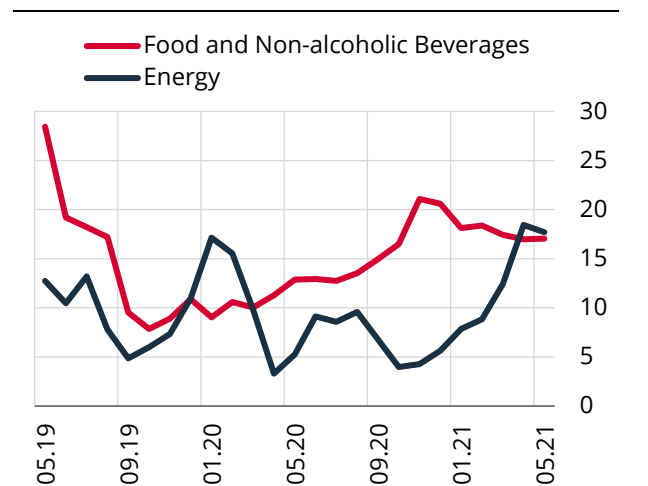


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



Energy prices rose by 1.50% in May (Table 1). In this period, in addition to the developments in TL-denominated oil prices, the adjustments in the sliding scale system and termination of price ceiling practices caused fuel prices to increase by 3.84%. Despite the rise in SCT in May, the implementation of the sliding scale eliminates a substantial inflationary effect. Prices of natural gas and solid fuel increased by 1.33% and 0.93%, respectively, which proved noteworthy in the group. Despite the uptick in fuel prices, annual energy inflation dropped by 0.73 points to 17.71% due to the base effect (Chart 8).

In May, prices of food and non-alcoholic beverages increased by 0.29% month-on-month, and the group's annual inflation remained almost flat with 17.04% (Chart 8 and Table 2). In this period, annual inflation edged down by 0.06 points to 14.61% in the unprocessed food group, and crept up by 0.13 points to 19.49% in the processed food group (Chart 9). Seasonally adjusted data for unprocessed food suggest a price increase in fresh fruits and vegetables, driven by vegetables. In this period, among other unprocessed food, prices of red meat maintained the uptrend. In May, processed food prices rose by 0.87% month-on-month, and price hikes in bread and cereals as well as non-alcoholic beverages stood out. Against this background, annual food inflation excluding fresh fruits and vegetables reached 18.61% (Chart 10).

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

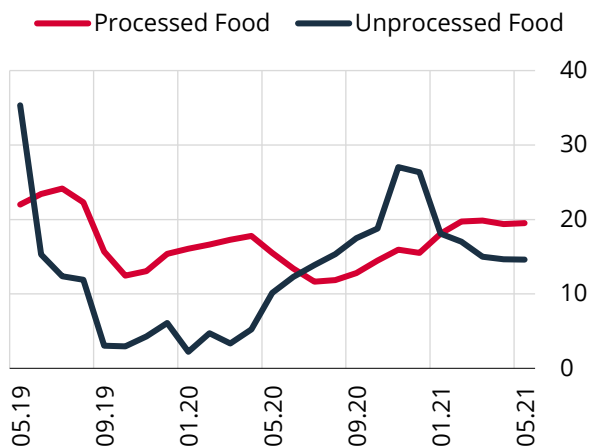
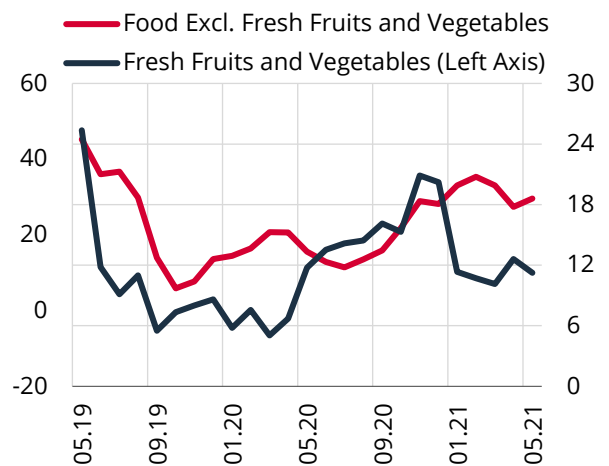


Chart 10. Fresh Fruits-Vegetables and Other Food
(Annual % Change)



D-PPI

In May, domestic producer prices rose by a substantial 3.92%, and annual D-PPI inflation increased by 3.16 points to 38.33% (Chart 11 and Table 3), mainly due to exchange rate developments, ongoing increases in international commodity prices and supply constraints. All in all, the trend of manufacturing industry prices excluding petroleum and base metals remained on an upward track (Chart 12).

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

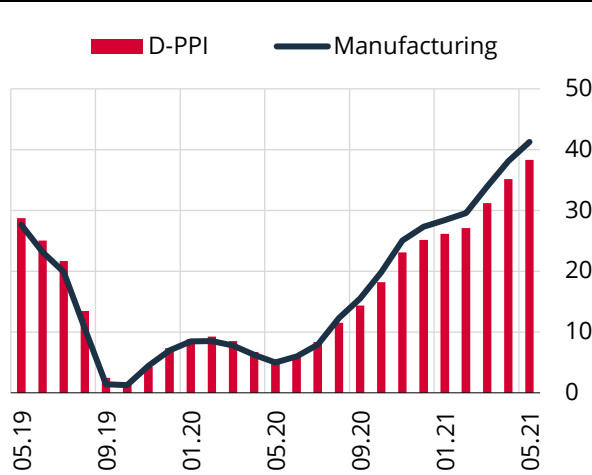
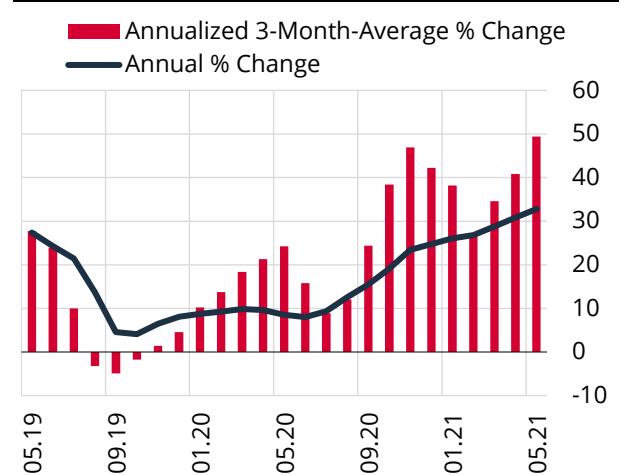


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation soared in energy and intermediate goods (Table 3, Charts 13 and 14). In May, intermediate goods recorded a substantial price increase (5.20%), spreading across the group, which was mainly driven by iron-steel and ferroalloys, textile threads and fibers, plastic products as well as paper products and profiles. Annual energy inflation rose due to refined petroleum products as well as production and distribution of electricity. In capital goods, price increases were more prevalent in metal construction products and other general purpose machinery. Among durable consumption goods, the most notable price increases were seen in furniture, home appliances and jewelry, while meat products, other textile products and fats-oils were the key drivers of price increases in non-durable consumption goods. Overall, producer prices continued to exert pressure on consumer prices with an increasing magnitude.

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

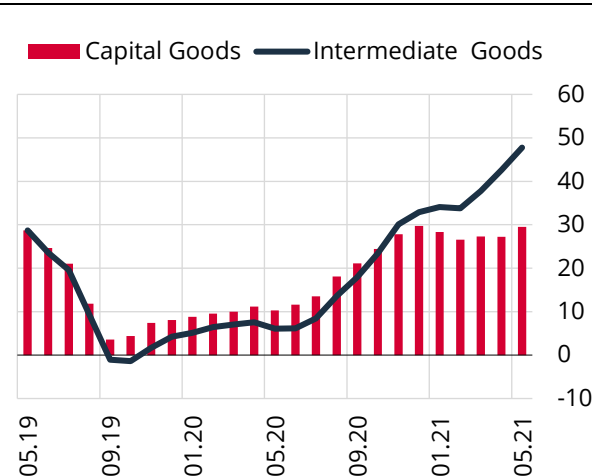
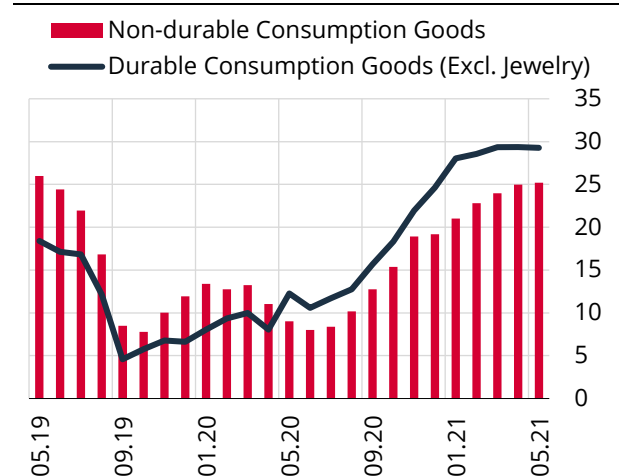


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	May 2021	May 2020	May 2021	May 2020
CPI	0.89	1.36	16.59	11.39
1. Goods	0.79	1.63	17.86	11.44
Energy	1.50	2.13	17.71	5.23
Food and non-alcoholic beverages	0.29	0.24	17.04	12.87
Unprocessed food	-0.32	-0.27	14.61	10.14
Fresh fruits and vegetables	-6.37	-3.28	9.96	11.37
Other unprocessed food	3.28	1.54	17.28	9.66
Processed food	0.87	0.76	19.49	15.50
Bread and cereals	1.00	0.51	19.59	15.17
Other processed food	0.80	0.90	19.37	15.68
Goods excluding energy and food	0.92	2.49	18.37	12.48
Core goods	0.86	2.77	20.84	9.26
Durable goods (excluding gold)	0.91	2.27	30.74	12.90
Clothing and footwear (*)	1.78	6.99	5.56	7.56
Other core goods	0.21	0.40	18.59	5.62
Alcoholic beverages and tobacco	-0.01	0.66	2.90	21.41
Gold	8.16	4.05	31.32	47.55
2. Services	1.18	0.73	13.62	11.28
Rents	0.72	0.45	9.72	9.52
Restaurants and hotels	0.95	0.16	17.73	10.94
Transport	5.04	1.84	13.72	16.63
Communication	1.00	0.47	8.03	5.02
Other	0.70	1.04	14.80	12.48
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.98	1.52	17.49	11.21
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.01	1.68	16.99	10.32
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.13	1.66	17.80	11.04
F - CPI excluding administered prices	1.00	1.60	18.13	9.69

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	May 2021		May 2020	
		Monthly	Annual	Monthly	Annual
CPI	100	0.89	16.59	1.36	11.39
Food and non-alcoholic beverages	25.94	0.29	17.04	0.24	12.87
Alcoholic beverages and tobacco	4.88	-0.01	2.90	0.66	21.41
Clothing and footwear	5.87	1.76	5.75	6.85	7.68
Housing	15.36	0.76	14.08	0.34	14.45
Household equipment	8.64	0.75	21.79	1.15	9.00
Health	3.25	0.30	19.30	0.22	13.07
Transport	15.49	2.56	28.39	3.30	6.69
Communication	4.64	0.56	8.07	1.47	2.98
Recreation and culture	3.01	-1.32	10.05	0.72	3.74
Education	2.28	0.60	10.57	0.28	11.19
Restaurants and hotels	5.91	0.95	17.73	0.16	10.94
Miscellaneous goods and services	4.73	1.62	17.92	1.92	20.86

Source: TURKSTAT.

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

	Weight	May 2021		May 2020	
		Monthly	Annual	Monthly	Annual
D-PPI	100	3.92	38.33	1.54	5.53
Mining	3.51	2.76	32.88	-1.74	3.63
Manufacturing	87.27	3.94	41.27	1.62	4.98
Manufacturing excl. petroleum products	83.46	3.73	38.07	1.54	7.79
Manufacturing excl. petroleum products and base metals	75.28	3.10	32.80	1.57	8.50
Electricity, gas, steam and air-conditioning sup.	8.38	4.55	6.64	2.46	14.49
Water supply	0.85	0.47	29.72	-0.61	6.61
D-PPI (MIGs Classification)					
Intermediate Goods		5.20	47.76	1.52	6.09
Durable Consumption Goods		2.40	29.18	2.44	14.90
Durable Consumption Goods (Excl. Jewelry)		1.99	29.28	2.06	12.28
Non-Durable Consumption Goods		1.65	25.22	1.45	9.01
Capital Goods		3.14	29.49	1.34	10.27
Energy		5.17	43.33	1.73	-11.92

Source: TURKSTAT.