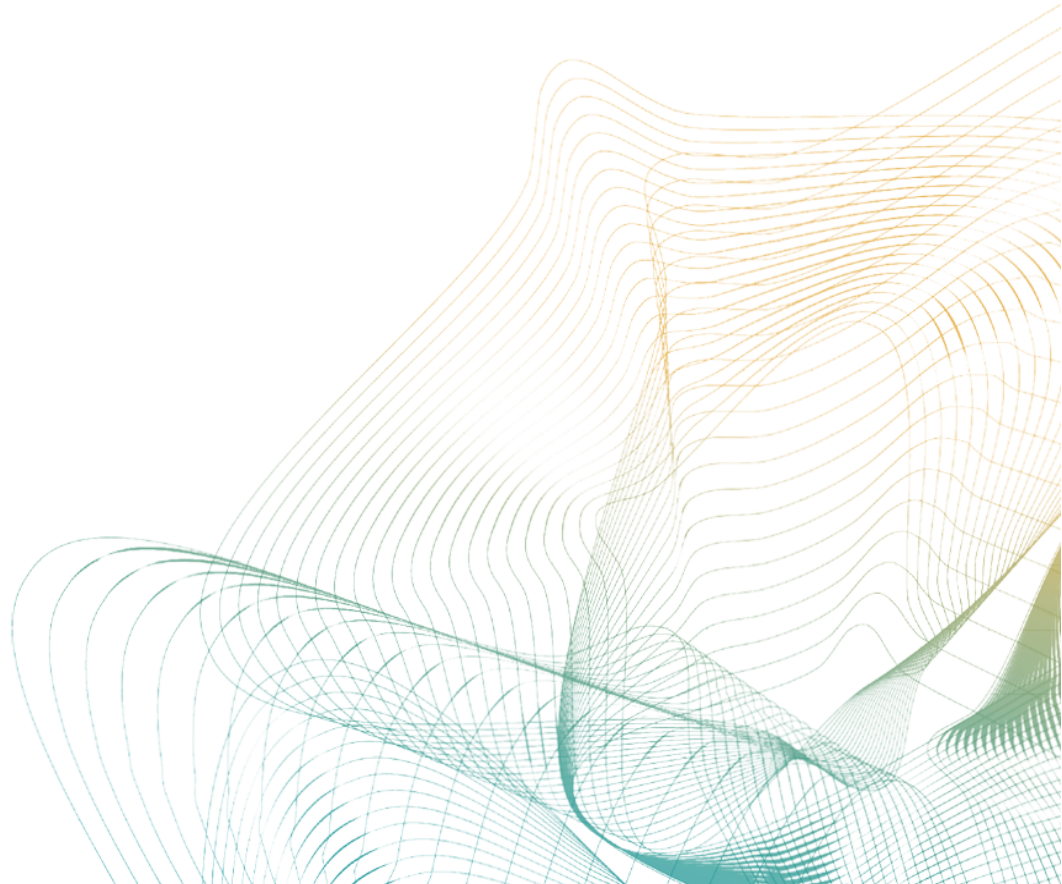




May Price Developments

4 June 2020



Summary

In May, consumer prices increased by 1.36% and annual inflation rose by 0.45 points to 11.39%. As underlined in the MPC decision of May, food inflation rose in this period due to the unprocessed food group. While energy inflation increased on account of international oil prices and exchange rate developments, it continued to suppress consumer inflation. The depreciation of the Turkish lira was influential on core goods inflation, and services inflation continued to slow down on the back of subcategories that experienced an interruption in activities due to the pandemic. Against this background, the trend of core indicators increased somewhat.

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 increased by 1.36% and annual inflation rose by 0.45 points to 11.39% (Chart 1). The annual rate of change decreased by 0.06 points to 11.21% in the B index, whereas it increased by 0.39 points to 10.32% in the C index (Chart 2).

Across subcategories, the contribution of core goods, food, and energy to annual consumer inflation increased by 0.36, 0.33 and 0.22 points month-on-month, respectively, whereas that of alcohol-tobacco and services decreased by 0.35 and 0.12 points, respectively.

Chart 1: CPI and D (Annual % Change)

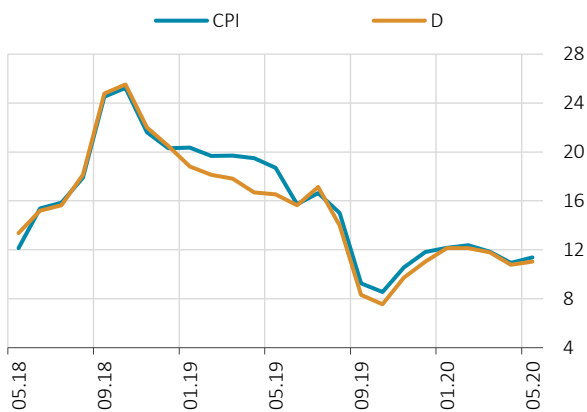
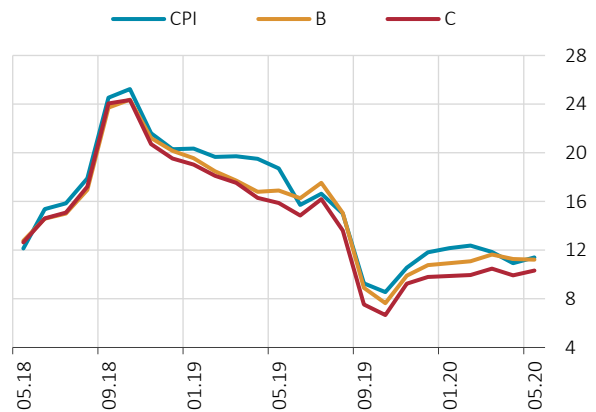


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of B and C indices rose somewhat (Chart 3). In this period, while the deceleration in the trend of the services group continued, that of the core goods group increased (Chart 4).

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

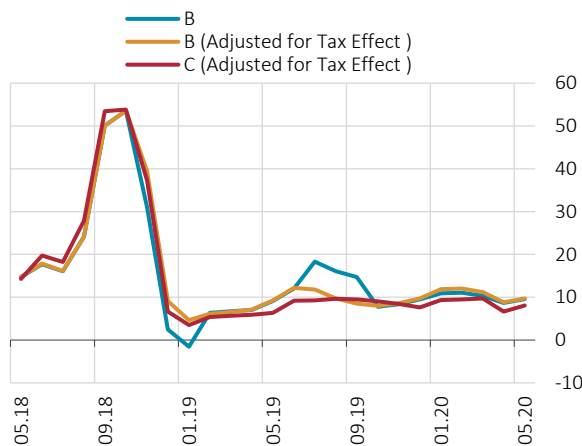
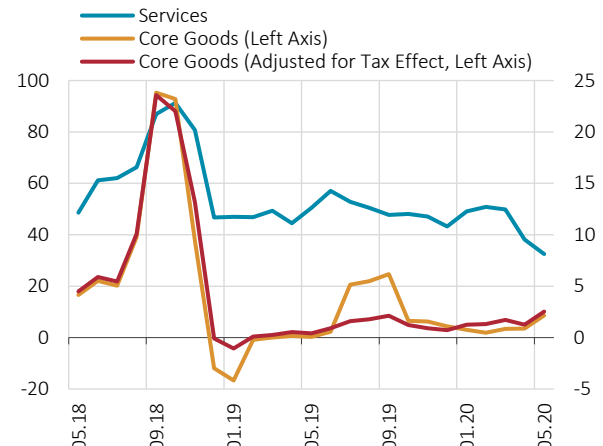


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In May, services prices were up by 0.73%, whereas annual services inflation edged down by 0.48 points to 11.28% (Chart 5). Annual services inflation receded in subcategories excluding transport and communication, with the most noticeable decline seen in restaurants-hotels that experienced a significant interruption in their activities (Chart 6). Annual inflation in rents continued to decline in this period after April. On the other hand, the rise in transport services inflation was driven by the surge (11.56%) in intercity bus fares associated with rising unit costs due to limitations on the number of

passengers. In the other services group, barber and hairdressing prices also saw high month-on-month increases (9.78% and 4.70%, respectively) for similar reasons. Moreover, prices of maintenance-repair services, which are highly sensitive to the exchange rate, also escalated in this period. The monthly increase in communication services was led by internet fees.

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

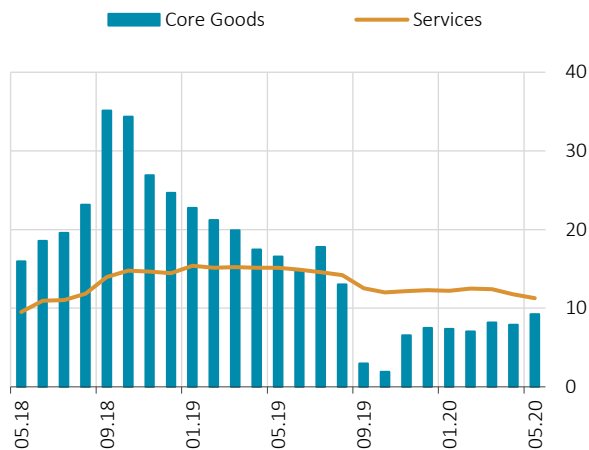
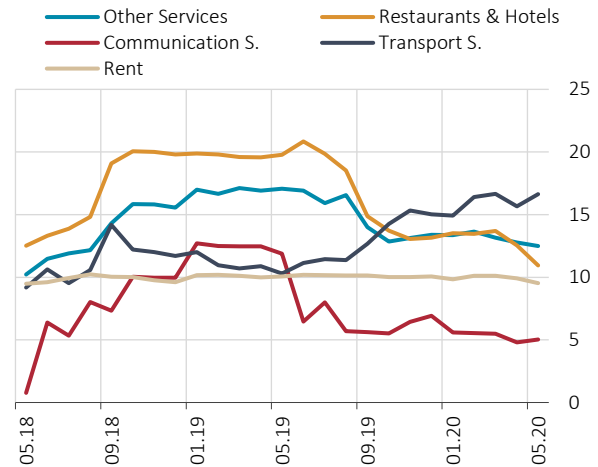


Chart 6. Services (Annual % Change)



Annual core goods inflation rose by 1.38 points to 9.26% in May (Chart 5). This increase is attributed to durable consumption goods as well as clothing and footwear (Chart 7). Prices of durable goods (excluding gold) increased by 2.27% on the back of increases in prices of automobiles, white goods and other electric and non-electric appliances. The monthly price increase in the clothing and footwear group, which was substantially lower in the previous month compared to its historical averages, remained high in this period. In sum, annual core goods inflation climbed due to the effects of the depreciating Turkish lira and the pandemic.

Chart 7. Core Goods (Annual % Change)

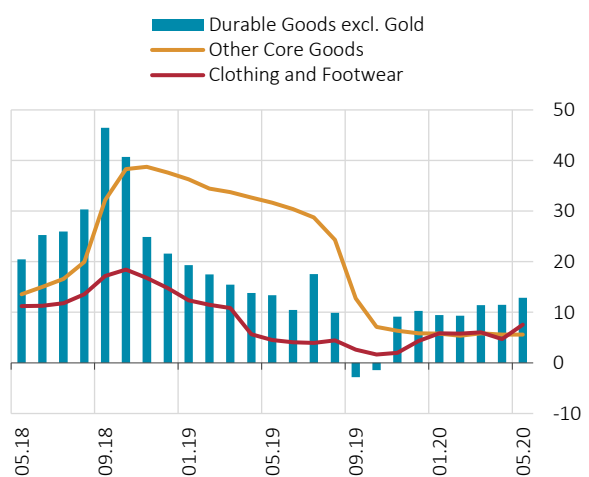
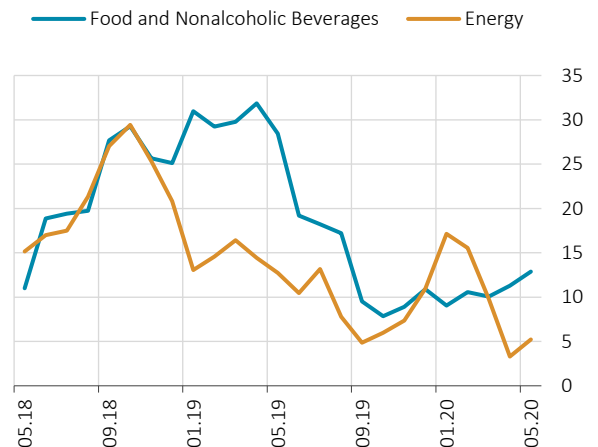


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



Energy prices that receded significantly in the last two months increased by 2.13% in May (Table 1). Fuel and bottled gas prices that rose by 6.32% and 3.79%, respectively, due to the depreciation in the Turkish lira and the recovery in international oil prices, became the main drivers of the increase in energy prices. Consequently, although annual energy inflation increased by 1.93 points to 5.23%, it continued to contain consumer inflation (Chart 8).

Annual inflation in food and non-alcoholic beverages went up by 1.59 points to 12.87% in May (Chart 8 and Table 2). Annual inflation rose to 10.14% in unprocessed food but declined in processed food to 15.50% largely due to the base effect (Chart 9). Seasonally adjusted data pointed to an increase in prices of both fresh fruit-vegetable and the other unprocessed food group. In the other unprocessed food group, increases in prices of eggs and pulses were noteworthy. In this period, processed food prices posted a lower rate of monthly increase (0.76%) compared to previous months. The most significant increase in this group was seen in the prices of non-alcoholic beverages due to the SCT increase imposed on cola beverages at end-March. Overall, annual inflation in the food group excluding fresh fruits and vegetables declined slightly (Chart 10).

In May, although the prices of tobacco products were slightly up by 0.70% in response to the raised minimum lump sum special consumption tax, annual alcoholic beverages and tobacco inflation continued to decline due to the base effect.

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

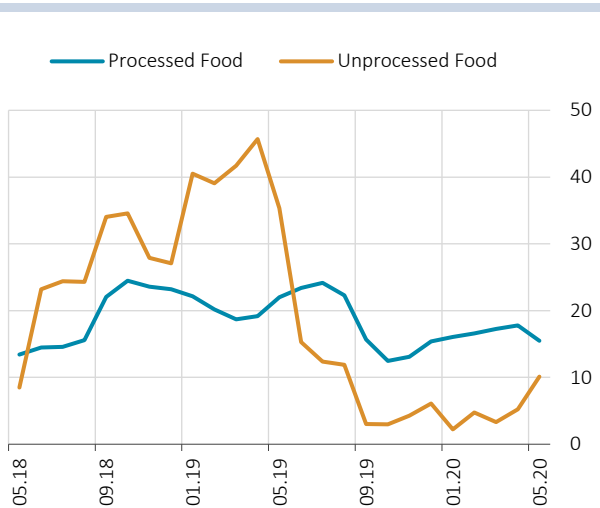
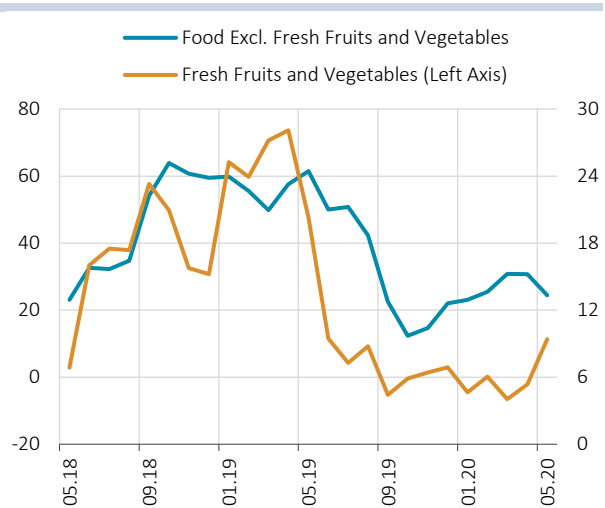


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In May, domestic producer prices rose by 1.54% whereas annual D-PPI inflation fell by 1.18 points to 5.53% due to the high base effect from the same period last year (Chart 11 and Table 3). In this period, the seasonally adjusted trend of manufacturing prices excluding petroleum and base metals continued to increase on the back of exchange rate developments (Chart 12).

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

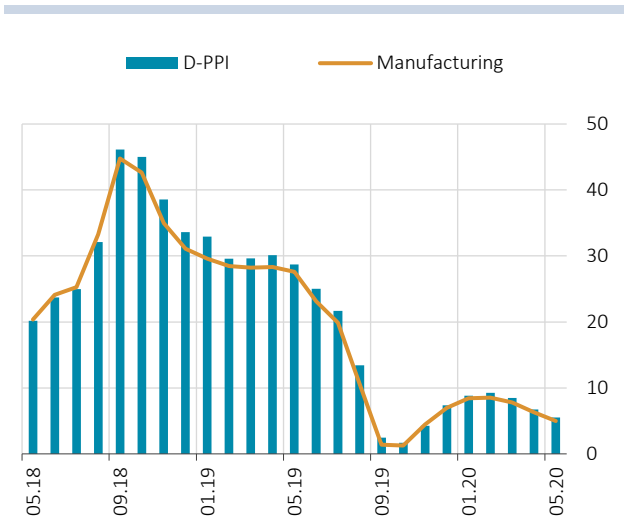
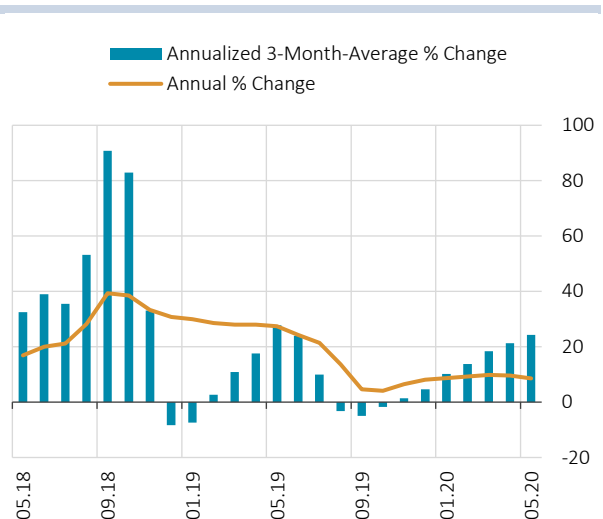


Chart 12. Manufacturing Excluding Petroleum and Base Metals



Across main industrial groupings, annual inflation was down in all groups excluding durable consumption goods (Table 3, Charts 13 and 14). In the meantime, monthly price increases were seen across all groups with durable consumption goods in the lead. The rise in prices of intermediate goods was mostly driven by paper products, textile sub-items, plastic products and iron-steel, while the price hikes in capital goods were mainly led by motor vehicles along with their parts and accessories, and machines. In this period, while durable consumption goods posted high price increases across subcategories excluding furniture, non-durable consumption goods prices increased on the back of food group items such as meat products, processed fresh fruits-vegetables and fats-oils, as well as printing services. Refined petroleum products and generation of electric power were instrumental in energy price hikes. To sum up, annual producer price inflation receded due to the base effect, while its underlying trend continued to rise in this period.

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

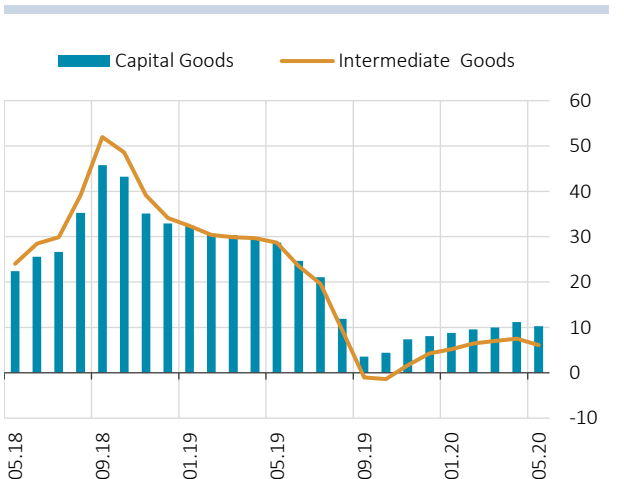
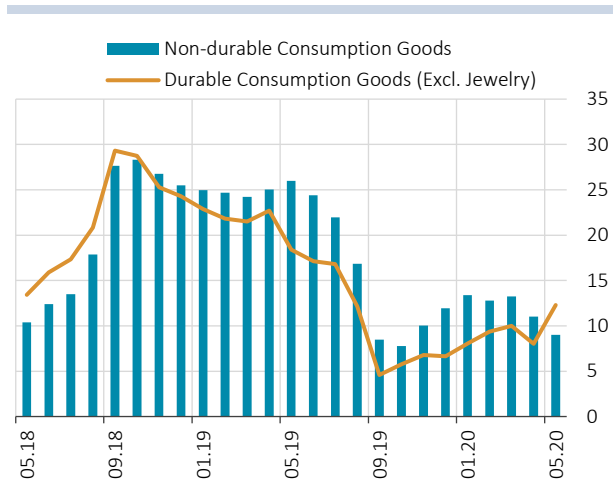


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	May 2020	May 2019	May 2020	May 2019
CPI	1.36	0.95	11.39	18.71
1. Goods	1.63	0.86	11.44	20.13
Energy	2.13	0.25	5.23	12.75
Food and non-alcoholic beverages	0.24	-1.18	12.87	28.44
Unprocessed food	-0.27	-4.71	10.14	35.33
Fresh fruits and vegetables	-3.28	-14.98	11.37	47.62
Other unprocessed food	1.54	2.75	9.66	28.56
Processed food	0.76	2.75	15.50	21.99
Bread and cereals	0.51	3.23	15.17	24.02
Other processed food	0.90	2.50	15.68	20.91
Goods excluding energy and food	2.49	2.55	12.48	17.45
Core goods	2.77	1.48	9.26	16.59
Durable goods (excluding gold)	2.27	0.99	12.90	13.38
Clothing and footwear (*)	6.99	4.16	7.56	4.55
Other core goods	0.40	0.36	5.62	31.66
Alcoholic beverages and tobacco	0.66	8.88	21.41	19.22
Gold	4.05	4.81	47.55	33.22
2. Services	0.73	1.17	11.28	15.15
Rents	0.45	0.80	9.52	10.07
Restaurants and hotels	0.16	1.61	10.94	19.77
Transport	1.84	0.99	16.63	10.29
Communication	0.47	0.26	5.02	11.87
Other	1.04	1.30	12.48	17.08
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.52	1.57	11.21	16.90
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.68	1.32	10.32	15.87
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.66	1.43	11.04	16.53
F – CPI excluding administered prices	1.60	0.67	9.69	19.88

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	May 2020		May 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	1.36	11.39	0.95	18.71
Food and non-alcoholic beverages	22.77	0.24	12.87	-1.18	28.44
Alcoholic beverages and tobacco	6.06	0.66	21.41	8.88	19.22
Clothing and footwear	6.96	6.85	7.68	4.09	4.78
Housing	14.34	0.34	14.45	0.40	14.68
Household equipment	7.77	1.15	9.00	-1.58	24.54
Health	2.80	0.22	13.07	0.03	19.37
Transport	15.62	3.30	6.69	2.18	12.40
Communication	3.80	1.47	2.98	0.06	9.89
Recreation and culture	3.26	0.72	3.74	1.86	20.06
Education	2.58	0.28	11.19	1.32	13.14
Restaurants and hotels	8.67	0.16	10.94	1.61	19.77
Miscellaneous goods and services	5.37	1.92	20.86	1.48	26.75

Source: TURKSTAT.

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

	Weight	May 2020		May 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	1.54	5.53	2.67	28.71
Mining	3.23	-1.74	3.63	1.87	24.49
Manufacturing	89.22	1.62	4.98	2.87	27.61
Manufacturing excl. petroleum products	85.25	1.55	7.79	2.72	27.31
Manufacturing excl. petroleum products and base metals	75.47	1.58	8.50	2.60	27.42
Electricity, gas, steam and air-conditioning sup.	6.61	2.46	14.49	1.00	45.83
Water supply	0.95	-0.61	6.61	-2.51	-3.30
D-PPI (MIGs Classification)					
Intermediate Goods		1.52	6.09	2.89	28.69
Durable Consumption Goods		2.44	14.90	-1.57	19.30
Durable Consumption Goods (Excl. Jewelry)		2.06	12.28	-1.81	18.40
Non-Durable Consumption Goods		1.45	9.01	3.32	25.99
Capital Goods		1.34	10.27	2.16	28.67
Energy		1.73	-11.92	2.51	39.00

Source: TURKSTAT.