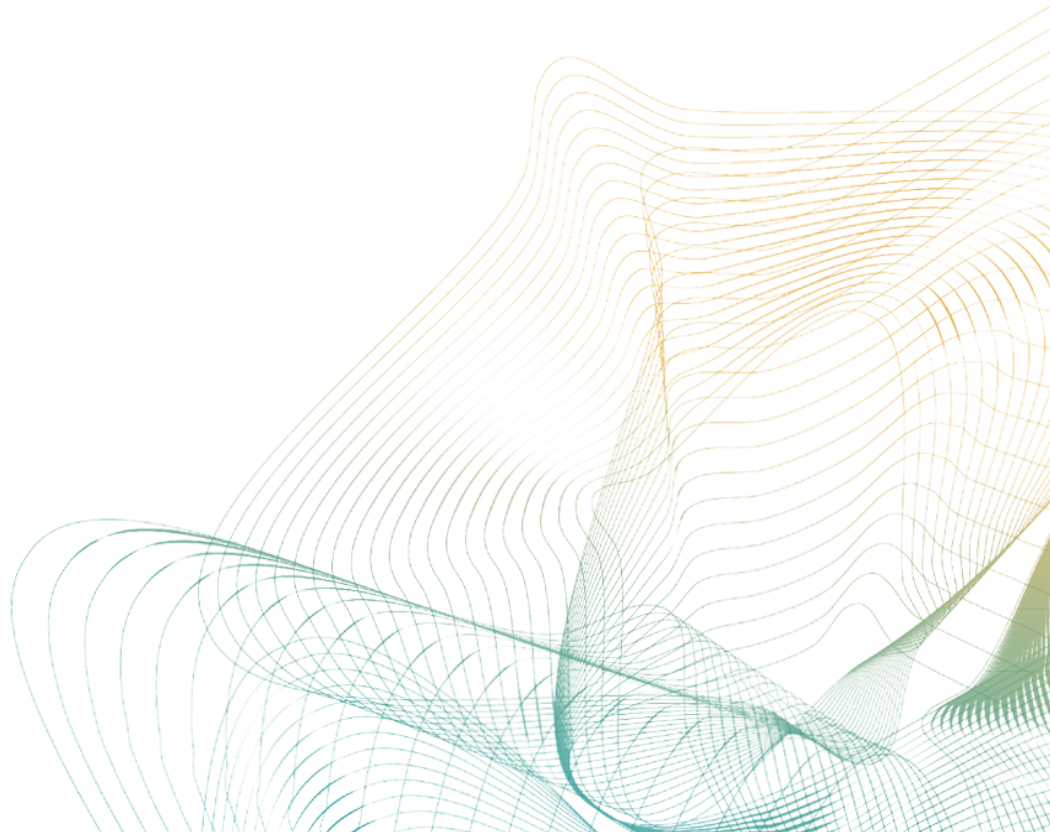


September Price Developments

4 October 2018



Summary

In September, consumer prices increased by 6.30 percent and annual inflation rose by 6.62 points to 24.52 percent. Price hikes spread across all subcategories while the rise in inflation was mainly driven by core goods, food and energy groups. The reverberations of recent exchange rate developments were strongly felt in many categories. In particular, annual core goods inflation recorded a substantial increase, primarily fueled by durable goods. In this period, high price increases were noted even in categories with relatively low exchange rate pass-through, mainly in services. Producer price developments point to remarkably strong cost pressures, particularly through energy and intermediate goods channels. Against this background, core indicators registered acute increases both in annual inflation and the underlying trend.

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 September, consumer prices increased by 6.30 percent and annual inflation rose by 6.62 points to 24.52 percent (Chart 1). The annual rates of change in the B and C indices both increased by 6.8 points to 23.71 percent and 24.05 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to annual inflation reveals that over the previous month, the contribution of core goods, food, energy, services and gold groups increased by 3.31, 1.77, 0.77, 0.64 and 0.13 points, respectively. Meanwhile, the contribution of the alcohol-tobacco group remained unchanged.

Chart 1: CPI and D (Annual % Change)

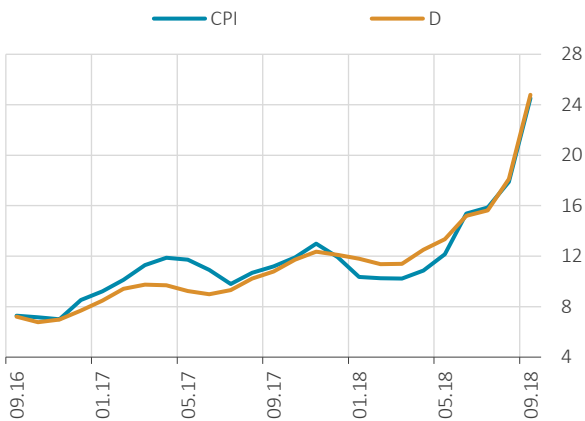
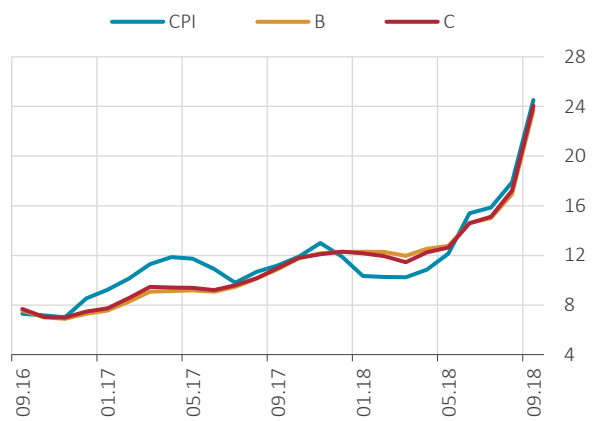


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators reveal a drastic deterioration in the underlying trend of inflation (Chart 3). The core goods group played a determining role in this deterioration while the underlying trend also significantly picked up in the services group (Chart 4).

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

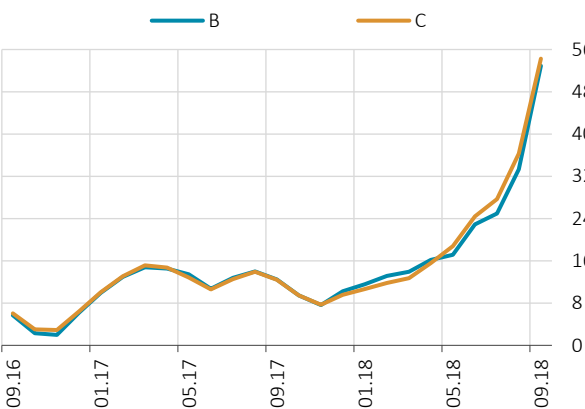
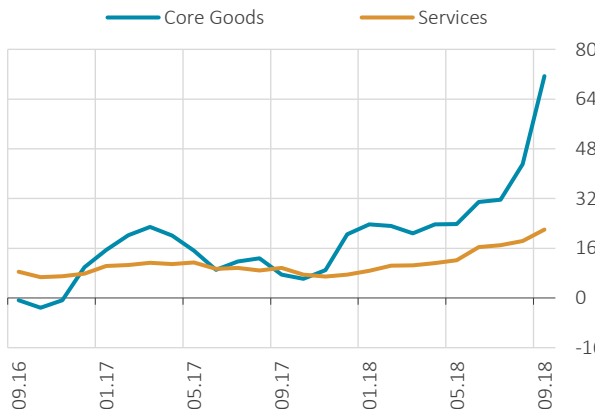


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)



In September, prices of services rose by 2.96 percent and annual services inflation increased by 2.13 points to 13.97 percent (Chart 5 and Table 1). Annual inflation slightly decelerated in communication services but registered significant increases in restaurant-hotel, transport and other services groups while remaining relatively flat in rents (Chart 6). The restaurant-hotel and transport groups were subject to both demand-side effects driven by tourism and cost-side effects driven by the outlook for food and fuel

oil prices. On the other hand, the rise in other services inflation was mainly triggered by education and maintenance-repair prices.

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

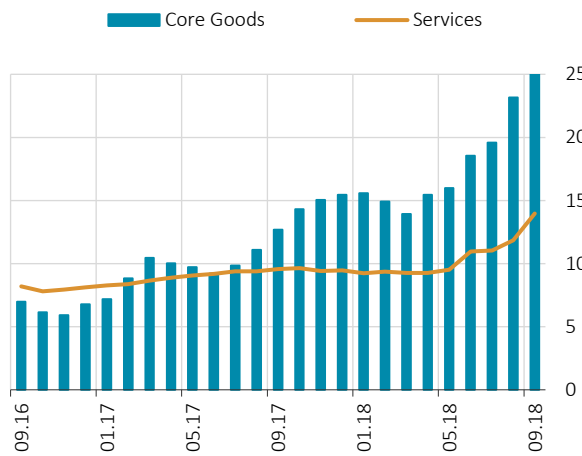
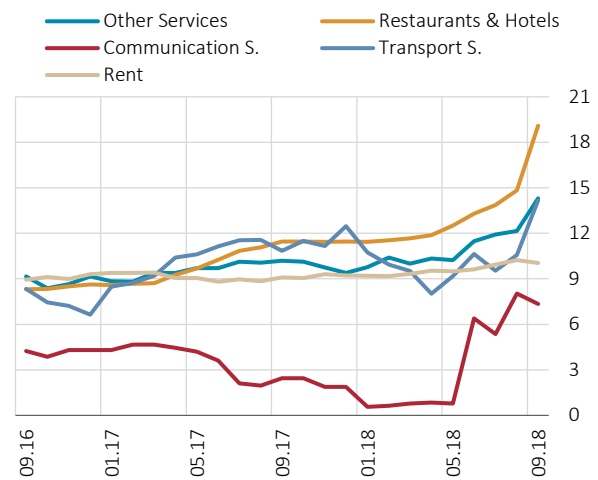


Chart 6. Services (Annual % Change)



Annual core goods inflation surged by 11.94 points in September and reached 35.12 percent (Chart 5). Annual inflation increased across all subcategories, most visibly in durable goods and other core goods that are highly sensitive to exchange rate developments. Meanwhile, widespread price hikes continued at an accelerated pace (Chart 7). In September, durable goods prices rose by 12.93 percent, led by white goods (17.72 percent), automobile (13.90 percent) and furniture (9.91 percent) groups. The monthly price increase in other core goods was predominantly due to housing maintenance-repair items, personal care products, household textiles, cleaning materials, parts and accessories for motor vehicles, and small household appliances. In September, price increases in the clothing and footwear group were above the seasonal averages. To sum up, exchange rate developments continued to be the main determinant of the uptrend in core goods inflation that made the largest contribution to annual inflation in September with 9.70 points.

Chart 7. Core Goods (Annual % Change)

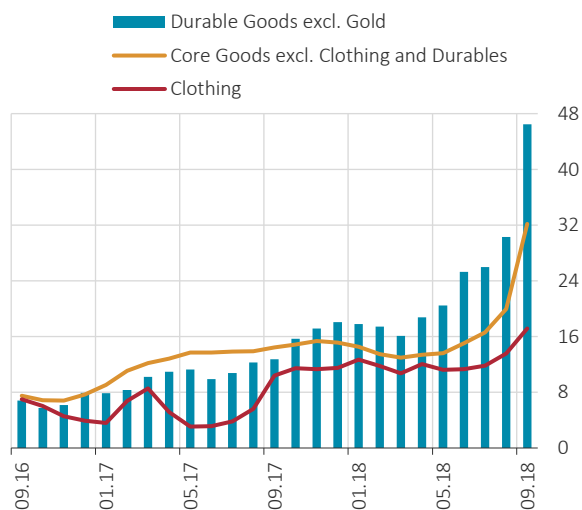
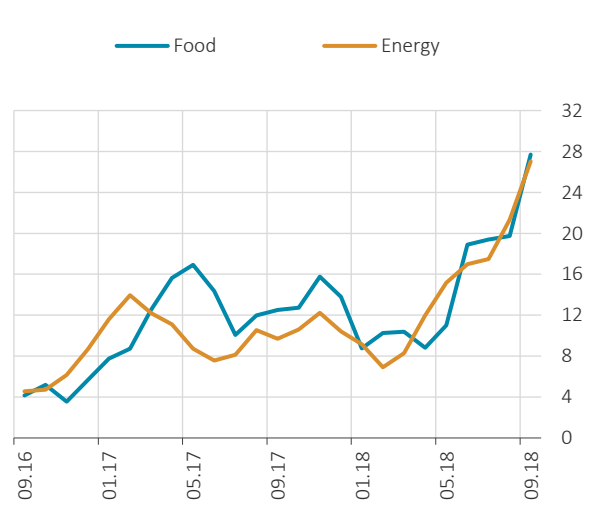


Chart 8. Food and Energy (Annual % Change)



Energy prices rose by 6.05 percent in September (Table 1). While fuel prices increased by 5.59 percent due to the lingering effect of the SCT adjustment in fuel oil products in August, solid fuel prices posted a

substantial increase accompanied by an adjustment to electricity and natural gas prices. All in all, annual inflation in the energy group rose by 5.69 points to 27.03 percent.

Annual inflation in food and nonalcoholic beverages rose by 7.95 percent to 27.70 percent in September (Chart 8). Prices of both unprocessed and processed food products remained on the rise with further pace in this period. Annual inflation climbed to 22.05 percent in processed food, and to 34.04 percent in unprocessed food groups (Chart 9). Prices of fresh fruits and vegetables in the unprocessed food group increased significantly compared to the previous month, whereas other unprocessed food group posted prominent price increases in milk, red meat, dried nuts, and rice. In this period, processed food prices surged by 6.42 percent, and thus registered the highest monthly increase in the index history. This group witnessed sharp price increases across subcategories, primarily in bread and cereals, fats and oils, dairy products, and canned products, mostly driven by exchange rate developments and increased costs in main inputs (flour, milk and etc.). Against this background, annual inflation in food group excluding fresh fruits and vegetables increased substantially to 22.24 percent (Chart 10).

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

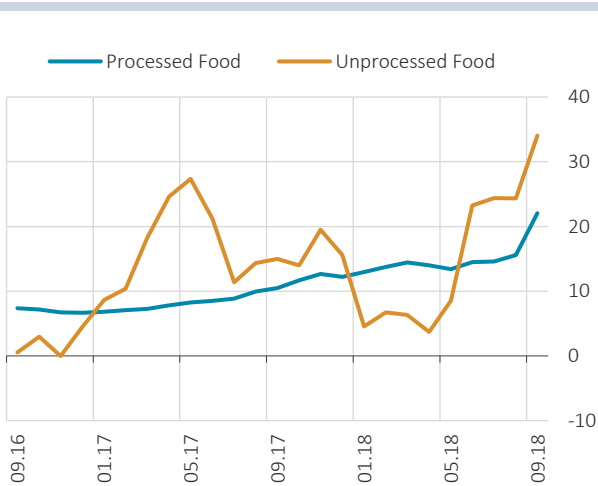


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

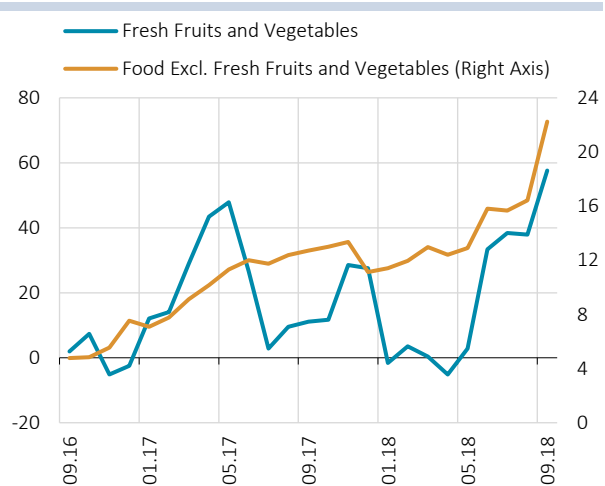


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	September 2018	September 2017	September 2018	September 2017
CPI	6.30	0.65	24.52	11.20
1. Goods	7.62	0.48	29.10	11.95
Energy	6.05	1.29	27.03	9.68
Food and nonalcoholic beverages	6.40	-0.23	27.70	12.50
Unprocessed food	6.38	-1.34	34.04	14.97
Fresh fruits and vegetables	13.34	-0.83	57.62	11.06
Other unprocessed food	2.47	-1.59	22.48	16.98
Processed food	6.42	0.77	22.05	10.49
Bread and cereals	6.21	0.49	20.22	8.76
Other processed food	6.53	0.92	23.06	11.47
Goods excluding energy and food	9.04	0.63	30.82	12.51
Core goods	10.48	0.71	35.12	12.70
Durable goods (excluding gold)	12.93	0.49	46.45	12.76
Clothing and footwear(*)	3.99	0.80	17.15	10.38
Other core goods	11.22	0.95	32.17	14.45
Alcoholic beverages and tobacco	0.07	0.01	1.88	10.40
Gold	9.25	1.65	64.96	16.39
2. Services	2.96	1.04	13.97	9.55
Rents	0.90	1.09	10.03	9.09
Restaurants and hotels	4.77	1.02	19.09	11.45
Transport	5.35	2.02	14.17	10.84
Communication	0.00	0.64	7.34	2.43
Other	2.67	0.74	14.30	10.20
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	6.70	0.86	23.71	10.89
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	6.76	0.88	24.05	10.98
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	6.30	0.65	24.52	11.20

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices increased by 10.88 percent and annual inflation rose by 14.02 points to 46.15 percent in this period (Chart 11). The index, overall, saw drastic price increases that diffused across subcategories in response to the depreciation of the Turkish lira. The seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals increased substantially in this period (Chart 12).

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

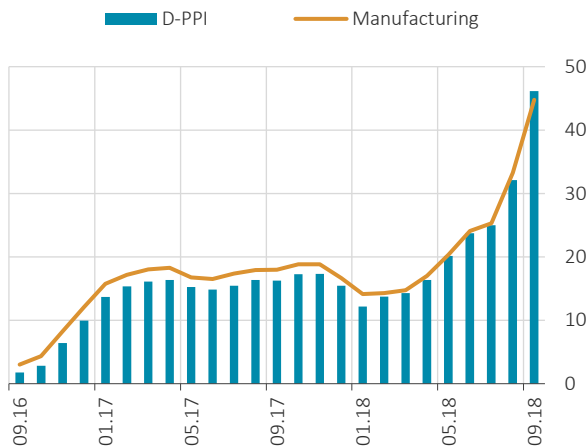
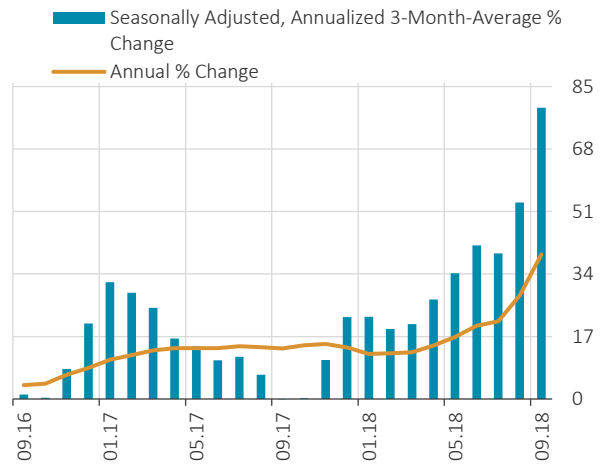


Chart 12. Manufacturing Excluding Petroleum and Base Metals



Main Industrial Groupings (MIGs) suggest that annual inflation soared in all subcategories (Table 3 and Charts 13 and 14). Annual inflation in electricity-natural gas production and distribution, and intermediate goods was considerably high at 71.88 percent and 51.96 percent, respectively. Price hikes in intermediate goods were mainly attributed to iron-steel, plastics, textiles, basic chemical products and paper products, while those in capital goods to motor vehicles and their accessories, and metal construction materials. Higher prices were driven by furniture and household appliances in durable goods and by food and textiles in nondurable goods. In sum, producer-driven cost pressures on consumer prices strengthened in September.

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

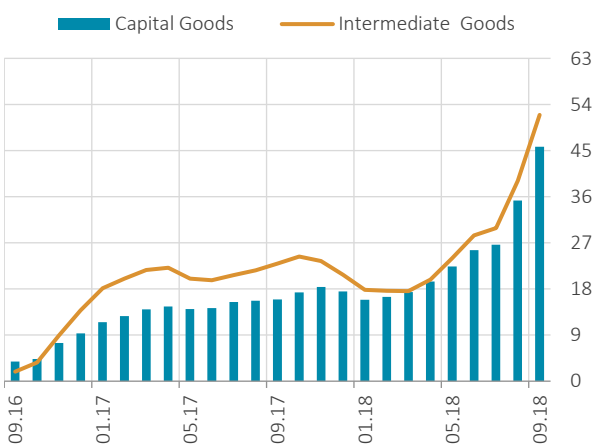
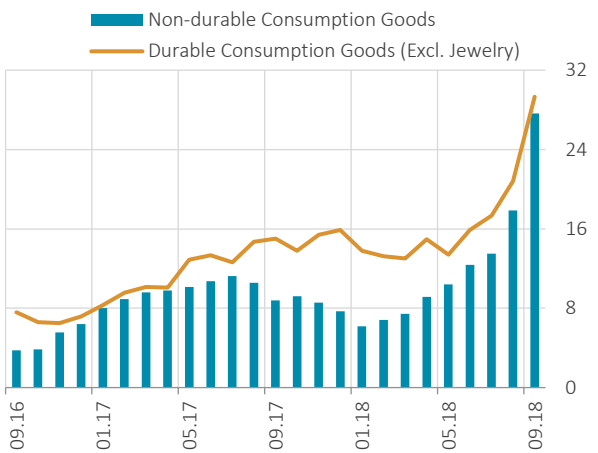


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	September 2018		September 2017	
		Monthly	Annual	Monthly	Annual
CPI	100.00	6.30	24.52	0.65	11.20
Food and nonalcoholic beverages	23.03	6.40	27.70	-0.23	12.50
Alcoholic beverages and tobacco	5.14	0.07	1.88	0.01	10.40
Clothing and footwear	7.21	3.97	17.16	0.80	10.35
Housing	14.85	5.56	21.84	0.76	8.13
Household equipment	7.66	11.41	37.28	0.44	9.09
Health	2.64	2.30	14.67	0.43	11.90
Transport	17.47	9.15	36.61	1.58	16.10
Communication	3.91	1.11	8.26	0.26	1.78
Recreation and culture	3.39	6.62	19.39	0.16	11.85
Education	2.67	3.98	10.67	2.08	10.41
Restaurants and hotels	7.27	4.77	19.09	1.02	11.45
Miscellaneous goods and services	4.76	7.42	30.61	1.34	12.06

Source: TurkStat.

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

	Weight	September 2018		September 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	10.88	46.15	0.24	16.28
Mining	3.26	5.65	37.20	0.72	11.93
Manufacturing	89.02	9.00	44.77	0.35	17.98
Manufacturing excl. petroleum products	86.52	8.99	42.52	0.25	17.14
Manufacturing excl. petroleum products and base metals	79.60	8.59	39.33	-0.08	13.72
Electricity, gas, steam and air-conditioning sup.	6.74	40.21	71.88	-1.57	-1.70
Water supply	0.98	0.65	8.64	0.34	11.75
D-PPI (MIGs Classification)					
Intermediate Goods		10.26	51.96	0.96	22.96
Durable Consumption Goods		7.61	31.37	0.41	14.46
Durable Consumption Goods (Excl. Jewelry)		7.47	29.32	0.41	15.02
Non-Durable Consumption Goods		7.08	27.63	-1.11	8.79
Capital Goods		8.42	45.78	0.57	15.92
Energy		25.55	78.29	0.15	11.20

Source: TurkStat.