

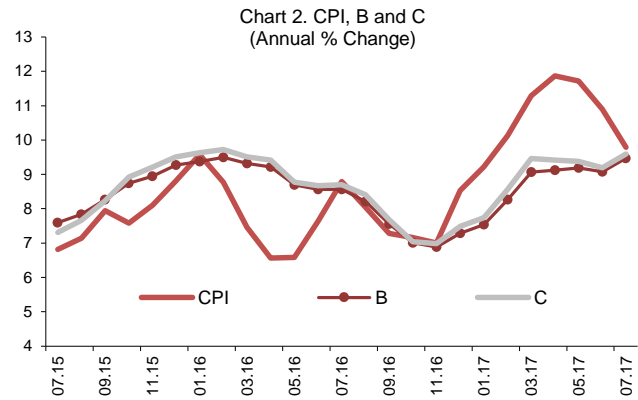
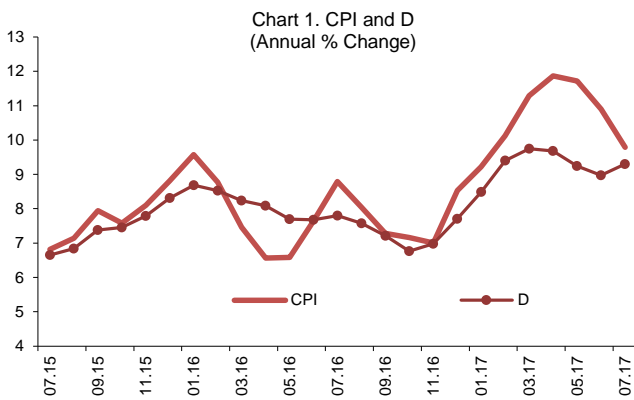
## SUMMARY...

In July, consumer prices inched up by 0.15 percent, and annual inflation dropped by 1.11 points to 9.79 percent. Food inflation receded due to fresh fruits and vegetables, while energy prices crept up following the downtrend of the last four months. The recent depreciation in the Turkish lira has consequences on headline inflation, and the uptrend in services inflation continued and is spreading across sub-groups. Accordingly, annual inflation in core indicators rose, and the underlying trend of inflation registered a limited increase.

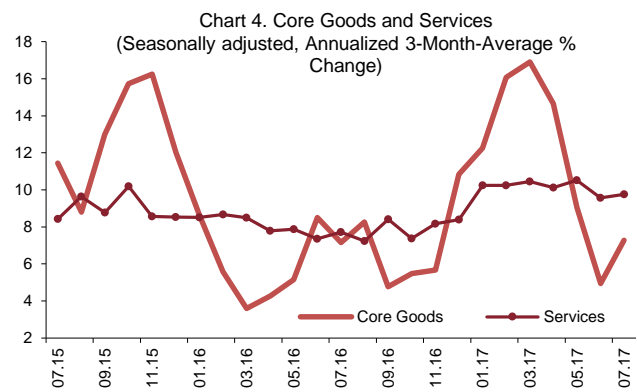
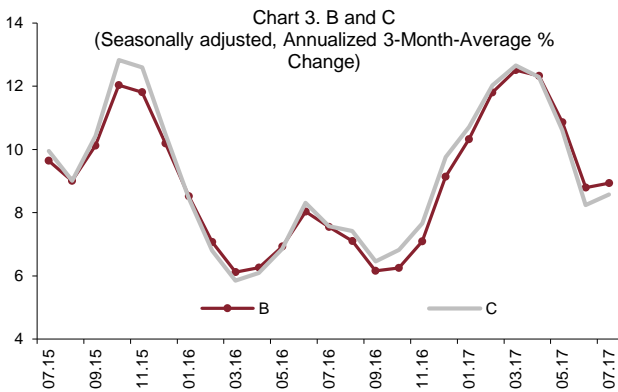
## ... EVALUATIONS ...

In July, consumer prices inched up by 0.15 percent, and annual inflation dropped by 1.11 points to 9.79 percent (Chart 1). The annual rate of change in the B and C indices increased by 0.4 points each to 9.46 and 9.60 percent, respectively (Chart 2).

Across subcategories, the food and alcohol-tobacco groups contributed 0.93 and 0.36 points less to annual inflation month-on-month, respectively, whereas the contribution of services, core goods and energy groups inched up by around 0.1 point each.<sup>1</sup>

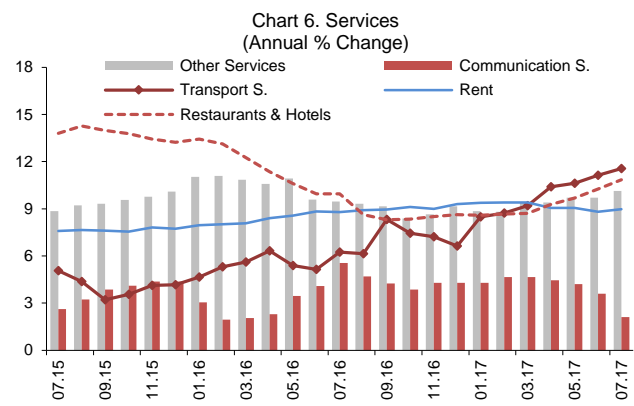
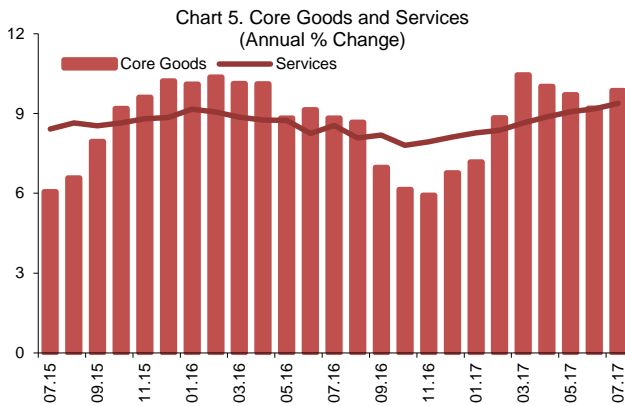


Three-month averages of seasonally-adjusted core inflation indicators reveal that the underlying trend inched up in July, after a recovery in June attributed to the methodological change in clothing prices (Chart 3). The underlying trend increased in core goods, and remained high in the services group in this period (Chart 4).



<sup>1</sup> B: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco and gold,  
C: CPI excluding energy, food and non-alcoholic beverages, beverages and tobacco products and gold,  
D: CPI excluding unprocessed food, alcoholic beverages and tobacco products.

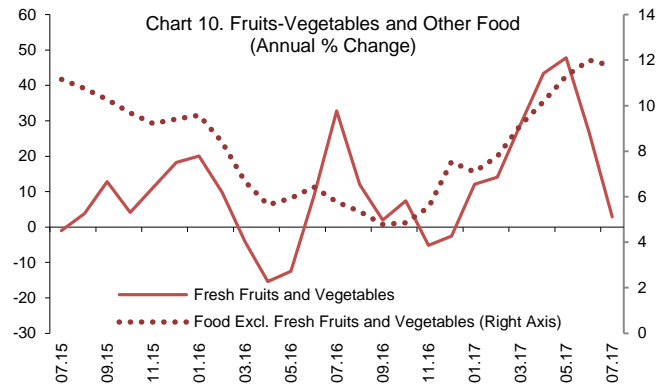
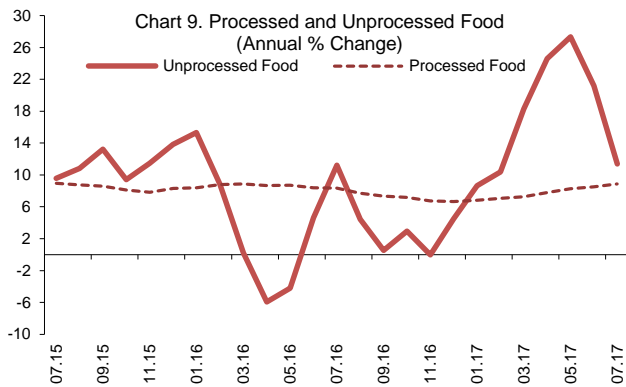
Prices of services rose by 1.26 percent in July, while annual services inflation crept up by 0.20 points to 9.38 percent (Chart 5 and Table 1). Annual inflation displayed an uptick in all groups but communication, while the seasonally-adjusted monthly price increase gained considerable momentum compared to recent months (Chart 6). Prices in the transportation group registered increases due to municipal transportation services (ferry, municipal bus, subway) and intercity passenger transport. Influenced largely by food prices, the restaurants-hotels group recorded the highest July price-hike in the history of the index with 1.75 percent. On the other hand, prices of other services picked up due to package tour prices and maintenance and repair services of personal transportation vehicles.



Annual core goods inflation rose by 0.66 points to 9.86 percent in July (Chart 5). Inflation rose across all subgroups in this period, and prices were influenced by both the recent and past exchange rate developments (Table 1). Led by automobile prices and home appliances, prices of durable goods increased, while clothing prices saw a lower discount than seasonal averages. Core goods excluding clothing and durable goods witnessed milder monthly price increases. However, an upsurge in prices was noted in products with high import components such as personal care appliances, automotive parts-accessories and household equipment.

After falling for four consecutive months, energy prices were up 0.11 percent in July (Table 1). Fuel prices edged up in this period due to recent changes in international oil prices and the Turkish lira. Affected also by the low base effect, annual energy inflation rose by 0.56 points to 8.12 percent (Chart 8).

Annual food and nonalcoholic beverages inflation dropped by 4.27 points to 10.07 percent mostly on the back of unprocessed food prices (Chart 8). Annual unprocessed food inflation fell to 11.39 percent due to the slowing inflation in red meat prices and the base effect from fresh fruits and vegetables (Chart 9). Seasonally adjusted prices of unprocessed food were also down in this period. On the other hand, processed food prices posted a month-on-month upsurge (1.03 percent), driving annual processed food inflation higher. Price hikes spread across all subcategories of processed food, especially grains, processed meat, tea and sugar. The rise in processed meat prices was caused by the cumulative increases in red meat prices while tea prices were driven higher by June's 13-percent jump in the purchasing price of fresh tea leaves. In sum, the slowing food inflation in July was mostly prompted by unprocessed food prices, whereas annual food inflation excluding fresh fruits and vegetables remained elevated (Chart 10).



**Table 1. July CPI and Subcategories (Percent Change)**

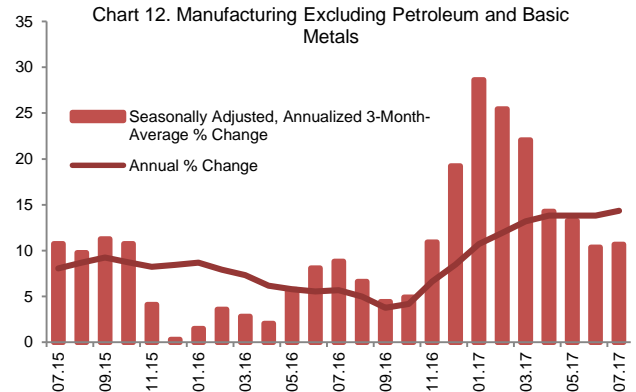
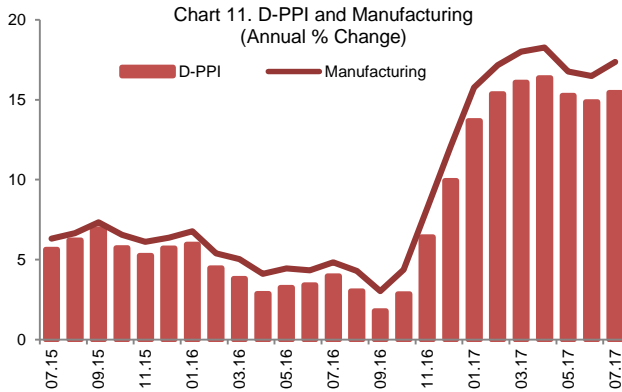
	Monthly Percent Change		Annual Percent Change	
	Jul.2017	Jul.2016	Jul.2017	Jul.2016
<b>CPI</b>	<b>0.15</b>	<b>1.16</b>	<b>9.79</b>	<b>8.79</b>
<b>1. Goods</b>	<b>-0.33</b>	<b>1.21</b>	<b>9.97</b>	<b>8.90</b>
Energy	0.11	-0.40	8.12	2.40
Food and nonalcoholic beverages	-0.71	3.15	10.07	9.69
Unprocessed food	-2.53	6.06	11.39	11.24
Fresh fruits and vegetables	-6.62	14.96	2.87	32.83
Other unprocessed food	-0.27	0.86	17.04	1.38
Processed food	1.03	0.71	8.87	8.34
Bread and cereals	0.69	0.50	8.17	10.04
Other processed food	1.23	0.82	9.27	7.40
Goods excluding energy and food	-0.26	0.50	10.72	10.92
Core goods	-0.35	-0.94	9.86	8.82
Durable goods (excluding gold)	0.88	0.09	10.75	9.56
Clothing and footwear <sup>(*)</sup>	-3.60	-4.22	3.82	8.25
Other core goods	0.65	0.56	13.82	8.36
Alcoholic beverages and tobacco	0.39	7.05	14.14	19.36
Gold	-1.08	6.38	12.16	28.30
<b>2. Services</b>	<b>1.26</b>	<b>1.08</b>	<b>9.38</b>	<b>8.55</b>
Rents	0.88	0.73	8.97	8.78
Restaurants and hotels	1.75	1.22	10.84	9.96
Transport	1.81	1.44	11.55	6.24
Communication	0.04	1.51	2.10	5.56
Other	1.23	0.85	10.12	9.47
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.58	0.22	9.46	8.56
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.49	0.13	9.60	8.70
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.48	0.19	9.30	7.80

Source: TurkStat.

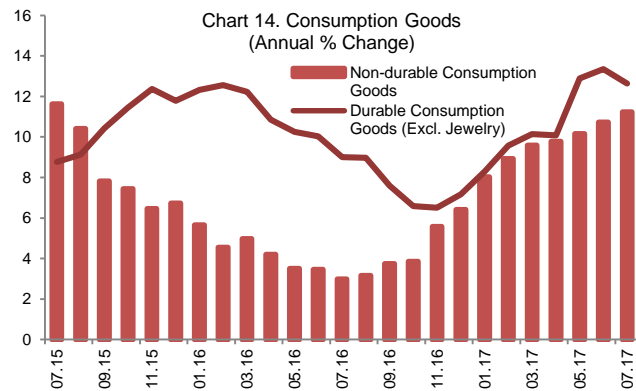
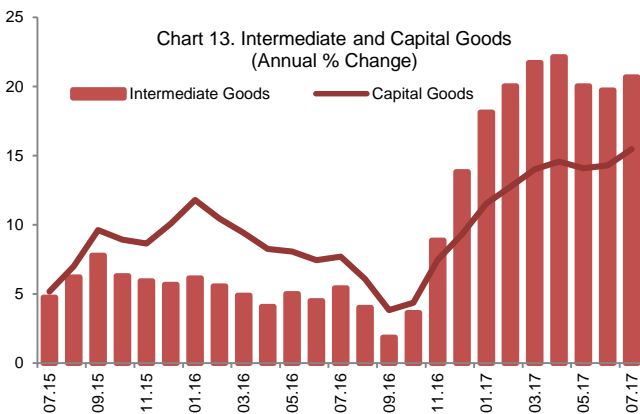
(\*) Does not cover clothing services.

**... D-PPI ...**

Domestic producer prices increased by 0.72 percent in July while annual D-PPI inflation rose by 0.58 points to 15.45 percent (Chart 11). This rise was mostly attributed to the recent changes in exchange rates and international commodity prices. Annual inflation amounted to 17.37 percent in manufacturing industry and to 14.34 percent in manufacturing industry excluding petroleum and base metals. The seasonally adjusted underlying trend of prices for the manufacturing industry excluding petroleum and base metals showed a small pickup (Chart 12).



According to the Main Industrial Groupings (MIGs), prices were up in durable goods and energy but down in other subcategories in July (Table 3). The spike in prices of capital goods was driven by motor vehicles, machines and metal construction products while prices of intermediate goods surged on the back of iron-steel, cement and paper-cardboard products. In this period, processed meat and textiles were the main drivers of rising nondurable goods prices whereas prices of durable goods declined due to furniture prices. All in all, producer-driven cost pressures on consumer prices were more pronounced than in June and remained robust.



## ...TABLES

**Table 2. July CPI and Subcategories (Percent Change)**

	Weight	2017		2016	
		Monthly	Annual	Monthly	Annual
CPI	100	0.15	9.79	1.16	8.79
Food and nonalcoholic beverages	21.77	-0.71	10.07	3.15	9.69
Alcoholic beverages and tobacco	5.87	0.39	14.14	7.05	19.36
Clothing and footwear	7.33	-3.51	3.92	-4.14	8.26
Housing	14.85	0.44	7.50	0.34	6.69
Household equipment	7.72	0.63	7.24	0.17	8.21
Health	2.63	0.33	11.89	1.02	10.58
Transport	16.31	1.13	15.24	0.11	6.13
Communication	4.12	0.13	1.80	1.38	4.49
Recreation and culture	3.62	1.36	11.22	1.08	7.31
Education	2.69	1.05	10.11	0.57	7.89
Restaurants and hotels	8.05	1.75	10.84	1.22	9.96
Miscellaneous goods and services	5.04	0.20	10.61	1.31	12.68

Source: TurkStat.

**Table 3. July D-PPI and Subcategories (Percent Change)**

	Weight	2017		2016	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	0.72	15.45	0.21	3.96
Mining	3.36	0.23	8.68	1.18	2.96
Manufacturing	88.79	0.91	17.37	0.16	4.84
Manufacturing excl. petroleum products	86.18	0.87	16.70	0.25	5.49
Manufacturing excl. petroleum products and basic metals	77.80	0.79	14.34	0.33	5.70
Electricity, gas, steam and air-conditioning supply	6.81	-1.57	-3.54	0.49	-5.92
Water supply	1.03	0.56	11.60	-0.29	8.03
D-PPI (MIGs Classification)					
Intermediate Goods		0.99	20.68	0.18	5.43
Durable Consumption Goods		-0.14	13.05	1.24	12.31
Durable Consumption Goods (Excl. Jewelry)		-0.09	12.63	0.54	9.01
Non-Durable Consumption Goods		0.44	11.23	-0.01	2.99
Capital Goods		1.64	15.47	0.59	7.69
Energy		-0.21	7.78	-0.11	-5.23

Source: TurkStat.

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 by the public of the monthly inflation developments during the period between the announcement of the official price statistics and the Monetary Policy Committee meeting.