

SEPTEMBER INFLATION AND OUTLOOK FOR PRICE DEVELOPMENTS

I. GENERAL EVALUATION

1. In September, the prices increased in line with market expectations. CPI increased by 3.5 percent, while WPI increased by 3.1 percent. Thus, the overall increase in January-September period became 20.1 percent in CPI and 21.7 percent in WPI. The downward trend in annual inflation continued, CPI and WPI rose by 37.0 percent and 40.9 percent respectively on a year on year basis.
2. Despite the favorable developments in growth data, sluggish recovery in domestic demand, and relative stability in foreign exchange and Turkish lira markets in August and September have been the factors that contained further increase in CPI and WPI inflation in September.
3. High increases in food, clothing and education prices due to seasonal factors have been the main determinants of the increase in consumer prices in September. With relative stability attained in foreign exchange, increase in the prices of private manufacturing sector has been limited. In September, increase in the agriculture prices due to seasonal factors had a marked impact on the wholesale price inflation. CPI excluding food increased by 3.0 percent while WPI excluding agriculture increased by 2.9 percent.

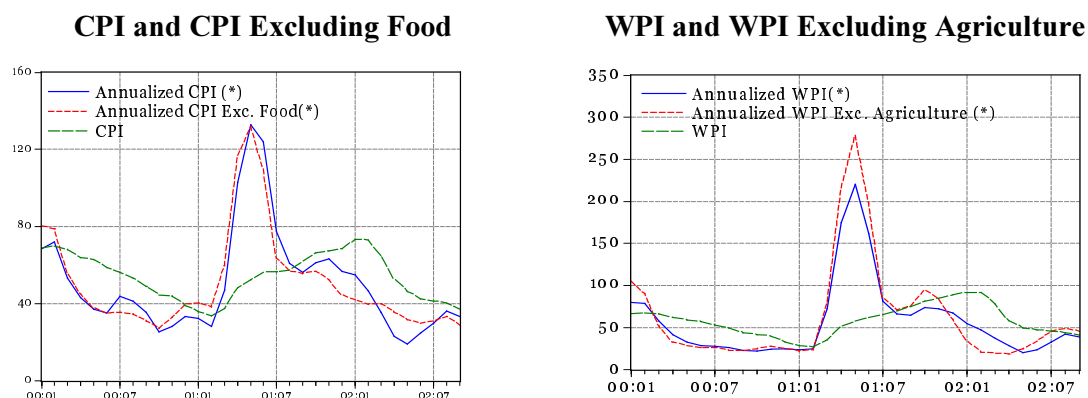
Table 1: CPI, WPI and Sub-items

	Year-on-Year % Change		Monthly % Change		
	2001	2002	2002		
	September	September	July	August	September
CPI	61.8	37.0	1.4	2.2	3.5
Goods	70.4	38.4	0.6	1.2	4.0
Services	47.9	34.5	3.1	4.1	2.6
Excluding Food	64.4	35.6	2.2	2.7	3.0
WPI	74.7	40.9	2.7	2.1	3.1
Public	93.2	38.6	4.3	2.7	3.3
Private	67.9	41.8	2.0	1.9	3.0
Private Manufacturing	79.8	38.6	4.1	2.3	2.5
Excluding Agriculture	84.6	38.8	4.2	2.5	2.9
Excluding Agriculture and Energy	83.1	39.2	4.4	2.5	2.9

Source: CBRT, SIS.

4. The inflation measure which is calculated by using 3-month moving averages of seasonally adjusted CPI and WPI, increased in July and August, then decreased in September and reached 38.9 percent in WPI and 33.3 percent in CPI. The annual inflation became 45.8 percent in WPI excluding agriculture and 28.9 percent in CPI excluding food.

Figure 1: Annual Percentage Change and 3-Month Moving Averages



(*) 3-Month moving averages (Annual, Seasonally Adjusted)
Source: CBRT, SIS.

Developments in Consumer Prices

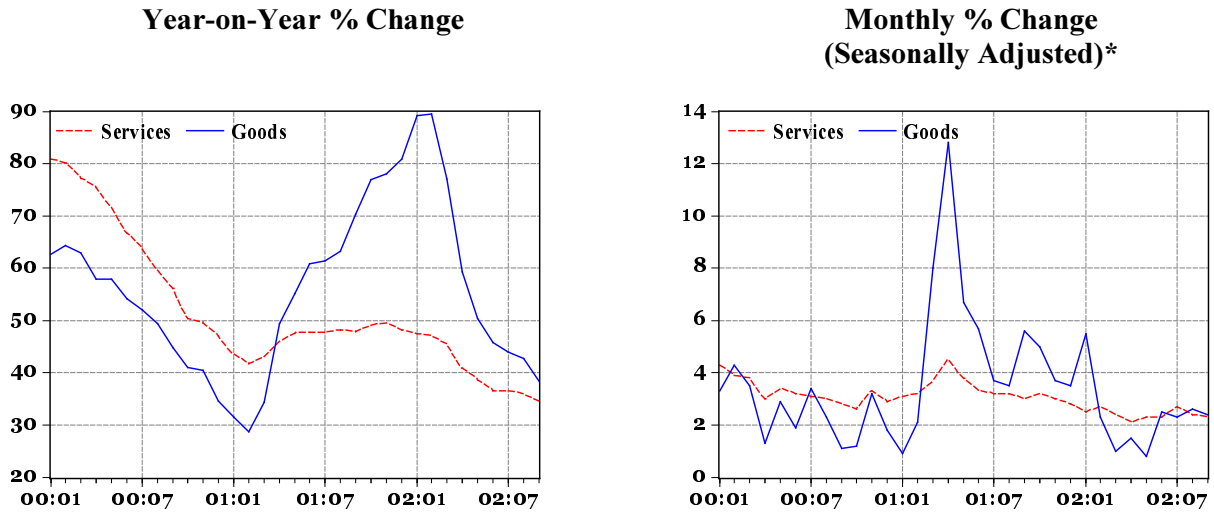
5. As anticipated, as a result of the accelerated increase in the prices of food and clothing groups due to seasonal factors, the CPI inflation increased by 1.3 percentage points compared with August and reached 3.5 percent in September. Still, the increase has been rather low compared with the figures of the same month of the previous years (Table 2). Seasonally adjusted annual price increase in CPI was 2.0 percent, which is 0.7 percentage points less than the previous month.

**Table 2: Increase in CPI in September
(Monthly Percentage Change)**

	<i>Average of 1987-94</i>	1995	1996	1997	1998	1999	2000	2001	2002
CPI	5.9	7.7	6.1	7.3	6.7	6.0	3.1	5.9	3.5

6. The prices of services, which increased by 4.1 percent in August due to seasonal factors, increased only by 2.6 percent in September. Slowdown in increase in the prices of health and transportation services dominated by the public sector and in the prices of education services that are adjusted in August every year, helped the decrease in the services price inflation. However, as a result of the acceleration in the increase in the prices of food and clothing due to seasonal factors, prices of goods increased by 4.0 percent. When seasonally adjusted, increase in the prices of goods comes down to 2.4 percent and in the prices of services to 2.3 percent. The annual inflation became 38.4 percent for prices of goods and 34.5 percent for prices of services in September.

Figure 2: Prices of Goods and Services



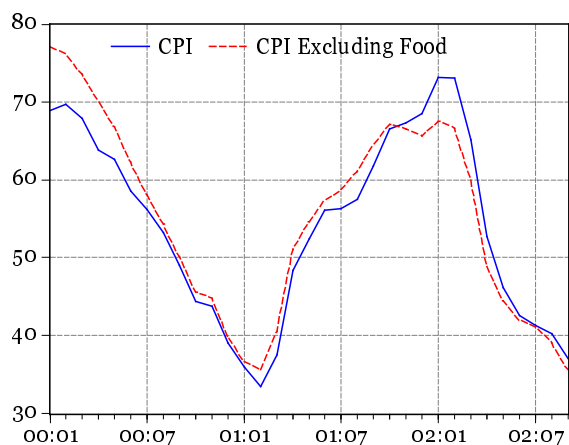
Source: CBRT, SIS.

*TRAMO-SEATS method has been used in deseasonalization.

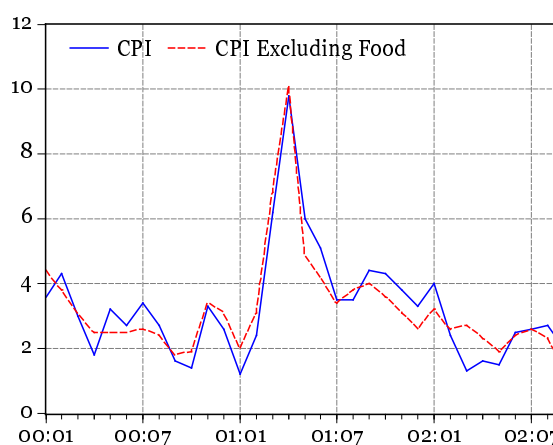
7. Increase in CPI excluding food in September exceeded that of August by 0.3 percentage points, reaching 3.0 percent. However, this increase mainly stemmed from the increase in prices of clothing due to seasonal reasons. As anticipated, food prices increased by 4.5 percent in September, up from 0.9 percent in the previous month. Meanwhile, clothing prices, which had declined by 1.5 percent in August, increased by 5.0 percent in September. Nonetheless, the increases are lower than the averages of the same month in the previous years. The seasonally adjusted data indicate that the monthly increase in CPI excluding food, which was 2.3 percent in August, declined to 1.5 percent in September.

Figure 3: CPI and CPI Excluding Food

Year-on-Year % Change



**Monthly % Change
(Seasonally Adjusted)***



Source: CBRT, SIS.

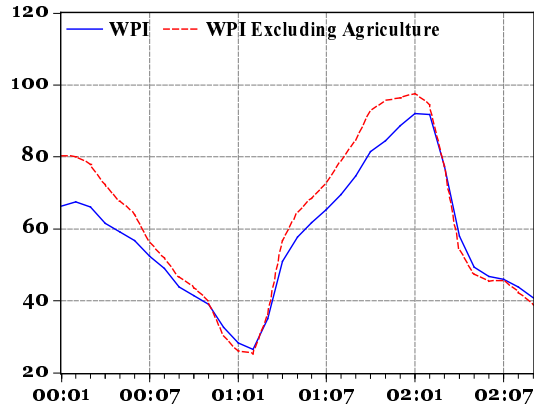
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Developments in Wholesale Prices

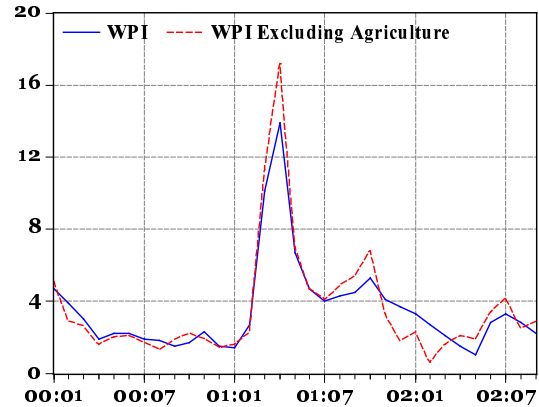
8. Increases in the agriculture and manufacturing prices have been the main sub-items that determined the WPI increase in September. Agriculture prices have started to climb with the end of summer and increased by 4.0 percent. The increase is well below the 6.7 percent average of the Septembers of the last seven years. Seasonally adjusted agriculture price increases slowed down compared with August. Likewise, it is observed that the seasonally adjusted WPI inflation rates, which increased in June and July, started to decrease since August. The increase in the prices of private manufacturing sector remained limited due to relative stability in foreign exchange rates in September. The low pass-through from the exchange rate to prices is believed to have been effective in this development. Increase in the prices of press-publication, petroleum products and chemicals industry have played an important role in the increase in public manufacturing prices. Seasonally adjusted WPI inflation, which exhibited a slowdown since July, dropped to 2.2 percent in September. Seasonally adjusted WPI inflation excluding agriculture rose to 2.9 percent in the same month.

Figure 4: WPI and WPI Excluding Agriculture

Year-on-Year % Change



**Monthly % Change
(Seasonally Adjusted)***



Source: CBRT, SIS.

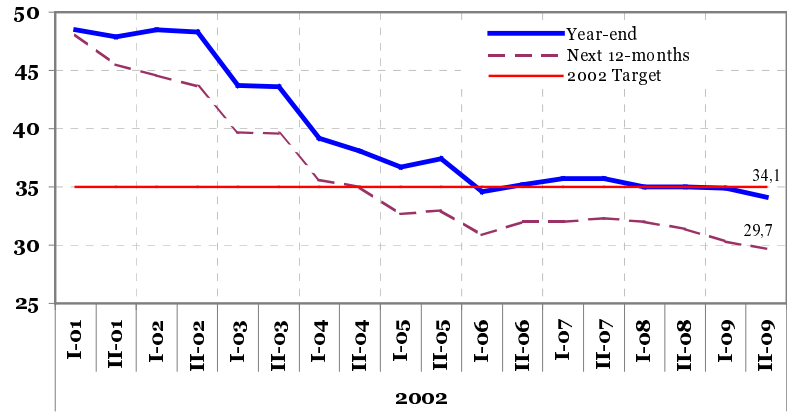
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II. INFLATION OUTLOOK

9. The inflation rates in September revealed that the effect of the observed volatility in financial markets during May-July period on inflation has been limited. It was observed that the confidence that started to appear in August continued in September as well and no increase was observed in agriculture and food prices as to jeopardize attainment of the inflation targets. Taking these developments into account, September inflation has remained rather low compared with previous years. This development, in turn, is expected to further lower the inflation expectations that have been following a downward trend since August.

10. In light of the September inflation figures and our projections for the key factors affecting the future course of inflation, the year-end CPI inflation is expected to remain below the inflation target of 35 percent. This prediction is supported by the annual inflation rate that dropped down to 37 percent in September and the data from the CBRT Expectations Survey. The uncertainty arising from the possibility of a military operation in Iraq and increase in oil prices are considered as factors that may affect inflation rates in the forthcoming period. However, the mentioned factors are believed to rather have an impact on 2003 inflation and thus are unlikely to create major obstacles for attaining the 2002 target.

Figure 5: Inflation Expectations According to CBRT Expectations Survey



Source: CBRT.