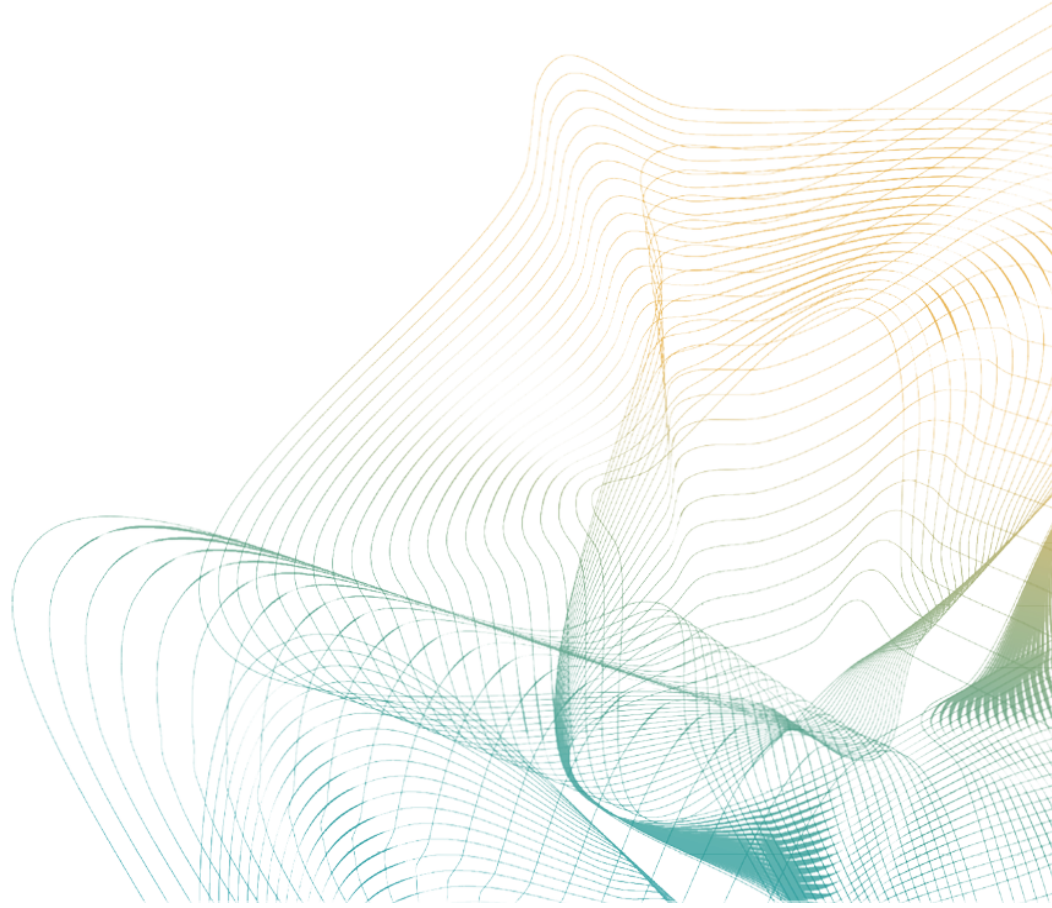




January Price Developments

6 February 2018



Summary

In January, consumer prices rose by 1.02 percent and annual inflation receded by 1.57 points to 10.35 percent. This fall in inflation stemmed largely from the base effect and unprocessed food prices. Unprocessed food inflation plunged in this period, while annual energy inflation declined due to the base effect, despite soaring electricity prices. Influenced by the ongoing cumulative exchange rate effects, annual inflation in the core goods group remained on the rise due to clothing prices. Services inflation, on the other hand, lost some pace. All in all, both annual inflation and the underlying trend in core indicators remained high.

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 January, consumer prices rose by 1.02 percent and annual inflation receded by 1.57 points to 10.35 percent (Chart 1). The annual rate of change in the B index remained relatively flat at 12.31 percent, while that in the C index inched down by 0.12 points to 12.18 percent (Chart 2).

An analysis of the contribution of subcategories to annual inflation reveals an overall month-on-month decline for all groups. The food, alcohol-tobacco-gold, and energy groups contributed 1.01, 0.22 and 0.15 points less to annual inflation, and the contribution of services and core goods to annual inflation fell by 0.1 points each.

Chart 1: CPI and D (Annual % Change)

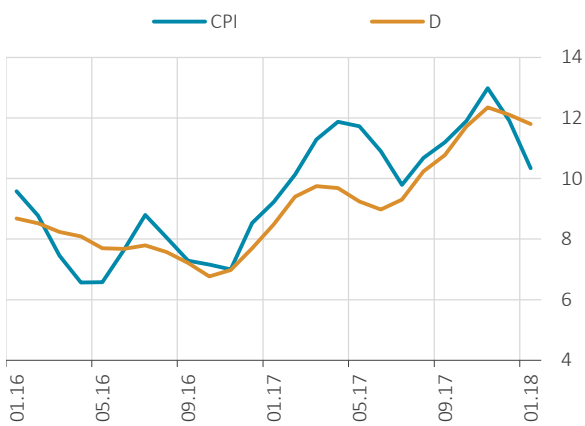
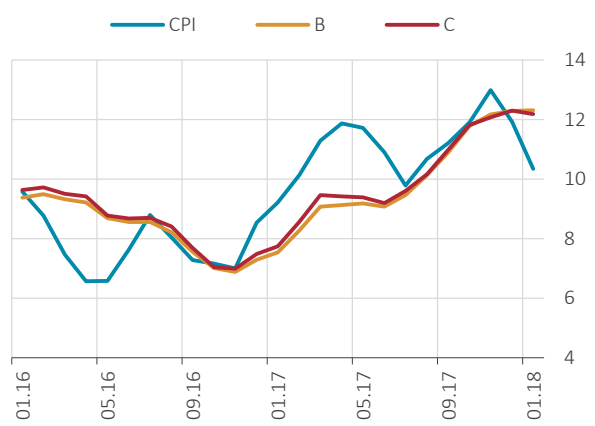


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators show that the underlying trend decreased slightly (Chart 3). The underlying trend in services exhibited a slight increase, but receded in core goods in January (Chart 4). All in all, the underlying trend in core inflation indicators remained high.

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

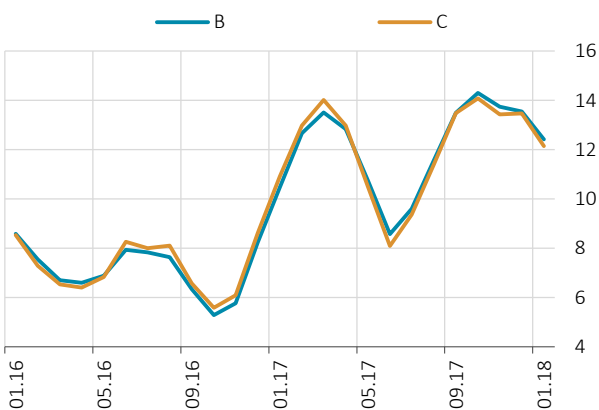
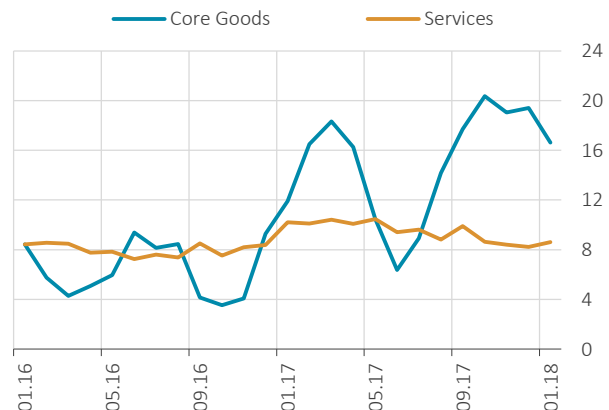


Chart 4: Core Goods and Services (Seasonally Adjusted, Annualized 3-Month-Average % Change)



Prices of services registered an uptick by 1.26 percent, while annual services inflation receded by 0.24 points to 9.23 percent in January (Chart 5 and Table 1). This was driven by transport and communication services, while annual inflation remained relatively flat in rent and the restaurants-hotels groups, but picked up slightly in other services (Chart 6). Falling inflation in the transport group was driven by the developments in airway and highway transport. Inflation in communication services fell by around 1 percent due to the decline in the internet tariffs and phone call charges, which resulted in an annual

inflation rate around zero, leading to a considerable divergence among other subcategories. Rising inflation in other services was triggered by maintenance-repair services reflecting cumulative exchange rate effects and those items subject to the re-evaluation rate.

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

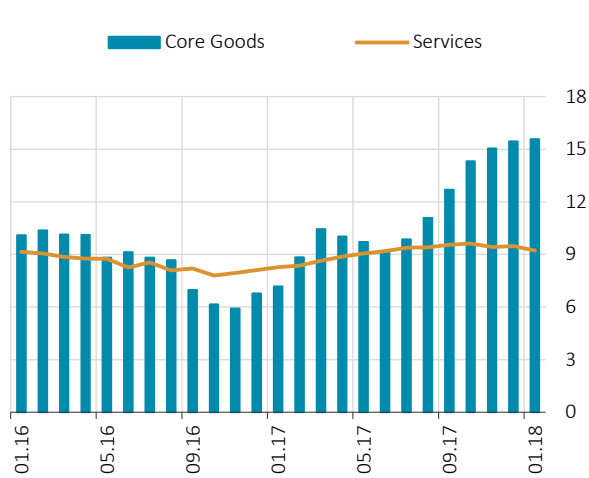
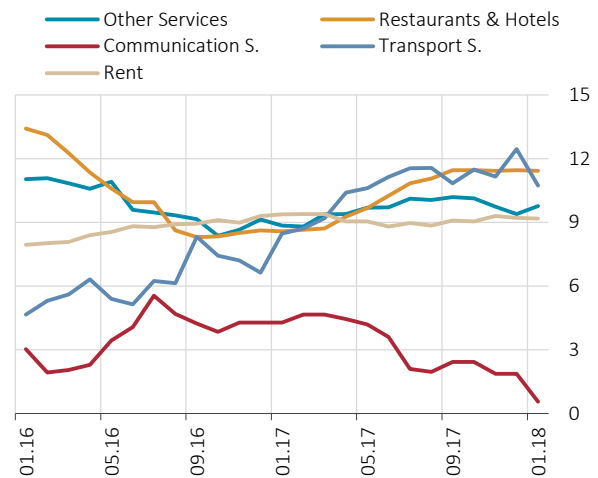


Chart 6. Services (Annual % Change)



Annual core goods inflation crept up by 0.13 points to 15.85 percent in January (Chart 5). This increase stemmed from the annual clothing inflation, which hit an all-time-high with 12.68 percent (Chart 7). This is attributed not only to cumulative cost effects but also aggregate demand conditions. Durable goods continued to surge on a monthly basis, and the rise in the furniture group (5.01 percent) in particular stood out. Moreover, price hikes persisted in automobiles and products with high imported content due to the lagged exchange rate effects. In sum, while cumulative exchange rate effects were the key driver of rising core goods inflation, aggregate demand conditions also provided some boost.

Chart 7. Core Goods (Annual % Change)

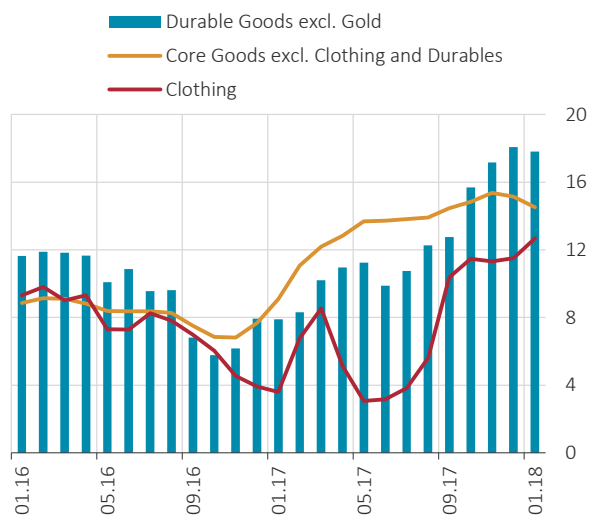
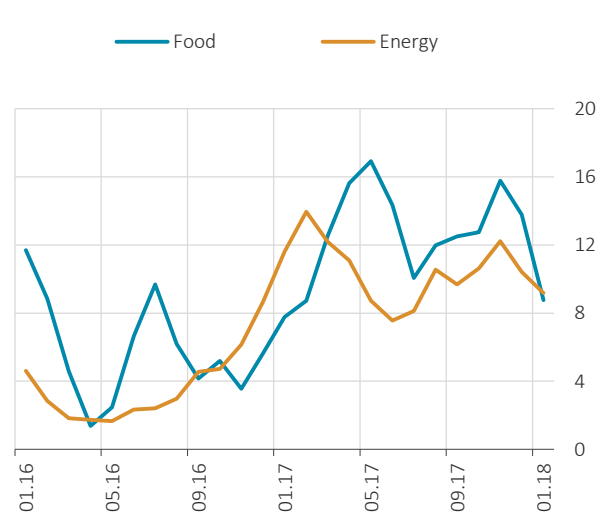


Chart 8. Food and Energy (Annual % Change)



Energy prices increased by 2.37 percent in January (Table 1), mainly due to electricity prices that soared by 8.79 percent. In addition, fuel prices were up (1.01 percent) amid rising oil prices. Despite these monthly price hikes, base effects drove annual energy inflation down by 1.24 points to 9.17 percent (Chart 8).

Annual inflation in food and nonalcoholic beverages dropped by 5.03 points to 8.76 percent in January (Chart 8), largely on the back of unprocessed food prices. Meanwhile, processed food inflation recorded an increase (Chart 9). Seasonally adjusted prices for fresh fruits and, especially, fresh vegetables followed

a more modest pattern, compared to seasonal norms (Chart 10). On the other hand, rice prices continued to rise while milk prices picked up amid adjustments in raw milk prices. Processed food prices increased by a sizable 1.76 percent in January, driving annual inflation up to 12.93 percent in this category. The weight adjustment in the Bread Regulation caused bread prices to soar by 3.73 percent. Prices of nonalcoholic beverages were affected by the decision to apply a Special Consumption Tax (SCT) of 10 percent to some beverages. Higher prices for cheese and other dairy reflected the reset prices of raw milk. Accordingly, annual food inflation excluding fresh fruits and vegetables increased to 11.41 percent in January (Chart 10).

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

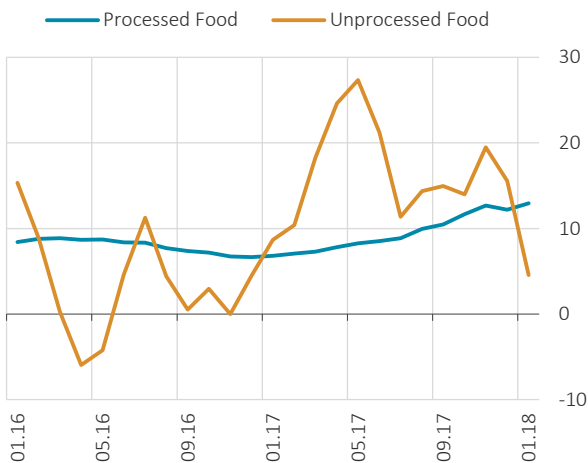
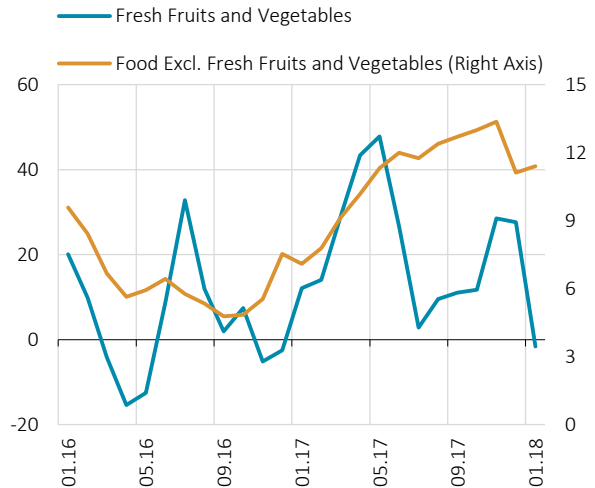


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)



Prices of alcoholic beverages and tobacco were up only slightly in January (Table 1). Across subcategories, prices of alcoholic beverages rose by 5.74 percent due to the lump-sum SCT tax hike, whereas tobacco prices remained flat as the projected lump-sum SCT increase under the automatic mechanism was withheld by the Council of Ministers. Thus, annual inflation in alcoholic beverages and tobacco fell owing to base effects.

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	January 2018	January 2017	January 2018	January 2017
CPI	1.02	2.46	10.35	9.22
1. Goods	0.92	2.89	10.83	9.63
Energy	2.37	3.53	9.17	11.60
Food and nonalcoholic beverages	1.67	6.37	8.76	7.77
Unprocessed food	1.58	12.26	4.56	8.67
Fresh fruits and vegetables	3.35	34.06	-1.63	12.09
Other unprocessed food	0.52	0.94	8.85	7.62
Processed food	1.76	1.10	12.93	6.81
Bread and cereals	2.68	1.14	10.88	7.97
Other processed food	1.27	1.07	14.14	6.16
Goods excluding energy and food	-0.12	0.43	12.86	10.48
Core goods	-0.34	-0.45	15.58	7.18
Durable goods (excluding gold)	1.69	1.93	17.80	7.88
Clothing and footwear ^(*)	-6.17	-7.14	12.68	3.59
Other core goods	1.42	1.96	14.52	9.08
Alcoholic beverages and tobacco	0.39	2.36	0.89	22.90
Gold	2.94	10.63	12.03	35.05
2. Services	1.26	1.49	9.23	8.27
Rents	0.82	0.84	9.19	9.38
Restaurants and hotels	1.01	1.04	11.42	8.58
Transport	0.58	2.14	10.74	8.48
Communication	-1.29	0.00	0.56	4.29
Other	2.78	2.42	9.77	8.85
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.69	0.66	12.31	7.54
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.47	0.57	12.18	7.74
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.98	1.26	11.80	8.49

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices rose by 0.99 percent in January, while annual PPI inflation was down by 3.33 points to 12.14 percent amid base effects (Chart 11). Producer prices were driven up by higher commodity prices, particularly for oil and metals, regardless of moderate exchange rate changes. Base effects pulled annual inflation down to 14.13 and 12.30 percent in the manufacturing industry and the manufacturing industry excluding base metals and oil, respectively. The seasonally adjusted underlying trend of manufacturing industry prices excluding oil and base metals posted a small decline. (Chart 12).

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

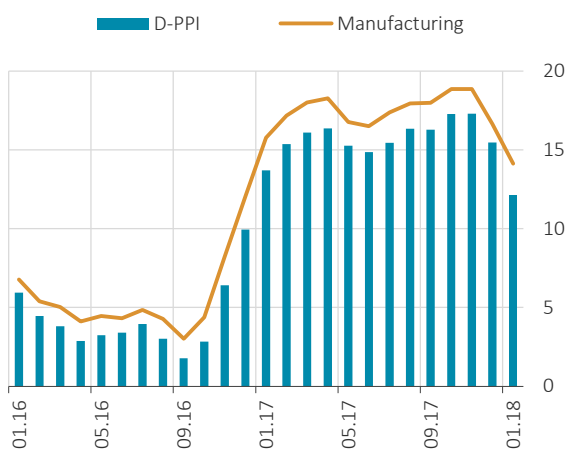
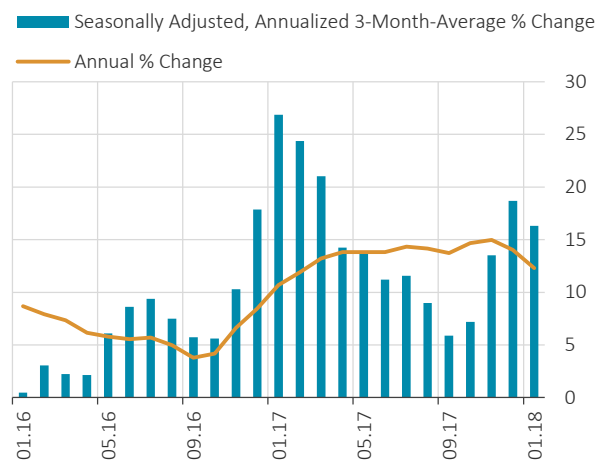


Chart 12. Manufacturing Excluding Petroleum and Basic Metals



According to the Main Industrial Groupings (MIGs), prices were down in energy due to falling electricity and water prices, but slightly up in nondurable goods and significantly higher across other subcategories in January (Table 3). Price increases in intermediate goods were mostly driven by building materials such as cement, paints and plastics, while prices of capital goods were pushed up by motor vehicles and their spare parts and accessories. Prices of durable goods were driven higher by soaring furniture prices, whereas price increases across nondurable goods were led by processed fruits and vegetables, baked goods, textiles and dairy products. In conclusion, producer-driven cost pressures on consumer prices remained strong, albeit less marked than a month ago.

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

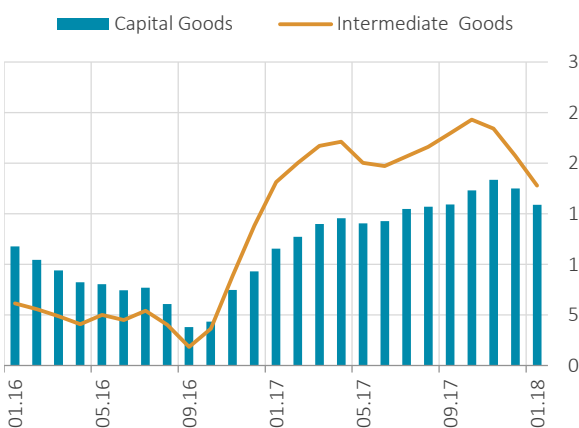
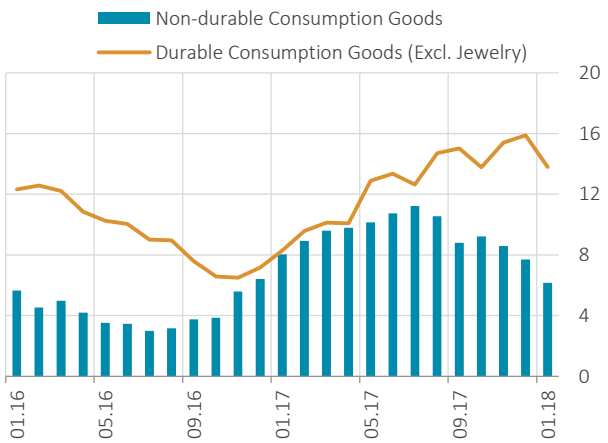


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	January 2018		January 2017	
		Monthly	Annual	Monthly	Annual
CPI	100	1.02	10.35	2.46	9.22
Food and nonalcoholic beverages	23.03	1.67	8.76	6.37	7.77
Alcoholic beverages and tobacco	5.14	0.39	0.89	2.36	22.90
Clothing and footwear	7.21	-6.02	12.63	-6.99	3.66
Housing	14.85	2.34	10.18	1.82	6.54
Household equipment	7.66	2.44	13.49	1.75	6.16
Health	2.64	2.42	9.51	4.66	12.13
Transport	17.47	1.30	16.02	3.24	15.61
Communication	3.91	-0.99	0.29	0.11	3.24
Recreation and culture	3.39	1.26	7.19	2.39	6.23
Education	2.67	0.23	10.68	0.05	9.43
Restaurants and hotels	7.27	1.01	11.42	1.04	8.58
Miscellaneous goods and services	4.76	2.96	11.38	4.25	12.74

Source: Turkstat.

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

	Weight	January 2018		January 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	0.99	12.14	3.98	13.69
Mining	3.26	4.38	13.74	6.58	16.51
Manufacturing	89.02	1.63	14.13	3.87	15.77
Manufacturing excl. petroleum products	86.52	1.59	13.88	3.62	13.78
Manufacturing excl. petroleum products and basic metals	79.60	1.62	12.30	3.19	10.70
Electricity, gas, steam and air-conditioning sup.	6.74	-8.87	-12.13	4.12	-9.02
Water supply	0.98	-1.15	6.07	3.72	8.81
D-PPI (MIGs Classification)					
Intermediate Goods		1.86	17.81	4.40	18.13
Durable Consumption Goods		2.04	14.05	4.06	12.67
Durable Consumption Goods (Excl. Jewelry)		2.02	13.79	3.91	8.30
Non-Durable Consumption Goods		0.85	6.16	2.30	8.03
Capital Goods		2.28	15.88	3.73	11.55
Energy		-3.94	0.26	6.58	14.05

Source: Turkstat.