



OCTOBER PRICE DEVELOPMENTS

4 NOVEMBER 2021

Summary

Consumer prices increased by 2.39% in October, and annual inflation rose by 0.31 points to 19.89%. Annual inflation increased in all groups other than food and core goods, with the most significant contribution coming from energy and tobacco products. In October, while energy prices such as those of oil, propane, butane and coal rose substantially in dollar terms, large price increases were registered in domestic energy items coupled with the developments in the Turkish lira. The rise in prices of tobacco products had an impact of approximately 0.30 points on consumer inflation. The upward trend in prices of the restaurants-hotels group continued to affect annual services inflation unfavorably. Annual core goods inflation decelerated on the back of price developments in durable consumption goods. The correction in prices of fresh fruits was influential in the decline in annual food inflation. In October, commodity prices followed an unfavorable course led by energy, metal and agricultural products, and external price pressures became more evident. In addition to these factors, increased supply constraints led to a rise in producer prices across all subcategories, most visibly in energy and intermediate goods sectors. In this period, while the annual inflation of B and C indices declined to a limited extent, the recent trends of these indices remained at high levels despite the continued slowdown in October.

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

Consumer prices increased by 2.39% in October, and annual inflation rose by 0.31 points to 19.89% (Chart 1). In this period, annual rates of change in the B and C indices decreased by 0.13 points and 0.16 points to 18.50% and 16.82%, respectively (Chart 2).

In terms of subcategories, the contributions of energy, alcohol-tobacco-gold, and services groups to annual consumer inflation increased month-on-month by 0.38 points, 0.28 points and 0.02 points, while those of food and core goods groups declined by 0.22 points and 0.15 points, respectively.

Chart 1. CPI and D (Annual % Change)

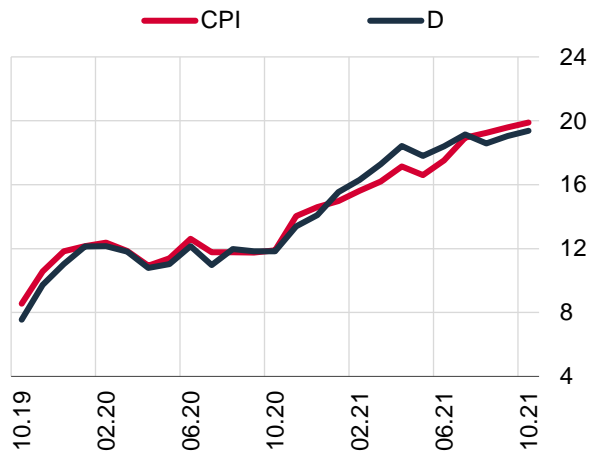
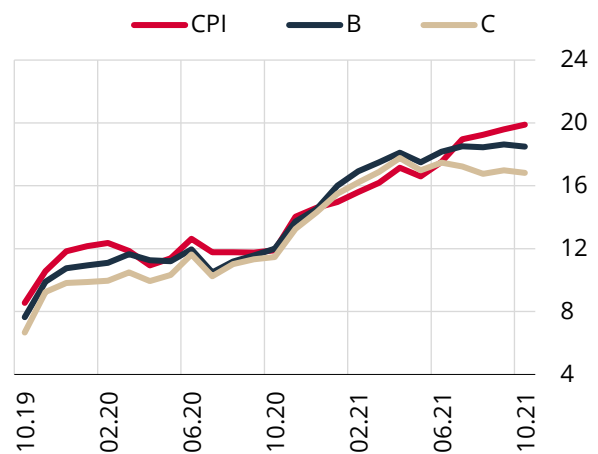


Chart 2. CPI, B and C (Annual % Change)



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

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

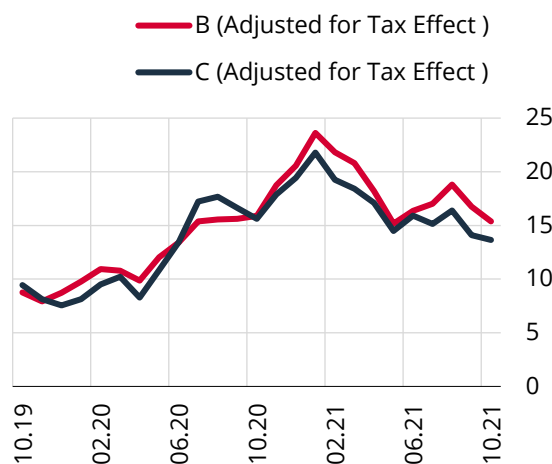
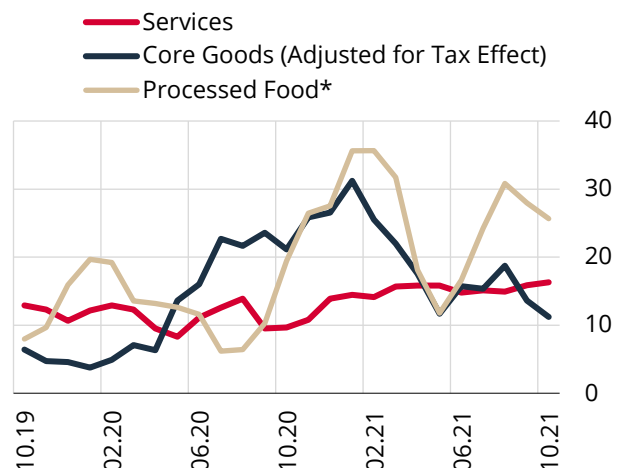


Chart 4. Main Components of B Index (Seasonally Adjusted, Annualized 3-Month Average % Change)



*There is no seasonal effect in the processed food group.

Prices of services were up by 1.04% in October, and annual services inflation increased by 0.37 points to 15.43% (Chart 5). Annual inflation decreased in transport and other services while it remained almost flat in communication services, and increased in rents and restaurants-hotels (Chart 6). In the restaurants-hotels group, annual inflation rose to 25.23% and continued to affect services inflation negatively. While prices of catering services in this group continued to post a large increase (2.03%) in October also due to the rise in food prices, the surge in accommodation prices (5.86%) was driven by the increases in both dormitory fees

and hotel prices. The expiry of temporary VAT cuts also played a role in this development. According to seasonally adjusted data, the upward trend in rent inflation continued in this period. In communication services, despite the high monthly increase in price for delivery of parcel, other items followed a mild course, thereby limiting the monthly increase in this subcategory. Prices of transport services declined led by the decrease in intercity bus fares.

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

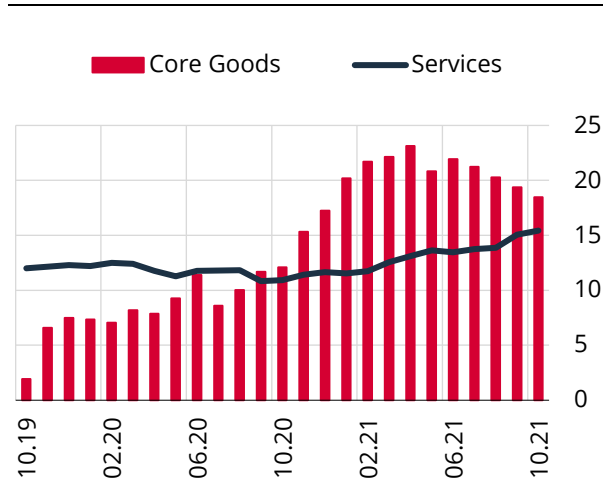
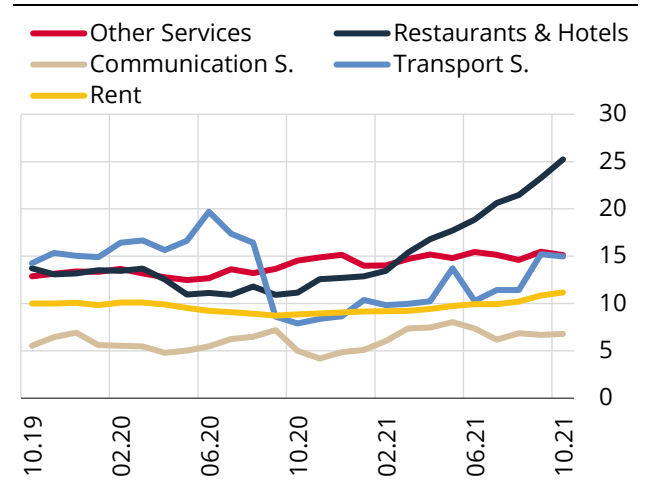


Chart 6. Services (Annual % Change)



In October, annual core goods inflation decreased by 0.92 points to 18.46% (Chart 5). Annual inflation declined in durable goods, remained flat in other core goods, and increased in the clothing-footwear group in this period (Chart 7). Prices of durable goods rose by 1.23% in October driven by the monthly increase (5.96%) in white goods prices while the mild course of furniture and automobile prices limited the group's monthly inflation. Against this background, annual durable goods inflation dropped by 1.88 points to 20.24%. Clothing and footwear prices posted an increase of 7.65% in October, which was below its seasonal average, but the group's annual inflation rose due to the low base effect arising from the pandemic in the same period last year. Prices in the other core goods group went up by 1.50%, and the group's annual inflation remained almost flat at 23.35%.

Chart 7. Core Goods (Annual % Change)

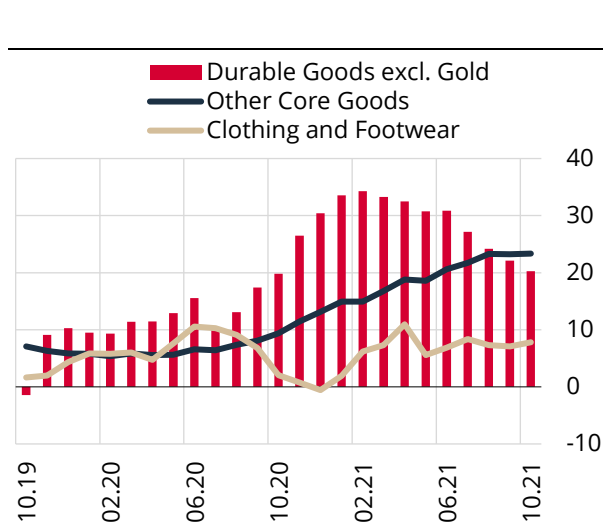
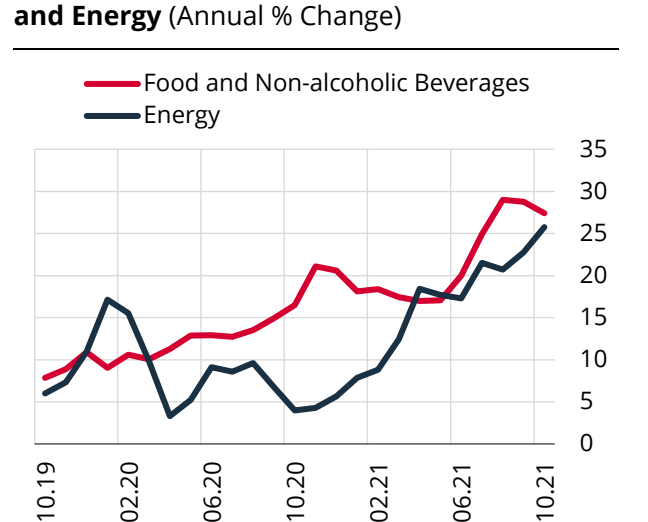


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In October, energy prices increased by 4.58% (Table 1). In this period, international energy prices of oil, coal, propane, butane and natural gas posted a strong rise in terms of US dollars. Due to these developments, sharp monthly increases were observed in consumer prices of fuel oil (8.87%), bottled gas (11.86%) and solid fuel (16.10%). As the SCT on fuels was reduced to zero, the upper bound of the sliding scale system was reached, and therefore developments in international energy prices in Turkish liras started to directly affect domestic fuel prices. It should be noted that, currently, the sliding scale system still curbs an important inflationary pressure. On the back of these developments, annual energy inflation increased by 2.99 points to 25.76% (Chart 8).

In October, prices of food and non-alcoholic beverages increased by 1.92%, and annual inflation of the group decreased by 1.38 points also due to last year's high base effect and remained high at 27.41% (Chart 8 and Table 2). Annual inflation decreased by 2.86 points to 29.20% in the unprocessed food group and to 25.71% with a 0.08 point-decrease in the processed food group (Chart 9). The decline in unprocessed food inflation was mainly driven by developments in fresh fruit-vegetable prices, meanwhile, seasonally adjusted data indicate that the correction observed in the fresh fruit-vegetables group in September continued on the back of the fresh fruits in October (Graph 10). As for the other unprocessed food group, in October the rise in prices of pulses continued, while milk and potato prices rose remarkably, mainly stemming from the yield loss due to agricultural drought, exchange rate developments and input costs. In this period, price increases were observed across the entire processed food group, however, the rise in the bread and cereals group, which was adversely affected by the unfavorable course of international and domestic wheat prices, was more significant.

As producers increased the price of each pack of cigarettes by TRY 1, prices of tobacco products increased by 6.44% in October. The contribution of this rise to consumer inflation was approximately 0.30 points.

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

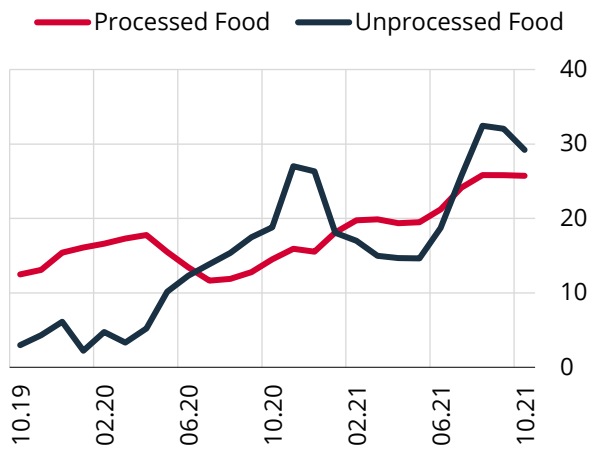
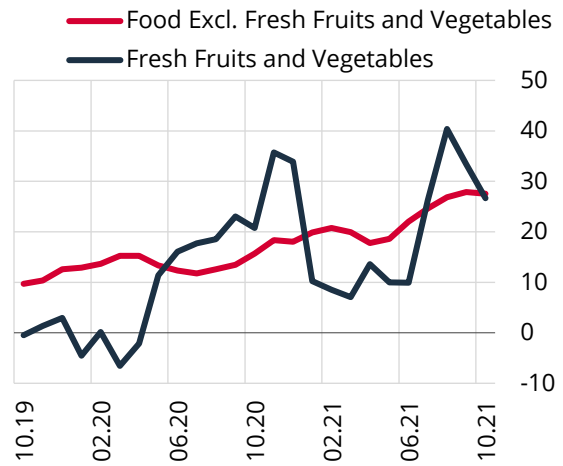


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In October, domestic producer prices rose by 5.24%, and annual D-PPI increased by 2.35 points to 46.31% (Chart 11 and Table 3). Overall, the index registered large price increases which continued to be shaped by the depreciation of the Turkish lira, the ongoing rise in commodity prices with energy in the lead, and supply constraints. In this period, the trend of manufacturing industry prices excluding petroleum and base metals rose (Chart 12).

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

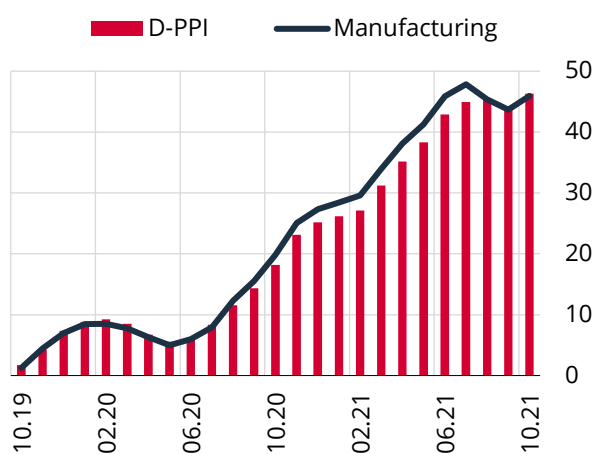
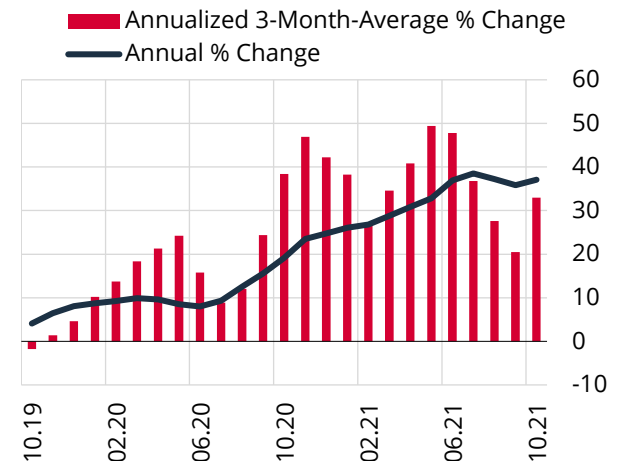


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groups, the increase in annual energy inflation stood out (Table 3, Charts 13 and 14). Broad-based monthly price increases were seen across subcategories, while the most evident surge was recorded in the energy group with 9.33%. Energy prices were pushed upwards by price hikes in refined petroleum products, gas production, water and coal. Meanwhile, the high rate of increase in intermediate goods was driven by iron-steel and ferro alloys, other metals, textile threads and fibers, basic chemicals, and plastic products as well as paper products. In this period, capital goods prices increased due mainly to metal construction products, motor vehicles along with their parts and accessories, machines, and computers and peripherals. While the price increases in durable consumption goods were led by furniture, household appliances and consumer electronics, those in non-durables were driven by mainly meat products, fats and oils, clothing, textile products, tobacco and bakery products. Overall, producer prices-induced pressures on consumer prices continued.

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

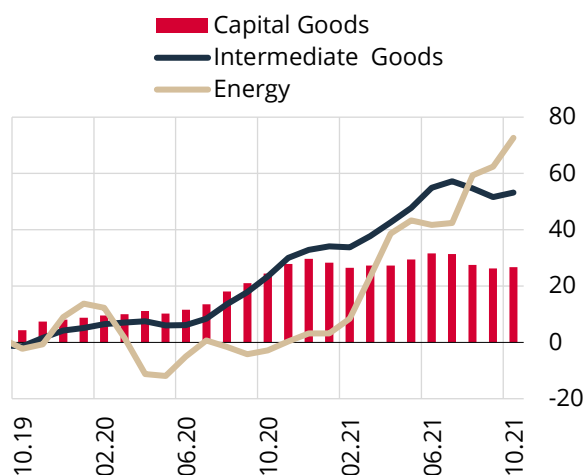
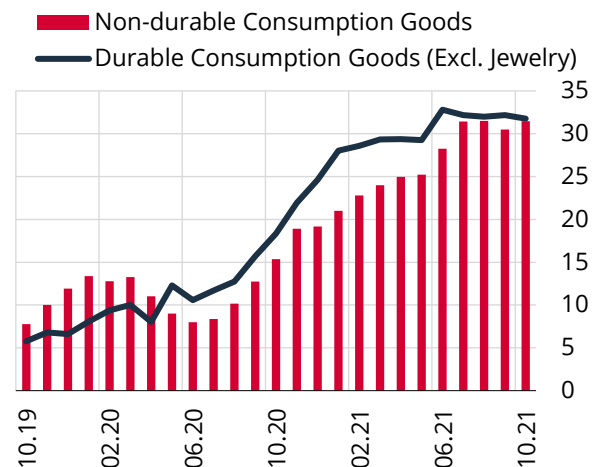


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	October 2021	October 2020	October 2021	October 2020
CPI	2.39	2.13	19.89	11.89
1. Goods	2.89	2.76	21.71	12.29
Energy	4.58	2.09	25.76	3.98
Food and non-alcoholic beverages	1.92	3.03	27.41	16.51
Unprocessed food	1.72	3.97	29.20	18.78
Fresh fruits and vegetables	2.09	7.54	26.65	20.76
Other unprocessed food	1.52	2.14	30.59	17.78
Processed food	2.11	2.18	25.71	14.49
Bread and cereals	3.16	2.66	25.23	17.02
Other processed food	1.56	1.91	25.95	13.11
Goods excluding energy and food	3.03	2.79	16.30	12.53
Core goods	2.49	3.29	18.46	12.09
Durable goods (excluding gold)	1.23	2.81	20.24	19.79
Clothing and footwear (*)	7.65	6.92	7.84	2.02
Other core goods	1.50	1.43	23.35	9.40
Alcoholic beverages and tobacco	5.97	-0.01	7.88	0.67
Gold	5.95	3.82	10.51	66.33
2. Services	1.04	0.71	15.43	10.92
Rents	1.12	0.83	11.17	8.86
Restaurants and hotels	2.31	0.71	25.23	11.15
Transport	-0.16	0.06	14.96	7.89
Communication	0.44	0.34	6.79	5.00
Other	0.65	0.97	15.11	14.55
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.85	1.97	18.50	12.00
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.79	1.92	16.82	11.48
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	2.31	2.03	19.37	11.84
F - CPI excluding administered prices	2.45	2.34	20.92	13.35

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	October 2021		October 2020	
		Monthly	Annual	Monthly	Annual
CPI	100	2.39	19.89	2.13	11.89
Food and non-alcoholic beverages	25.94	1.92	27.41	3.03	16.51
Alcoholic beverages and tobacco	4.88	5.97	7.88	-0.01	0.67
Clothing and footwear	5.87	7.56	8.08	6.81	2.22
Housing	15.36	2.29	21.30	2.01	8.37
Household equipment	8.64	2.25	23.03	2.45	12.98
Health	3.25	0.65	17.19	0.88	15.60
Transport	15.49	2.43	20.67	2.04	13.92
Communication	4.64	0.51	5.29	0.23	5.48
Recreation and culture	3.01	0.51	13.12	-0.09	8.66
Education	2.28	0.17	16.73	0.00	7.36
Restaurants and hotels	5.91	2.31	25.23	0.71	11.15
Miscellaneous goods and services	4.73	1.75	13.61	2.02	27.40

Source: TURKSTAT.

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

	Weight	October 2021		October 2020	
		Monthly	Annual	Monthly	Annual
D-PPI	100	5.24	46.31	3.55	18.20
Mining	3.51	4.50	32.25	1.45	17.01
Manufacturing	87.27	5.37	45.94	3.74	19.81
Manufacturing excl. petroleum products	83.46	4.47	42.51	3.67	21.12
Manufacturing excl. petroleum products and base metals	75.28	4.33	37.11	3.36	19.13
Electricity, gas, steam and air-conditioning sup.	8.38	4.61	53.37	2.39	-1.62
Water supply	0.85	2.01	32.40	0.28	12.49
D-PPI (MIGs Classification)					
Intermediate Goods		5.34	53.20	4.26	23.41
Durable Consumption Goods		3.17	29.13	3.27	22.39
Durable Consumption Goods (Excl. Jewelry)		3.00	31.76	3.33	18.33
Non-Durable Consumption Goods		3.25	31.47	2.47	15.36
Capital Goods		3.99	26.72	3.67	24.41
Energy		9.33	72.63	2.84	-2.88

Source: TURKSTAT.