

# DECEMBER PRICE DEVELOPMENTS



Central Bank of Turkey

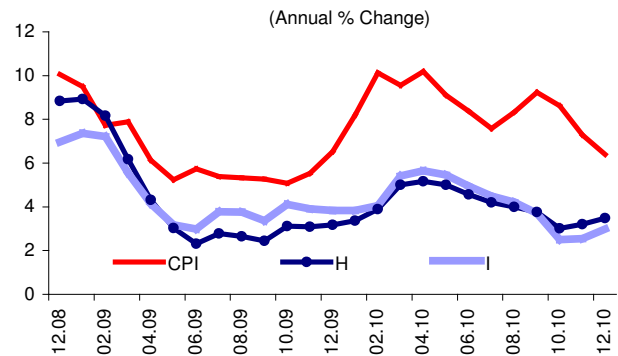
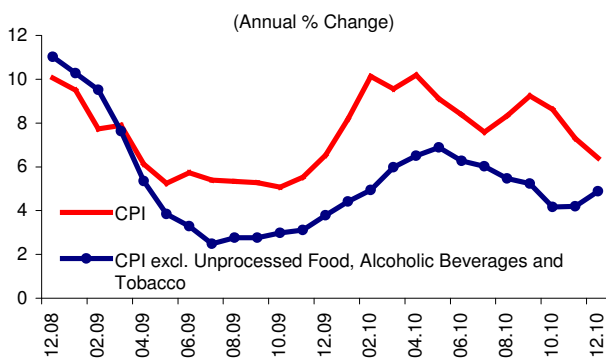
January 04, 2011

## SUMMARY ...

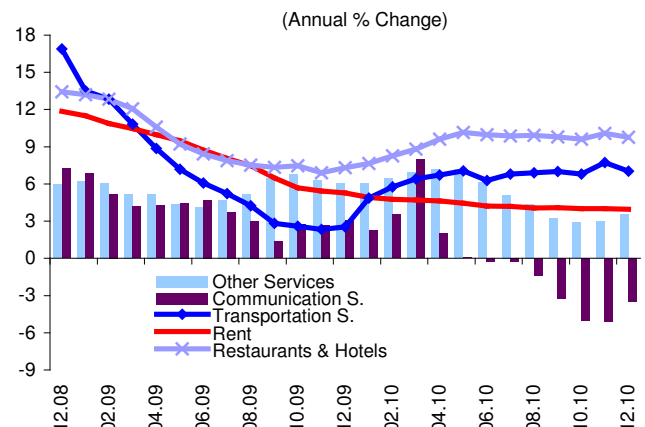
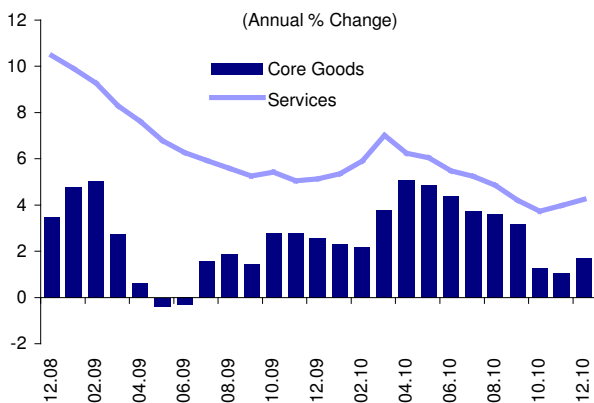
In December, consumer prices decreased by 0.30 percent, and annual inflation fell to 6.40 percent. As stated in the Summary of the Monetary Policy Committee Meeting, the downward correction in unprocessed food prices is the primary driver of this decline, while the annual rate of increase in prices of core goods and services has been slightly faster yet in line with medium-term targets. Inflation is expected to fall further, while the annual rate of increase in core price indicators will barely accelerate in coming months.

## ... EVALUATIONS ...

In December, consumer prices decreased by 0.30 percent, and annual inflation fell 0.89 percentage points to 6.40 percent. Thus, the annual consumer inflation has largely met the 2010 target of 6.5 percent. The rate of increase in the CPI excluding unprocessed food, alcoholic beverages and tobacco rose by 0.68 percentage points to 4.88 percent year-on-year. The rate of increase in the CPI excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (SCA-H) rose to 3.49 percent year-on-year. With a further exclusion of processed food, the rate of increase in the index (SCA-I) accelerated to 2.99 percent year-on-year.



Prices for services increased by 0.65 percent in December, bringing annual services inflation up to 4.24 percent. This increase was mainly due to higher communication prices, up 2.73 percent, driven by rising mobile call rates. On the other hand, the annual rate of increase in rents, restaurants and hotels and transport services slowed in December. However, recent increases in fuel prices put upward pressure on prices of transport services.



Other services: The services index excluding rents, restaurants/hotels, transport and communication services.

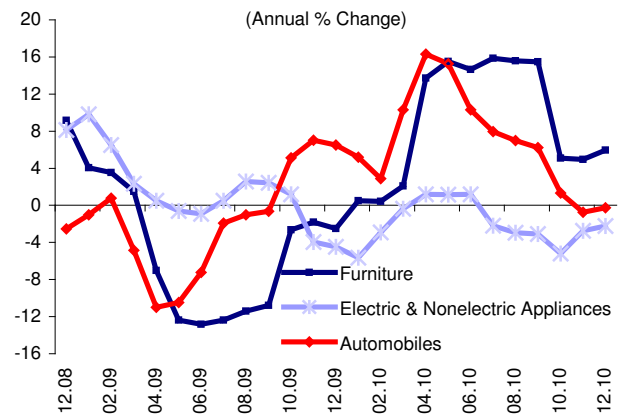
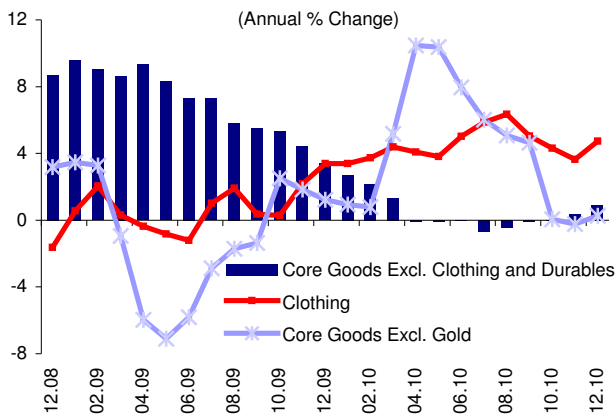
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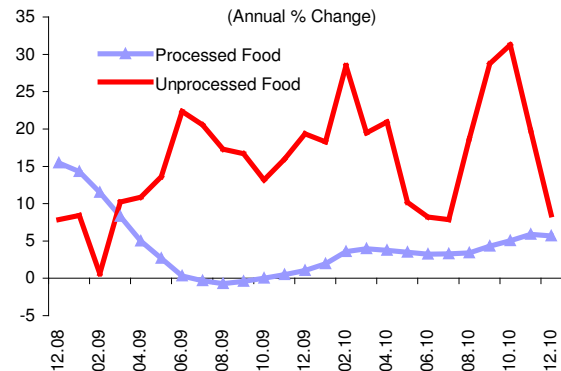
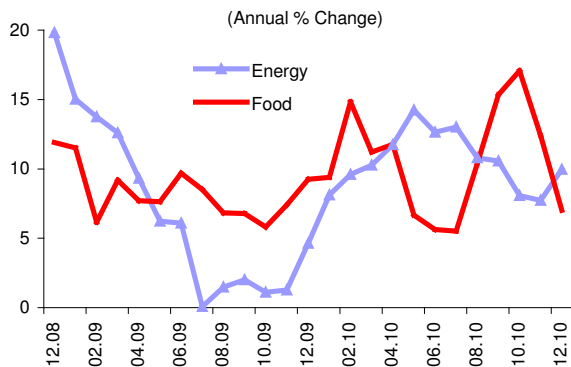
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Prices of core goods (goods excluding food, energy, alcoholic beverages, tobacco and gold) decreased by 0.66 percent in December, while annual core goods inflation soared to 1.70 percent. This increase was mainly driven by December's lower-than-average seasonal discounts on clothing and footwear. Meanwhile, prices of durable goods (excluding gold) declined by 0.56 percent month-on-month, causing no significant change in the annual durable goods inflation.



In December, energy prices soared by 2.73 percent due to increased fuel and bottled gas prices amid higher international oil prices and exchange rate developments. Moreover, water tariffs went up in a number of cities. Accordingly, annual energy inflation increased by 2.23 percentage points to 9.96 percent.



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As stated in the Summary of the Monetary Policy Committee Meeting, the decline in unprocessed food prices continued into December. Unprocessed food prices dropped by 5.79 percent month-on-month, with the year-on-year rate of increase slowing sharply to 8.52 percent amid plummeting fresh fruit and (especially) vegetable prices. Red meat prices were also down in December, causing processed meat prices to fall by 1.28 percent. The monthly rate of increase in prices of bread and cereals moderated after a three-month uptrend, whereas prices of solid and liquid fats continued to climb at a high rate (by 2.75 percent) for the second consecutive month.

As a result, annual inflation in food and non-alcoholic beverages decreased by 5.4 percentage points, ending 2010 at 7 percent. Thus, having increased as much as 4.67 percentage points over 2010, the contribution of food prices to annual inflation declined to 1.94 percentage points at the end of the year.

	Monthly Percent Change		Annual Percent Change	
	December 2010	December 2009	December 2010	December 2009
<b>CPI</b>	<b>-0.30</b>	<b>0.53</b>	<b>6.40</b>	<b>6.53</b>
<b>1. Goods</b>	<b>-0.63</b>	<b>0.57</b>	<b>7.18</b>	<b>7.01</b>
Energy	2.73	0.65	9.96	4.64
Food and nonalcoholic beverages	-2.66	2.22	7.02	9.26
Unprocessed food	-5.79	3.97	8.52	19.35
Fresh fruits and vegetables	-11.92	8.56	8.51	14.37
Other unprocessed food	-1.37	1.39	8.53	22.57
Processed food	0.38	0.59	5.68	1.04
Bread and cereals	0.31	-0.05	3.72	-2.98
Other processed food	0.42	0.96	6.82	3.52
Goods excluding energy and food	-0.29	-0.97	6.09	6.15
Core goods	-0.66	-1.30	1.70	2.56
Durable goods	0.10	-0.72	1.99	3.76
Durable goods (excl. gold)	-0.56	-1.04	0.26	1.22
Alcoholic beverages and tobacco	0.04	-0.05	24.66	20.91
Gold	7.48	2.28	24.27	34.16
<b>2. Services</b>	<b>0.65</b>	<b>0.40</b>	<b>4.24</b>	<b>5.13</b>
Rents	0.20	0.26	3.96	5.28
Restaurants and hotels	0.33	0.63	9.76	7.31
Transport	0.04	0.68	7.04	2.53
Communication	2.73	1.05	-3.51	3.08
Other services*	0.38	-0.19	3.57	6.03
<b>3. Core Indicators</b>				
CPI excl. unprocessed food and tobacco	0.64	-0.01	4.88	3.78
SCA-H	0.07	-0.21	3.49	3.18
SCA-I	0.00	-0.44	2.99	3.84

Sources: TurkStat; and CBRT.

\*Other services: The services index excluding rents, restaurants/hotels, transport and communication services.

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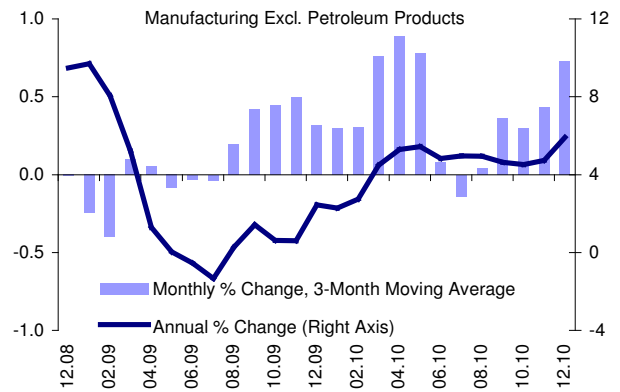
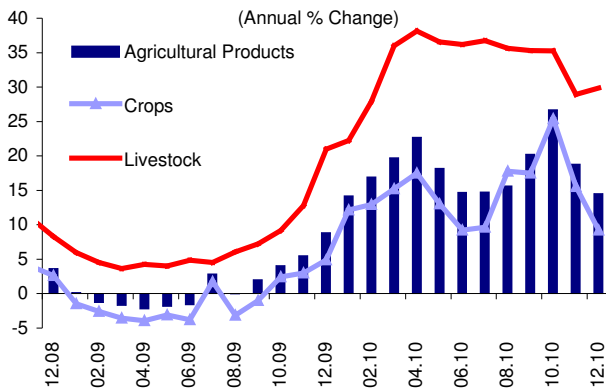


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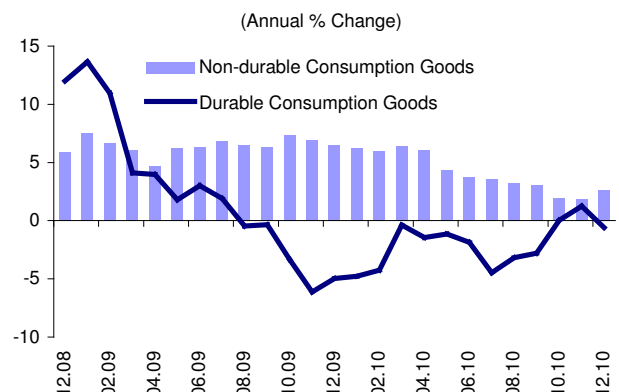
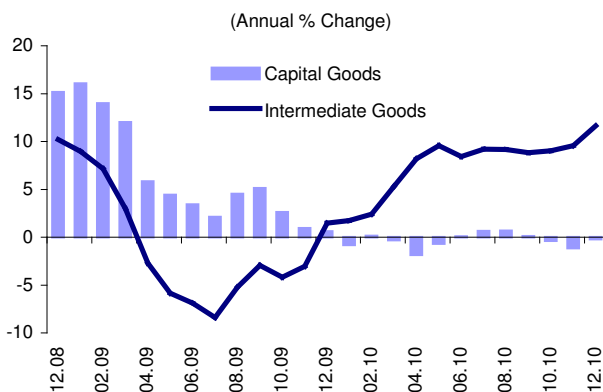
## ... PPI ...

In December, producer prices increased by 1.31 percent, while annual PPI inflation rose to 8.87 percent. Agricultural prices decreased by 1.76 percent amid falling fruit and vegetable prices. The rate of increase in livestock prices slowed down, while prices for manufacturing inputs such as wheat, sunflower and cotton continued to rise.



Manufacturing industry prices increased by a dramatic 1.96 percent due to higher international commodity prices and a weaker Turkish lira. Prices for base metals increased by 6.42 percent in December, while manufacturing industry prices excluding petroleum products and base metals rose by 0.91 percent.

Among the Main Industrial Groupings (MIGs), prices of intermediate goods accelerated due to higher producer prices for basic metals. On the other hand, prices of capital goods continued to hover below their year-ago level. Prices of non-durable goods soared amid rising producer prices for apparel, whereas prices of durable goods decelerated on the back of falling producer prices for furniture.



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## ... TABLES

December CPI and Subcategories (Percent Change)					
	Weight	2010		2009	
		MoM	YoY	MoM	YoY
CPI	100	-0.30	6.40	0.53	6.53
Food and nonalcoholic beverages	27.60	-2.66	7.02	2.22	9.26
Alcoholic beverages and tobacco	5.31	0.04	24.66	-0.05	20.91
Clothing and footwear	7.30	-1.77	4.74	-2.79	3.39
Housing	16.83	1.17	5.91	0.49	2.31
Household equipment	6.78	0.33	3.27	-0.36	-2.68
Health	2.55	0.04	0.57	-0.44	2.44
Transport	13.90	1.07	6.78	-0.26	7.89
Communication	4.94	2.65	-3.22	0.93	3.35
Recreation and culture	2.83	0.25	-2.32	-0.38	8.92
Education	2.48	0.05	4.25	0.00	5.47
Restaurants and hotels	5.51	0.33	9.76	0.63	7.31
Miscellaneous goods and services	3.97	2.03	5.51	0.50	13.75

Source: TurkStat.

December PPI and Subcategories (Percent Change)					
	Weight	2010		2009	
		MoM	YoY	MoM	YoY
PPI	100	1.31	8.87	0.66	5.93
Agriculture	17.07	-1.76	14.52	1.90	14.22
Crops, fruits and vegetables	12.31	-2.59	9.20	3.06	12.17
Livestock and animal products	4.03	1.44	29.85	0.74	22.22
Industry	82.93	2.00	7.70	0.36	4.14
Mining	2.62	1.80	7.11	2.31	10.58
Manufacturing	72.95	1.96	6.62	0.28	5.20
Manufacturing excl. petroleum	68.62	1.52	5.92	0.38	2.45
Manufacturing excl. petroleum and base metals	61.85	0.91	3.98	0.23	2.28
Electricity, gas and water	7.36	2.41	18.68	0.64	-10.50

Sources: TurkStat; and CBRT.

### PPI by MIGs Classification

#### Monthly Percent Change

	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sept 10	Oct 10	Nov 10	Dec 10	YoY
Intermediate goods	0.89	0.28	0.66	3.06	1.80	0.00	-0.50	0.49	0.79	0.83	-0.22	1.14	2.80	11.64
Capital goods	-0.15	-0.16	0.36	0.59	-0.72	-0.59	0.10	0.12	-0.18	0.04	-0.45	-0.10	0.81	-0.19
Durable goods	0.43	-0.36	-0.92	0.28	-0.48	0.78	0.16	-1.64	0.49	0.13	1.23	1.20	-1.39	-0.59
Non-durable goods	-0.02	0.12	0.54	0.73	0.45	-0.49	-0.51	0.29	-0.27	0.74	0.17	0.13	0.72	2.63
Energy	0.25	0.54	4.88	1.99	0.91	0.47	-0.93	0.68	2.45	-0.01	0.15	0.61	4.27	17.05

Sources: TurkStat; and CBRT.

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.