

## AUGUST INFLATION AND OUTLOOK

### I. GENERAL ASSESSMENT

1. Compared to the previous month, wholesale prices inched down by 0,2 percent, and consumer prices increased by 0,2 percent in August. Annual inflation rate for CPI and WPI fell to 24,9 percent and 22,7 percent, respectively. The seasonally adjusted increases in both CPI and WPI became 0,8 percent.

2. In August, there was no considerable cost-push or demand-pull inflation tendency. Inflation continued to remain low owing to the positive contribution of food and agriculture prices.

3. As in general indexes, the annual rate of increases in CPI excluding food and WPI excluding agriculture also continued to decline. The rate of increase in CPI excluding food and WPI excluding agriculture has become 23,1 percent and 19,0 percent, respectively.

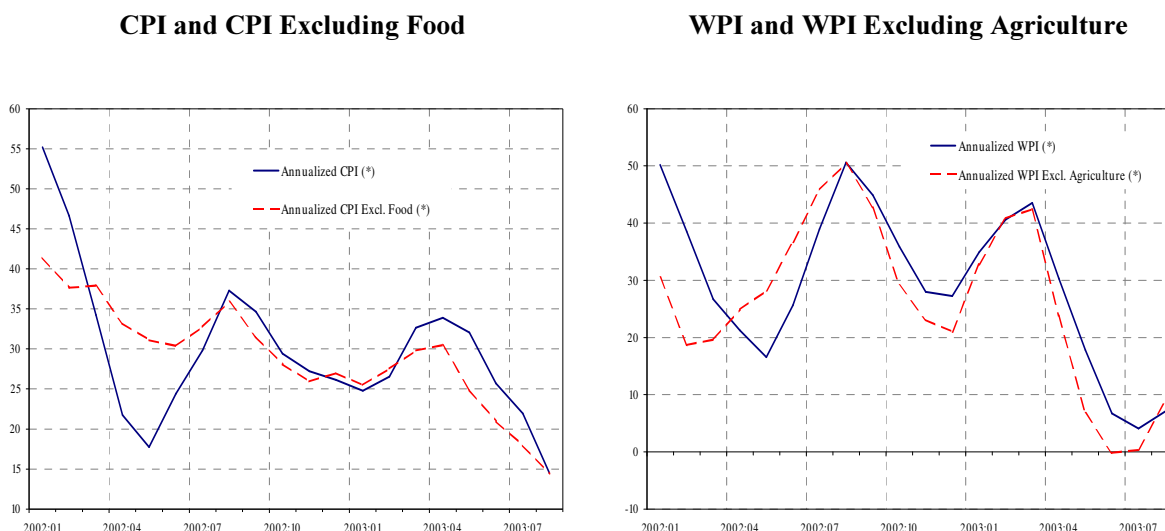
**Table 1: General CPI, WPI and Sub-items**

	Annual % Change		Monthly % Change			
	2002	2003	2003	2003	2002	2003
	August	August	June	July	August	August
<b>CPI</b>	<b>40,2</b>	<b>24,9</b>	<b>-0,2</b>	<b>-0,4</b>	<b>2,2</b>	<b>0,2</b>
Goods	42,7	24,9	-1,1	-1,3	1,2	-0,7
Services	35,8	25,0	1,7	1,4	4,1	1,8
Excl. Food	39,0	23,1	1,2	0,7	2,7	0,7
Food	45,1	31,5	-4,4	-3,8	0,4	-1,7
<b>WPI</b>	<b>43,9</b>	<b>22,7</b>	<b>-1,9</b>	<b>-0,5</b>	<b>2,1</b>	<b>-0,2</b>
Public	41,3	19,4	0,0	0,8	2,7	1,5
Private	45,0	24,1	-2,6	-1,1	1,9	-0,8
Public Manufacturing	42,7	22,9	0,2	1,0	2,5	1,6
Private Manufacturing	42,4	18,5	0,2	0,5	2,3	0,7
Agriculture	50,8	36,8	-7,6	-3,9	0,9	-4,0
Excl. Agriculture	42,2	19,0	0,1	0,6	2,5	1,0
Excl. Agr. and Energy	42,6	19,7	0,1	0,6	2,5	1,1

Source: CBRT, SIS.

4. The last three months' average of the seasonally adjusted CPI was 0,6 percent, and WPI was 1,1 percent. These figures correspond to 7,1 percent and 14,5 percent, respectively, on annual basis. In the same period, the average rate of increase in CPI excluding food became 1,1 percent, which correspond to 14,4 percent annually (Figure 1).

**Figure 1: Annual Percentage Change and Quarterly Moving Averages**



(\* )Quarterly Moving Averages (Annualized, Seasonally Adjusted)

Source: CBRT, SIS

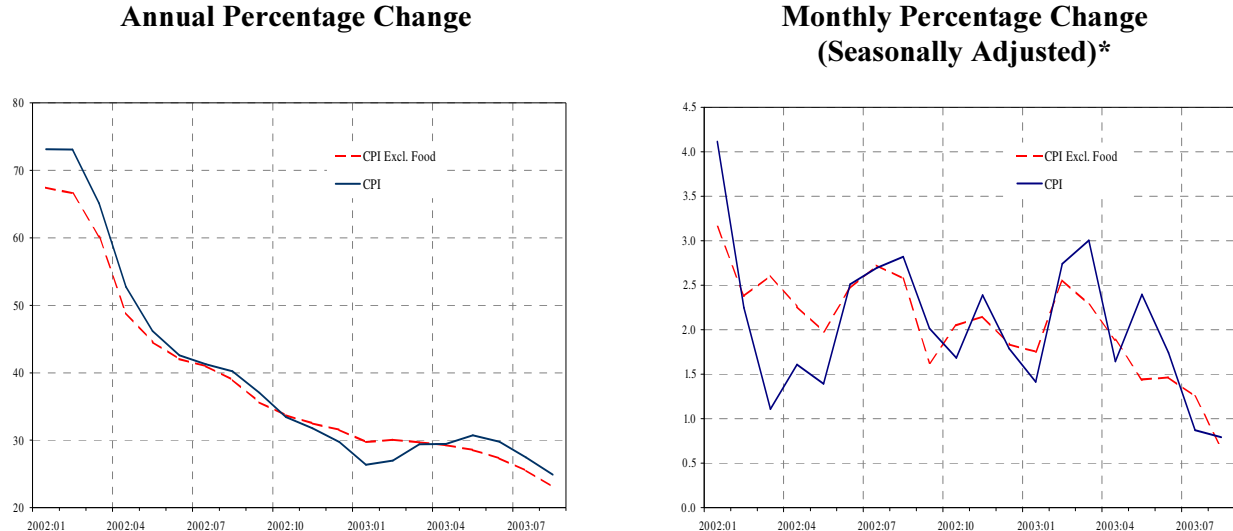
### *Developments in Consumer Prices*

5. The downward trend in CPI annual inflation continued in August, as a result of the fact that the August 2003 inflation realized two points below than that of August 2002. Besides substantial decrease in food prices, the CPI excluding food also continued to drop. Consequently, compared to July 2003, the rate of increase in annual CPI and annual CPI excluding food declined by 2,5 percent, and by 2,4 percent, respectively.

6. Price increases in almost all CPI sub-groups, especially in durable goods, remained relatively steady. Price adjustments made in the education group brought about a 9,6 percent increase in education prices. However, it remained considerably low when compared to the same period of the previous years. Although the effect of public sector price adjustment made



**Figure 3: CPI and CPI Excluding Food**



Source: CBRT, SIS.

\* TRAMO/SEATS method has been used for deseasonalization.

### *Developments in Wholesale Prices*

**10.** In August, the fall of 0,2 percent in WPI can mainly be attributed to the decline in agricultural prices. While the contribution of agricultural sector became minus 0,9 percentage points, that of manufacturing industrial sector was 0,6 percentage points.

**11.** The slump in agricultural prices by 3,9 percent in July was followed by a further decline by 4,0 percent in August (Table 1). The seasonal drop-off in the prices of fresh fruits and vegetables was instrumental in the decline of agricultural prices for the fourth time consecutively. Seasonally adjusted data indicate that rate of increase in agricultural prices decreased by 0,3 percent in August. It is noteworthy that this is the biggest drop after the drop in June 2003. Annual rate of increase in agricultural prices decreased from 43,7 percent in July to 36,8 percent in August.

**12.** Monthly rate of increase in WPI excluding agriculture became 1,0 percent, 0,4 points higher than that of July. The annual rate of increase in WPI excluding agriculture declined from 20,8 percent in July to 19 percent in August, thus, the downward trend in WPI excluding agriculture maintained its course (Figure 4).

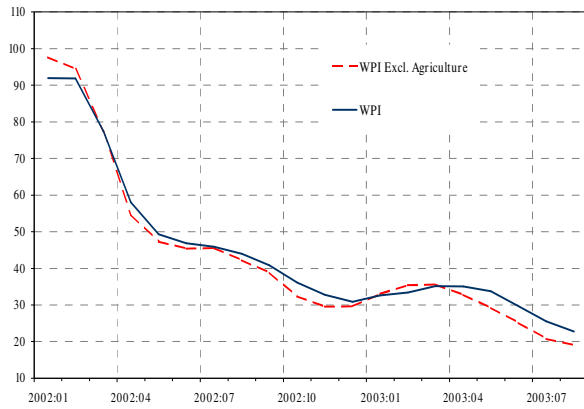
**13.** The reason the August WPI excluding agriculture was higher in relation to July is the public manufacturing industrial sector prices. The public manufacturing industrial sector prices increased by 1,6 percent in August, after having increased by 1,0 percent in July. Price

adjustments in the prices of TEKEL products were instrumental in the relative acceleration of monthly rate of increase in WPI excluding agriculture. As of August, public manufacturing sector annual inflation fell down to 22,9 percent.

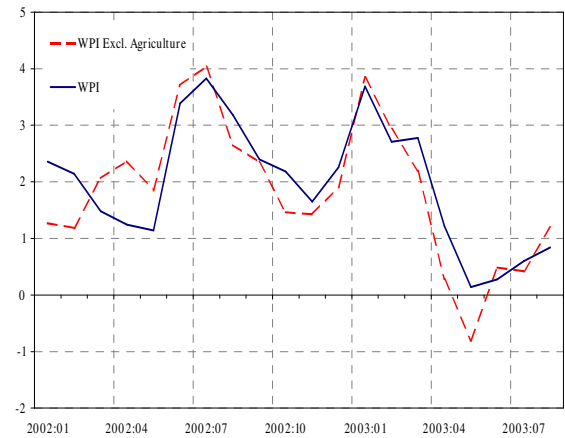
14. Private manufacturing industrial sector prices rose by 0,7 percent in August. Thus, in the April-August 2003 period, the average rate of increase in the private manufacturing industry prices became 0,5 percent with the help of positive exchange rate developments. Meanwhile, annual rate of increase in the same sector decreased from 20.3 percent in July to 18,5 percent in August.

**Figure 4: WPI and WPI Excluding Agriculture**

**Annual Percentage Change**



**Monthly Percentage Change  
(Seasonally Adjusted)\***



Source: CBRT, SIS.

\* TRAMO/SEATS method has been used for deseasonalization.

## **II. OUTLOOK**

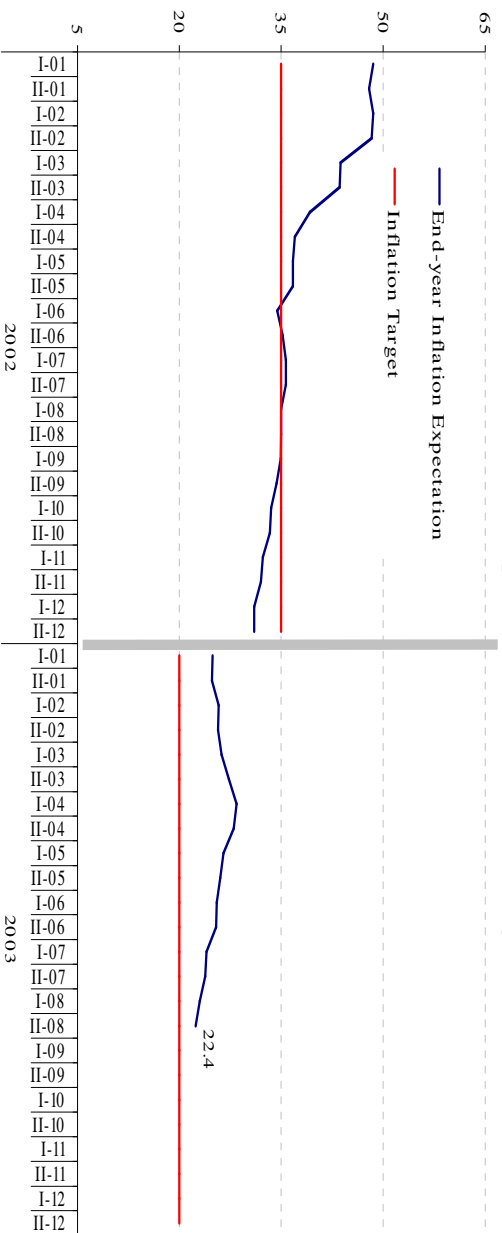
**15.** For the past eight months of 2003, inflationary developments were promising for the whole 2003. The downward trend in seasonally adjusted CPI inflation that started in May continued in August too. Stable exchange rates and brighter inflation expectations have contributed to this outcome. It is expected that inflation will continue to approach its end-year target, unless there are adverse developments that might bring about cost-push pressures in the months ahead.

**16.** It should be underlined here that, as stated many times, the Central Bank would keep using its monetary policy instruments in the next period within the framework of forward-looking inflation analysis. The Central Bank had already predicted that the downward trend in annual inflation would continue in August as well. This prediction has been instrumental in shaping its recent policy decisions. To reiterate once more, the Central Bank takes its monetary policy decisions according to the future inflation, not to the past inflation.

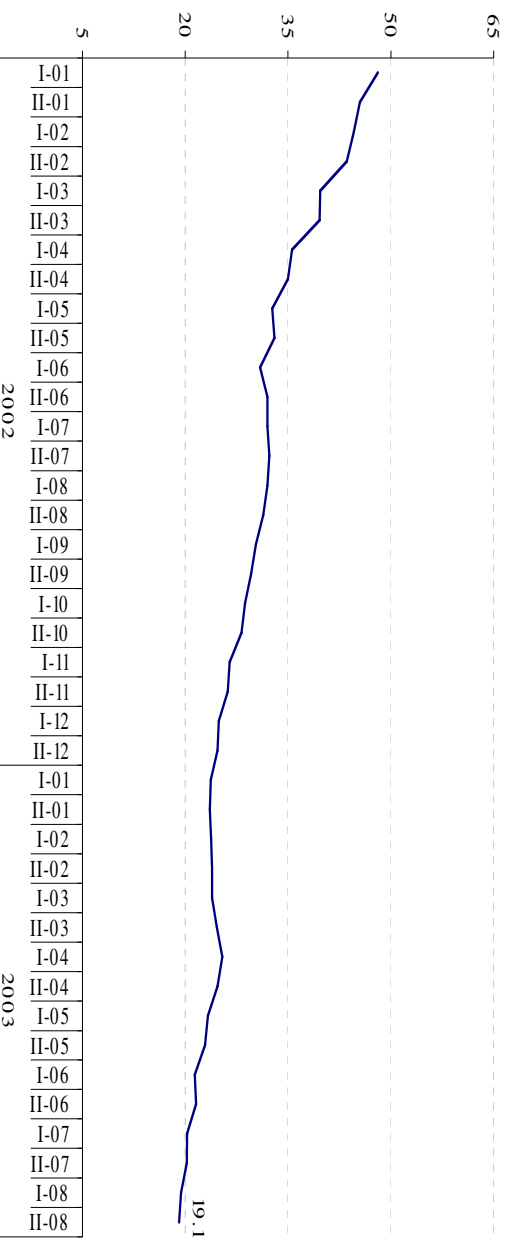
**17.** Recent stability in exchange rates, and sluggish domestic demand will continue to put the inflation under control in the next period. Moreover, the favorable inflation expectations for the year-end, and for the next 12 months, which is an indicator of future inflation, continued in August as well. The surveys of inflation expectations for the second half of August shows that the end-year expectations are 2,4 points above the end-year inflation target, but are coming rapidly nearer to the target. All these developments seem to be favorable for the future inflation.

**18.** Every step to be taken for the continuation of fiscal discipline, and every piece of new information in this regard will minimize the risk of an inflation that might persist. Realizations in August, and extra measures taken with the aim of attaining the primary surplus target are promising, however, the subject of fiscal discipline still remains the Achilles heel of the disinflation efforts. Avoiding unprogrammed spending in public finances, staying away from indirect taxes and extra price adjustments for the sake of financing the government budget, and conducting the incomes policy in line with the inflation target still continue to be the pre-conditions for achieving the end-year inflation target. Achievements in inflation can only take root through a disciplined and sustainable fiscal policy based on structural reforms. For the future inflation, developments in domestic demand, and price-setting policy of private sector in response to the recovery in domestic demand are the other important factors that must be closely monitored.

**Figure 5: CBRT Expectations Survey  
Year End Inflation Expectations and Inflation Target**



**12 Month Ahead Inflation Expectations**



Source: CBRT Expectations Survey