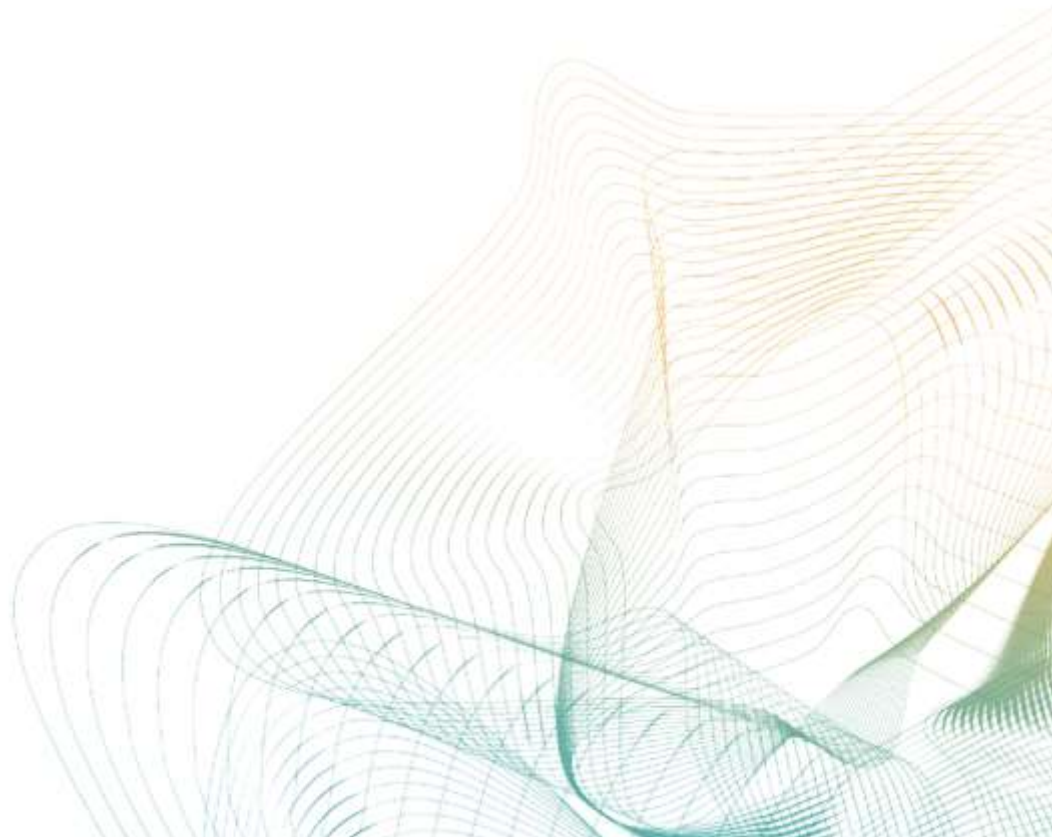




# June Price Developments

4 July 2018



## Summary

In June, consumer prices rose by 2.61 percent and annual inflation increased by 3.24 points to 15.39 percent. The rise in inflation spread across subcategories. Fueled by vegetable products, the unprocessed food group proved the leading contributor to the hike in inflation. Energy inflation remained on an upward track in this period. Durable consumption goods, particularly white goods and automobiles, registered high-rated price increases due to exchange rate developments. The depreciation in the Turkish lira weighed on some services groups as well as other core goods with high imported content. Meanwhile, annual services inflation posted an overall increase. This was led by demand-side effects as well as cost factors. All in all, core indicators registered a notable uptick in annual inflation and the underlying trend.

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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.

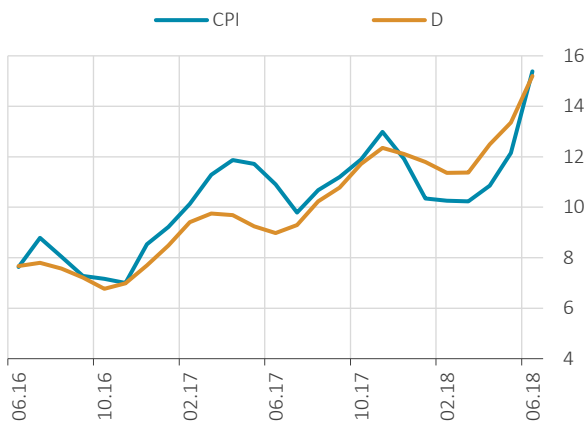
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## Evaluations

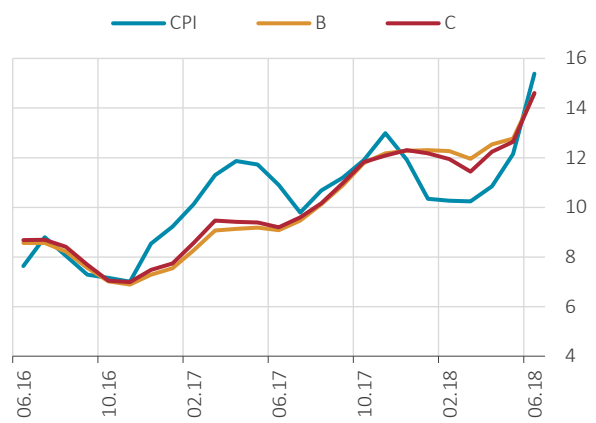
In June, consumer prices rose by 2.61 percent and annual inflation increased by 3.24 points to 15.39 percent (Chart 1). The annual rate of change in the B and C indices rose by 1.81 and 1.96 points to 14.58 and 14.60 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to annual inflation indicates month-on-month increases of 1.81, 0.71, 0.44 ve 0.23 points in the food, core goods, services and energy groups, respectively. The contribution of alcohol-tobacco groups did not register a noticeable change.

**Chart 1: CPI and D (Annual % Change)**

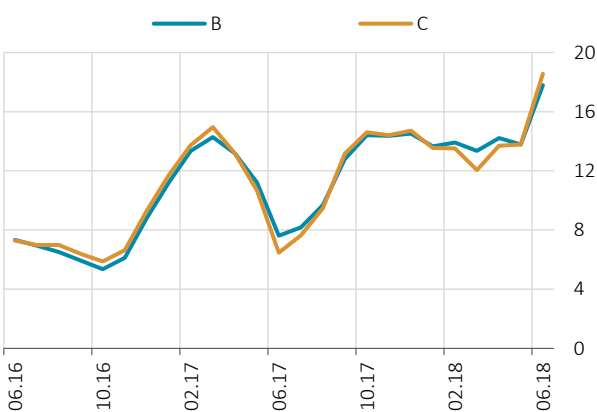


**Chart 2: CPI, B and C (Annual % Change)**

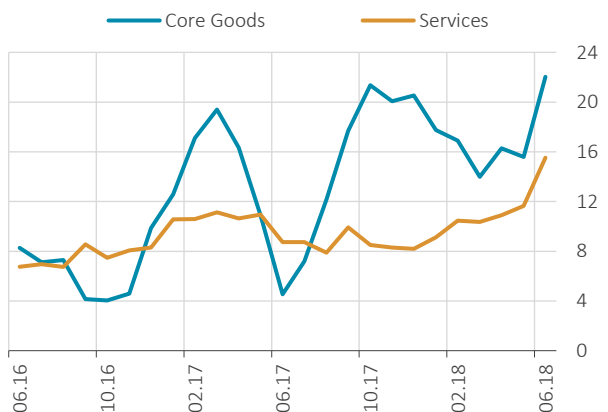


Three-month averages of seasonally-adjusted core inflation indicators exhibit a sharp increase in the underlying trend of inflation (Chart 3). The underlying trend grew quite strong both in core goods and services in this period (Chart 4). All in all, the underlying trend of core inflation, which had been high for a while, displayed an apparent deterioration.

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



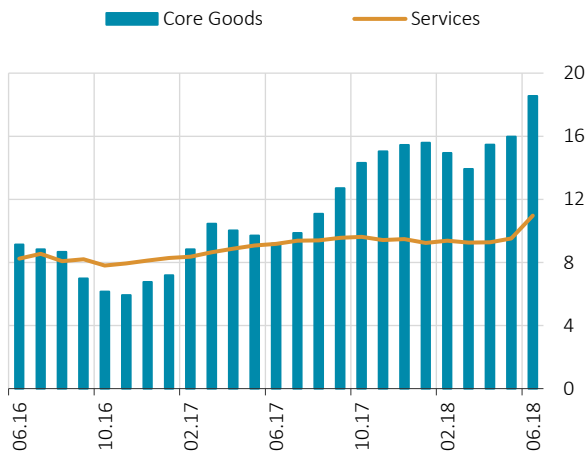
**Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)**



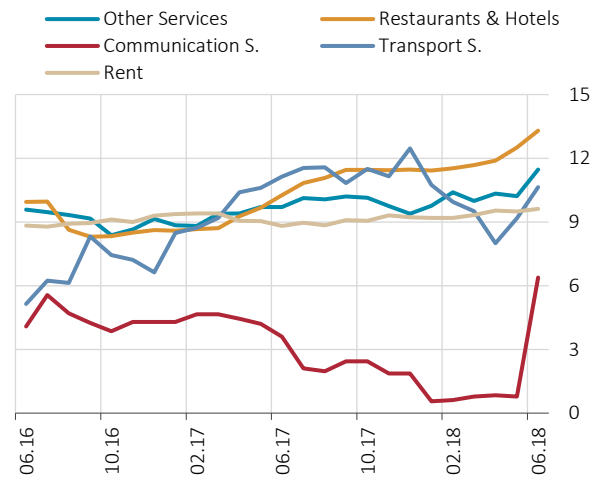
Prices of services increased by 1.85 percent and annual services inflation rose by 1.44 points to 10.96 percent in June (Chart 5 and Table 1). The rise in services inflation spread across subcategories (Chart 6). Particularly in the communication group, prices registered an upsurge on account of the internet fees (5.60 percent). The rise in transport services is attributed to the highway passenger transport fares and airfares that increased due to the brisk course of domestic and international tourism in addition to

cumulative cost pressures. Inflation in other services recorded an uptick due to the price hikes in package tours and the maintenance and repair services of personal transport vehicles, which are exchange-rate-sensitive items. Surging prices (50.23 percent) in package tours, mostly domestic ones with one week or longer duration, proved noticeable. Under the restaurants-hotels group, inflation posted sharp increases in catering and accommodation services due to food prices, Ramadan-driven temporary effects and general demand conditions, particularly tourism.

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

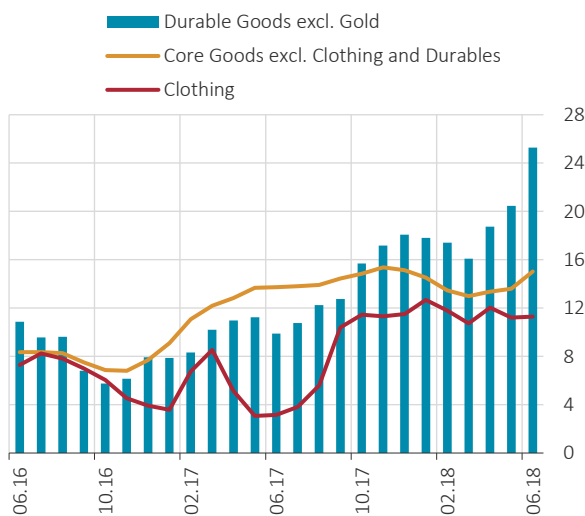


**Chart 6. Services (Annual % Change)**

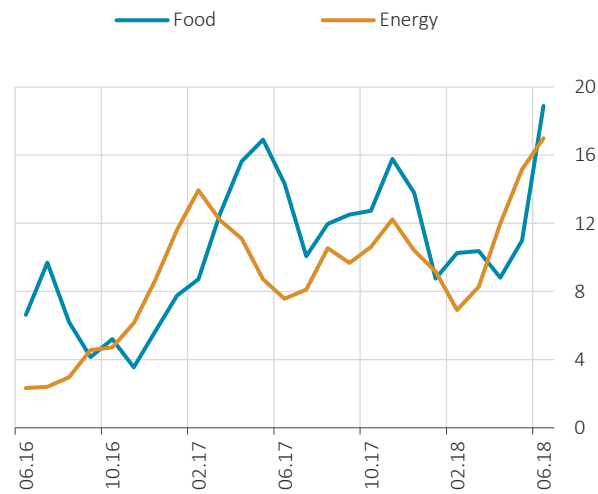


Annual core goods inflation increased by 2.57 points and hit 18.55 percent in June (Chart 5). Annual inflation remained flat in the clothing group, but surged in other subcategories in this period (Chart 7). Durable goods and other core goods witnessed spillovers of exchange-rate-driven price hikes, those in durable goods being particularly led by white goods (4.73 percent) and automobiles (3.97 percent). In sum, the depreciation in the Turkish lira had further consequences on inflation in core goods with high imported content, and this group proved the highest contributor to the annual consumer inflation (5.14 points) in June.

**Chart 7. Core Goods (Annual % Change)**



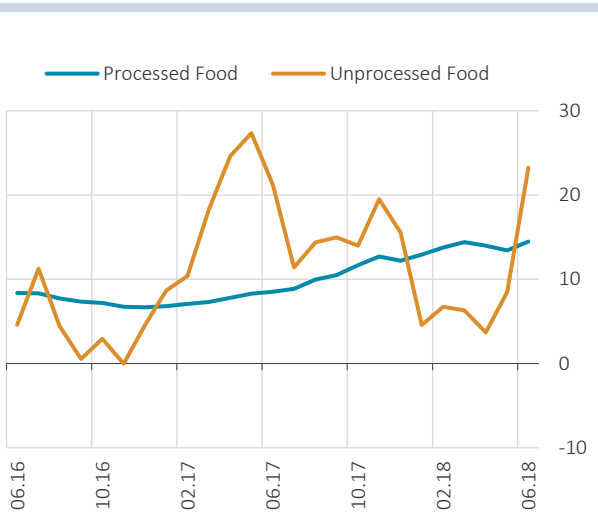
**Chart 8. Food and Energy (Annual % Change)**



Energy prices were up 1.01 percent in June (Table 1). Solid fuel, tap water and bottled gas prices rose by 1.90, 1.17 and 1.11 percent, respectively. Thus, annual energy inflation increased by 1.82 points to 16.99 percent, reflecting the low base from a year ago as well (Chart 8).

Annual inflation in food and nonalcoholic beverages jumped by 7.89 points to 18.89 percent in June (Chart 8). This upsurge was largely due to soaring unprocessed food prices led by vegetable prices, but annual inflation was also higher for processed food prices (Chart 9). Annual unprocessed food inflation increased by 14.74 points to 23.23 percent in this period due to exchange rate developments and lack of supply for certain products. Prominent among those were vegetables (28.26 percent), with potatoes (63.34 percent) and onions (82.53 percent) in the lead, fresh fruits (5.83 percent) and white meat (5.80 percent). Prices of some vegetables and fruits are expected to see some correction with more supply arriving in the upcoming period. Processed food prices were sharply higher across all subcategories in June, causing annual processed food inflation to rise to 14.47 percent. Thus, annual food inflation excluding fresh fruits and vegetables also increased to 15.81 percent in June (Chart 10).

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



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

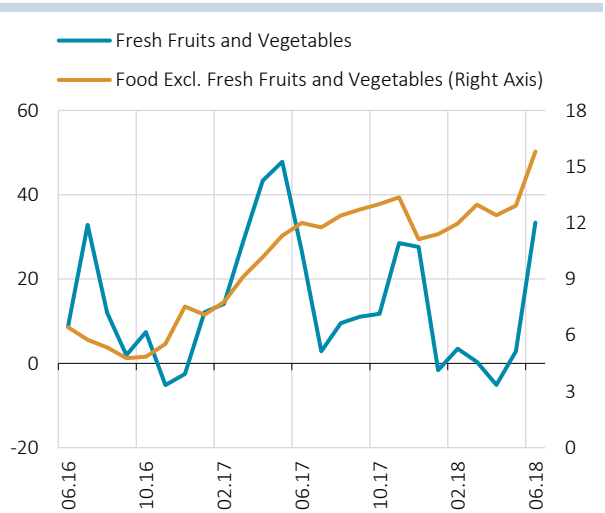


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	June 2018	June 2017	June 2018	June 2017
<b>CPI</b>	<b>2.61</b>	<b>-0.27</b>	<b>15.39</b>	<b>10.90</b>
<b>1. Goods</b>	<b>2.92</b>	<b>-0.61</b>	<b>17.26</b>	<b>11.67</b>
Energy	1.01	-0.57	16.99	7.56
Food and nonalcoholic beverages	5.98	-1.06	18.89	14.34
Unprocessed food	10.78	-2.47	23.23	21.21
Fresh fruits and vegetables	17.51	-9.36	33.37	26.65
Other unprocessed food	7.00	1.83	17.63	18.38
Processed food	1.27	0.33	14.47	8.53
Bread and cereals	1.02	0.49	11.74	7.97
Other processed food	1.39	0.24	16.03	8.83
Goods excluding energy and food	1.60	-0.33	16.21	11.56
Core goods	1.78	-0.43	18.55	9.20
Durable goods (excluding gold)	3.20	-0.75	25.27	9.89
Clothing and footwear(*)	-1.19	-1.28	11.30	3.15
Other core goods	2.02	0.74	15.04	13.72
Alcoholic beverages and tobacco	0.02	0.01	1.06	21.70
Gold	3.53	0.27	32.96	20.61
<b>2. Services</b>	<b>1.85</b>	<b>0.53</b>	<b>10.96</b>	<b>9.18</b>
Rents	0.74	0.62	9.62	8.81
Restaurants and hotels	1.74	1.03	13.30	10.26
Transport	2.15	0.80	10.64	11.14
Communication	5.60	0.03	6.38	3.60
Other	1.27	0.14	11.47	9.70
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.72	0.12	14.58	9.07
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.81	0.07	14.60	9.20
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.64	0.01	15.20	8.98

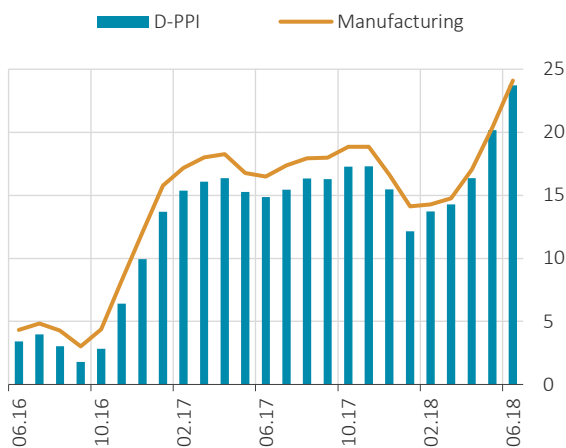
Source: TurkStat.

(\*) Does not cover clothing services.

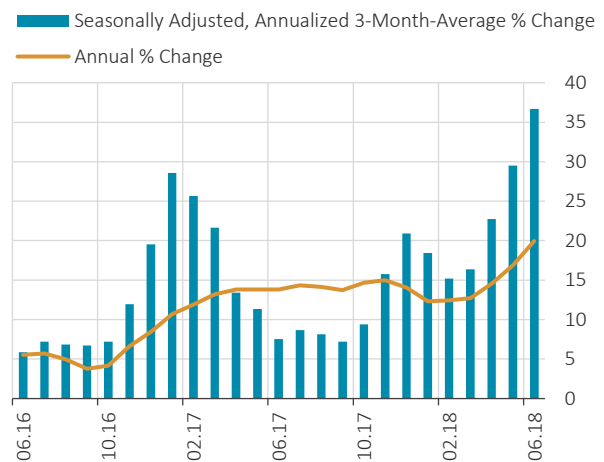
## D-PPI

Domestic producer prices were up 3.03 percent in June and annual PPI inflation rose to an all-time high of 23.71 percent (Chart 11). This dramatic increase in producer prices was attributed to the weakening Turkish lira. In this period, annual manufacturing inflation jumped by 3.73 points to 24.10 percent. Manufacturing prices rose on the back of meat products, iron-steel, petroleum products, clothing and textiles, plastics, oils and fats and chemical products, yet these price hikes spread across all subcategories. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals also gained substantial momentum (Chart 12).

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

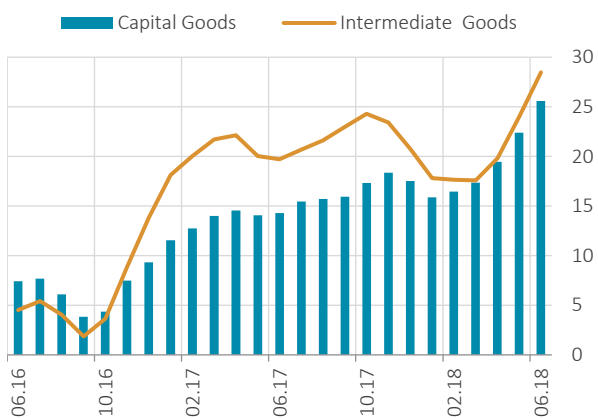


**Chart 12. Manufacturing Excluding Petroleum and Base Metals**

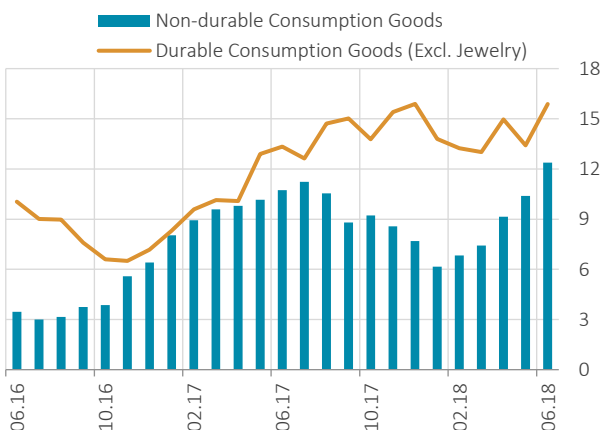


According to the Main Industrial Groupings (MIGs), all subcategories saw sharp price increases and higher annual inflation rates in June (Table 3, Charts 13 and 14). Price hikes in intermediate goods were mostly led by iron-steel, textiles, plastics, basic chemical products and paper products, while prices of capital goods were pushed up by metal construction materials, motor vehicles and their spare parts and accessories, and machines. In this period, furniture and home appliances accounted for higher prices of durable goods, while prices of nondurable goods were driven higher by food products such as meat and oils as well as apparels and some textiles. All in all, weighing on consumer prices at a significantly stronger rate than a month ago, producer-driven cost pressures remained high.

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



**Chart 14. Consumption Goods (Annual % Change)**



## Tables

Table 2. CPI and Subcategories (% Change)

	Weight	June 2018		June 2017	
		Monthly	Annual	Monthly	Annual
CPI	100.00	2.61	15.39	-0.27	10.90
Food and nonalcoholic beverages	23.03	5.98	18.89	-1.06	14.34
Alcoholic beverages and tobacco	5.14	0.02	1.06	0.01	21.70
Clothing and footwear	7.21	-1.15	11.34	-1.25	3.24
Housing	14.85	1.03	12.04	0.31	7.39
Household equipment	7.66	2.24	18.91	0.48	6.76
Health	2.64	0.84	10.83	0.17	12.66
Transport	17.47	2.66	24.26	-0.84	14.07
Communication	3.91	4.76	4.94	-0.39	3.07
Recreation and culture	3.39	2.16	9.39	-0.14	10.91
Education	2.67	0.85	10.79	1.05	9.59
Restaurants and hotels	7.27	1.74	13.30	1.03	10.26
Miscellaneous goods and services	4.76	1.75	16.79	0.52	11.84

Source: TurkStat.

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

	Weight	June 2018		June 2017	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100.00	3.03	23.71	0.07	14.87
Mining	3.26	2.44	24.09	-1.26	9.70
Manufacturing	89.02	3.16	24.10	0.05	16.49
Manufacturing excl. petroleum products	86.52	3.03	22.51	0.17	15.99
Manufacturing excl. petroleum products and base metals	79.60	2.85	19.96	0.24	13.81
Electricity, gas, steam and air-conditioning sup.	6.74	1.97	19.95	0.90	-1.53
Water supply	0.98	1.20	6.13	0.36	10.66
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		3.52	28.47	-0.06	19.72
Durable Consumption Goods		2.31	16.64	0.21	14.61
Durable Consumption Goods (Excl. Jewelry)		2.31	15.88	0.13	13.35
Non-Durable Consumption Goods		2.36	12.39	0.54	10.73
Capital Goods		2.85	25.60	0.24	14.28
Energy		3.21	34.87	-0.83	7.89

Source: TurkStat.