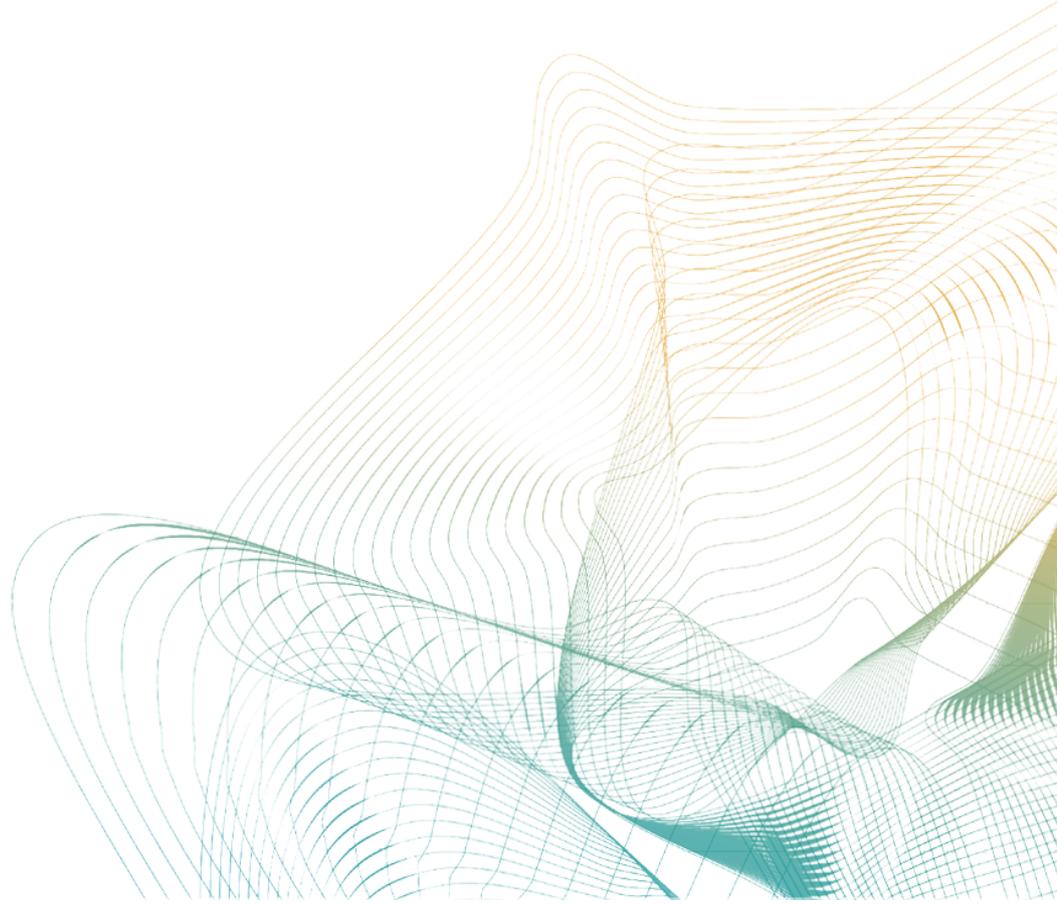




February Price Developments

6 March 2018



Summary

In February, consumer prices rose by 0.73 percent and annual inflation receded by 0.09 points to 10.26 percent. This fall in inflation stemmed largely from the receding energy prices due to developments in oil prices and the exchange rate in addition to core goods inflation. After following an uptrend for a while, annual core goods inflation recorded a decline, which spread across sub-groups. On the other hand, annual food inflation picked up owing both to processed and unprocessed food prices, and became the main factor limiting the fall in consumer inflation. Services inflation, on the other hand, gained some pace mainly due to package tour prices. All in all, core indicators registered a slight fall in annual inflation, yet their underlying trend 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 February, consumer prices rose by 0.73 percent and annual inflation receded by 0.09 points to 10.26 percent (Chart 1). The annual rate of change in the B and C indices inched down by 0.05 and 0.24 points to 12.26 and 11.94 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to annual inflation reveals a month-on-month increase by 0.36 points in the food group in contrast to a decline in the energy and core goods groups by 0.30 and 0.17 points, respectively. Meanwhile, the contribution of other groups registered no 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 show that the underlying trend remained relatively flat (Chart 3). The underlying trend in February exhibited an uptick in services, and an improvement in core goods (Chart 4). All in all, the underlying trend in core inflation indicators remained high, and the B indicator followed a slightly more negative course due to the rise in processed food prices.

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

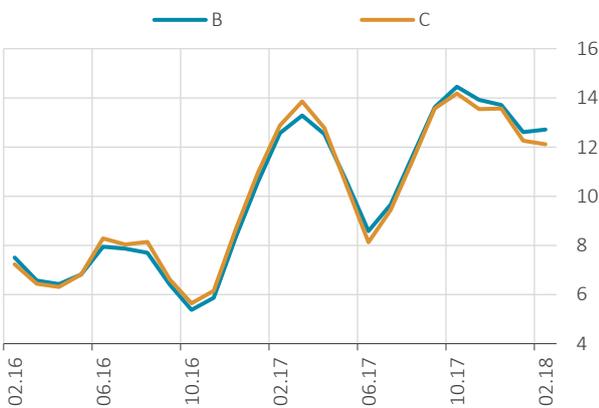


Chart 4: Core Goods and Services (Seasonally Adjusted, Annualized 3-Month-Average % Change)



Prices of services rose by 0.81 percent and annual services inflation remained high, increasing by 0.14 points to 9.37 percent in February (Chart 5 and Table 1). The rise in the group’s annual inflation was driven by the other services group, which was stimulated by package tour prices (with a month-on-month increase of 10.80 percent) and health services (basic hospital and dental care services). On the package

tours front, prices registered an increase in pilgrimage tours, but a decline in other package tours. Annual inflation in rent, restaurants-hotels and communication groups remained relatively flat, while transport services maintained the downtrend in February (Chart 6).

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



Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 0.65 points to 14.93 percent in February (Chart 5). Annual inflation receded across all sub-groups in this period (Chart 7). Annual clothing inflation slowed to 11.78 percent, yet remained high, which was led by cumulative cost effects as well as the brisk course of aggregate demand conditions. Led by the furniture (2.03 percent) and automobiles groups (1.79 percent), durable goods continued to surge on a monthly basis. Monthly increases in medicine prices (7.10 percent) and housing maintenance-repair stood out among other core goods which revealed the lagged exchange rate effects. However, the group’s annual inflation decreased due to the base effect. It should be noted that the remaining part of the 15-percent increase of mid-February in medicine prices led by the reference exchange rate will occur in March.

Chart 7. Core Goods (Annual % Change)

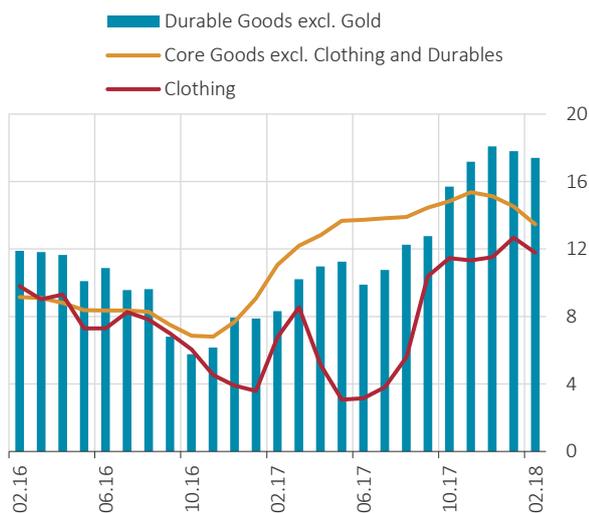


Chart 8. Food and Energy (Annual % Change)



Energy prices fell by 0.58 percent in February (Table 1). Fuel and bottled gas prices were down 1.66 and 1.29 percent, respectively, due to sliding international oil prices and the moderating exchange rate. However, solid fuel prices edged up by 0.56 percent. Thus, annual energy inflation dropped by 2.25 points to 6.92 percent (Chart 8).

Annual inflation in food and nonalcoholic beverages was up 1.51 points to 10.27 percent in February (Chart 8). Both processed and unprocessed food categories saw their annual inflation rate rise (Chart 9). Annual unprocessed food inflation accelerated to 6.71 percent, largely due to rising prices of fresh fruits and vegetables as well as red meat prices that have been back on an upward track for the last two months. Moreover, milk prices increased by a remarkable 7.85 percent due to raw milk price adjustments, registering a cumulative increase of more than 11 percent over the last two months. All of these developments eventually passed through into processed food prices. Prices of cheese, other dairy goods and fats recorded sharp gains on the back of rising raw milk prices, while processed meat prices remained on the rise amid higher red meat prices. In addition, the weight adjustment in the Bread Regulation pushed bread prices further up by 1.94 percent in February, driving annual inflation up to 12.10 percent in the bread and cereals group. Prices of nonalcoholic beverages were driven higher by the new Special Consumption Tax (SCT) of 10 percent applied to some beverages. Thus, annual processed food inflation hit a nine-year high of 13.76 percent. Accordingly, annual food inflation excluding fresh fruits and vegetables amounted to 11.96 percent in February (Chart 10).

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

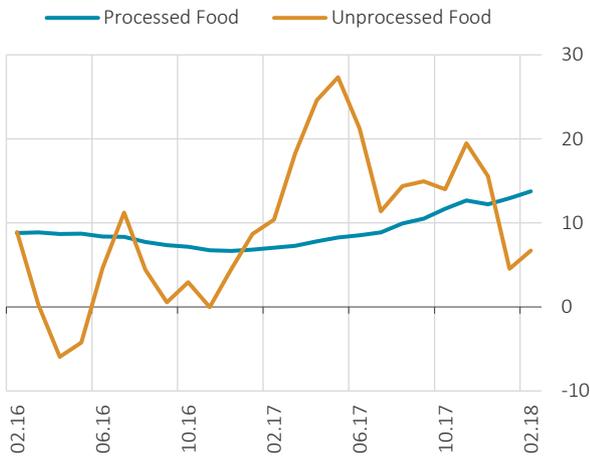


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

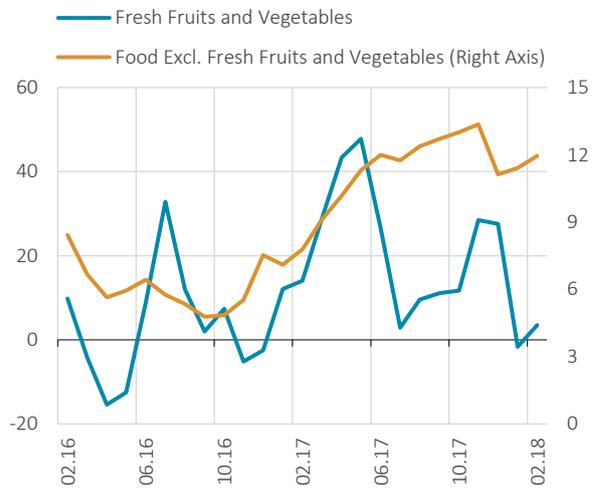


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	February 2018	February 2017	February 2018	February 2017
CPI	0.73	0.81	10.26	10.13
1. Goods	0.70	0.87	10.65	10.90
Energy	-0.58	1.52	6.92	13.94
Food and nonalcoholic beverages	2.24	0.84	10.27	8.72
Unprocessed food	2.43	0.36	6.71	10.39
Fresh fruits and vegetables	4.56	-0.60	3.47	14.08
Other unprocessed food	1.12	1.01	8.96	9.12
Processed food	2.07	1.33	13.76	7.06
Bread and cereals	1.87	0.76	12.10	6.65
Other processed food	2.18	1.66	14.72	7.30
Goods excluding energy and food	0.16	0.63	12.34	11.58
Core goods	0.16	0.73	14.93	8.83
Durable goods (excluding gold)	1.40	1.74	17.40	8.32
Clothing and footwear(*)	-4.19	-3.43	11.78	6.77
Other core goods	1.62	2.56	13.47	11.07
Alcoholic beverages and tobacco	0.03	0.03	0.89	21.72
Gold	0.62	1.24	11.35	28.72
2. Services	0.81	0.68	9.37	8.37
Rents	0.55	0.55	9.19	9.40
Restaurants and hotels	0.95	0.86	11.53	8.66
Transport	0.43	1.17	9.94	8.72
Communication	0.42	0.35	0.62	4.66
Other	1.10	0.52	10.40	8.81
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.76	0.81	12.26	8.27
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.49	0.70	11.94	8.56
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.54	0.93	11.37	9.40

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices jumped by 2.68 percent in February and annual PPI inflation was up 1.57 points to 13.71 percent (Chart 11). These price hikes were evident across all subcategories, particularly in energy items, such as electricity and gas. Annual inflation rose slightly for manufacturing prices and manufacturing prices excluding oil and base metals, to 14.27 and 12.43 percent, respectively. Meanwhile, the seasonally adjusted underlying trend of manufacturing industry prices excluding oil and base metals posted some decline yet remained high (Chart 12).

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

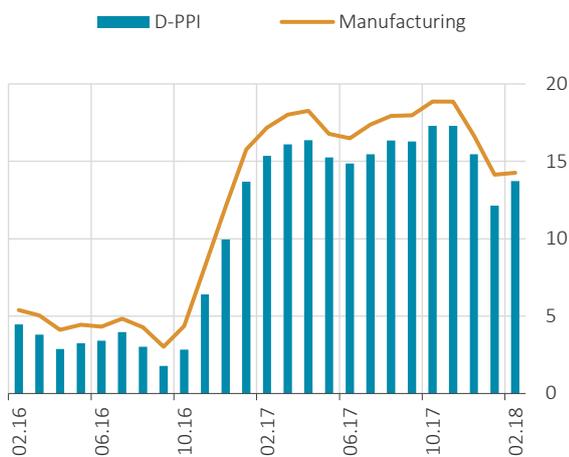
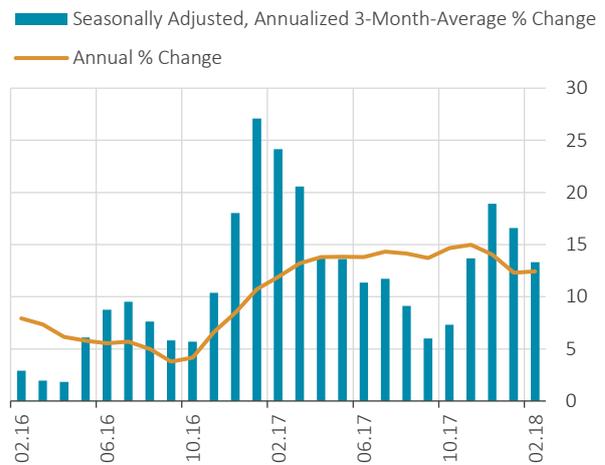


Chart 12. Manufacturing Excluding Petroleum and Basic Metals



According to the Main Industrial Groupings (MIGs), prices were significantly higher in energy due to rising electricity and gas prices (Table 3). Price increases in intermediate goods were mostly driven by construction-related materials such as iron-steel, wood, concrete, cement, stones and plastics. Prices of capital goods, on the other hand, were pushed up by metal construction materials as well as motor vehicles and their spare parts and accessories. Prices of durable goods were driven higher by rising prices of furniture and home appliances while price increases across nondurable goods were led by meat, dairy products, medicines, processed fruits and vegetables and baked goods. On the whole, producer-driven cost pressures on consumer prices remained strong.

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

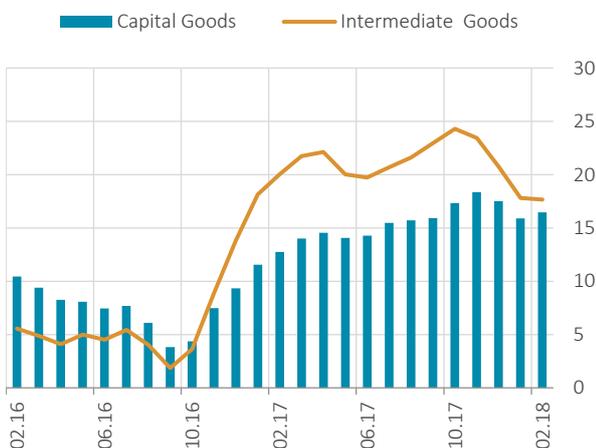
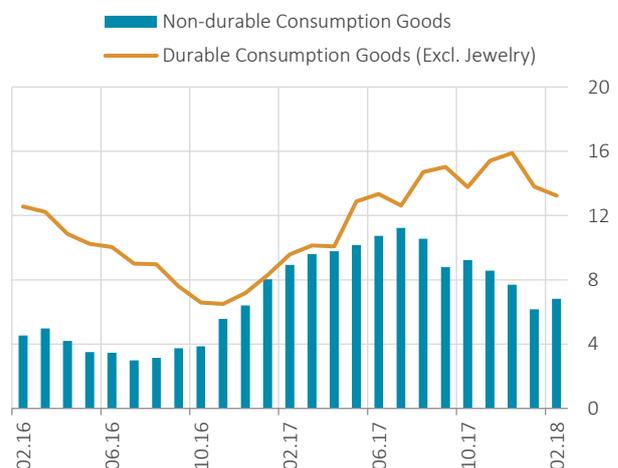


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	February 2018		February 2017	
		Monthly	Annual	Monthly	Annual
CPI	100.00	0.73	10.26	0.81	10.13
Food and nonalcoholic beverages	23.03	2.24	10.27	0.84	8.72
Alcoholic beverages and tobacco	5.14	0.03	0.89	0.03	21.72
Clothing and footwear	7.21	-4.09	11.77	-3.35	6.77
Housing	14.85	0.52	9.46	1.18	7.42
Household equipment	7.66	1.23	15.66	-0.67	4.93
Health	2.64	2.57	9.94	2.17	12.53
Transport	17.47	0.31	13.19	2.82	17.96
Communication	3.91	0.22	-0.13	0.65	4.36
Recreation and culture	3.39	1.89	8.24	0.89	7.32
Education	2.67	0.20	10.88	0.02	9.33
Restaurants and hotels	7.27	0.95	11.53	0.86	8.66
Miscellaneous goods and services	4.76	0.82	10.77	1.38	12.82

Source: TurkStat.

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

	Weight	February 2018		February 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	2.68	13.71	1.26	15.36
Mining	3.26	1.82	13.10	2.39	19.19
Manufacturing	89.02	1.49	14.27	1.36	17.18
Manufacturing excl. petroleum products	86.52	1.56	14.07	1.40	15.12
Manufacturing excl. petroleum products and basic metals	79.60	1.57	12.43	1.45	11.92
Electricity, gas, steam and air-conditioning sup.	6.74	21.10	7.14	-0.68	-5.71
Water supply	0.98	0.42	4.52	1.91	9.81
D-PPI (MIGs Classification)					
Intermediate Goods		1.56	17.66	1.69	20.03
Durable Consumption Goods		0.82	13.23	1.56	12.73
Durable Consumption Goods (Excl. Jewelry)		0.86	13.24	1.35	9.58
Non-Durable Consumption Goods		1.71	6.83	1.08	8.93
Capital Goods		1.56	16.47	1.04	12.73
Energy		12.10	12.19	0.18	17.82

Source: TurkStat.