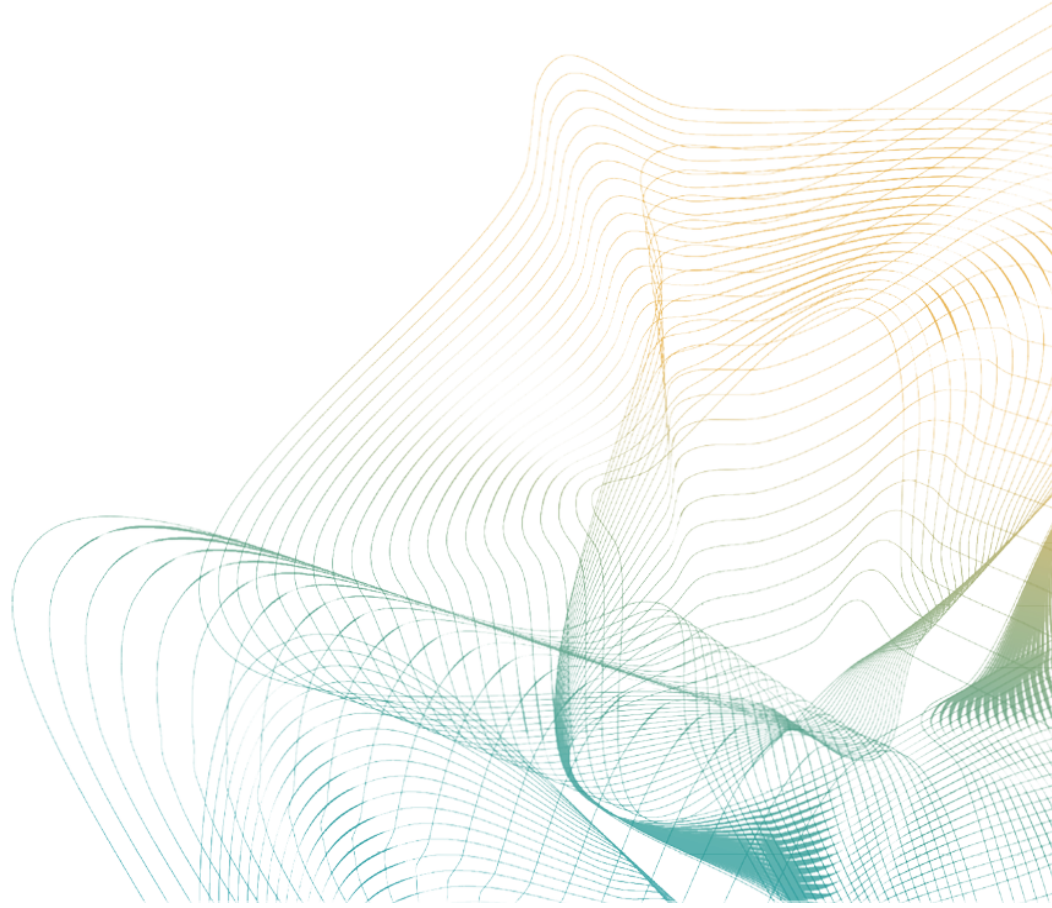




December Price Developments

4 January 2018



Summary

In December, consumer prices rose by 0.69 percent and annual inflation receded by 1.06 points to 11.92 percent. Energy and food inflation declined in this period, and the fall in the latter stemmed from the base effect in unprocessed food prices as well as the mild course of processed food prices. On the other hand, triggered by the cumulative depreciation in the Turkish lira, the uptrend in core goods inflation spilled over into subgroups. Annual inflation in services remained flat. All in all, annual inflation in core indicators increased somewhat, and the underlying trend maintained its high course.

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 December, consumer prices rose by 0.69 percent and annual inflation receded by 1.06 points to 11.92 percent (Chart 1). The annual rate of change in the B and C indices crept up by 0.11 and 0.22 points to 12.28 and 12.30 percent, respectively (Chart 2).

Across subcategories, the contribution of core goods to annual inflation inched up by 0.06 points, whereas that of food, alcohol-tobacco and energy declined by 0.42, 0.42 and 0.23 points month-on-month, respectively. Meanwhile, the contribution of services remained almost unchanged.

Chart 1: CPI and D (Annual % Change)

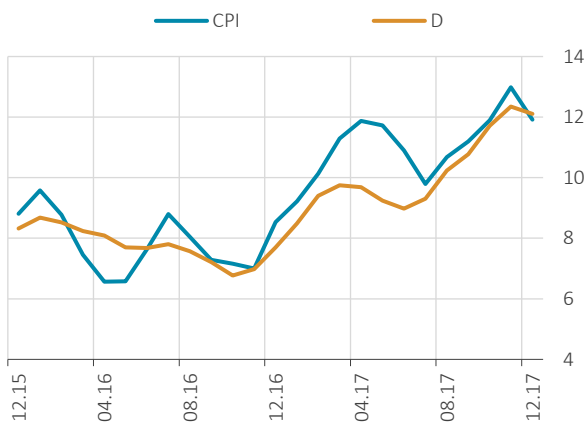
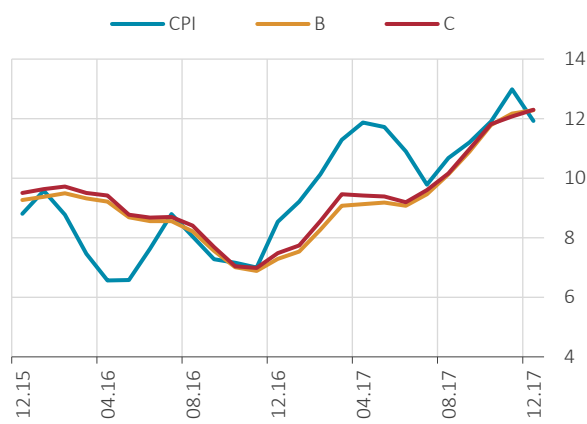


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators show that the underlying trend declined slightly in December, yet remained high (Chart 3). The underlying trend remained the same in core goods, while services exhibited a limited fall (Chart 4). When adjusted for the methodological change in clothing prices, the underlying trend in inflation displayed a relatively flat course.

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

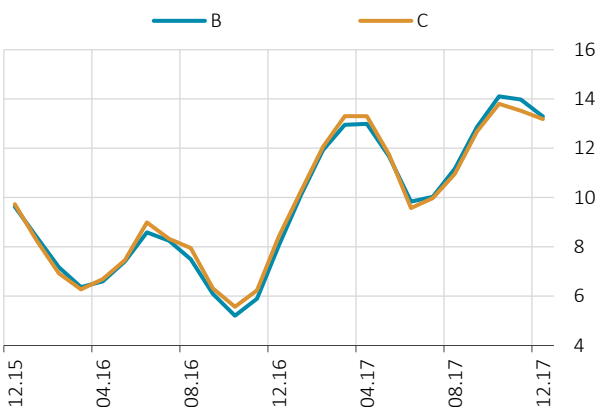
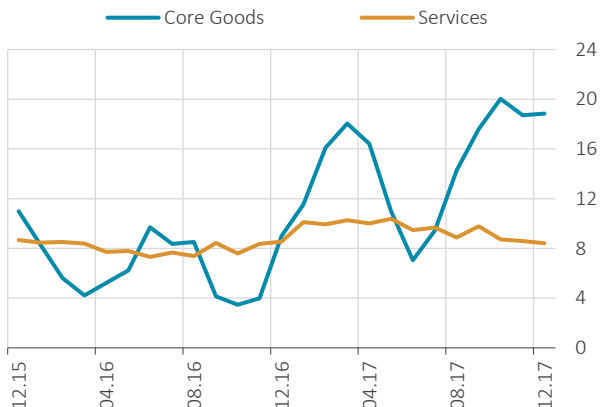


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)



Prices of services registered a slight uptick by 0.43 percent, while annual services inflation did not record a noticeable change and stood at 9.47 percent in December (Chart 5 and Table 1). Annual inflation picked up in transport services, remained relatively flat in the restaurants-hotels and communication groups, and declined in other subgroups (Chart 6). Prices in the transport group were pushed up by highway and airway transport prices. Notwithstanding a limited fall, annual rent inflation remained high at 9.21 percent. Meanwhile, inflation in other services was pulled down by package tour prices, which decreased by 1.97 percent.

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

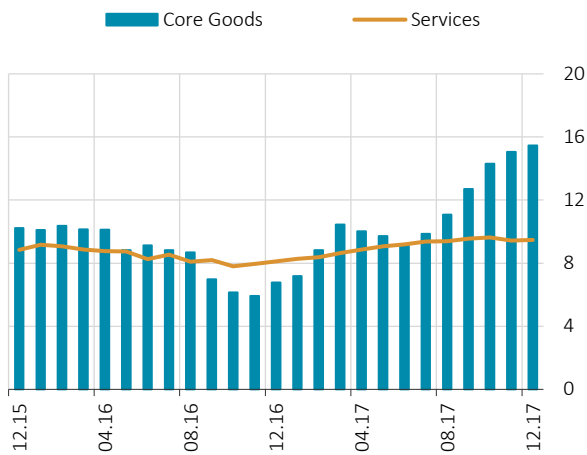
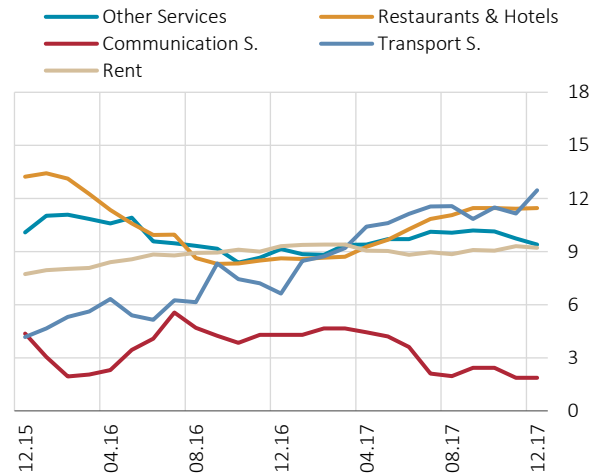


Chart 6. Services (Annual % Change)



Annual core goods inflation rose by 0.40 points to 15.45 percent in December (Chart 5). This increase stemmed in large part from durable goods due to price hikes in automobiles (3.62 percent) and home appliances (3.98 percent) (Chart 7). Prices of other durable goods also registered monthly upsurges due to the exchange rate impact on products with high imported content. In sum, while cumulative exchange rate effects were the key driver of rising core goods inflation, aggregate demand conditions also provided some boost.

Chart 7. Core Goods (Annual % Change)

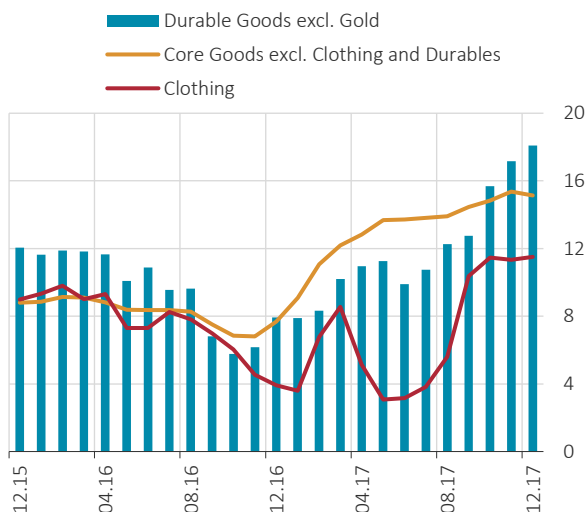
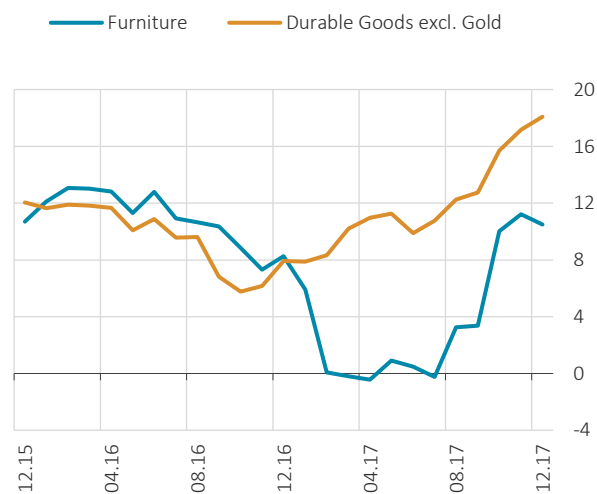


Chart 8. Food and Energy (Annual % Change)



Energy prices increased by 0.50 percent in December (Table 1), mainly on the back of solid fuel and fuel prices that rose by 2.02 and 0.48 percent, respectively. Despite these monthly price hikes, annual energy inflation fell by 1.81 points to 10.41 percent amid base effects (Chart 8).

Annual inflation in food and nonalcoholic beverages declined by 1.99 points to 13.79 percent in December (Chart 8). Annual unprocessed food inflation dropped to 15.55 percent thanks to falling red meat prices and base effects (Chart 9). However, seasonally-adjusted unprocessed food prices remained on the rise, mainly due to vegetables. Processed food prices, on the other hand, benefited from raw milk prices no longer rising and red meat prices falling, and registered the smallest month-on-month increase (0.32 percent). Thus, annual food inflation excluding fresh fruits and vegetables fell to 11.13 percent in December (Chart 10).

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

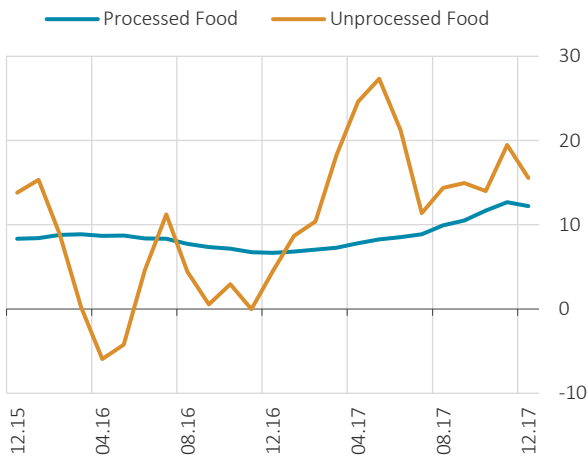


Chart 10. Fruits-Vegetables and Other Food
(Annual % Change)

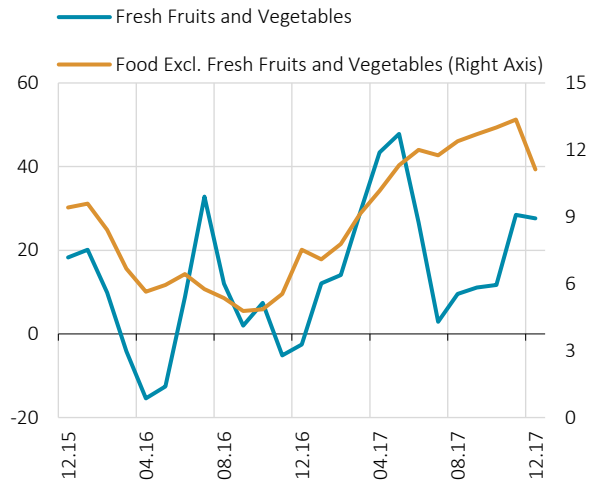


Table 1. November CPI and Subcategories (% Change)

| | Monthly | | Annual | |
|---|---------------|---------------|---------------|---------------|
| | December 2017 | December 2016 | December 2017 | December 2016 |
| CPI | 0.69 | 1.64 | 11.92 | 8.53 |
| 1. Goods | 0.80 | 2.21 | 12.99 | 8.72 |
| Energy | 0.50 | 2.16 | 10.41 | 8.67 |
| Food and nonalcoholic beverages | 1.52 | 3.29 | 13.79 | 5.65 |
| Unprocessed food | 2.85 | 6.34 | 15.55 | 4.52 |
| Fresh fruits and vegetables | 5.87 | 6.63 | 27.59 | -2.52 |
| Other unprocessed food | 1.09 | 6.18 | 9.30 | 9.12 |
| Processed food | 0.32 | 0.75 | 12.20 | 6.67 |
| Bread and cereals | 0.32 | 0.56 | 9.22 | 8.41 |
| Other processed food | 0.32 | 0.85 | 13.91 | 5.71 |
| Goods excluding energy and food | 0.46 | 1.49 | 13.49 | 10.97 |
| Core goods | 0.67 | 0.32 | 15.45 | 6.77 |
| Durable goods (excluding gold) | 2.18 | 1.39 | 18.08 | 7.93 |
| Clothing and footwear(*) | -2.45 | -2.61 | 11.51 | 3.92 |
| Other core goods | 1.21 | 1.42 | 15.13 | 7.68 |
| Alcoholic beverages and tobacco | -0.01 | 7.33 | 2.86 | 31.59 |
| Gold | -2.16 | -0.79 | 20.41 | 28.52 |
| 2. Services | 0.43 | 0.38 | 9.47 | 8.11 |
| Rents | 0.65 | 0.74 | 9.21 | 9.30 |
| Restaurants and hotels | 0.47 | 0.44 | 11.47 | 8.62 |
| Transport | 0.66 | -0.51 | 12.46 | 6.63 |
| Communication | 0.00 | 0.00 | 1.87 | 4.29 |
| Other | 0.31 | 0.64 | 9.39 | 9.15 |
| 3. Core Measures | | | | |
| B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold | 0.51 | 0.41 | 12.28 | 7.29 |
| C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold | 0.55 | 0.35 | 12.30 | 7.48 |
| D - CPI excluding unprocessed food, alcoholic beverages and tobacco | 0.46 | 0.68 | 12.11 | 7.70 |

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices rose by 1.37 percent in December, while annual PPI inflation was down 1.84 points to 15.47 percent amid base effects (Chart 11). Annual inflation ended 2017 at a high of 16.64 percent in the manufacturing industry. The seasonally-adjusted underlying trend of manufacturing industry prices excluding oil and base metals saw a marked acceleration (Chart 12).

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

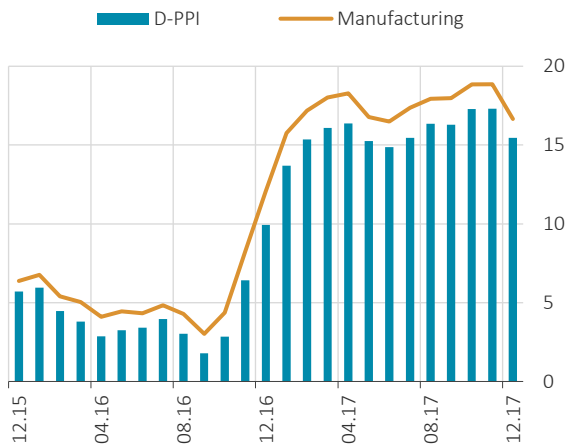
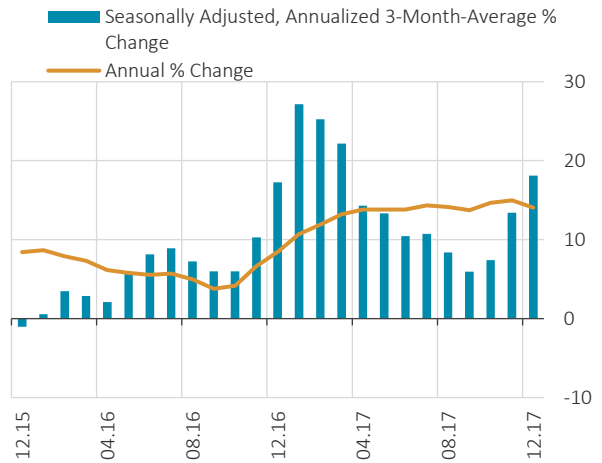


Chart 12. Manufacturing Excluding Petroleum and Basic Metals



According to the Main Industrial Groupings (MIGs), price increases were mild in nondurable goods but were significantly higher across other subcategories in December (Table 3). Price hikes were prevalent for all intermediate goods, particularly for iron-steel products. Prices of capital goods were driven higher by motor vehicles and their spare parts and accessories. Price increases across durable goods were mostly led by home appliances and consumer electronics, while prices of nondurable goods were pushed up by prices of processed fruits and vegetables, oils and fats and footwear. In sum, producer-driven cost pressures on consumer prices remained strong.

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

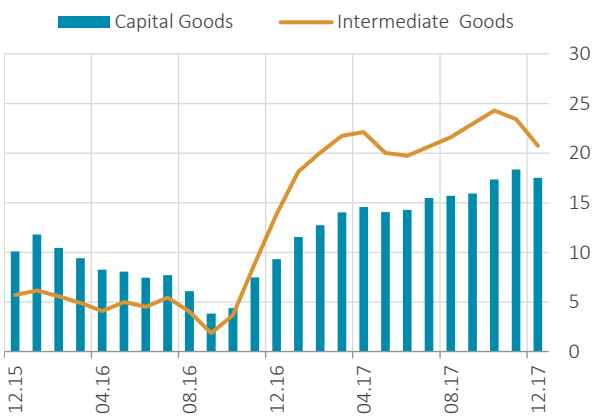
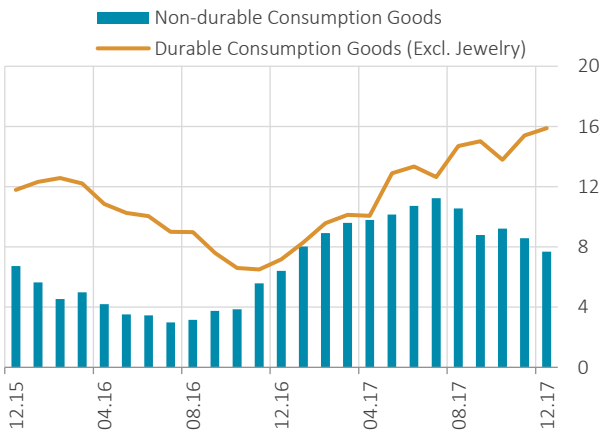


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. December CPI and Subcategories (% Change)

| | Weight | December 2017 | | December 2016 | |
|----------------------------------|--------|---------------|--------|---------------|--------|
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100.00 | 0.69 | 11.92 | 1.64 | 8.53 |
| Food and nonalcoholic beverages | 21.77 | 1.52 | 13.79 | 3.29 | 5.65 |
| Alcoholic beverages and tobacco | 5.87 | -0.01 | 2.86 | 7.33 | 31.59 |
| Clothing and footwear | 7.33 | -2.39 | 11.48 | -2.55 | 3.98 |
| Housing | 14.85 | 0.77 | 9.62 | 0.95 | 6.42 |
| Household equipment | 7.72 | 1.18 | 12.74 | 1.28 | 6.24 |
| Health | 2.63 | 0.23 | 11.90 | 0.66 | 9.73 |
| Transport | 16.31 | 1.69 | 18.24 | 1.97 | 12.36 |
| Communication | 4.12 | -0.17 | 1.41 | -0.14 | 3.18 |
| Recreation and culture | 3.62 | 0.02 | 8.38 | 1.42 | 5.93 |
| Education | 2.69 | 0.03 | 10.48 | 0.01 | 9.47 |
| Restaurants and hotels | 8.05 | 0.47 | 11.47 | 0.44 | 8.62 |
| Miscellaneous goods and services | 5.04 | 0.05 | 12.77 | 0.60 | 11.08 |

Source: Turkstat.

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

| | Weight | December 2017 | | December 2016 | |
|---|--------|---------------|--------|---------------|--------|
| | | Monthly | Annual | Monthly | Annual |
| D-PPI | 100.00 | 1.37 | 15.47 | 2.98 | 9.94 |
| Mining | 3.36 | 1.91 | 16.13 | -0.25 | 8.01 |
| Manufacturing | 88.79 | 1.34 | 16.64 | 3.26 | 12.07 |
| Manufacturing excl. petroleum products | 86.18 | 1.34 | 16.16 | 2.73 | 10.83 |
| Manufacturing excl. petroleum products and basic metals | 77.80 | 1.10 | 14.04 | 1.93 | 8.46 |
| Electricity, gas, steam and air-conditioning sup. | 6.81 | 1.67 | 0.41 | 1.35 | -11.79 |
| Water supply | 1.03 | 0.27 | 11.30 | 0.54 | 7.21 |
| D-PPI (MIGs Classification) | | | | | |
| Intermediate Goods | | 1.79 | 20.75 | 4.05 | 13.83 |
| Durable Consumption Goods | | 0.82 | 16.31 | 0.15 | 11.75 |
| Durable Consumption Goods (Excl. Jewelry) | | 0.76 | 15.89 | 0.34 | 7.17 |
| Non-Durable Consumption Goods | | 0.52 | 7.69 | 1.35 | 6.41 |
| Capital Goods | | 1.38 | 17.52 | 2.11 | 9.32 |
| Energy | | 1.80 | 11.23 | 5.06 | 4.53 |

Source: Turkstat.