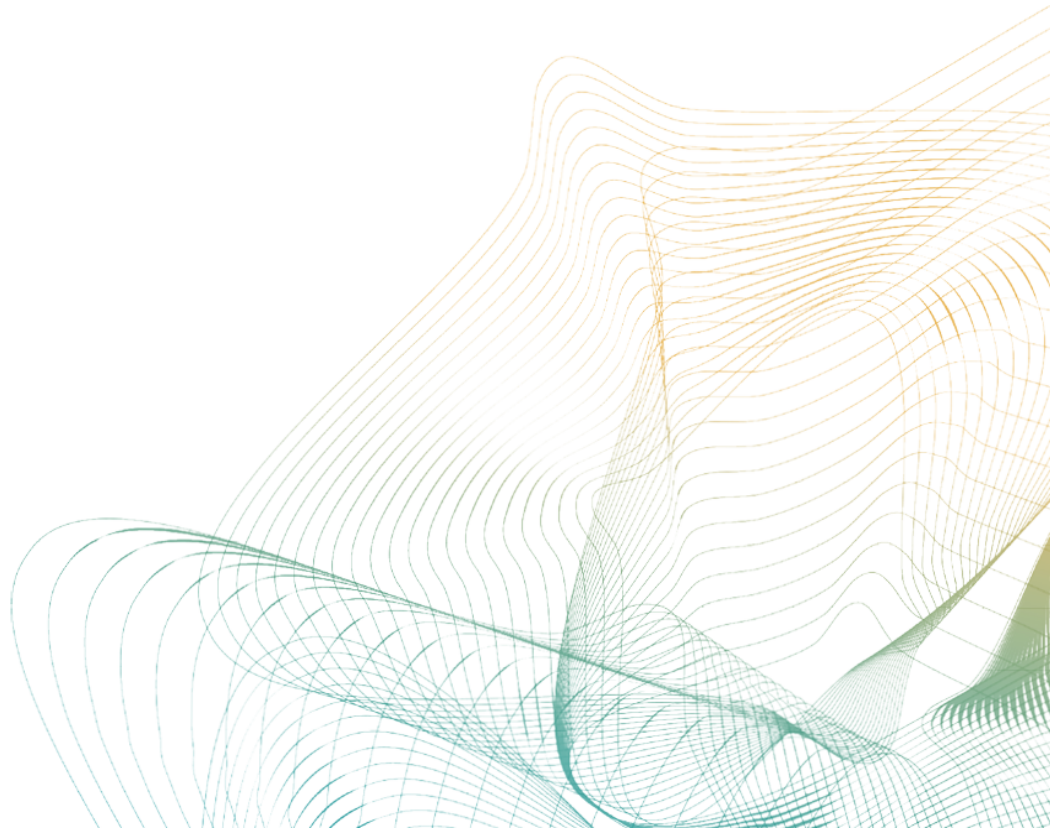


December Price Developments

4 January 2019



Summary

In December, consumer prices dropped by 0.40% and annual inflation decreased by 1.32 points to 20.30%. Energy prices reflected positive effects of the developments in oil prices and the exchange rate. The decline in annual food inflation was led both by unprocessed and processed food prices. The drivers of the fall in core goods inflation were durable consumption goods and clothing. Services inflation displayed an overall decline across subgroups. Inflation in December was influenced by the fall in oil prices and the mild course of the Turkish lira as well as weak demand conditions. Against this background, annual inflation in core indicators and the underlying trend both decelerated.

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 dropped by 0.40% and annual inflation decreased by 1.32 points to 20.30% (Chart 1). The annual rate of change in the B and C indices each declined by around 1.1 points to 20.15% and 19.53%, respectively (Chart 2).

An analysis of the contribution of subgroups to inflation indicates month-on-month declines of 0.63, 0.60, 0.07 and 0.06 points in the core goods, energy, services and food groups, respectively, in contrast to an increase of 0.06 points in the alcohol-tobacco-gold group.

Chart 1: CPI and D (Annual % Change)

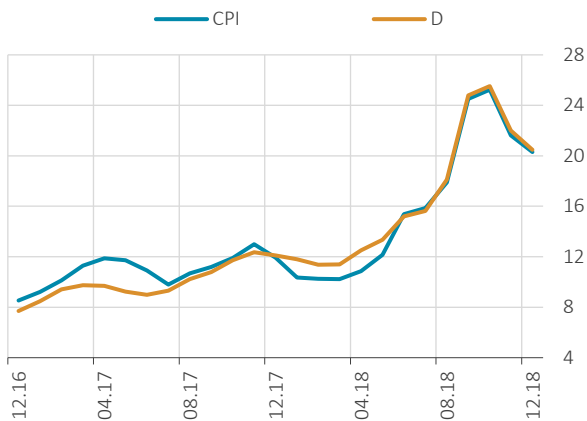
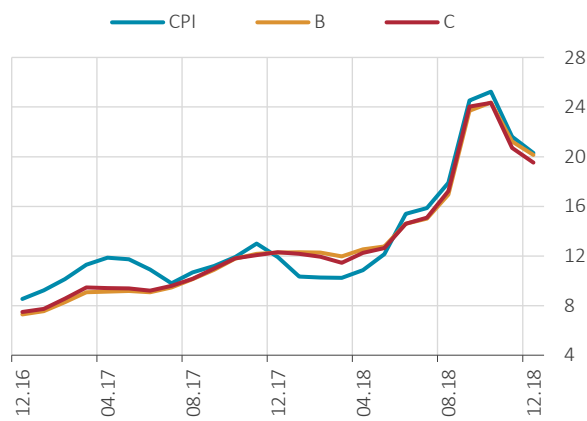


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators reveal a sustained deceleration in the underlying trend of inflation (Chart 3). In this period, the underlying trend decreased in core goods and services, while that in core goods proved more pronounced (Chart 4). The contribution of tax cuts to deceleration in the underlying trend of core goods in the last two months proved to be significant.

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

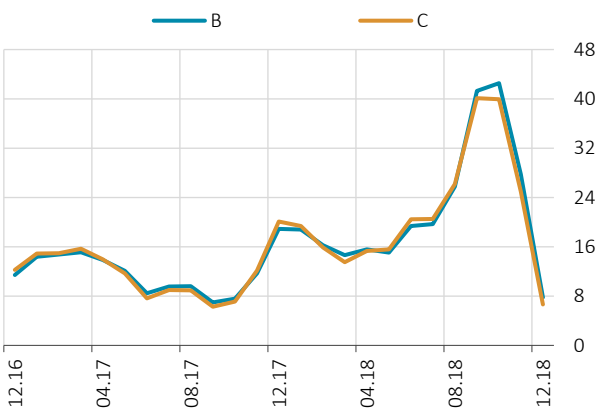
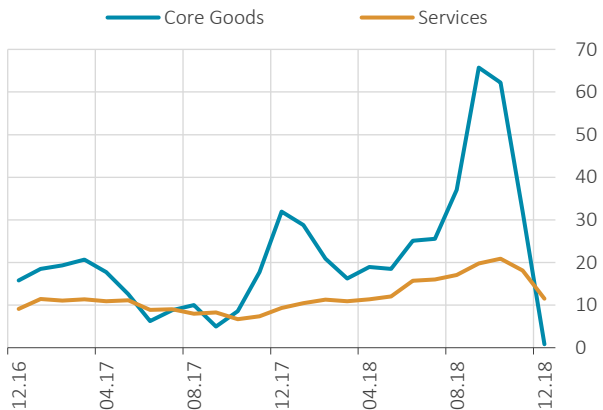


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



Services inflation increased by 0.25% in December, while annual inflation in this group fell by 0.21 points to 14.46% (Chart 5 and Table 1). Annual inflation remained flat in communication services, but decreased

in other sub-groups in this period (Chart 6). Inflation in transport services lost pace mainly due to falling fuel prices, while the restaurants-hotels group reflected the favorable course of food prices. The deceleration in rent inflation sustained in this period.

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

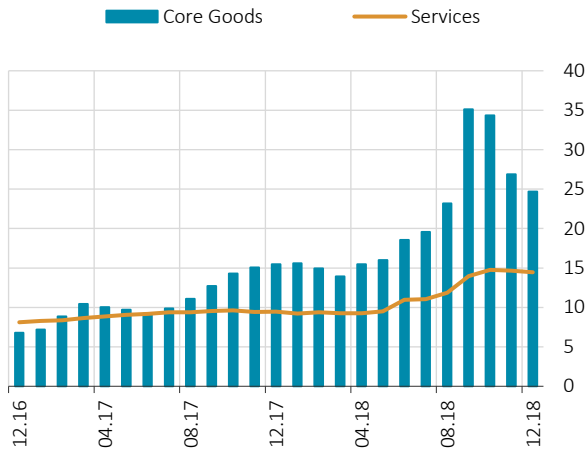
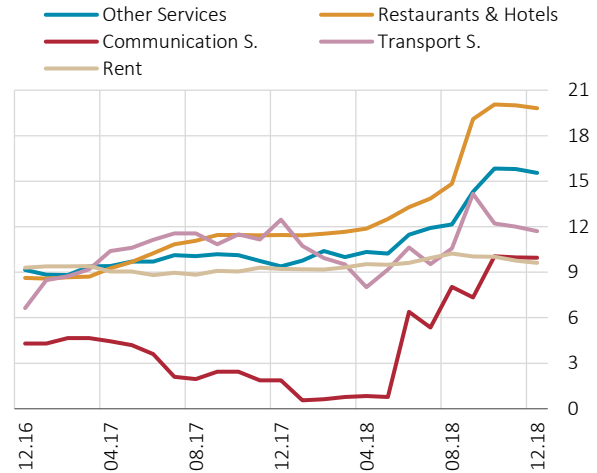


Chart 6. Services (Annual % Change)



Annual inflation in the core goods group fell by 2.22 points to 24.67%, and this fall was supported by all subgroups (Charts 5 and 7). The durable goods group witnessed an overall decline in prices in this period. The clothing group recorded the largest-ever December price decline in the index history. Meanwhile, the price increasing tendency in other core goods registered a notable deceleration. Against this background, the fall in the core goods inflation was led by exchange rate developments as well as the weak course of domestic demand.

Chart 7. Core Goods (Annual % Change)

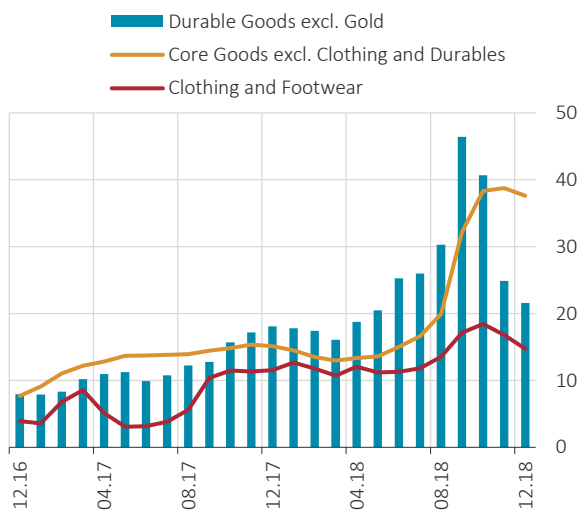
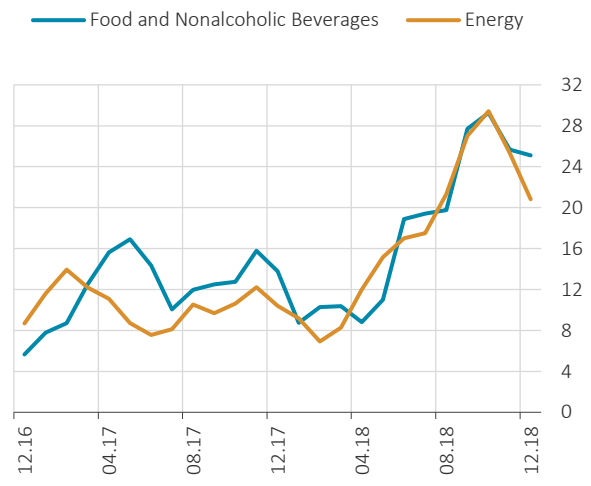


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



In December, energy prices fell by 3.12% month-on-month (Table 1). This decrease was led by the receding prices of fuel oil by 7.31%, amid sharp decline in international oil prices coupled with the

outlook for the Turkish lira. Bottled gas and solid fuel prices also fell by 2.14% and 1.18%, respectively. Accordingly, annual energy inflation fell by 4.53 points to 20.82% (Chart 8).

Annual inflation in food and nonalcoholic beverages decreased by 0.55 points to 25.11% (Chart 8 and Table 2). Meanwhile, annual inflation decreased to 27.09% in the unprocessed food group and to 23.22% in the processed food group (Chart 9). The decline in annual unprocessed food inflation was mainly driven by fresh fruits and vegetables prices. In this period, prices of processed food remained flat, depicting a favorable outlook. In this group, prices of dairy products, fats and oils and tea were down. Thus, annual food inflation excluding fresh fruits and vegetables inched down to 23.85% (Chart 10).

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

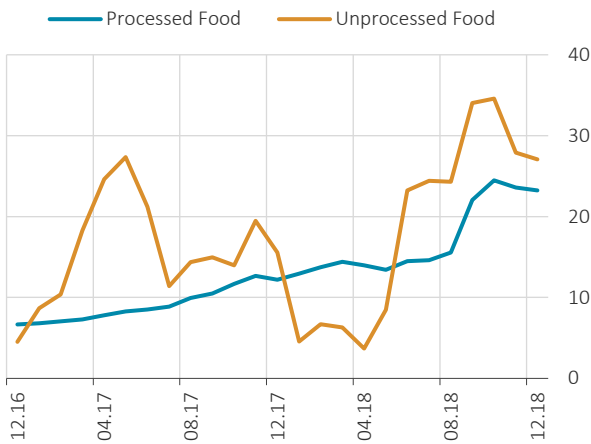


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

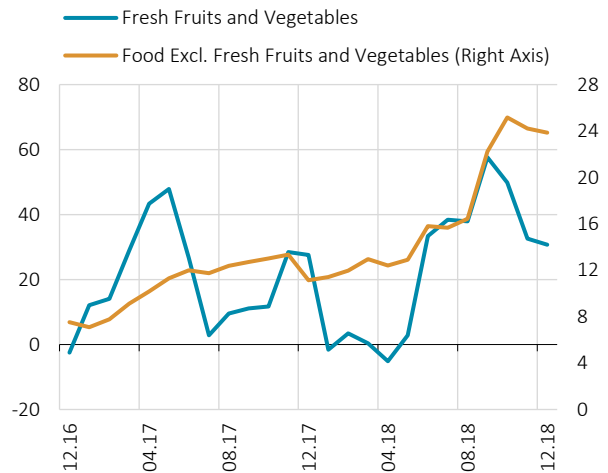


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	December 2018	December 2017	December 2018	December 2017
CPI	-0.40	0.69	20.30	11.92
1. Goods	-0.65	0.80	22.68	12.99
Energy	-3.12	0.50	20.82	10.41
Food and nonalcoholic beverages	1.08	1.52	25.11	13.79
Unprocessed food	2.18	2.85	27.09	15.55
Fresh fruits and vegetables	4.45	5.87	30.77	27.59
Other unprocessed food	0.81	1.09	24.90	9.30
Processed food	0.00	0.32	23.22	12.20
Bread and cereals	0.34	0.32	23.67	9.22
Other processed food	-0.17	0.32	22.97	13.91
Goods excluding energy and food	-0.85	0.46	21.78	13.49
Core goods	-1.09	0.67	24.67	15.45
Durable goods (excluding gold)	-0.53	2.18	21.57	18.08
Clothing and footwear(*)	-4.17	-2.45	14.75	11.51
Other core goods	0.39	1.21	37.63	15.13
Alcoholic beverages and tobacco	0.16	-0.01	2.39	2.86
Gold	1.33	-2.16	36.69	20.41
2. Services	0.25	0.43	14.46	9.47
Rents	0.51	0.65	9.61	9.21
Restaurants and hotels	0.31	0.47	19.81	11.47
Transport	0.37	0.66	11.70	12.46
Communication	-0.01	0.00	9.96	1.87
Other	0.10	0.31	15.56	9.39
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	-0.37	0.51	20.15	12.28
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	-0.45	0.55	19.53	12.30
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	-0.79	0.46	20.48	12.11

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

In December, domestic producer prices decreased by 2.22%, and annual D-PPI inflation fell by 4.90 points to 33.64% (Chart 11). The recent recovery in the Turkish lira and the decline in oil prices had positive effects on the whole index. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals decreased significantly (Chart 12).

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

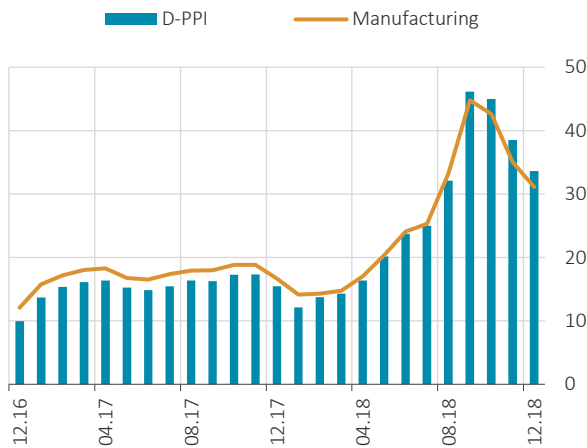
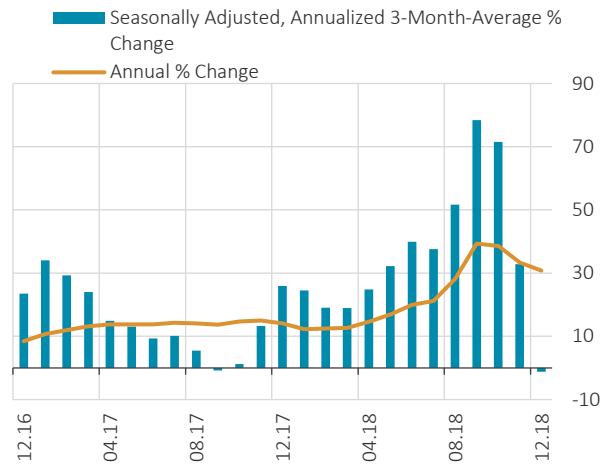


Chart 12. Manufacturing Excluding Petroleum and Base Metals



As for main industrial groupings, annual inflation was down in all groups, with the energy group in the lead (Table 3, Charts 13 and 14). Energy prices dropped owing to the fall in the prices of electricity, petroleum products and gas. The decrease in the prices of intermediate goods was mostly led by iron-steel, threads and fibers, and plastics whereas the decline in capital goods prices was mostly driven by metal construction materials, spare parts and accessories of motor vehicles and general purpose machinery. Prices of nondurable goods decreased due to developments in food products such as meat and oils, while prices of furniture fell in the durable goods. Consequently, producer prices decreased in the last two months owing to the recent outlook in the Turkish lira and the decline in energy prices. Nevertheless, annual producer price inflation remained high due to cumulative effects.

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

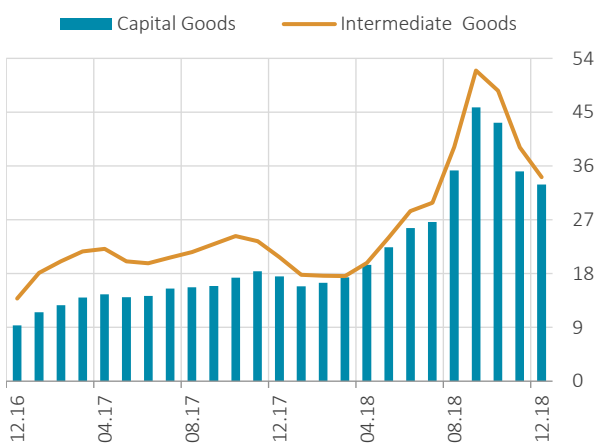
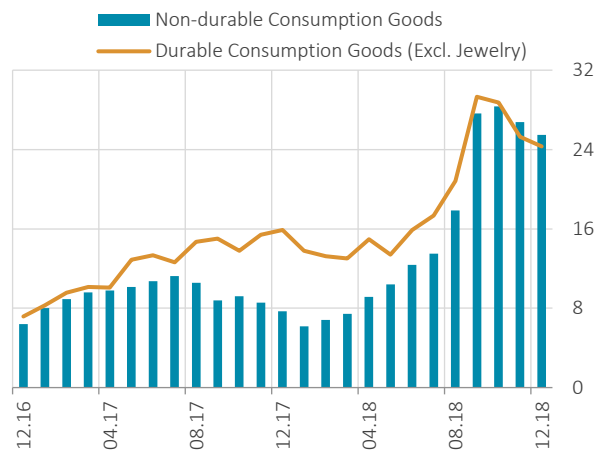


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	December 2018		December 2017	
		Monthly	Annual	Monthly	Annual
CPI	100	-0.40	20.30	0.69	11.92
Food and nonalcoholic beverages	23.03	1.08	25.11	1.52	13.79
Alcoholic beverages and tobacco	5.14	0.16	2.39	-0.01	2.86
Clothing and footwear	7.21	-4.08	14.83	-2.39	11.48
Housing	14.85	-0.06	23.73	0.77	9.62
Household equipment	7.66	0.13	31.36	1.18	12.74
Health	2.64	0.62	16.70	0.23	11.90
Transport	17.47	-2.56	15.97	1.69	18.24
Communication	3.91	-0.11	9.62	-0.17	1.41
Recreation and culture	3.39	-0.25	20.86	0.02	8.38
Education	2.67	0.02	10.19	0.03	10.48
Restaurants and hotels	7.27	0.31	19.81	0.47	11.47
Miscellaneous goods and services	4.76	0.78	28.80	0.05	12.77

Source: TurkStat.

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

	Weight	December 2018		December 2017	
		Monthly	Annual	Monthly	Annual
D-PPI	100	-2.22	33.64	1.37	15.47
Mining	3.26	-2.46	24.34	1.91	16.13
Manufacturing	89.02	-1.56	31.11	1.34	16.64
Manufacturing excl. petroleum products	86.52	-1.16	30.95	1.34	16.16
Manufacturing excl. petroleum products and base metals	79.60	-0.80	30.81	1.10	14.04
Electricity, gas, steam and air-conditioning sup.	6.74	-8.47	75.02	1.67	0.41
Water supply	0.98	-0.13	9.13	0.27	11.30
D-PPI (MIGs Classification)					
Intermediate Goods		-1.85	34.14	1.79	20.75
Durable Consumption Goods		-0.08	24.92	0.82	16.31
Durable Consumption Goods (Excl. Jewelry)		-0.02	24.31	0.76	15.89
Non-Durable Consumption Goods		-0.49	25.49	0.52	7.69
Capital Goods		-0.24	32.92	1.38	17.52
Energy		-8.91	57.13	1.80	11.23

Source: TurkStat.