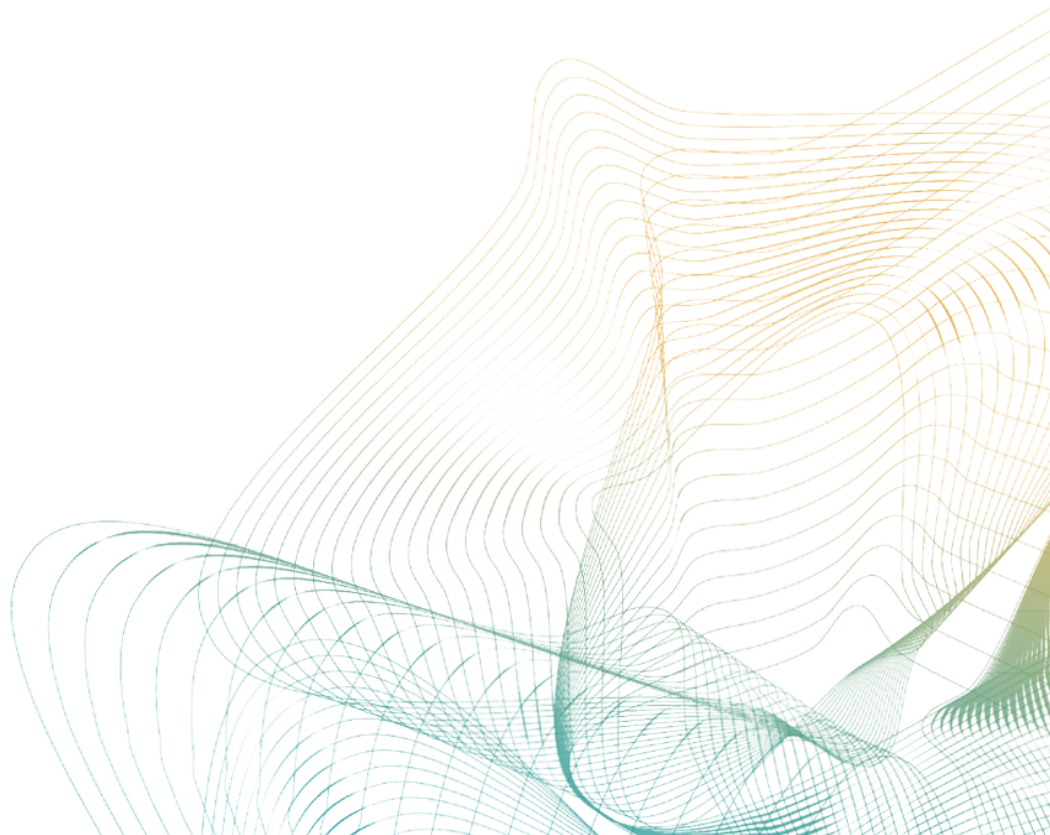




January Price Developments

5 February 2019



Summary

In January, consumer prices rose by 1.06% and annual inflation inched up by 0.05 points to 20.35%. Energy prices exhibited the effects of the price cuts in electricity, natural gas and water tariffs, while annual food inflation recorded higher figures due to soaring prices of fresh fruits and vegetables. Despite the increase in services inflation across subgroups, annual inflation in core indicators and the underlying trend both declined on the back of the mild course of core goods prices.

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 January, consumer prices rose by 1.06% and annual inflation inched up by 0.05 points to 20.35% (Chart 1). In this period, the annual rate of change in the B and C indices declined by 0.60 and 0.51 points to 19.55% and 19.02%, respectively (Chart 2).

An analysis of the contribution of subgroups to annual inflation indicates month-on-month declines of 0.97 and 0.65 points in the energy and core goods groups, respectively, in contrast to increases in the food and services groups by 1.34 and 0.30 points, respectively.

Chart 1: CPI and D (Annual % Change)

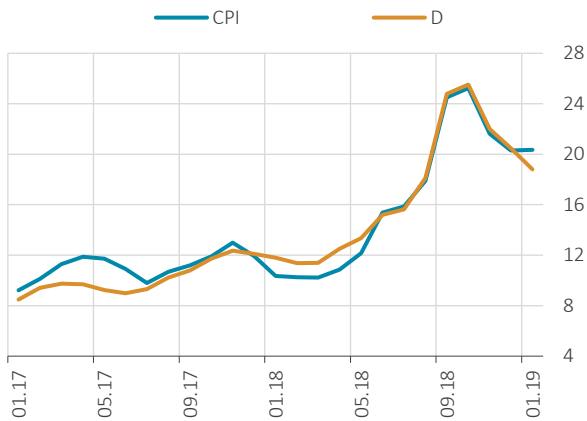
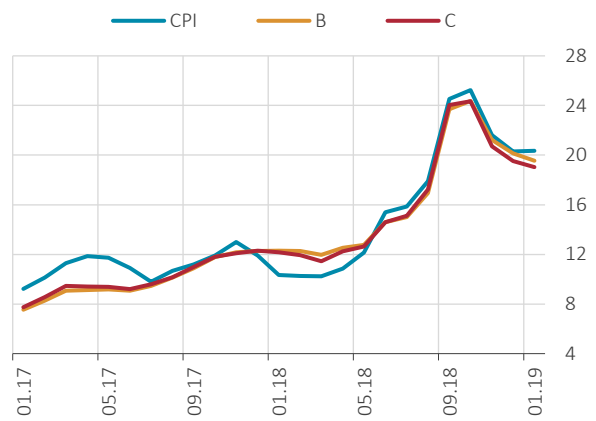


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators reveal a sustained deceleration (Chart 3). The underlying trend implied by this indicator receded in core goods, but rose slightly in services (Chart 4).

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

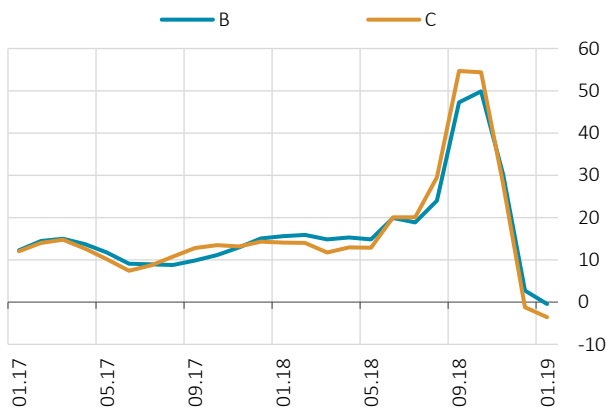
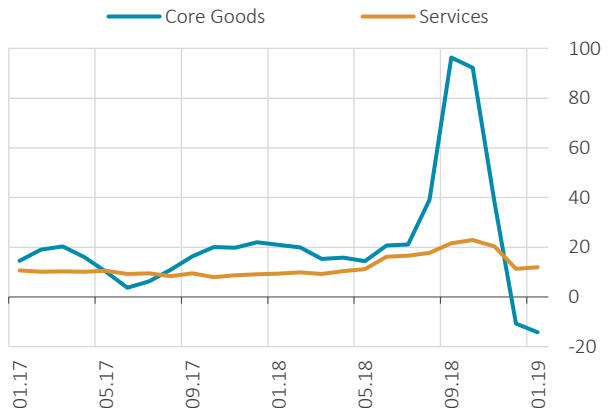


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



Services inflation increased by 2.09% in January, while annual inflation in this group rose by 0.94 points to 15.40% (Chart 5 and Table 1). Annual inflation displayed an uptick across all sub-groups in the services group (Chart 6). Lagged effects of cumulative increases in cost factors are still apparent in the prices of services. Thus, high-rated price increases were seen in transport services (highway and airway passenger

transport), communication services, and package tours (42.8% in pilgrimage tours) in the other services group. In sum, the weak course of domestic demand conditions notwithstanding, cost effects drove inflation in the services group upwards.

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

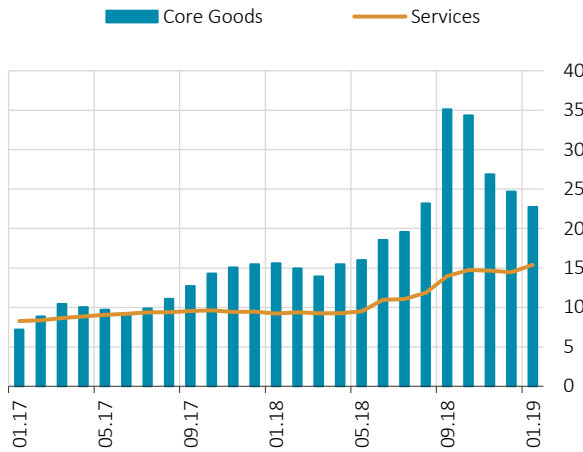
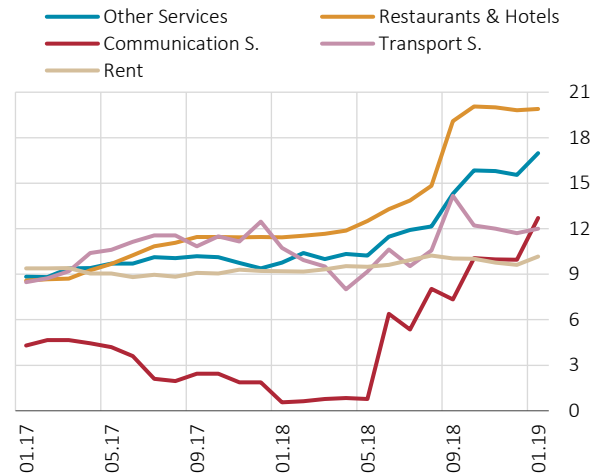


Chart 6. Services (Annual % Change)



Supported by all subgroups, annual inflation in the core goods group fell by 1.92 points to 22.75% (Charts 5 and 7). Automobile prices were the main driver of the fall in the prices of durable goods group in this period. Annual clothing inflation receded by 2.40 points to 12.35%. Other core goods exhibited a weak course of price increases, yet annual inflation remained high. Against this background, the fall in the core goods inflation was led by the mild course of the Turkish lira as well as the weak course of domestic demand.

Chart 7. Core Goods (Annual % Change)

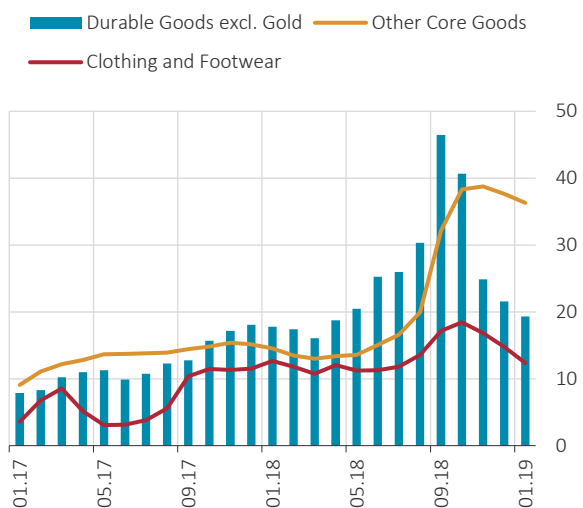
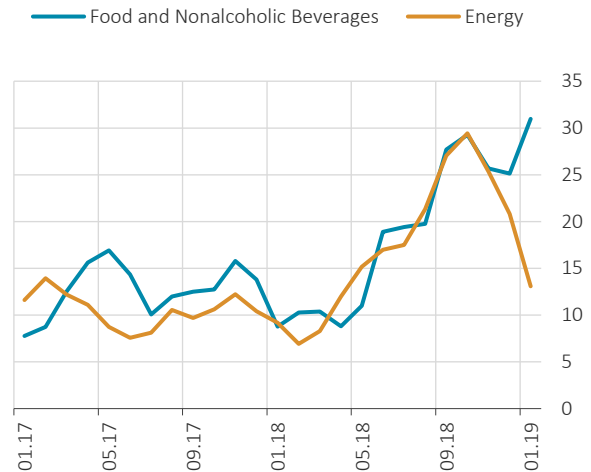


Chart 8. Food and Nonalcoholic Beverages and Energy (Annual % Change)



In January, energy prices fell by 4.20% month-on-month (Table 1), which was led by the price cuts in electricity, natural gas and water tariffs. In January, prices in these items fell by 10.00%, 8.34% and 5.02%, respectively. All in all, annual energy inflation fell by 7.76 points to 13.06% (Chart 8).

Annual inflation in food and nonalcoholic beverages increased by 5.86 points to 30.97% in January (Chart 8 and Table 2), which stemmed from unprocessed food prices that were stimulated mainly by the sharp price increase in fresh fruits and vegetables; whereas annual inflation receded in the processed food group (Chart 9). Annual unprocessed food inflation surged by 13.45 points to 40.54% in this period. This was led by the upsurge in prices of vegetables (42.57%) and potato (17.98%) driven by adverse weather conditions. Prices in the processed food group rose by 0.88% while the group’s annual inflation declined to 22.15%. Price hikes in bread-cereals and canned products stood out in this group. Thus, annual food inflation excluding fresh fruits and vegetables remained almost flat and hovered at 23.96% in January (Chart 10).

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

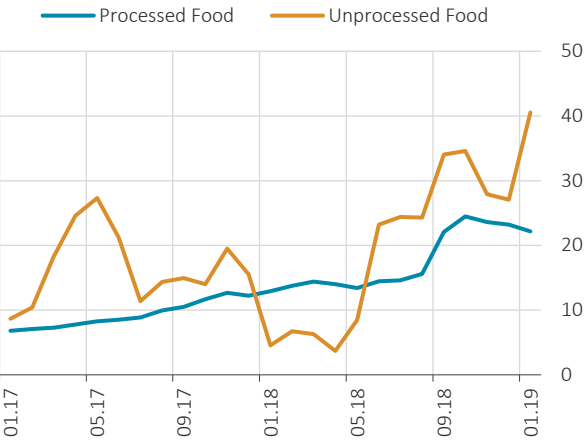


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

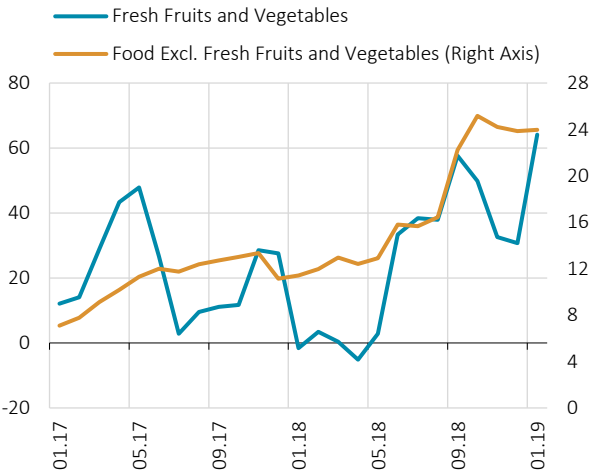


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	January 2019	January 2018	January 2019	January 2018
CPI	1.06	1.02	20.35	10.35
1. Goods	0.66	0.92	22.37	10.83
Energy	-4.20	2.37	13.06	9.17
Food and nonalcoholic beverages	6.43	1.67	30.97	8.76
Unprocessed food	12.33	1.58	40.54	4.56
Fresh fruits and vegetables	29.71	3.35	64.11	-1.63
Other unprocessed food	2.24	0.52	27.02	8.85
Processed food	0.88	1.76	22.15	12.93
Bread and cereals	1.22	2.68	21.91	10.88
Other processed food	0.70	1.27	22.28	14.14
Goods excluding energy and food	-1.37	-0.12	20.26	12.86
Core goods	-1.87	-0.34	22.75	15.58
Durable goods (excluding gold)	-0.22	1.69	19.30	17.80
Clothing and footwear (*)	-8.13	-6.17	12.35	12.68
Other core goods	0.45	1.42	36.31	14.52
Alcoholic beverages and tobacco	0.62	0.39	2.63	0.89
Gold	3.67	2.94	37.66	12.03
2. Services	2.09	1.26	15.40	9.23
Rents	1.33	0.82	10.17	9.19
Restaurants and hotels	1.07	1.01	19.89	11.42
Transport	0.85	0.58	12.00	10.74
Communication	1.18	-1.29	12.71	0.56
Other	4.05	2.78	16.98	9.77
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.18	0.69	19.55	12.31
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.04	0.47	19.02	12.18
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	-0.42	0.98	18.81	11.80
F – CPI excluding administered prices	1.66	0.80	22.53	11.31

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

In January, domestic producer prices increased by 0.45%, and annual D-PPI inflation fell by 0.71 points to 32.93% (Chart 11). Annual inflation in the manufacturing industry fell by 1.50 points to 29.61% in this period. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals continued to slow down (Chart 12).

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

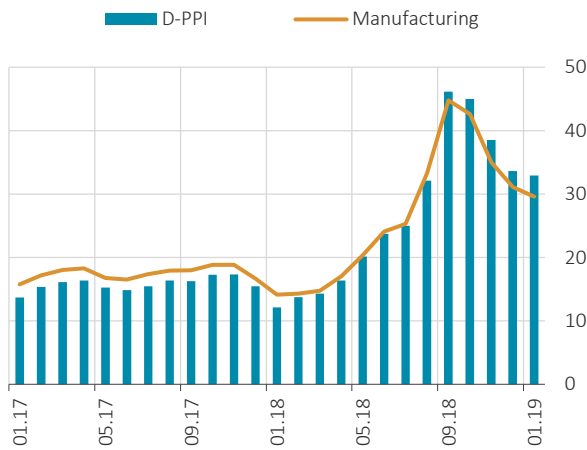
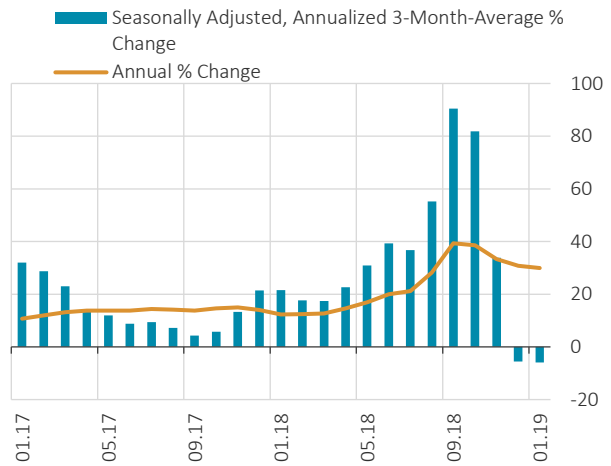


Chart 12. Manufacturing Excluding Petroleum and Base Metals



As for main industrial groupings, monthly price increases continued across all sub-groups, while annual inflation declined (Table 3, Charts 13 and 14). The increase in the prices of intermediate goods was mostly led by cabling products and concrete and cement, while prices of capital goods rose due to agricultural and forestry machinery, instruments and appliances for measurement and other general purpose machinery. The rise in the prices of durable goods was driven by furniture and home appliances, while price increases in food products stood out in nondurable goods. Consequently, annual producer price inflation decreased owing to the recent developments in the Turkish lira and commodity prices, yet remained high due to cumulative effects.

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

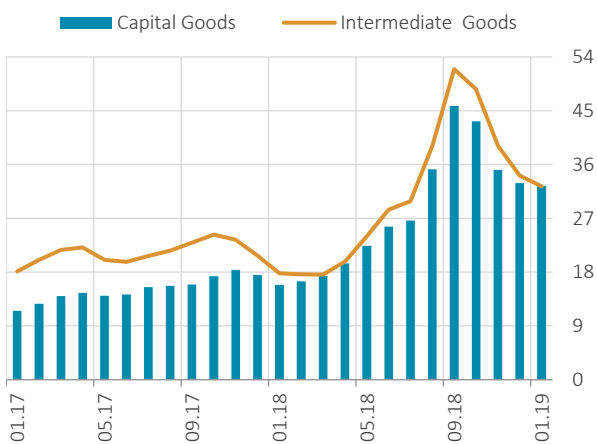
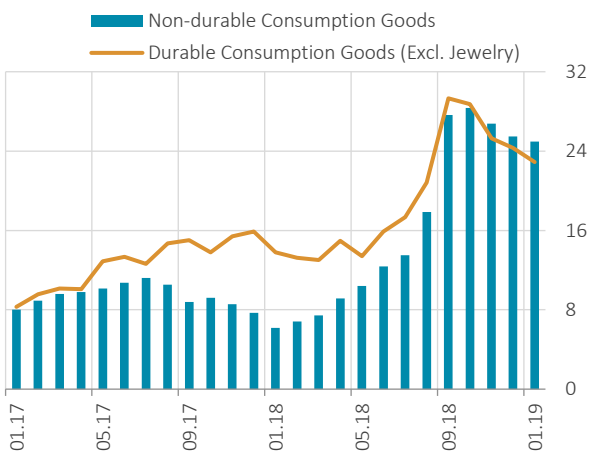


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

	Weight	January 2019		January 2018	
		Monthly	Annual	Monthly	Annual
CPI	100	1.06	20.35	1.02	10.35
Food and nonalcoholic beverages	23.29	6.43	30.97	1.67	8.76
Alcoholic beverages and tobacco	4.23	0.62	2.63	0.39	0.89
Clothing and footwear	7.24	-7.95	12.47	-6.02	12.63
Housing	15.16	-3.10	17.16	2.34	10.18
Household equipment	8.33	0.65	29.07	2.44	13.49
Health	2.58	3.56	17.99	2.42	9.51
Transport	16.78	0.20	14.71	1.30	16.02
Communication	3.69	0.74	11.54	-0.99	0.29
Recreation and culture	3.29	3.18	23.15	1.26	7.19
Education	2.40	0.07	10.02	0.23	10.68
Restaurants and hotels	7.86	1.07	19.89	1.01	11.42
Miscellaneous goods and services	5.15	3.62	29.63	2.96	11.38

Source: TurkStat.

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

	Weight	January 2019		January 2018	
		Monthly	Annual	Monthly	Annual
D-PPI	100	0.45	32.93	0.99	12.14
Mining	3.06	2.83	22.50	4.38	13.74
Manufacturing	89.31	0.47	29.61	1.63	14.13
Manufacturing excl. petroleum products	86.19	0.59	29.67	1.59	13.88
Manufacturing excl. petroleum products and base metals	76.71	0.96	29.96	1.62	12.30
Electricity, gas, steam and air-conditioning sup.	6.52	0.38	92.80	-8.87	-12.13
Water supply	1.11	-6.88	2.80	-1.15	6.07
D-PPI (MIGs Classification)					
Intermediate Goods		0.51	32.36	1.86	17.81
Durable Consumption Goods		1.02	23.67	2.04	14.05
Durable Consumption Goods (Excl. Jewelry)		0.86	22.90	2.02	13.79
Non-Durable Consumption Goods		0.42	24.95	0.85	6.16
Capital Goods		1.90	32.43	2.28	15.88
Energy		-1.27	61.49	-3.94	0.26

Source: TurkStat.