

OCTOBER PRICE DEVELOPMENTS



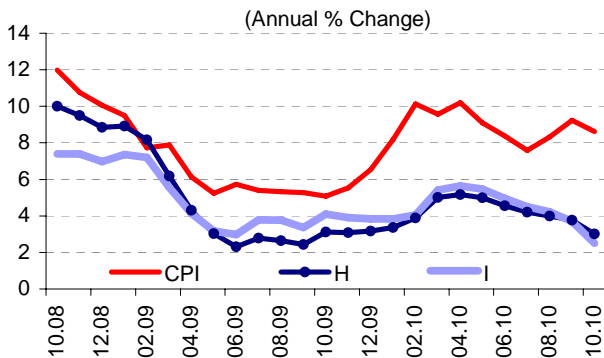
Central Bank of Turkey

November 4, 2010

SUMMARY...

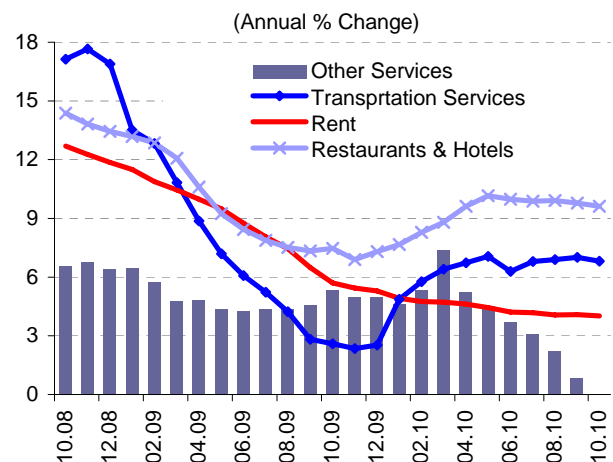
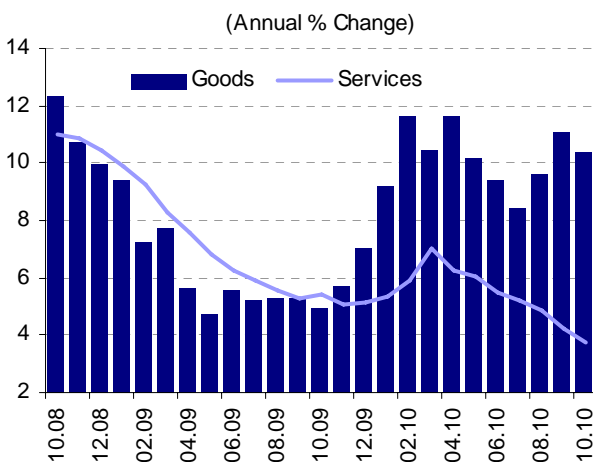
In October, consumer prices were up 1.83 percent, while annual inflation was down 0.62 percentage points to 8.62 percent. Yet, the decline was limited by rising unprocessed food prices. Inflation was generally moderate across all non-food categories. Thanks to the steady fall in annual services inflation, core inflation indicators remained in line with medium-term targets. Inflation is expected to continue to fall gradually in coming months.

...EVALUATIONS...



In October, consumer prices were up 1.83 percent, while annual inflation was down 0.62 percentage points to 8.62 percent. The rate of increase in the CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (SCA-H) fell to 3.02 percent year-on-year. With a further exclusion of processed food, the rate of increase in the index (SCA-I) dropped to 2.50 percent year-on-year.

Prices were up 2.36 and 0.30 percent in goods and services, respectively. Accordingly, inflation decreased to 10.37 percent year-on-year in goods and to 3.73 percent year-on-year in services.



Inflation continued to slow year-on-year across all subcategories of services. Prices of services excluding catering and transport, which are relatively more demand-sensitive, remained stable over the past three months, while annual services inflation dropped to 1.24 percent. Prices for communication services continued to decline. On the other hand, soaring meat prices put an upward pressure on catering prices.

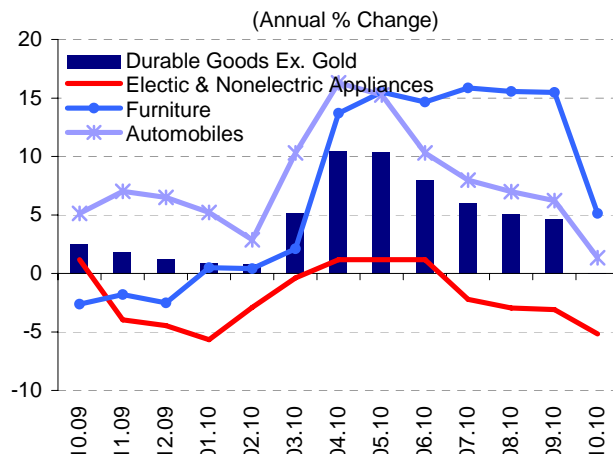
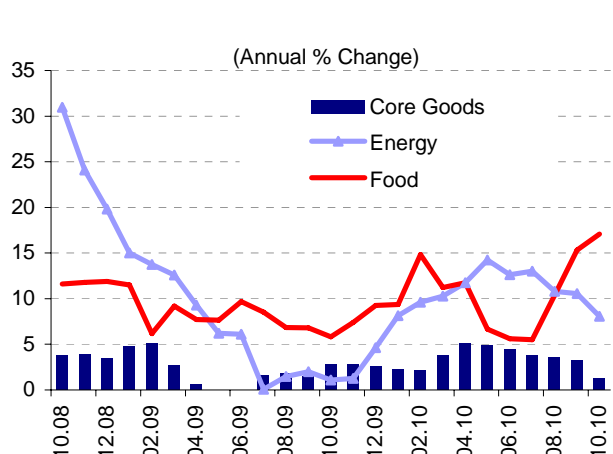
Energy prices rose by a mere 0.20 percent in October, largely due to the slight increase in fuel prices driven by higher international oil prices. The waning base effect of the sharp rise in electricity tariffs a year ago brought annual energy inflation down by 2.5 percentage points to 8.08 percent in October.

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The rate of increase in prices of core goods (goods excluding food, energy, alcoholic beverages, tobacco and gold) slowed to 1.25 percent year-on-year. Although this decline was mostly attributable to the fading base effects from the 2009 tax incentives, the annual inflation in core goods continued to fall in tax-adjusted terms. Indeed, prices of durable goods (excluding gold) continued to fall in October, and the downtrend spread across all subcategories. New-season price increases in clothing and footwear were lower than the seasonal averages in recent years.

| | Monthly Percentage Change | | Annual Percentage Change | |
|-----------------------------|---------------------------|--------------|--------------------------|--------------|
| | October 2010 | October 2009 | October 2010 | October 2009 |
| CPI | 1.83 | 2.41 | 8.62 | 5.08 |
| 1. Goods | 2.36 | 3.00 | 10.37 | 4.96 |
| Energy | 0.20 | 2.50 | 8.08 | 1.10 |
| Unprocessed Foods | 7.96 | 5.87 | 31.28 | 13.18 |
| Processed Food | 1.19 | 0.50 | 5.04 | 0.01 |
| Goods excl. Energy and Food | 1.41 | 3.29 | 5.63 | 6.16 |
| Core Goods | 2.06 | 4.00 | 1.25 | 2.77 |
| Durable Goods | -0.18 | 4.12 | 1.97 | 4.42 |
| ex. Gold | -0.31 | 4.24 | 0.06 | 2.50 |
| Semi-Durable Goods | 2.18 | 3.62 | 6.24 | 2.03 |
| Non-Durable Goods | 3.23 | 2.24 | 15.94 | 7.36 |
| 2. Services | 0.30 | 0.76 | 3.73 | 5.42 |
| Rents | 0.40 | 0.47 | 4.01 | 5.70 |
| Restaurants and Hotels | 1.08 | 1.24 | 9.61 | 7.48 |
| Transport | 0.41 | 0.59 | 6.81 | 2.60 |
| Other | -0.16 | 0.72 | -0.06 | 5.31 |

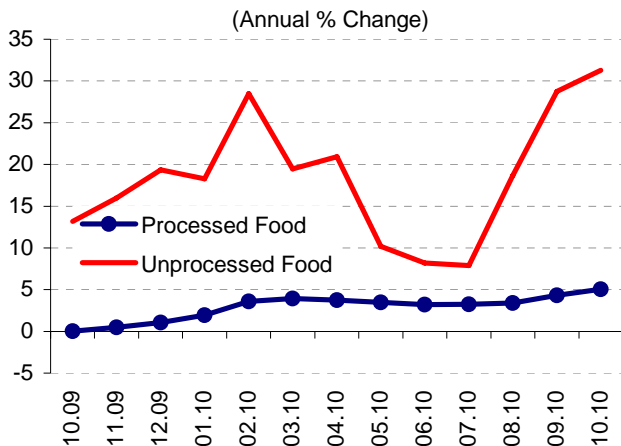
Source: TURKSTAT, CBRT

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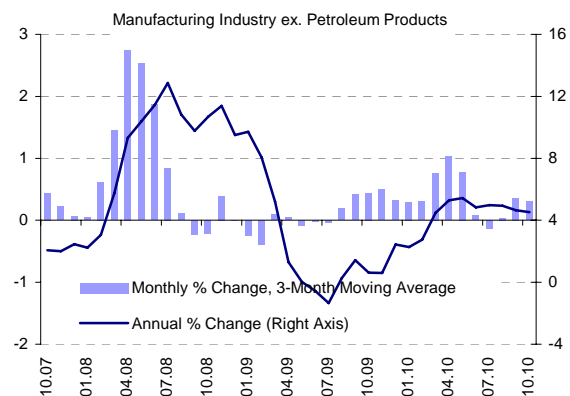
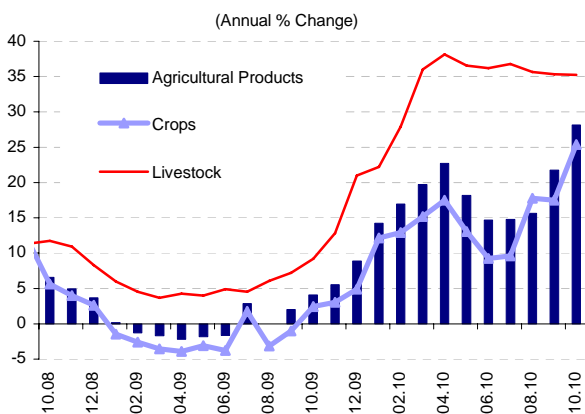


Unprocessed food prices continued to rise in October amid soaring prices of vegetables, particularly record-high tomato prices (up 112.22 percent month-on-month). Thus, tomato added 1.16 percentage points to CPI inflation in two months. Due to the effect of the market entry of greenhouse crops on supply side over the coming period, tomato prices are likely to see a significant downward correction.

Meanwhile, chicken meat prices continued to decline (by -5.60 percent), whereas red meat prices continued to increase (by 1.60 percent). The rise in red meat prices had a stronger impact on October's processed meat prices, which surged by 3.07 percent. Prices for other processed food products also increased rapidly over the past two months. Accordingly, the annual inflation in food and non-alcoholic beverages rose by 1.75 percentage points to 17.08 percent, contributing 4.67 percentage points to the annual CPI inflation.

...PPI...

In October, producer prices increased by 1.21 percent, while annual PPI inflation rose to 9.92 percent. Agricultural prices increased by a dramatic 6.59 percent amid soaring prices of vegetables, particularly tomatoes. Meanwhile, livestock prices continued to rise at a faster pace. Prices for raw materials such as wheat, barley and cotton also increased further.



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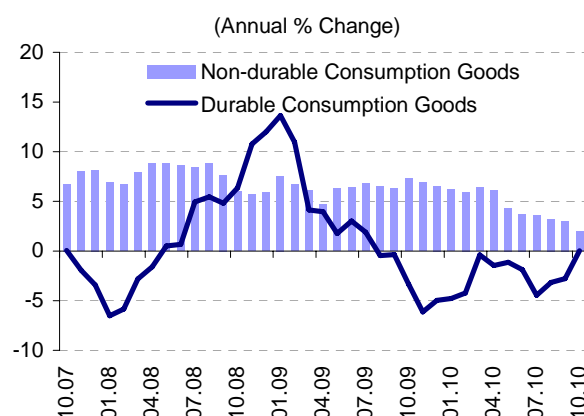
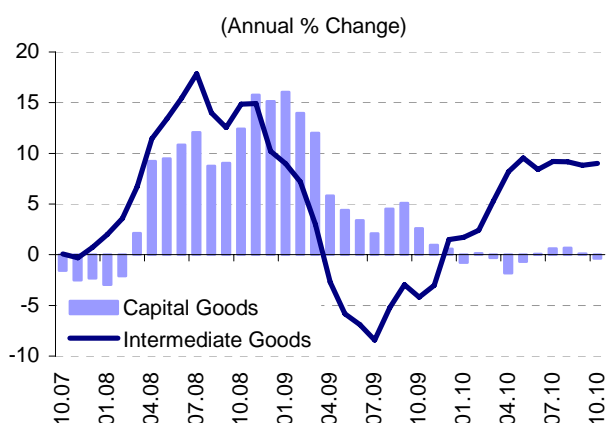
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Manufacturing industry prices remained stable month-on-month, whereas manufacturing industry prices excluding petroleum products and base metals picked up by 0.36 percent due to higher producer prices for textile products.

Based on the MIGs classification, prices of intermediate goods and capital goods declined month-on-month, while prices of durable goods increased on rising producer prices for white goods and furniture. Among non-durable goods, higher producer prices for textiles were balanced by lower producer prices for white meat and dairy products.

Overall, rising agricultural prices continue to weigh on consumer prices, whereas manufacturing industry prices have no significant effect.



Changes in PPI based on MIGS Classification

Monthly Percentage Change

| | Oct 09 | Nov 09 | Dec 09 | Jan 10 | Feb 10 | Mar 10 | Apr 10 | May 10 | Jun 10 | Jul 10 | Aug 10 | Sept 10 | Oct 10 | Annual |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|
| Intermediate goods | -0.41 | 0.63 | 0.89 | 0.28 | 0.66 | 3.06 | 1.80 | 0.00 | -0.50 | 0.49 | 0.79 | 0.83 | -0.22 | 9.02 |
| Capital goods | 0.03 | 0.67 | -0.15 | -0.16 | 0.36 | 0.59 | -0.72 | -0.59 | 0.10 | 0.12 | -0.18 | 0.04 | -0.45 | -0.37 |
| Durable goods | -1.63 | -0.01 | 0.43 | -0.36 | -0.92 | 0.28 | -0.48 | 0.78 | 0.16 | -1.64 | 0.49 | 0.13 | 1.23 | 0.03 |
| Non-durable goods | 1.23 | 0.20 | -0.02 | 0.12 | 0.54 | 0.73 | 0.45 | -0.49 | -0.51 | 0.29 | -0.27 | 0.74 | 0.17 | 1.96 |
| Energy | -0.12 | 4.31 | 0.25 | 0.54 | 4.88 | 1.99 | 0.91 | 0.47 | -0.93 | 0.68 | 2.45 | -0.01 | 0.15 | 16.68 |

Source: TURKSTAT, CBRT.

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... TABLES

| October CPI and Sub-Items (Percentage Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2010 | | 2009 | |
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100 | 1.83 | 8.62 | 2.41 | 5.08 |
| Food and nonalcoholic beverages | 27.60 | 4.52 | 17.08 | 2.96 | 5.82 |
| Alcoholic beverages and tobacco | 5.31 | -1.10 | 23.77 | 0.14 | 20.95 |
| Clothing and footwear | 7.30 | 7.63 | 4.33 | 8.39 | 0.32 |
| Housing | 16.83 | 0.19 | 5.32 | 2.12 | 2.67 |
| Household equipment | 6.78 | -0.12 | 1.19 | 2.51 | 0.33 |
| Health | 2.55 | 0.14 | 0.10 | 0.06 | 2.61 |
| Transport | 13.90 | 0.39 | 6.22 | 2.11 | 2.74 |
| Communication | 4.94 | -0.63 | -5.13 | 1.21 | 3.06 |
| Recreation and culture | 2.83 | -1.14 | -2.44 | 0.85 | 12.32 |
| Education | 2.48 | 0.09 | 4.43 | 0.17 | 5.52 |
| Restaurants and hotels | 5.51 | 1.08 | 9.61 | 1.24 | 7.48 |
| Miscellaneous goods and services | 3.97 | 0.84 | 5.00 | 0.93 | 12.86 |

Source: TURKSTAT.

| October PPI and Sub-Items (Percentage Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2010 | | 2009 | |
| | | Monthly | Annual | Monthly | Annual |
| PPI | 100 | 1.21 | 9.92 | 0.28 | 0.19 |
| Agriculture | 17.07 | 6.59 | 26.71 | 1.13 | 5.52 |
| Industry | 82.93 | 0.01 | 6.47 | 0.10 | -0.97 |
| Mining | 2.62 | -1.17 | 8.61 | -1.44 | 3.71 |
| Manufacturing | 72.95 | 0.08 | 5.15 | 0.16 | -0.73 |
| Electricity, gas and water | 7.36 | -0.30 | 19.18 | -0.24 | -7.96 |

Source: TURKSTAT.

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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.