

FEBRUARY PRICE DEVELOPMENTS

4 MARCH 2021

Summary

In February, consumer prices were up by 0.91%, and annual inflation increased by 0.64 points to 15.61%. Due to the rise in international commodity prices and the supply constraints intensifying in some sectors, the trend of strong increases in producer prices continued. Annual inflation increased across all subcategories, predominantly driven by core goods and food groups. While prices of durable consumption goods and other core goods followed a mild course in this period due to the partial alleviation of cumulative exchange rate effects, annual inflation in the clothing group continued to increase. Food inflation was driven up by processed food prices, largely due to the lingering effects of the rise in raw milk purchase prices as well as the prices of meat and international agricultural commodities. Despite rising international oil prices, energy prices posted a limited monthly increase due to exchange rate developments and the sliding-scale system, whereas annual energy inflation rose due to the low base. Meanwhile, annual services inflation increased somewhat. Against this background, annual inflation of the B and C indices increased while their trends declined due to core goods.

Price Developments are published within one working day following the announcement of price statistics by the Turkish Statistical Institute (TurkStat). Price Developments, which include the 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 were up by 0.91%, and annual inflation increased by 0.64 points to 15.61% (Chart 1). In this period, annual rates of change in the B and C indices rose by 0.92 and 0.71 points to 16.92% and 16.21%, respectively (Chart 2).

Across subcategories, contributions of core goods, food, energy, and services groups to annual consumer inflation rose month-on-month by 0.30, 0.21, 0.11 and 0.05 points, respectively, while that of alcohol-tobacco-gold declined by 0.03 points.

Chart 1: CPI and D (Annual % Change)

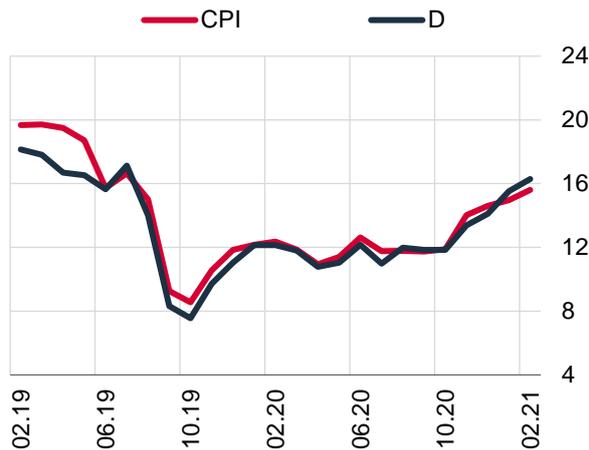
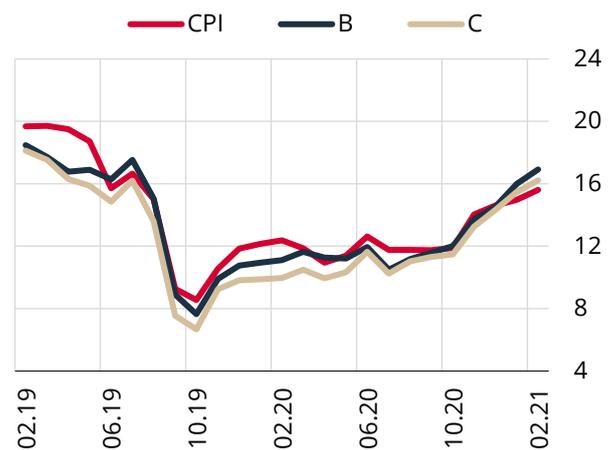


Chart 2: CPI, B and C (Annual % Change)



As of 2021, weights within the CPI basket have been updated. It is assessed that the change in weights in January had an upward effect on inflation path by 0.4 points as of February. This effect is expected to gradually decrease after reaching 0.5 points in April and disappear by the end of the year.

Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of B and C indices remained high despite some decline (Chart 3). In this period, while the core inflation trend registered a partial improvement driven by core goods, the services inflation trend remained almost flat. Meanwhile, the processed food inflation trend remained elevated (Chart 4).

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

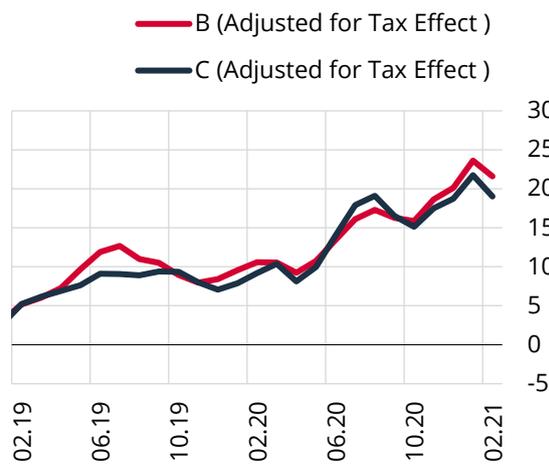
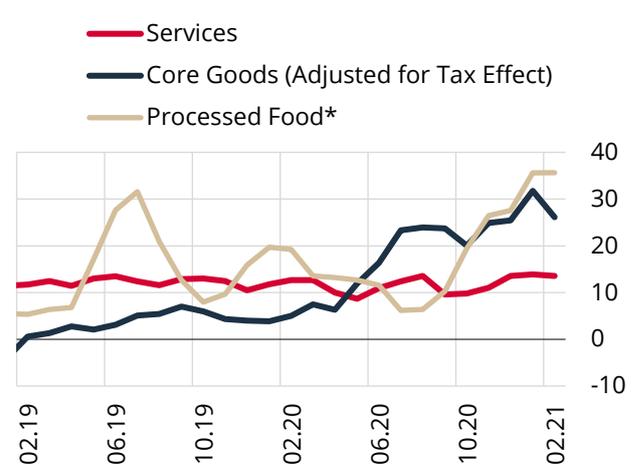


Chart 4: Main Components of B Index (Seasonally adjusted, Annualized 3-Month Average % Change)



*There is no seasonal effect in the processed food group.

In February, services prices increased by 1.04%, and the group's annual inflation edged up by 0.22 points to 11.74% (Chart 5). While this increase was driven by communication and restaurants-hotels groups, annual inflation decreased in transport and remained almost flat in rents and other services (Chart 6). Due to the increase in the special communication tax from 7.5% to 10% in this period, communication services inflation rose in tandem with increased charges for mobile phone calls and internet services. The rise in annual inflation in restaurants-hotels was mainly driven by catering services, and the increases in food prices and the minimum wage were influential in this development. On the other hand, inflation in accommodation services remained at low levels. In the other services group, the uptrend in health and maintenance-repair items continued whereas items such as insurance, package tours, recreation-culture and education, which had low inflation rates during the pandemic, curbed a more negative outlook.

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

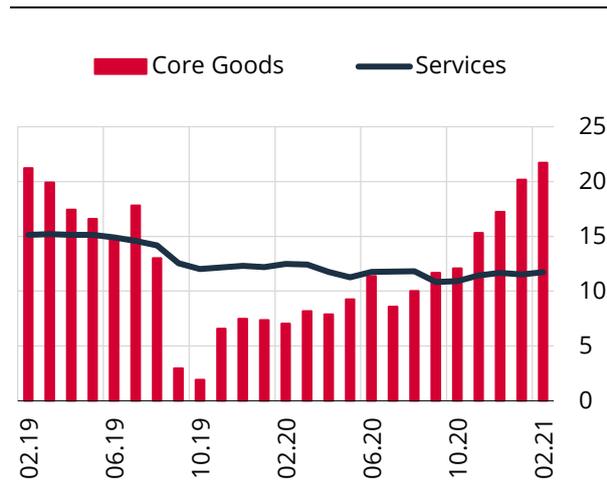
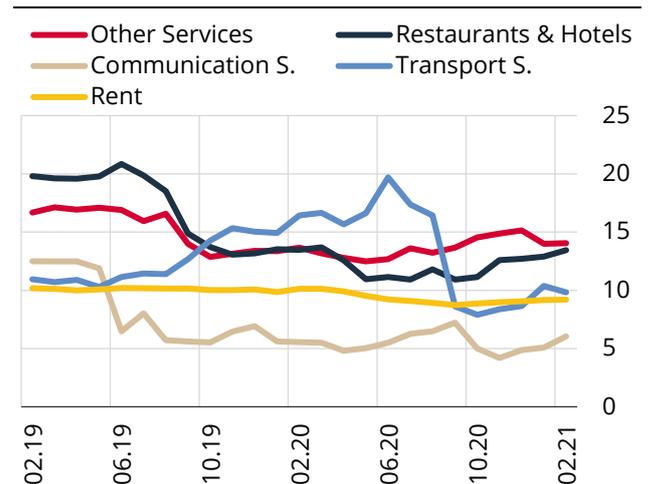


Chart 6. Services (Annual % Change)



In February, prices of core goods edged down by 0.12%, and annual core goods inflation increased by 1.52 points to 21.70% (Chart 5). While annual inflation rose in clothing-footwear and durable goods, it remained flat in other core goods (Chart 7). As the seasonal sales in clothing and footwear were more limited compared to the previous year, annual inflation in this group surged by 4.27 points to 6.18%, becoming the main driver of the rise in core goods inflation. In durable consumption goods, where annual inflation remains elevated due to international commodity prices and supply constraints as well as demand-side factors, price increases decelerated significantly on the back of the partial alleviation of exchange rate effects. In February, durable goods excluding gold posted a mild price increase of 0.25% whereas annual inflation increased by 0.73 points to 34.28% due to the low base. Prices in other core goods dropped by 0.19%, while annual inflation in this group remained flat. Medicine prices, which increased month-on-month by 6.09% due to reference pricing, hindered a more favorable outlook. It should be noted that some portion of the increase in medicine prices will be reflected in March figures.

Chart 7. Core Goods (Annual % Change)

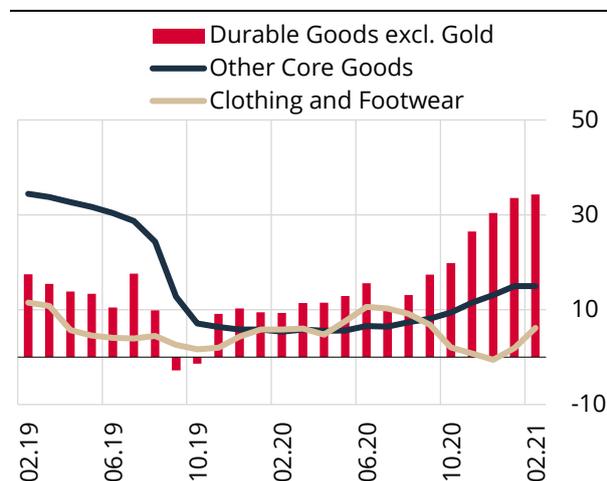
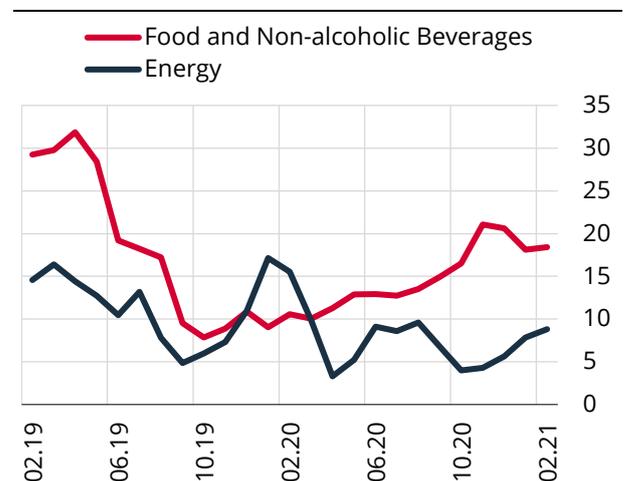


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In February, energy prices rose by 0.25% (Table 1). Prices of natural gas and municipal water rose by 0.80% and 0.59%, respectively. Despite rising oil prices in February, the appreciated Turkish lira coupled with the implementation of the sliding-scale system limited the increase in fuel prices to 0.16%. All in all, annual energy inflation rose by 0.96 points to 8.82% due to the low base led by declining oil prices in the same period of the previous year (Chart 8).

In February, prices of food and non-alcoholic beverages increased by 2.57%, while the group's annual inflation rose by 0.29 points to 18.40% (Chart 8 and Table 2). In this period, annual inflation rose by 1.61 points to 19.72% in the processed food group, but declined by 1.07 points to 17.01% in the unprocessed food group due to the base effect (Chart 9). Inflation in fresh fruits and vegetables declined somewhat in this period, whereas the other unprocessed food group recorded further increases in meat prices, while the lagged effects of the raw milk reference price adjustment persisted on milk prices (5.17%). In February, processed food prices remained on an upward track with a monthly upsurge of 2.27%. In tandem with hikes in meat prices, processed meat prices displayed an uptick (3.03%). Moreover, the indirect effects of adjustment in raw milk prices spread across the related groups, primarily cheese and other dairy products (5.78%). The fats-oils group continued to register sharp increases with the impact of international commodity prices. Against this background, annual food inflation excluding fresh fruits and vegetables reached 20.75% (Chart 10).

Due to the lingering effect of the special consumption tax rise imposed on alcoholic beverages in January, annual inflation in alcoholic beverages rose by 2.31 points to 20.79% in February.

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

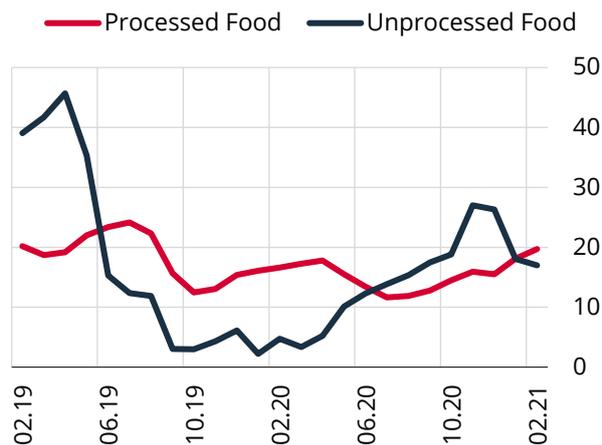
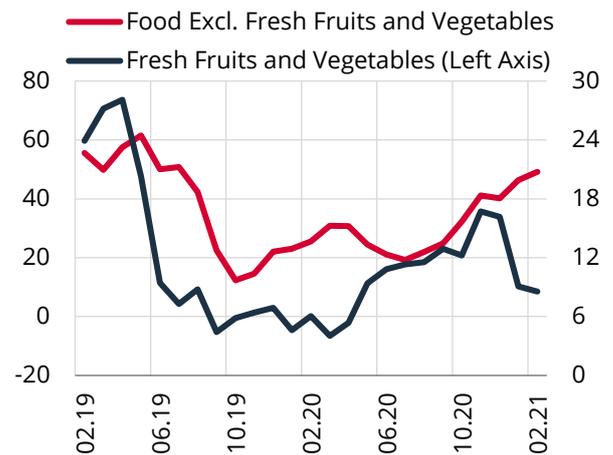


Chart 10. Fresh Fruits-Vegetables and Other Food
(Annual % Change)



D-PPI

In February, domestic producer prices rose by 1.22%, and annual D-PPI inflation increased by 0.93 points to 27.09% (Chart 11 and Table 3), mainly due to the increases in international commodity prices and the lingering setbacks in the supply chain. Despite the appreciation in the Turkish lira in February, price hikes in input-providing sectors such as oil, chemical products, food, wood, cork and paper continued. Accordingly, the trend of manufacturing industry prices excluding petroleum and base metals remained high, albeit with some deceleration in this period (Chart 12).

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

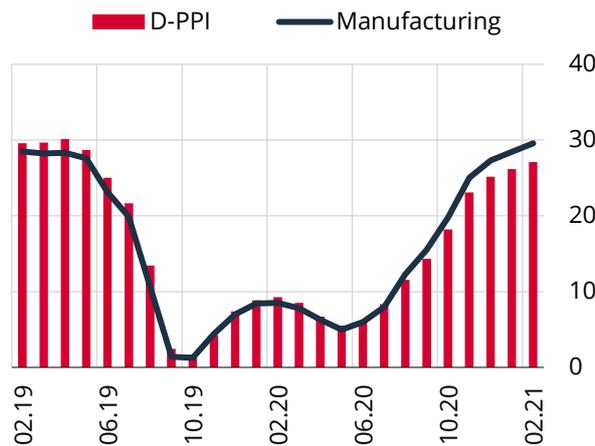
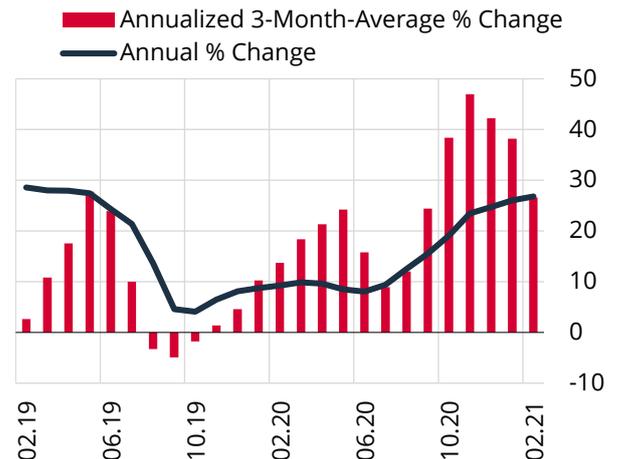


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groups, annual inflation increased in energy and non-durable consumption goods, remained almost flat in intermediate goods and durable consumption goods, and decreased in capital goods (Table 3, Charts 13 and 14). In monthly terms, except capital goods, prices increased across all subcategories, most notably non-durable goods. Prices of intermediate goods rose due to textile threads and fibres, wood products, construction related products and paper products. Prices in the energy group were shaped by oil price hikes, while price increases in furniture and home appliances continued in durable consumption goods in this period. In non-durable consumption goods, alongside medicines, price increases across the food manufacturing sector, mostly in meat and dairy products, and fats-oils proved notable. Meanwhile, in capital goods, falling prices were attributed to metal construction products as well as computer and peripherals. Overall, the producer prices-driven pressures on consumer prices continued strongly.

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

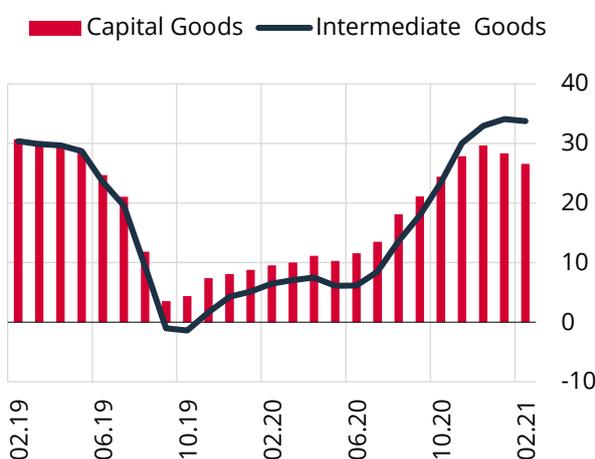
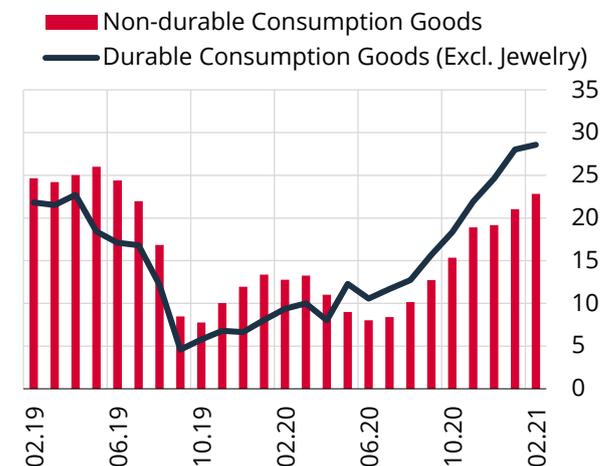


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	February 2021	February 2020	February 2021	February 2020
CPI	0.91	0.35	15.61	12.37
1. Goods	0.86	0.14	17.32	12.27
Energy	0.25	-0.63	8.82	15.54
Food and non-alcoholic beverages	2.57	2.33	18.40	10.58
Unprocessed food	2.91	3.85	17.01	4.73
Fresh fruits and vegetables	5.21	6.83	8.55	0.18
Other unprocessed food	1.64	2.02	22.43	8.70
Processed food	2.27	0.89	19.72	16.61
Bread and cereals	1.18	1.20	19.03	17.78
Other processed food	2.85	0.71	20.04	15.98
Goods excluding energy and food	-0.21	-1.10	19.40	12.26
Core goods	-0.12	-1.37	21.70	7.05
Durable goods (excluding gold)	0.25	-0.29	34.28	9.32
Clothing and footwear (*)	-0.97	-4.95	6.18	5.80
Other core goods	-0.19	-0.19	14.94	5.37
Alcoholic beverages and tobacco	0.13	-1.34	2.87	40.15
Gold	-5.46	4.16	34.34	35.00
2. Services	1.04	0.84	11.74	12.49
Rents	0.84	0.81	9.20	10.11
Restaurants and hotels	1.32	0.82	13.44	13.45
Transport	0.29	0.79	9.83	16.42
Communication	1.09	0.18	6.04	5.54
Other	1.14	1.09	14.04	13.65
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.79	0.00	16.92	11.10
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.44	-0.18	16.21	9.97
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.65	-0.01	16.29	12.14
F - CPI excluding administered prices	0.96	0.44	17.22	9.87

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	February 2021		February 2020	
		Monthly	Annual	Monthly	Annual
CPI	100	0.91	15.61	0.35	12.37
Food and non-alcoholic beverages	25.94	2.57	18.40	2.33	10.58
Alcoholic beverages and tobacco	4.88	0.13	2.87	-1.34	40.15
Clothing and footwear	5.87	-0.93	6.31	-4.83	5.98
Housing	15.36	0.60	11.69	0.48	15.31
Household equipment	8.64	0.32	23.74	-0.08	7.36
Health	3.25	3.00	18.11	2.03	13.58
Transport	15.49	0.48	22.47	-0.38	11.73
Communication	4.64	0.56	7.15	-0.22	2.27
Recreation and culture	3.01	-0.98	8.72	-0.04	6.01
Education	2.28	0.86	6.13	0.86	14.23
Restaurants and hotels	5.91	1.32	13.44	0.82	13.45
Miscellaneous goods and services	4.73	-2.32	20.61	0.85	16.44

Source: TURKSTAT.

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

	Weight	February 2021		February 2020	
		Monthly	Annual	Monthly	Annual
D-PPI	100	1.22	27.09	0.48	9.26
Mining	3.51	-0.14	17.32	1.44	12.26
Manufacturing	87.27	1.56	29.57	0.66	8.52
Manufacturing excl. petroleum products	83.46	1.38	29.93	1.12	8.77
Manufacturing excl. petroleum products and base metals	75.28	1.58	26.82	0.97	9.25
Electricity, gas, steam and air-conditioning sup.	8.38	-1.73	0.68	-2.38	19.24
Water supply	0.85	1.06	27.31	-0.07	5.27
D-PPI (MIGs Classification)					
Intermediate Goods		1.05	33.77	1.29	6.46
Durable Consumption Goods		0.85	29.29	1.30	10.40
Durable Consumption Goods (Excl. Jewelry)		1.60	28.57	1.17	9.37
Non-Durable Consumption Goods		2.44	22.81	0.94	12.77
Capital Goods		-0.48	26.54	0.93	9.55
Energy		0.68	8.44	-4.17	12.34

Source: TURKSTAT.