

# SEPTEMBER PRICE DEVELOPMENTS

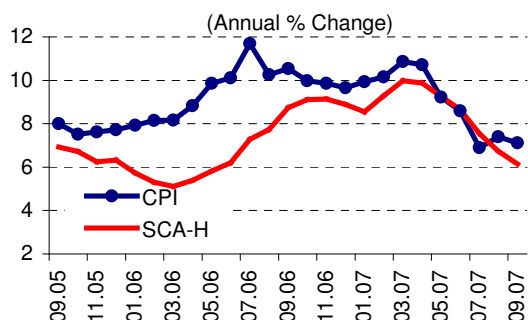
Central Bank of the Republic of Turkey

4 October 2007

## SUMMARY...

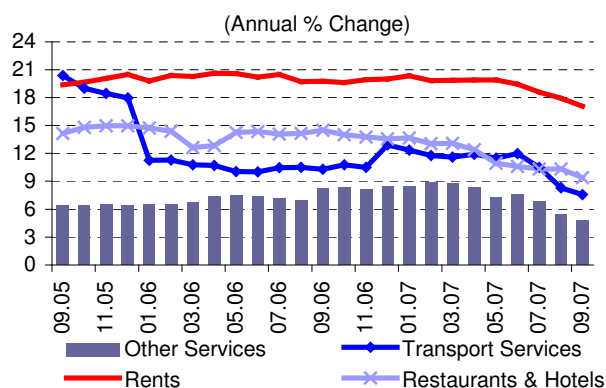
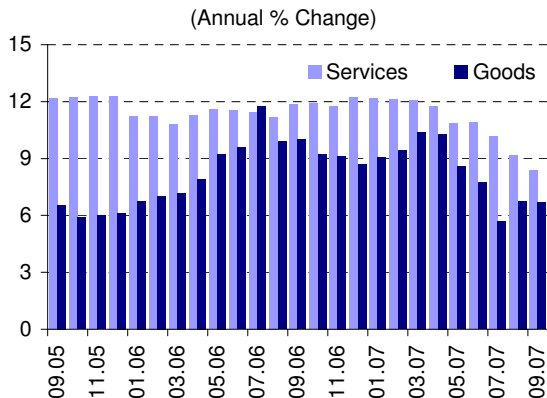
In September, consumer prices rose by 1.03 percent, bringing annual inflation down to 7.12 percent. The marked slowdown in the annual services inflation and the decline in prices of durables suggest that the lagged effects of the strong monetary tightening continue to exist. In this regard, special CPI aggregates display a benign course. Although risks pertaining to food and energy prices still persist, headline inflation is forecast to edge lower in the upcoming period.

## ...EVALUATIONS...



Annual consumer inflation slowed again in September after rising temporarily in August. The deceleration in the annual inflation of the special CPI aggregate excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) gained momentum.

Prices of goods and services rose by 1.11 percent and 0.84 percent, respectively. Annual inflation in goods declined to 6.68 percent, and in services, to 8.41 percent.



Annual services inflation continued to fall markedly in September. Prices of all services items have come down, with rents and restaurants-hotels being the most remarkable. The annual inflation in transport services has fallen by 5 percentage points since January. Moreover, education and health services saw the lowest annual rate of increase since base year 2003.

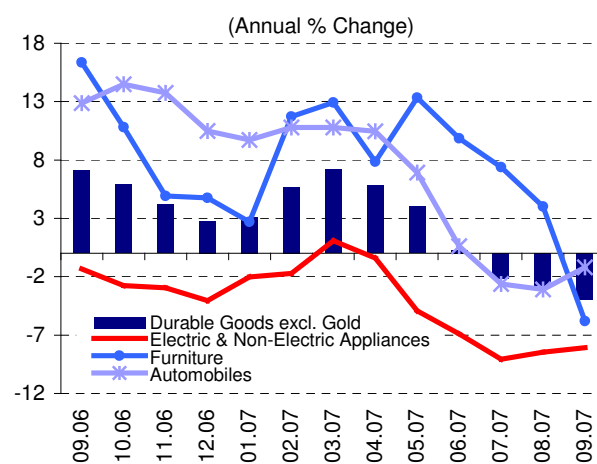
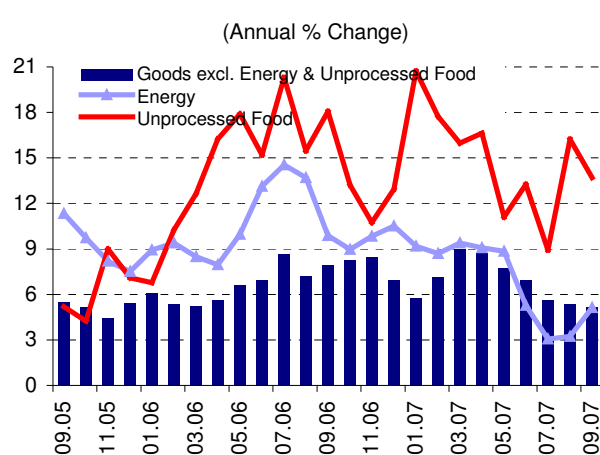
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Energy prices were up by 0.58 percent, the highest in the past few months, due to soaring oil prices. The base effect from falls in oil prices of the same period last year raised the annual inflation in the group.

Despite elevated prices of processed food, prices of goods excluding energy and unprocessed food continued the downward trend that began in March, lowering the group's annual rate of increase to 5.19 percent. This was mainly driven by the favorable prices of clothing-footwear and durables.



Monetary tightening continues to add pressure on prices of durables (excluding gold) that fell by 1.13 percent down from August and saw an overall decline of around 3 percentage points in six months. Prices of subgroups excluding automobiles went down, with furniture prices falling sharply (by -5.74 percent). Annual inflation in durables (excluding gold) reduced to -4 percent, benefiting from the improved outlook in September.

	Monthly Percentage Change		Annual Percentage Change	
	September 2007	September 2006	September 2007	September 2006
CPI	1.03	1.29	7.12	10.55
<b>1. Goods</b>	<b>1.11</b>	<b>1.18</b>	<b>6.68</b>	<b>10.01</b>
Energy	0.58	-1.24	5.13	9.87
Unprocessed Food	2.62	4.92	13.69	18.06
Goods excl. Energy and Unprocessed Food	0.81	0.96	5.19	7.93
Durable Goods	-0.79	-0.78	-3.21	12.61
Durable Goods excl. Gold	-1.13	0.11	-4.00	7.08
Semi-Durable Goods	0.86	0.16	4.94	6.79
Non-Durable Goods	1.74	2.41	10.43	11.76
<b>2. Services</b>	<b>0.84</b>	<b>1.53</b>	<b>8.41</b>	<b>11.87</b>
Rent	1.66	2.38	17.09	19.77
Restaurants and Hotels	1.07	1.92	9.37	14.48
Transport Services	0.82	1.51	7.58	10.28
Other Services	0.37	1.00	4.77	8.19

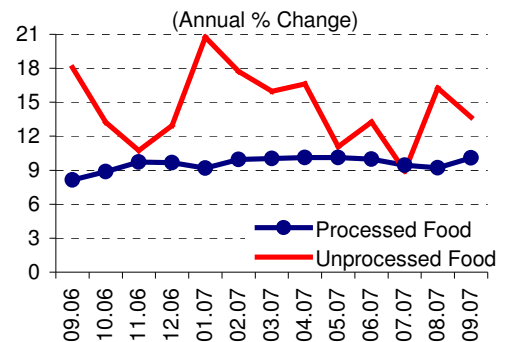
Source: TÜRKSTAT, CBRT.

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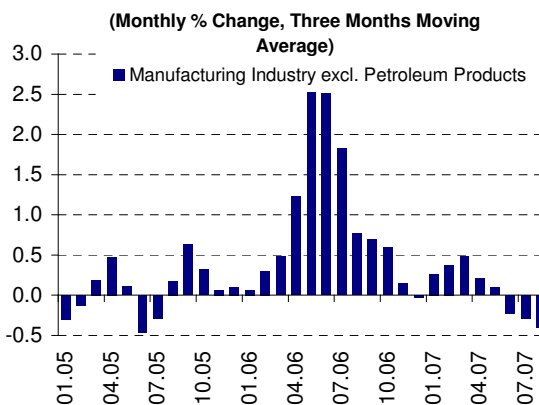
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The volatility of unprocessed food prices still persists. The monthly increase of that group prices was 2.62 percent in September. The base effect from August hikes in fresh fruit and vegetable prices helped limit the price increases in September; but prices of other unprocessed food products (such as meat, milk, eggs, beans) rose sharply.



Processed food prices increased by 1.99 percent, the highest monthly rise since base year 2003. This resulted from both the temperatures above seasonal averages and water shortages, which we frequently referred to in previous reports, and the month of fasting (Ramadan). The upsurge in prices of bread and grains, dairy products, solid and liquid fats and non-alcoholic beverages was quite noteworthy.

The annual rate of increase in most special CPI aggregates decelerated in September. The annual inflation in the SCA-H index remained on the downside, declining to 6.14 percent, mainly on the favorable developments observed in services and consumer durables. The seasonally adjusted monthly increase of the index suggests further moderation in the main course of inflation.



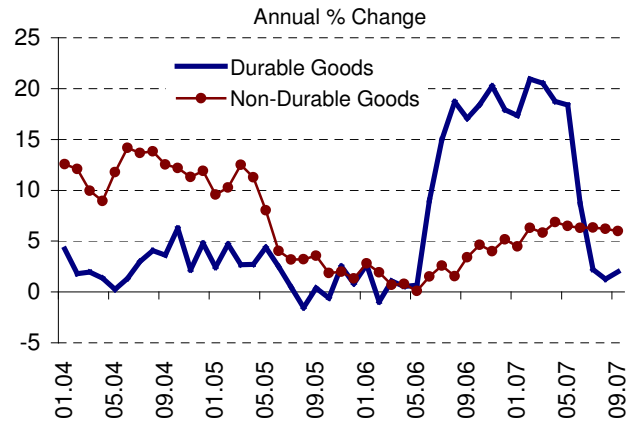
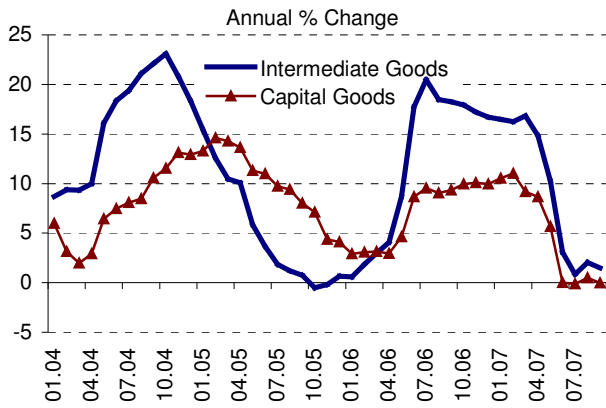
PPI increased by 1.02 per month and by 5.02 percent per annum. Manufacturing industry prices excluding petroleum products rose by 0.73 percent. The increase in the monthly PPI was mainly driven by rising agricultural prices and price hikes in food and apparel manufacturing. Prices of apparel manufacturing were up as high as 9.44 percent in September, compared with the same month of previous years.

According to a PPI analysis based on MIGS classification, prices of capital goods and energy decreased in September, while the rest increased. Prices of non-durables rose on the back of soaring food and beverage prices and price hikes in apparel manufacturing, but were restrained by falling prices of textiles. Besides, prices of durables rose on increasing furniture prices, but prices of white and brown goods fell.

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## PPI Developments According to MIGS Classification

### Monthly Percentage Change

	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Agu-07	Sep-07
Intermediate Goods Prices	0.62	0.37	-0.34	-0.57	-0.08	0.12	1.24	0.44	0.27	-0.13	-0.63	0.72	0.06
Capital Goods Prices	0.28	0.91	0.40	0.53	1.11	0.34	-1.41	-0.25	-0.64	-0.93	-0.27	0.43	-0.22
Durable Goods Prices	-0.50	1.85	0.94	-0.43	1.43	0.02	-0.48	-0.49	0.44	-0.46	-2.02	1.01	0.23
Non-Durable Goods Prices	2.35	0.96	-0.26	0.13	0.03	1.82	-0.30	1.28	-0.38	0.20	0.13	0.13	2.13
Energy Prices	-8.60	-2.32	-1.80	1.53	-3.82	0.64	6.04	2.12	-0.54	-1.36	1.84	2.68	-0.32

Source: TÜRKSTAT, CBRT.

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## ...TABLES

September CPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
CPI	100	1.03	7.12	1.29	10.55
Food and Non-Alcoholic Beverages	28.47	2.29	11.76	2.86	12.45
Alcoholic Beverages and Tobacco	5.06	0.02	10.07	0.17	10.21
Clothing and Footwear	7.86	1.62	5.19	2.42	-0.13
Housing	16.62	0.97	8.99	1.02	13.65
Household Equipments	7.22	-1.24	3.29	1.62	11.38
Health	2.66	0.08	2.54	1.72	7.88
Transport	11.60	0.61	3.37	-1.76	9.31
Communication	4.41	-0.50	-3.57	-0.10	2.54
Recreation and Culture	3.16	-0.71	-0.02	0.66	6.44
Education	2.15	2.28	6.23	3.65	8.10
Restaurants and Hotels	6.40	1.07	9.37	1.92	14.48
Miscellaneous Goods and Services	4.39	0.79	3.39	-0.98	17.33

Source: TÜRKSTAT.

September PPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
PPI	100	1.02	5.02	-0.23	11.19
Agriculture	18.17	3.01	11.60	0.59	10.20
Industry	81.83	0.53	3.53	-0.42	11.21
Mining	1.49	-1.24	3.92	-1.56	13.17
Manufacturing	74.49	0.64	2.57	-0.47	10.43
Energy	5.85	-0.18	17.31	0.54	23.45

Source: TÜRKSTAT.

Price Developments are published within two working days following the announcement of price statistics by the Turkish Statistical Institute (TÜRKSTAT). 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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.