

OCTOBER PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

6 November 2006

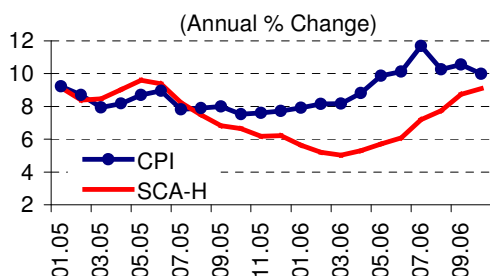
SUMMARY OUTLOOK...

In October, annual inflation fell compared to September and became 9.98 percent. The contribution of price increments in clothing and footwear group in the new season to monthly inflation became 0.8 percent. In addition, price increments in recreation-culture and transportation services groups continued in October as well due to the start of the new school year. Some part of the correction that we mentioned in the previous reports realized in October. The price increase in food group in October, which was the lowest figure recorded in the corresponding month of recent years, played an important role in the decline in inflation.

Due to the rapid rise in the clothing group, annual inflation in the Special CPI aggregate excluding energy, unprocessed food, alcoholic beverages and tobacco products and gold (SCA-H) increased compared to the previous month and reached 9.11 percent. The completion to a great extent of the primary effects of exchange rates to date points to a slowdown in the annual rise of the aggregate in the upcoming months. Nevertheless, it is estimated that annual increases will persist at high rates for some time.

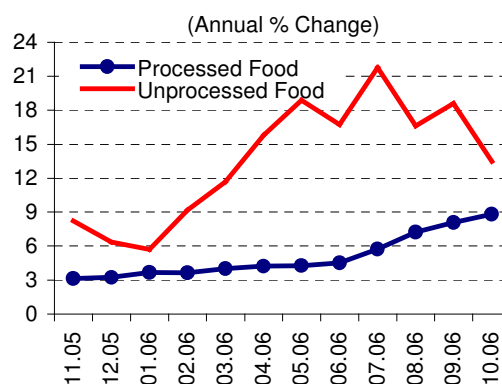
While there was no significant change in annual inflation of services in October, annual inflation in commodity prices decelerated due to the slowdown in price increases in energy and unprocessed food.

...EVALUATIONS...



Annual CPI inflation fell in October. Meanwhile, due to the reflection of lagged effects of exchange rates on the clothing group, the annual rise in the Special CPI aggregate excluding energy, unprocessed food, alcoholic beverages and tobacco products and gold (SCA-H) increased.

Prices of the food and non-alcoholic beverages group, which displayed a rapid rise in September, increased by a mere 0.76 percent with the noteworthy effect of the decline in the prices of unprocessed food products. Thus, some part of the expected 'correction' in unprocessed food prices that we mentioned in our earlier reports realized in October. In the event the favorable course of fresh fruits-vegetables prices, which had displayed a rapid rise in the last quarter of 2005, is sustained for the rest of the year, the annual increase in the prices of the said group will continue to decline.



The decline in the annual increase of unprocessed food prices and the slowdown in the monthly rate of increase in processed food prices are considered favorable developments. However, the damage caused in the last period by heavy precipitation and inundation in cultivated land, poses a risk to unprocessed food prices. The course of food prices in the upcoming period will continue to be the main determinant of fluctuations in annual inflation.

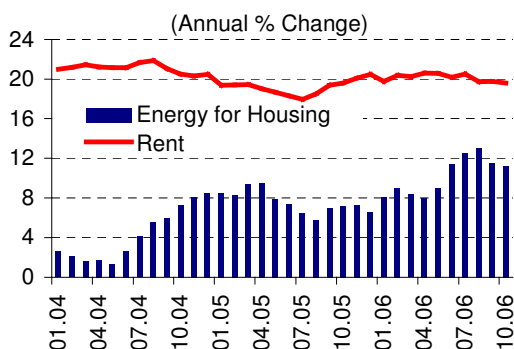
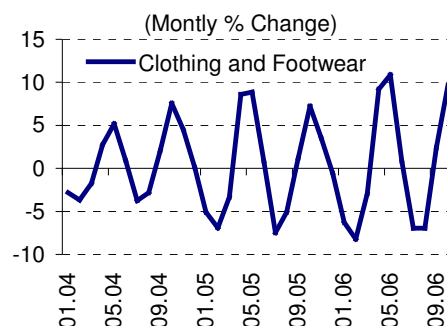
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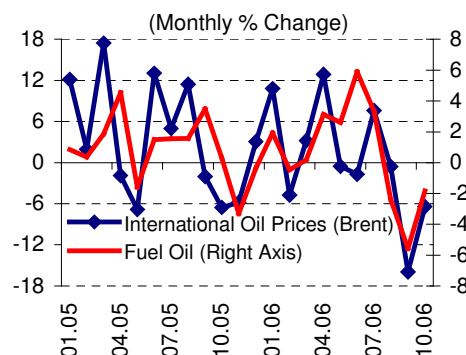
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Prices of the clothing and footwear group that displayed high increases as well as sharp declines at the start and end of seasons in 2006 compared to previous years maintained this trend in October, one of the new season months, as well, and increased by 9.67 percent. However, seasonal factors as well as lagged effects of exchange rates are considered to be influential in this rise. The shoe sub-item of the group, which rose above expectations in September, increased at high rates (8.39 percent) in October too.



In October, prices in the housing group increased by 1.29 percent as a result of the impact of rises in rents and solid fuel sub-items. While it is observed that rents continue to realize at the 2005 level, a 14 percent increase in solid fuel since May is noteworthy.

Despite the high rise in automobile prices in October, fuel oil prices, which fell by 1.84 percent due to ongoing declines in international oil prices and exchange rates, limited the increase in prices of the transportation group. The lagged effect of past price increases in fuel oil products on transportation services continued in October as well and the rate of increase in prices of the said sub-item reached 8.1 percent in the last five months. Especially school bus fees, which rose by 14.3 percent in the last two months due to the start of the new school year, have been influential in prices of the said sub-items.



The entertainment and culture group prices increased by 1.49 percent in October. High levels of increase in both the prices of school textbooks and other books and the prices of package tours abroad due to the Ramadan holiday were determinants of this increase. In October, due to the decline in price increases in food and accommodation services, restaurant-hotel group prices dropped in annual terms and were realized as 14 percent.

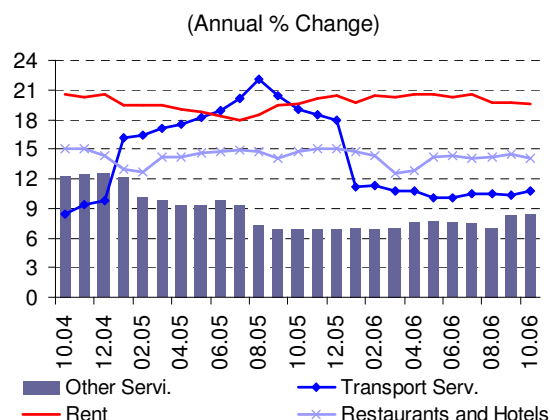
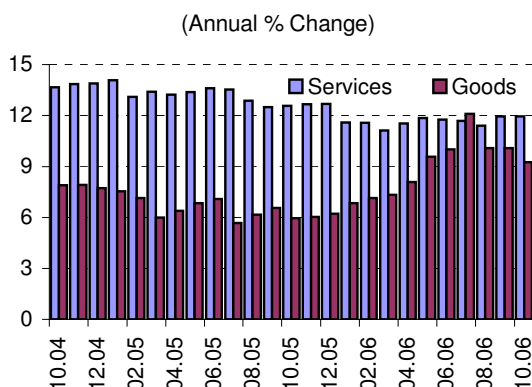
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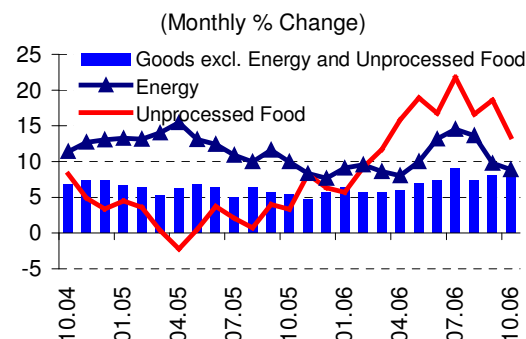
Annual inflation in goods group declined in October. Compared to the previous month, the annual inflation of the services group did not change. When annual inflation in services group is analyzed, it is observed that the transportation services group increased, whereas the restaurant and hotels group displayed a decline compared to the previous month. Meanwhile, annual inflation of rents and other services group did not show a significant change.



	Monthly Change		Annual Change	
	Oct 2006	Oct 2005	Oct 2006	Oct 2005
CPI	1.27	1.79	9.98	7.52
1. Goods	1.40	2.17	9.26	5.95
Energy	0.40	1.20	8.87	9.96
Unprocessed Food	0.47	5.01	13.46	3.30
Goods excl. Energy and Unprocessed Food	2.00	1.77	8.31	5.38
Durable Goods	-0.02	2.06	10.79	6.52
Durable Goods excl. Gold	0.24	1.55	6.05	7.60
Semi-Durable Goods	3.03	2.84	6.99	6.62
Non-Durable Goods	0.59	1.70	10.59	5.34
2. Services	0.94	0.95	11.95	12.57
Rent	1.66	1.78	19.62	19.64
Restaurants and Hotels	1.21	1.63	14.01	14.78
Transportation Services	0.99	0.54	10.77	19.00
Other Services	0.50	0.35	8.39	6.85

Source: TURKSTAT, CBRT

When prices in the goods group are analyzed, it is observed that the annual increase of unprocessed food prices fell significantly. Additionally, the decline in annual rates of increase in energy group prices continued in October. Annual inflation in prices of goods excluding energy and unprocessed foods increased in October as well due to the upsurge in the clothing and shoes group prices.

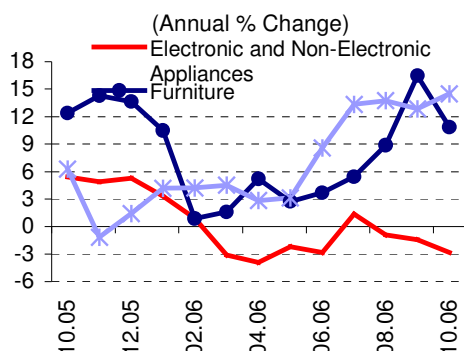


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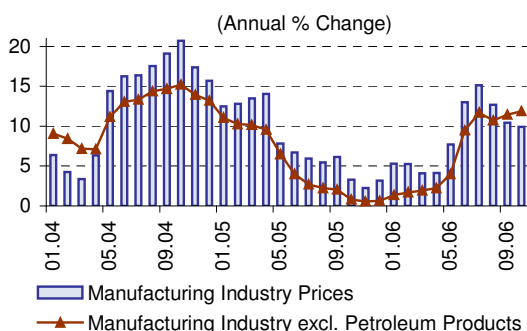
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October price developments in durable goods indicate that the rate of increase in the prices of durable goods, excluding automobiles, decelerated. In previous reports it was emphasized that the lagged effects of the increase of FX on durable goods has, to a great extent, come to an end excluding furniture prices. In October, the rate of increase in furniture prices slowed down substantially and annual inflation of furniture prices dropped almost by 5 percent. Other expenditure groups, where the lagged effects of the FX rates are observed, are the clothing and shoes group and processed food. In October, the price increase in the clothing group was within expectations. Meanwhile, the monthly increase in the prices of processed food slowed down.

In October, the PPI increased by 0.45 percent. The industrial sector had an increasing effect of 0.53-percentage point, while the agricultural sector had a decreasing effect of 0.08-percentage point. With the ongoing decline in oil prices, prices of the manufacturing industry fell by 0.07 percent. It is surprising that agricultural prices, which were expected to enter an upward trend in October due to seasonal factors, dropped by 0.41 percent compared to last month.



The fall in manufacturing prices resulted mainly from decreases in prices of coke coal and refined petroleum products, and the basic metal industry. However, excluding the effect of petroleum products, it is observed that prices of the manufacturing industry increased by 0.80 percent owing to the upsurge in prices of the clothing, food and furniture sectors. Energy prices continue to fall due to the ongoing decreases in prices of petroleum products.

According to tariffs applicable to distribution companies by the Turkish Electricity Trade Company (TETAŞ) between 1 September-31 December 2006, electricity prices were increased by 23.9 percent. Since electricity prices in the producer prices index are compiled from the tariffs applicable to distribution companies by TETAŞ, the prices of electricity, gas and water within the PPI displayed an increase by 11.97 percent.

WPI Developments According to MIGS Classification

	Monthly Percentage Change									
	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06
Intermediate Goods Prices	0.11	0.31	0.74	2.20	4.43	6.84	1.55	-0.46	0.62	0.37
Capital Goods Prices	0.60	-0.09	0.23	0.24	2.19	4.66	-0.15	-0.17	0.28	0.91
Durable Consumption Goods Prices	1.90	-2.94	-0.13	1.00	0.73	8.46	4.16	1.97	-0.50	1.85
Non-Durable Consumption Goods Prices	0.71	0.05	0.16	0.30	-0.04	0.37	0.13	0.24	2.35	0.96
Energy Prices	8.36	1.32	0.32	6.87	6.70	9.65	4.11	-4.28	-8.60	-2.32

Source: TURKSTAT, CBRT.

*PPI with the 2003 base year is published in the NACE (Nomenclature Generale des Activites Economique dans les Communautes Europeennes) classification. Prices in the above table are calculated by the CBRT, using a passkey from NACE classification to MIGS (Main Industrial Groupings) classification.

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...UPCOMING DEVELOPMENTS...

- Adverse weather conditions in the recent period may unfavorably affect the prices of unprocessed foods in November.
- New season price increases in the clothing group are expected to continue in November.
- Natural gas prices for households increased by 5.8 percent at the start of November.

...TABLES

October CPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
CPI	100	1.27	9.98	8.01	1.79	7.52	5.79
Food and Non-Alc. Bev.	27.68	0.76	10.81	7.59	2.25	3.75	1.87
Alc. Bev. and Tobacco	5.62	0.01	10.21	5.03	0.01	21.87	21.87
Clothing and Footwear	8.28	9.67	2.12	-0.78	7.25	1.50	-2.97
Housing	16.29	1.29	13.44	11.78	1.47	10.22	8.25
Household Equipment	6.89	0.36	9.73	7.68	1.87	5.70	4.27
Health	2.54	0.21	7.94	7.73	0.15	0.09	-0.60
Transportation	10.48	0.08	8.96	10.06	0.41	14.98	12.13
Communication	4.55	-0.18	1.18	1.63	1.17	2.71	2.17
Recreation and Culture	3.63	1.49	8.68	9.00	-0.60	4.53	6.94
Education	2.41	-0.05	7.96	7.80	0.09	7.17	7.06
Restaurants and Hotels	6.74	1.21	14.01	12.39	1.63	14.78	13.35
Misc. Goods and Services	4.89	-0.06	15.30	11.56	1.70	5.96	5.00

Source: TURKSTAT

October PPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
PPI	100	0.45	10.94	12.04	0.68	2.57	3.69
Agriculture	19.78	-0.41	7.75	3.73	1.86	1.93	-0.81
Industry	80.22	0.65	11.51	14.09	0.38	2.73	4.94
Mining	1.47	-2.94	9.66	13.61	0.16	9.98	13.58
Manufacturing	73.98	-0.07	9.93	12.67	0.38	3.29	5.72
Energy	4.77	11.97	37.78	36.26	0.32	-8.21	-9.39

Source: TURKSTAT

* Percentage change with respect to December of the previous year.

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