

# OCTOBER PRICE DEVELOPMENTS



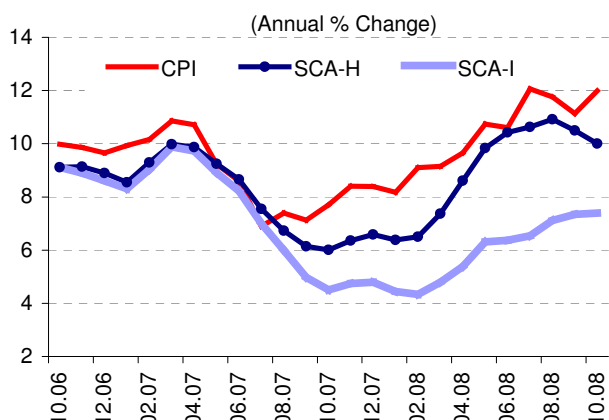
Central Bank of Turkey

4 November 2008

## SUMMARY...

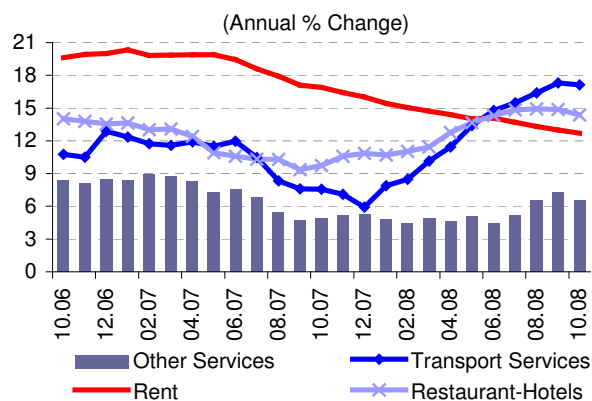
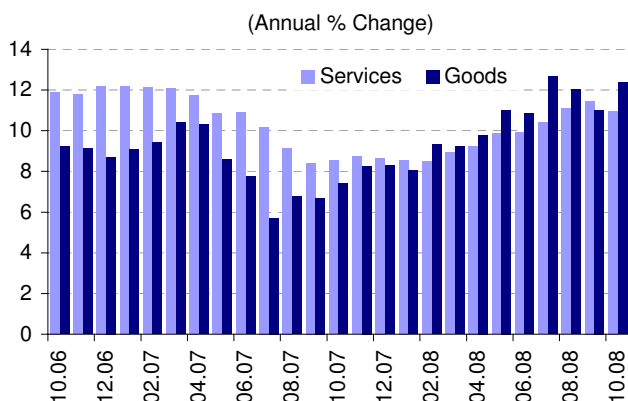
In October, consumer prices increased by 2.60 percent, pushing inflation up to 11.99 percent year-on-year mainly on account of the temporary rise in vegetable prices, as stated in the Summary of the Monetary Policy Committee Meeting. The plunge in world oil prices helped to ease domestic fuel prices, while the increase in electricity, natural gas and solid fuel prices put further upward pressure on energy price inflation. Accordingly, the contribution of food and energy prices to inflation went up to 7.6 percentage points. Reduced supply shocks and the weakening of domestic demand put some downward pressure on services inflation. In fact, prices for all services categories were generally on the decline in October. The seasonally adjusted increase in special CPI aggregates also indicates that inflation has remained on a steady downward path. On balance, inflation is expected to edge further down in the upcoming period if oil and food prices continue to slide.

## ...EVALUATIONS...



In October, consumer prices were up 2.60 percent, bringing inflation up to an annual rate of 11.99 percent. The CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) was down 0.5 percentage points to 10.01 percent year-on-year. With a further exclusion of processed food prices, the index (SCA-I) went slightly up from September to 7.39 percent year-on-year, largely due to the base effect.

Prices of goods and services rose by 3.30 and 0.60 percent, respectively. Annual inflation increased to 12.36 percent in goods and decreased to 10.97 percent in services.



Annual services inflation fell in October, after having climbed steadily between March and September. Annual inflation was down in all services categories. Food prices that have recently been rising at a much slower pace had a favorable impact on prices for catering services. Meanwhile, prices of transport services declined year-on-year on lower fuel prices. Rent inflation further moderated in October, to 12.69 percent year-on-year.

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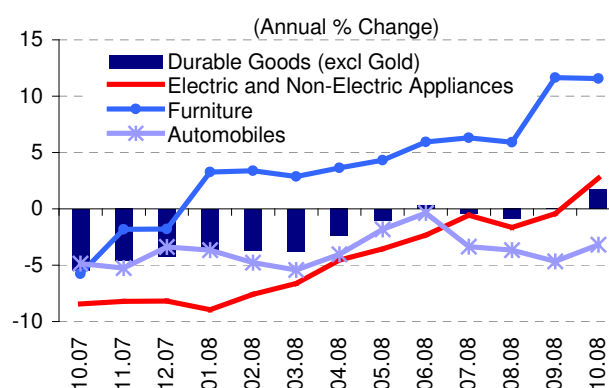
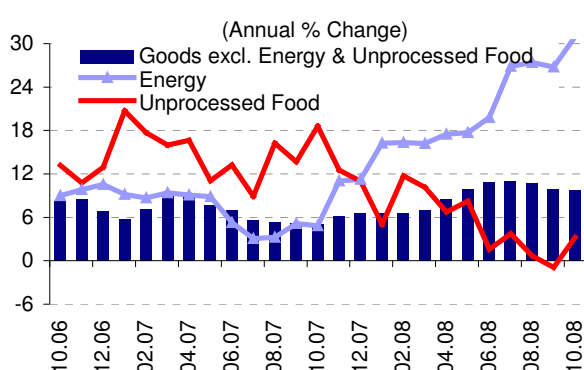


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Energy price inflation climbed to 30.98 percent year-on-year amid soaring electricity, natural gas and solid fuel prices. The steep rise in prices of solid fuels since July continued into October, up to a cumulative 31.5 percent in last four months. On the other hand, despite the rapid increase in exchange rates, fuel prices dropped by 2.35 percent month-on-month thanks to falling crude oil prices.

Prices of goods excluding energy and food rose by 1 percentage point to 5.17 percent year-on-year. In the clothing group, prices surged at a pace close to the seasonal average, while in the durables group (excl. gold), annual inflation went up due to the base effect and the rise in exchange rates. Gold prices were also up 17.92 percent amid changes in exchange rates and international markets.



Prices for all durable goods (excl. gold) increased by 0.30 percent in October, bringing the group's inflation up by 1.6 percentage points to 1.7 percent year-on-year. The rise in exchange rates had a direct impact on prices of electric and non-electric appliances, which rose by 2.74 percent. Meanwhile, prices of automobiles dropped by 0.57 percent month-on-month, while furniture prices remained unchanged. The rise in exchange rates is expected to have further influence on prices of durables in November.

	Monthly Percentage Change		Annual Percentage Change	
	October 2008	October 2007	October 2008	October 2007
CPI	2.60	1.81	11.99	7.70
<b>1. Goods</b>	<b>3.30</b>	<b>2.09</b>	<b>12.36</b>	<b>7.41</b>
Energy	3.42	0.10	30.98	4.82
Unprocessed Food	9.17	4.79	3.24	18.59
Processed Food	0.06	2.17	19.32	11.37
Goods excl. Energy and Food	2.67	1.70	5.17	2.03
Durable Goods	1.75	-1.13	4.21	-4.28
excl. Gold	0.30	-1.29	1.70	-5.47
Semi-Durable Goods	4.26	2.42	18.22	4.32
Non-Durable Goods	3.03	2.65	10.55	12.70
<b>2. Services</b>	<b>0.60</b>	<b>1.06</b>	<b>10.97</b>	<b>8.53</b>
Rents	1.21	1.49	12.69	16.89
Restaurants-Hotels	1.11	1.54	14.38	9.73
Transport	0.81	0.97	17.13	7.57
Other Services	0.01	0.62	6.58	4.89

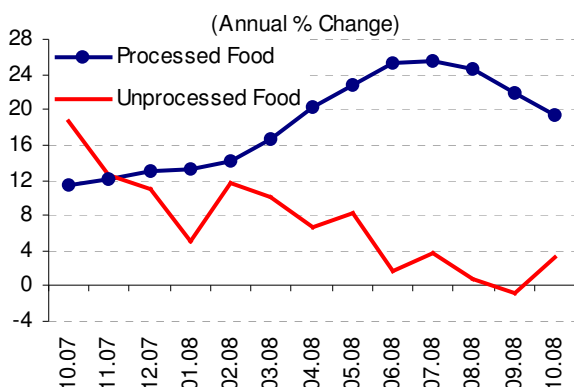
Source: TURKSTAT, CBRT.

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The sharp increase in unprocessed food prices drove food prices up by 3.91 percent in October. Unprocessed food prices rose by 9.17 percent month-on-month to 3.24 percent year-on-year due to soaring vegetable prices (up 23.43 percent), as stated in the Summary of the Monetary Policy Committee Meeting. In addition, fruit prices were up 11.76 percent. Accordingly, the increase in fresh fruit and vegetable prices accounted for 1.7 points of the 2.6 percent rise in monthly CPI.

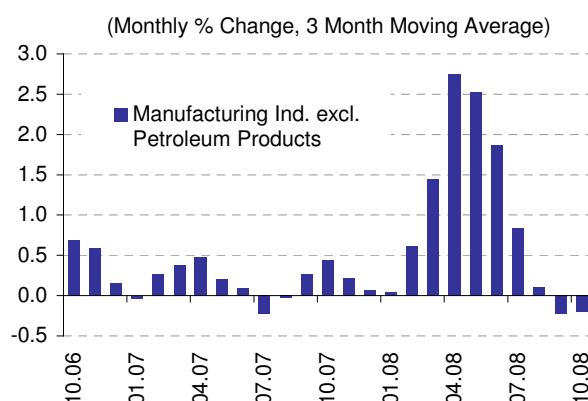
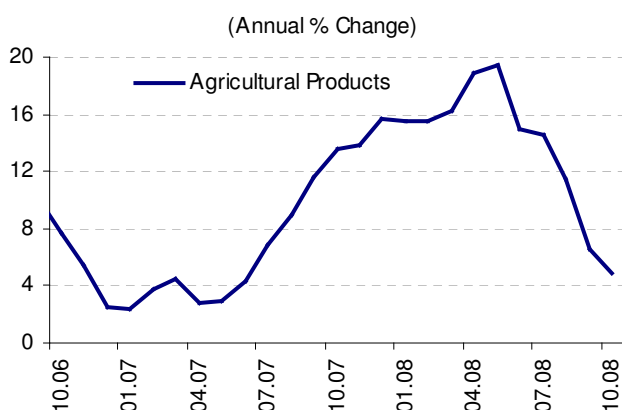
The annual inflation in processed food prices continued to decelerate in October. Although processed food prices were up 0.06 percent month-on-month, the group's annual inflation was down to 19.32 percent. The steady decline in the annual processed food inflation, which fell by about 6.2 percentage points in three months, is expected to continue into coming months.

The adjustment made in natural gas rates in November is expected to add about 0.2 percentage points to inflation, a factor that is reflected in inflation forecasts in the October Inflation Report.

## ...PPI...

PPI was up 0.57 percent in October, to 13.29 percent year-on-year.

In October, lower commodity prices helped to ease prices for food, petroleum products and base metals, whereas changes in exchange rates pushed prices in other industries higher. Accordingly, manufacturing industry prices fell 0.05 percent. Excluding base metals and petroleum products, however, manufacturing industry prices increased by 1.51 percent.



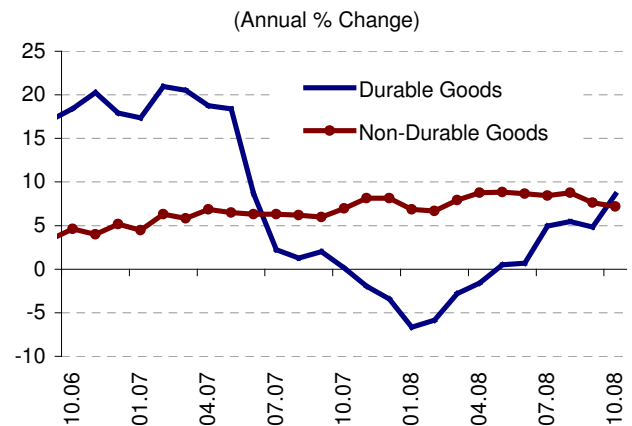
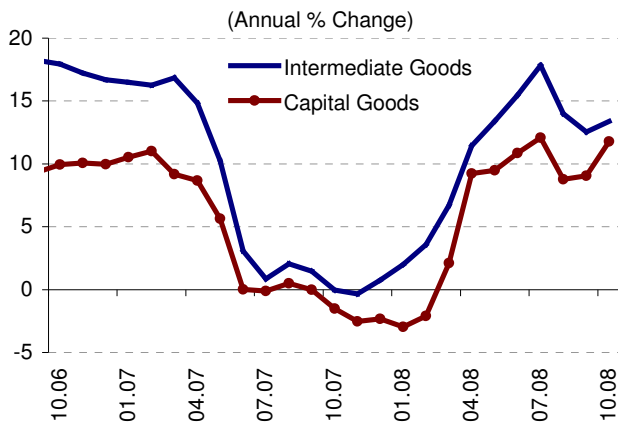
Prices of durable goods, capital goods and non-durable goods increased in September, but prices for intermediate goods and energy dropped. The rise in prices of durable goods was mainly attributable to furniture prices, whereas prices of non-durable goods were driven higher by the rise in apparel manufacturing prices as in September. Moreover, the slump in prices of petroleum products and base metals driven by falling commodity prices continued to pull down prices of intermediate goods and energy in October.

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## Changes in PPI based on MIGS Classification

### Monthly Percentage Change

	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Jan-Oct*
Intermediate Goods Prices	-0.64	0.53	1.18	1.66	4.30	4.90	2.03	1.69	1.42	-2.58	-1.21	-0.39	13.52
Capital Goods Prices	-0.64	0.75	0.44	1.23	2.84	6.71	-0.42	0.32	0.83	-2.54	0.04	1.90	11.67
Durable Goods Prices	-1.17	-1.90	-2.00	0.90	2.74	0.75	2.60	-0.30	2.13	1.52	-0.38	3.55	11.98
Non-Durable Goods Prices	0.84	0.14	-1.15	1.63	0.86	2.08	-0.33	0.02	-0.06	0.45	1.06	1.45	6.14
Energy Prices	6.68	-0.86	0.60	7.74	7.85	8.56	5.29	2.06	3.91	-6.19	-2.77	-0.74	28.28

Source: TURKSTAT, CBRT.

\*10-month cumulative increase.

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## ...TABLES

October CPI and Sub-Items (Change, %)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
CPI	100	2.60	11.99	1.81	7.70
Food and Non-Alcoholic Beverages	28.63	3.91	11.60	3.41	14.71
Alcoholic Beverages and Tobacco	5.00	0.01	6.88	0.00	10.06
Clothing and Footwear	8.07	8.46	2.83	8.22	3.80
Housing	16.60	3.79	27.08	0.65	8.30
Household Equipment	7.42	0.39	8.92	0.25	3.17
Health	2.54	0.04	0.91	0.07	2.40
Transport	12.59	-0.59	9.02	-0.41	2.86
Communication	4.30	-0.04	6.50	-0.02	-3.42
Recreation and Culture	2.81	1.32	3.71	0.26	-1.23
Education	2.24	-0.22	7.00	-0.19	6.07
Restaurants and Hotels	5.64	1.11	14.38	1.54	9.73
Misc. Goods and Services	4.16	3.93	11.36	1.02	4.51

Source: TURKSTAT

October PPI and Sub-Items (Change, %)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
PPI	100	0.57	13.29	-0.13	4.41
Agricultural	19.84	-0.26	4.95	1.28	13.50
Industrial	80.16	0.76	15.36	-0.47	2.38
Mining	1.62	1.21	25.03	3.82	11.17
Manufacturing	73.33	-0.05	12.50	0.11	2.75
Energy	5.21	9.72	51.84	-8.94	-4.59

Source: TURKSTAT

Price Developments are published within two working days 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.