

# JULY PRICE DEVELOPMENTS



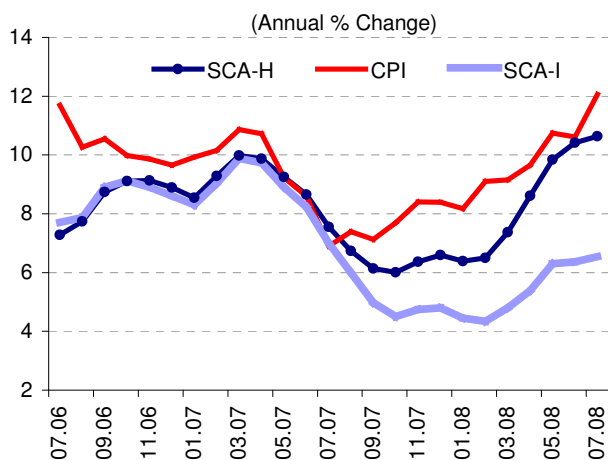
The Central Bank of Turkey

5 August 2008

## SUMMARY...

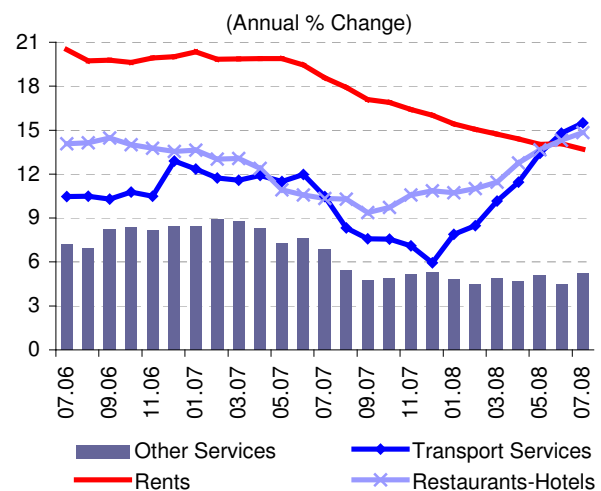
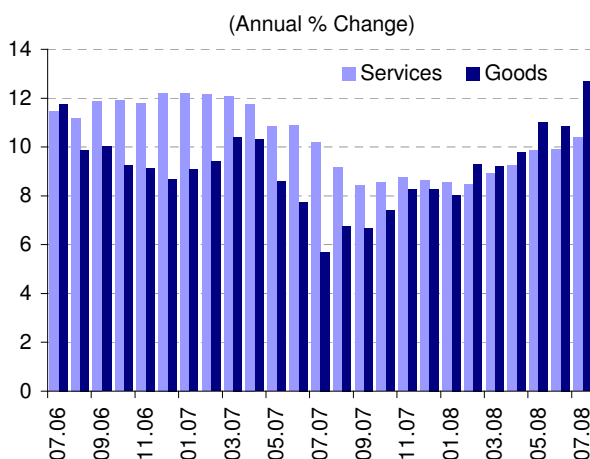
In July, consumer prices increased 0.58 percent, pushing annual inflation up to 12.06 percent on soaring energy prices, combined with the base effect from food prices. The rate of increase in processed food prices moderated from previous months, whereas the annual inflation in unprocessed food prices went up due to a low base from July 2007. The upsurge in electricity and fuel prices caused energy price inflation to rise substantially. Thus, the increase in food and energy prices has accounted for 8.17 percentage points of annual inflation as of July. The lagged impact of rising food and energy prices continues to put upward pressure on prices of catering and transport services, whereas the annual rate of increase in rents remains on the decline. Moreover, core inflation indicators have slowed for the second consecutive month, albeit at a modest pace. On balance, inflation is expected to begin a steady downward slide in the upcoming period if oil prices continue to perform better than we anticipated in our July Inflation Report.

## ...EVALUATIONS...



In July, consumer prices rose by 0.58 percent, bringing annual CPI inflation up to 12.06 percent. The CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) was up, albeit at a modest pace, to an annual rate of 10.63 percent. With a further exclusion of processed food prices, the index (SCA-I) remained flat, at a year-on-year rate of 6.54 percent.

Prices of goods rose by 0.46 percent amid rising energy prices, and prices of services were up 0.93 percent. Inflation in services and goods climbed to an annual rate of 10.40 and 12.68 percent, respectively.



Food prices continued to put pressure on prices for catering services. Accordingly, the group's inflation remained on the rise year-on-year, albeit at a slower pace than previous months. Besides, prices for transport services surged by 1.52 percent due to soaring energy prices. Consequently, transport and catering services hit an annual inflation rate of 15.49 and 15.29 percent, respectively. Prices for communication saw a base-effect-driven spike in July, while rents were down about 0.4 percentage points to 13.70 percent year-on-year.

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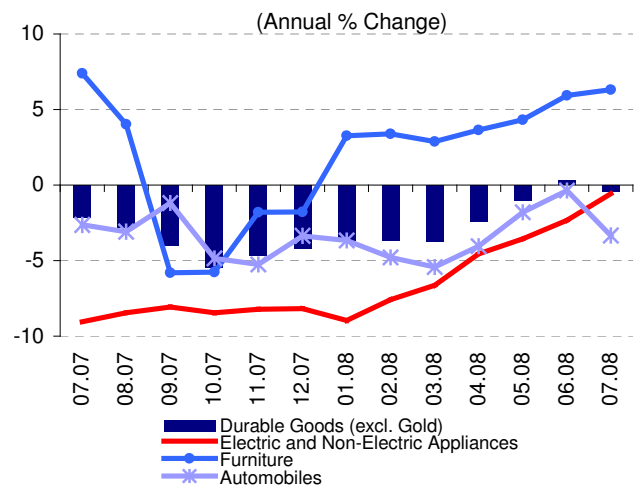
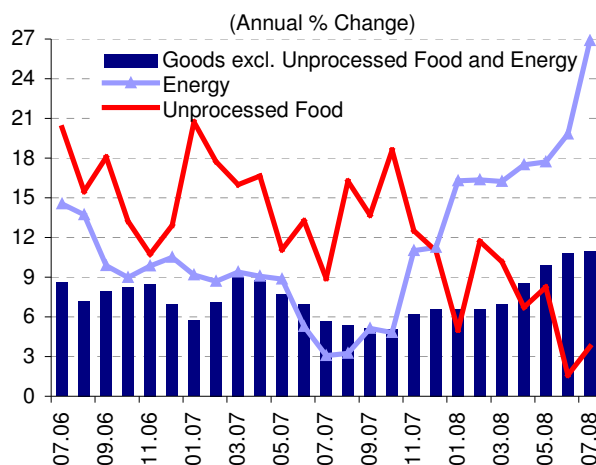


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Energy prices jumped by 5.79 percent in July on rising electricity and solid/liquid fuel prices, hitting an annual inflation rate of 26.87 percent. Hikes in electricity prices had a direct contribution of 0.5 percentage points to inflation. The increase in natural gas prices is expected to add around 0.15 percentage points to inflation in August.

The annual inflation in prices of goods excluding energy and food remained unchanged from June, at 4.20 percent. With the summer sale in July, clothing prices dropped at a more rapid rate than in previous years. Moreover, the strengthening of the new Turkish lira and the moderate growth in domestic demand began to affect prices of durable goods.



Prices for durable goods (excluding gold) fell by 1 percent in July on the back of a 3.08 percent drop in automobile prices. In contrast, prices of electric and non-electric appliances went up due to rising costs of white goods. Likewise, gold prices surged by 3.77 percent in July to 32.49 percent year-on-year.

	Monthly Percentage Change		Annual Percentage Change	
	July 2008	July 2007	July 2008	July 2007
CPI	0.58	-0.73	12.06	6.90
<b>1. Goods</b>	<b>0.46</b>	<b>-1.17</b>	<b>12.68</b>	<b>5.71</b>
Energy	5.79	-0.11	26.87	3.07
Unprocessed Food	-0.26	-2.33	3.75	8.92
Processed Food	0.96	0.80	25.50	9.45
Goods excl. Energy and Food	-2.05	-2.07	4.20	3.85
Durable Goods	-0.58	-0.34	2.24	-3.82
Durable Goods excl. Gold	-1.00	-0.27	-0.44	-2.15
Semi-Durable Goods	0.94	-2.42	15.91	4.44
Non-Durable Goods	0.39	-0.51	13.10	9.09
<b>2. Services</b>	<b>0.93</b>	<b>0.48</b>	<b>10.40</b>	<b>10.18</b>
Rent	1.10	1.43	13.70	18.58
Restaurants and Hotels	0.93	0.48	14.83	10.33
Transport Services	1.52	0.89	15.49	10.47
Other Services	0.67	-0.03	5.19	6.84

Source: TURKSTAT, CBRT.

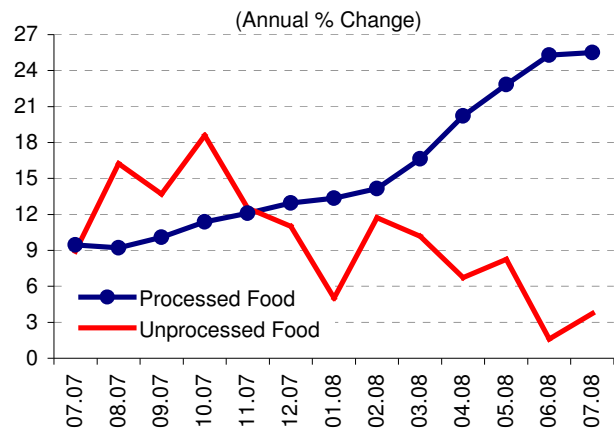
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The correction in unprocessed food prices that went down sharply in June was reversed to some extent in July, pushing the group's annual inflation up to 3.75 percent. Although drought conditions continue to put pressure on pulse prices, the fall in fresh fruit and vegetable prices is expected to further curb price hikes in this group.

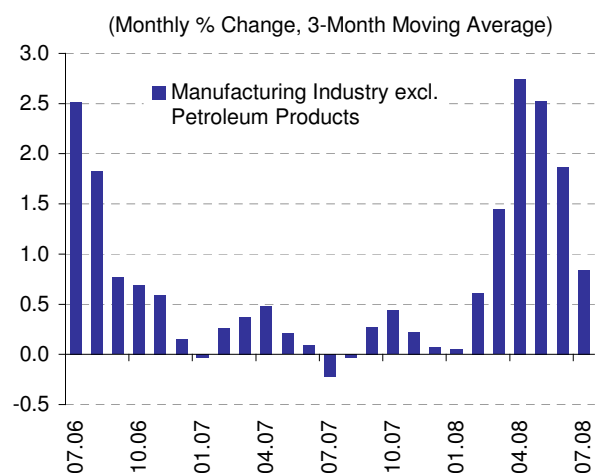
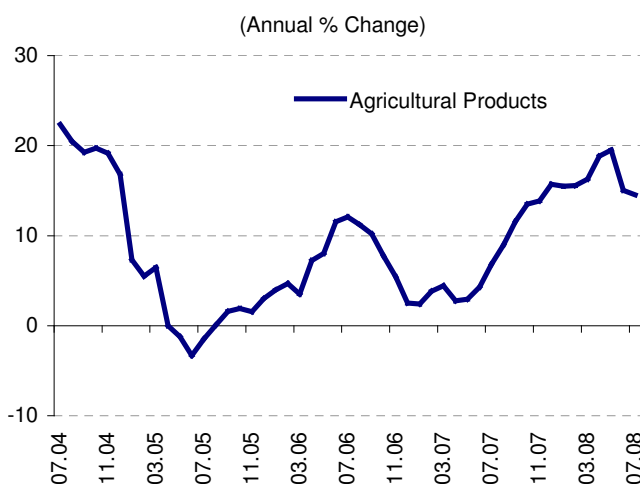


After having increased at a rapid pace over the past twelve months, processed food prices went relatively down in July, up a mere 0.96 percent month-on-month to a nearly unchanged rate of 25.50 percent year-on-year, which was particularly boosted by bread prices that rose at a subdued monthly rate of 0.21 percent after a cumulative rise of 25.49 percent in the first half of the year. The rate of increase in processed food prices is expected to edge down in the remainder of the year.

## ...PPI...

PPI increased by 1.25 percent in July to 18.41 percent year-on-year on the back of soaring prices of industrial products.

The rate of increase in manufacturing industry prices amounted to 1.04 percent in July, but was reduced to 0.86 percent, however, excluding the contribution from prices of petroleum products that rose by 2.02 percent. The sharp rise in base metal prices since January, driven by the surge in iron and steel prices, continued into July at a slower pace, pushing the sector's prices up by 2.61 percent from June. In contrast, prices in industries such as textiles, leather, paper and motor vehicles declined month-on-month.



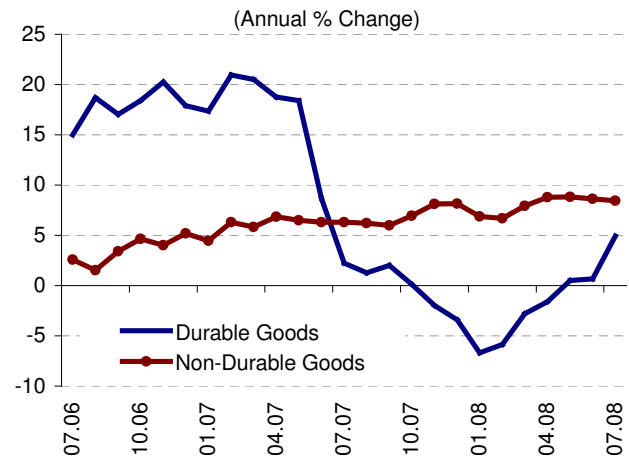
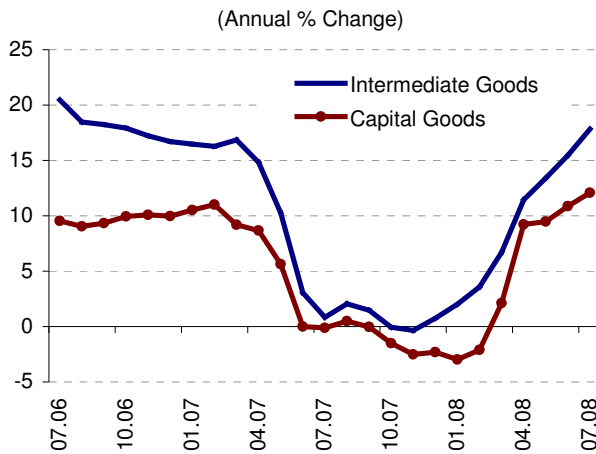
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As reported by the PPI analysis based on MIGS classification, prices of non-durable goods remained unchanged, whereas prices for all other items remained on an upward track in July. Prices of intermediate goods continued to accelerate due to higher prices of base metals, chemicals, and plastic and rubber products, while the surge in prices of durable goods was driven by rising furniture prices. Besides, the increase in machinery and equipment prices also pushes prices of durable goods higher, but falling prices of motor vehicles curb this upward trend.



## PPI Developments According to MIGS Classification

### Monthly Percentage Change

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Jan-Jul*
Intermediate Goods Prices	0.72	0.06	-1.13	-0.64	0.53	1.18	1.66	4.30	4.90	2.03	1.69	1.42	18.42
Capital Goods Prices	0.43	-0.22	-0.59	-0.64	0.75	0.44	1.23	2.84	6.71	-0.42	0.32	0.83	12.39
Durable Goods Prices	1.01	0.23	-0.02	-1.17	-1.90	-2.00	0.90	2.74	0.75	2.60	-0.30	2.13	6.92
Non-Durable Goods Prices	0.13	2.13	1.88	0.84	0.14	-1.15	1.63	0.86	2.08	-0.33	0.02	-0.06	3.06
Energy Prices	2.68	-0.32	-2.94	6.68	-0.86	0.60	7.74	7.85	8.56	5.29	2.06	3.91	41.68

Source: TURKSTAT, CBRT.

\*7-Month Cumulative Increase.

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## ...TABLES

July CPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
CPI	100	0.58	12.06	-0.73	6.90
Food and Non-Alcoholic Beverages	28.63	0.44	15.28	-0.71	9.19
Alcoholic Beverages and Tobacco	5.00	0.06	6.87	0.03	10.23
Clothing and Footwear	8.07	-8.00	2.54	-7.71	6.26
Housing	16.60	5.34	21.84	0.55	9.55
Household Equipments	7.42	0.98	7.01	0.23	8.38
Health	2.54	0.10	-0.41	0.10	5.79
Transport	12.59	-0.32	11.32	-0.03	1.07
Communication	4.30	0.91	1.05	-1.41	-0.85
Recreation and Culture	2.81	0.43	2.23	0.24	1.76
Education	2.24	0.86	7.02	0.72	7.81
Restaurants and Hotels	5.64	0.93	14.83	0.48	10.33
Miscellaneous Goods and Services	4.16	0.92	11.87	-0.22	0.32

Source: TURKSTAT.

July PPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
PPI	100	1.25	18.41	0.06	2.08
Agriculture	19.84	-0.04	14.54	0.38	6.83
Industry	80.16	1.54	19.33	-0.01	1.02
Mining	1.62	6.24	34.57	0.47	1.14
Manufacturing	73.33	1.04	18.73	-0.27	0.14
Energy	5.21	6.83	22.90	3.41	13.83

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.