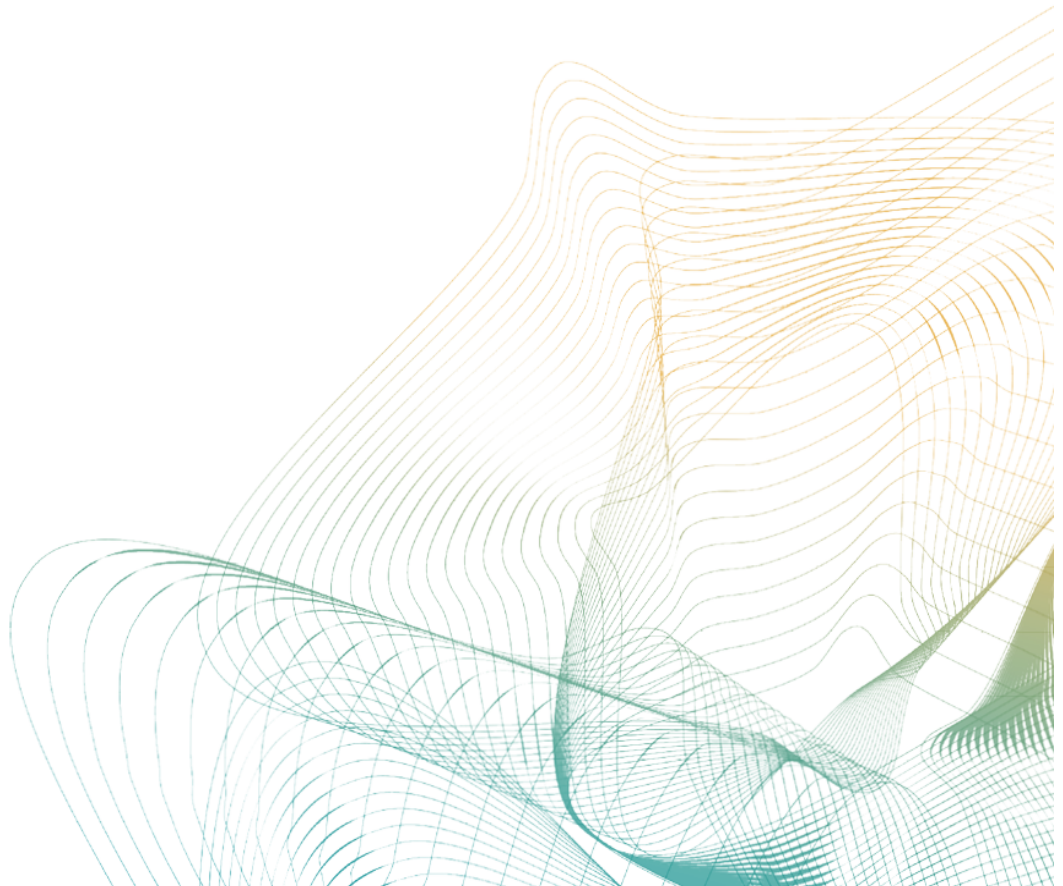




January Price Developments

4 February 2020



Summary

In January, consumer prices rose by 1.35%, while annual inflation was up by 0.31 points to 12.15%. In this period, annual inflation decreased across all subcategories, except energy. The surge in energy inflation was driven primarily by the low base effect from the same period of the previous year. Despite a seasonal uptick in food prices in this period, annual food inflation declined due to the base effect. Annual inflation in the core goods and services groups inched down, while the decline in core goods inflation was driven by the durable goods group amid the VAT reduction. Against this background, B and C indices saw a relatively flat annual inflation, but a somewhat rising trend.

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 January, consumer prices rose by 1.35%, while annual inflation was up by 0.31 points to 12.15% (Chart 1). Meanwhile, the annual rate of change in the B and C indices rose by 0.17 and 0.07 points to 10.93% and 9.88%, respectively (Chart 2).

Across subcategories, the contribution of energy, gold and services groups to annual consumer inflation increased month-on-month by 0.66, 0.06, 0.05 points, respectively, while that of food, core goods and alcohol-tobacco groups decreased by 0.34, 0.07 and 0.05 points, respectively.

Chart 1: CPI and D (Annual % Change)

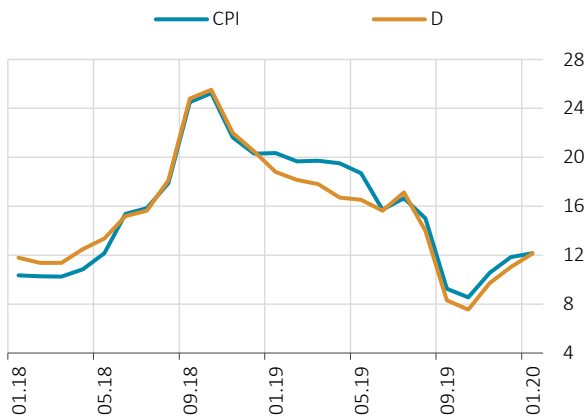
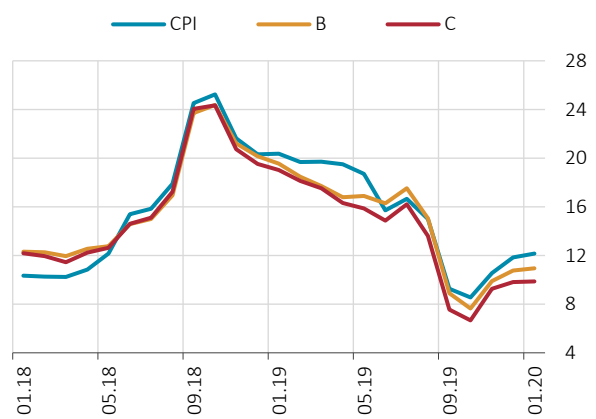


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest a somewhat rise in the trend of the B and C indices (Chart 3). In this period, the trend of the services group posted an uptick, whereas that of the core goods group decreased amid the VAT reduction in furniture products (Chart 4). The upward trend of the B index was also triggered by developments in processed food prices.

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

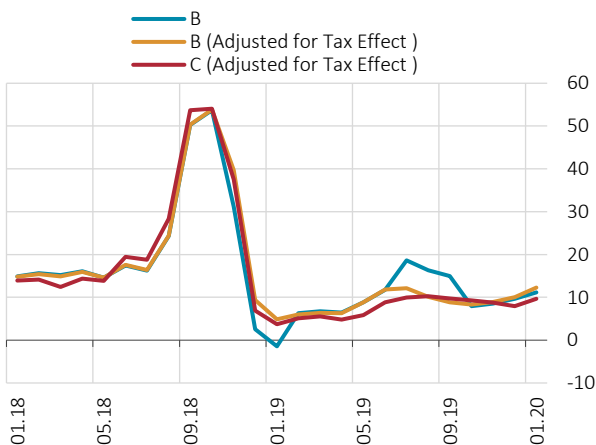
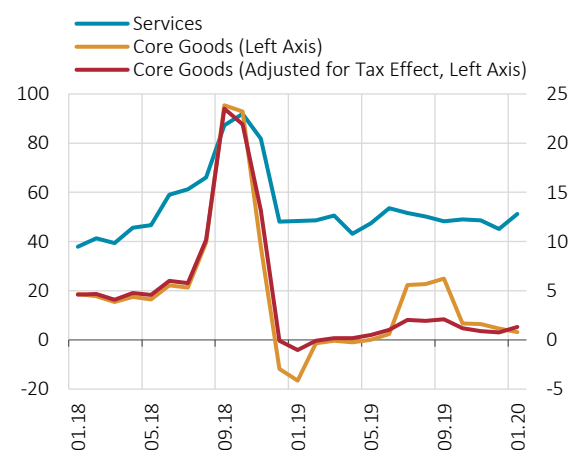


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In January, services prices increased by 2.00% and annual services inflation inched down to 12.20% (Chart 5). In this period, annual inflation declined in rents, transport services and communication but crept up in restaurants-hotels and remained relatively flat in other services (Chart 6). Monthly price developments reveal that an upsurge in prices was seen in items of the other services group that are inclined to backward-indexation, reflect the exchange rate effect, and the prices of which are set according to the re-valuation rate. This period was especially marked by price developments in

subcategories such as health, maintenance and repair, and education. In the restaurants-hotels group, prices increased both in accommodation and catering services. Showing backward-indexation behavior, the rent group posted a monthly increase of 1.14%, with a stronger trend than past months.

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

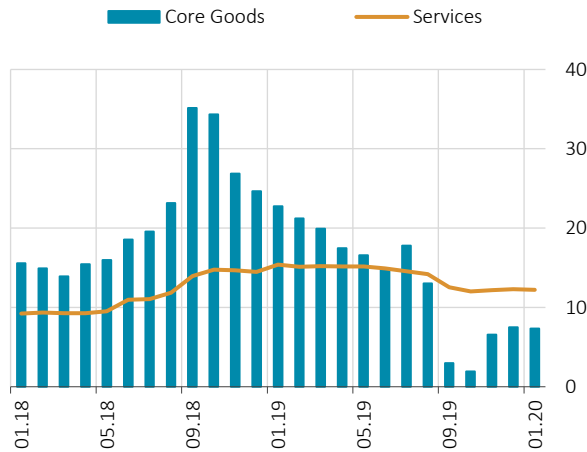
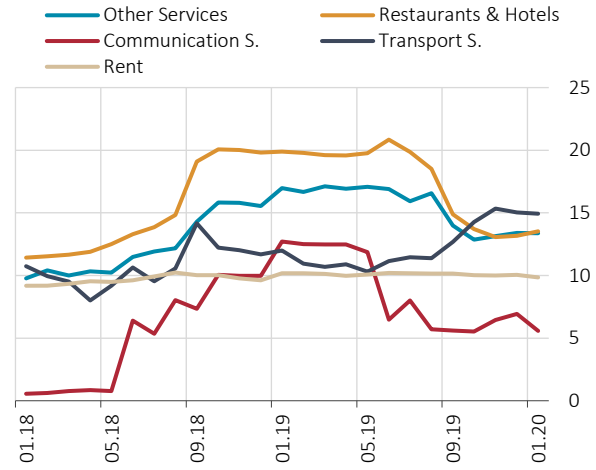


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 0.13 points to 7.35% in January (Chart 5). In this period, annual inflation dropped in durable goods, rose in clothing and durable goods and remained flat in other core goods (Chart 7). The VAT reduction in furniture products (to 8% from 18%) was largely manifest in prices, pulling down the prices of durable goods by 0.94%. Meanwhile, the seasonal sale in the clothing and footwear group proved more limited compared to the previous year.

Chart 7. Core Goods (Annual % Change)

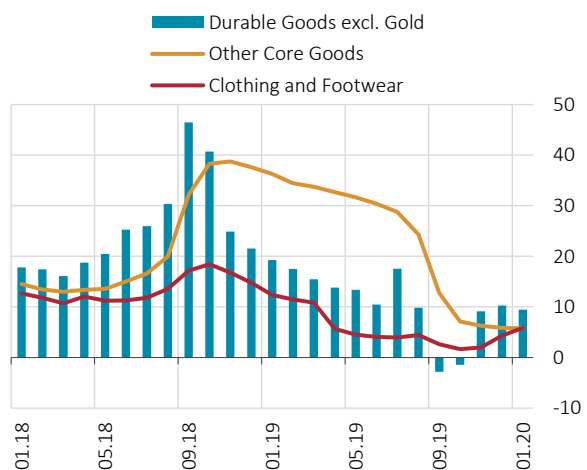
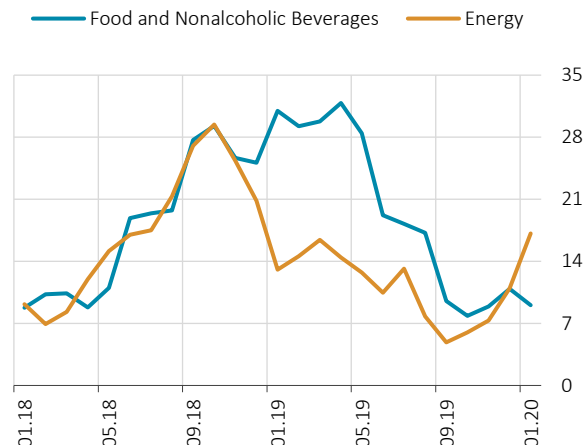


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



Energy prices rose by 1.11% in January (Table 1). This rise was mainly due to the price hike of 5.97% in municipal water tariffs. Notwithstanding the fall in international oil prices, fuel prices increased by 0.55% due to exchange rate developments. Annual energy inflation rose by 6.16 points to 17.14% due to the low base effect led by the reduced prices in electricity, natural gas and municipal water in the same period of the previous year (Chart 8).

In January, annual inflation in food and non-alcoholic beverages fell by 1.85 points to 9.04% (Chart 8 and Table 2). Unprocessed food prices played a role in this increase, with a falling annual inflation due to the high base from the previous year, while annual inflation in the processed food group recorded a slight increase. Led by fresh fruits and vegetables, unprocessed food prices surged on a seasonal basis, yet the

group’s annual inflation dropped by 3.88 points to 2.22% due to the high base (Chart 9). As for the other unprocessed food group, red meat, potato and egg prices stood out. The monthly price increase in the processed food group remained on an upward track with 1.48% led by the bread-cereals and dairy products, and the group’s annual inflation climbed to 16.08% (Chart 9). Against this background, annual food inflation excluding fresh fruits and vegetables reached 12.92% (Chart 10).

In January, alcohol-tobacco prices remained flat as the projected rise in the lump sum SCT under the automatic mechanism was not introduced in the first six months.

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

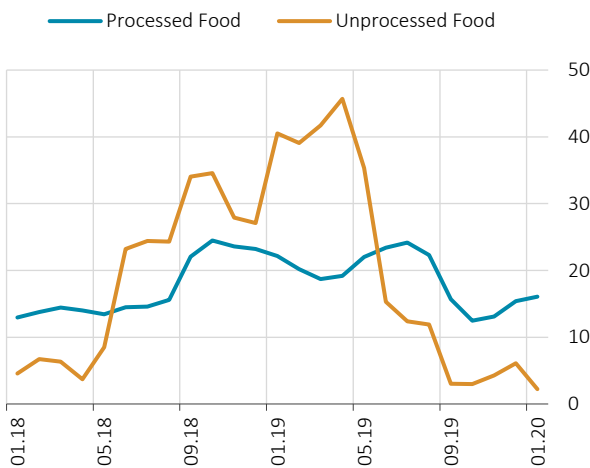
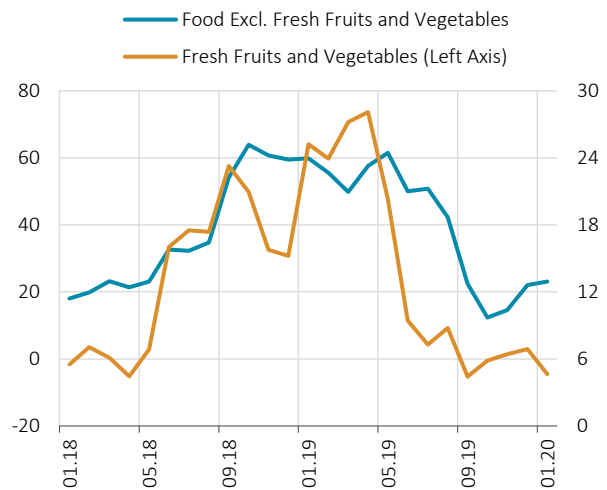


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In January, domestic producer prices increased by 1.84% and annual inflation rose by 1.48 points to 8.84% (Chart 11, Table 3). In this period, the underlying trend of manufacturing prices excluding petroleum and base metals escalated (Chart 12).

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

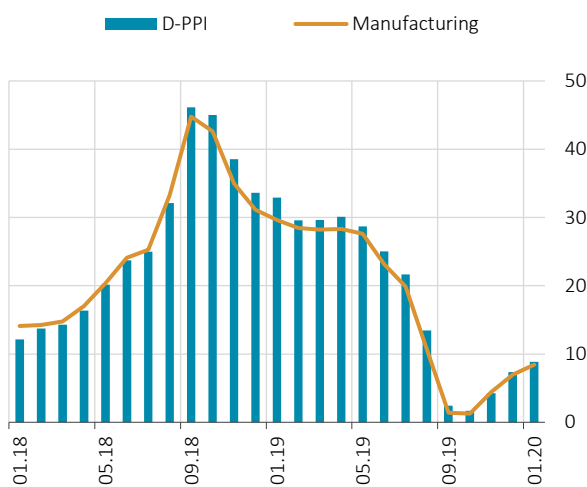
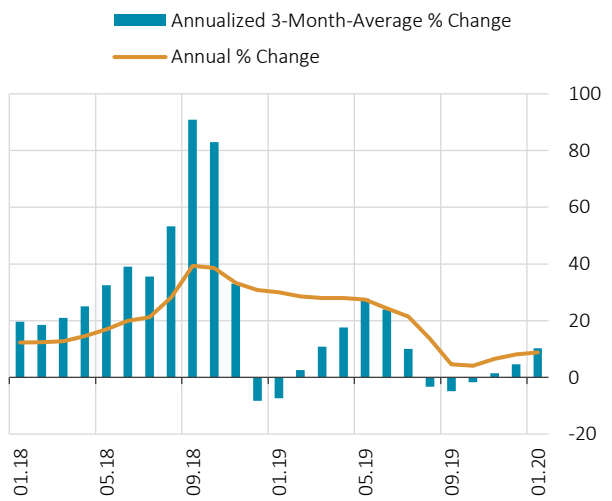


Chart 12. Manufacturing Excluding Petroleum and Base Metals



An analysis by main industrial groupings reveals that annual inflation increased across all subcategories, more notably in the energy group (Table 3, Charts 13 and 14). The rise in the intermediate goods spread across subcategories, while capital goods were influenced by price increases in metal construction products, parts and accessories of motor vehicles and machines. As for the prices of non-durable consumption goods, manufacture of food products stood out, while that of durable goods was driven by price hikes in transport vehicles and jewelry items. Energy prices were shaped by price increases in petroleum products, electricity and municipal water. In sum, the producer-led cost pressures on consumer inflation registered a somewhat increase compared to previous months.

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

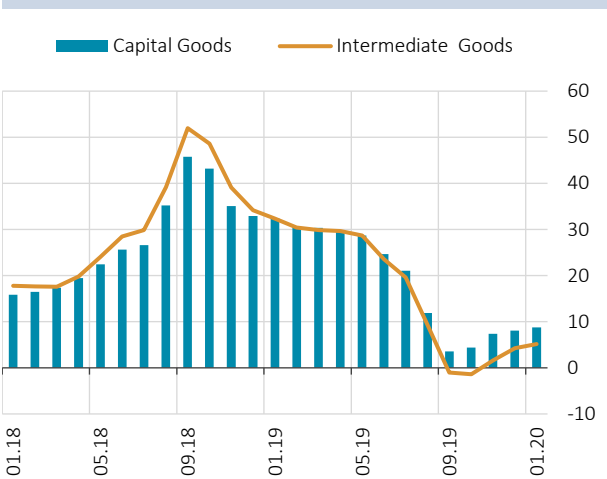
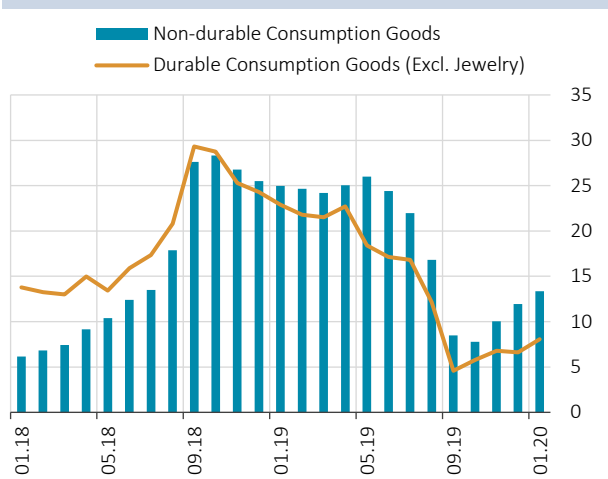


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	January 2020	January 2019	January 2020	January 2019
CPI	1.35	1.06	12.15	20.35
1. Goods	1.07	0.66	12.11	22.37
Energy	1.11	-4.20	17.14	13.06
Food and non-alcoholic beverages	4.65	6.43	9.04	30.97
Unprocessed food	8.22	12.33	2.22	40.54
Fresh fruits and vegetables	20.26	29.71	-4.56	64.11
Other unprocessed food	1.97	2.24	7.66	27.02
Processed food	1.48	0.88	16.08	22.15
Bread and cereals	2.02	1.22	17.51	21.91
Other processed food	1.19	0.70	15.31	22.28
Goods excluding energy and food	-1.28	-1.37	12.49	20.26
Core goods	-1.99	-1.87	7.35	22.75
Durable goods (excluding gold)	-0.94	-0.22	9.47	19.30
Clothing and footwear (*)	-6.81	-8.13	5.82	12.35
Other core goods	0.41	0.45	5.79	36.31
Alcoholic beverages and tobacco	-0.02	0.62	42.21	2.63
Gold	6.31	3.67	29.49	37.66
2. Services	2.00	2.09	12.20	15.40
Rents	1.14	1.33	9.85	10.17
Restaurants and hotels	1.39	1.07	13.52	19.89
Transport	0.75	0.85	14.92	12.00
Communication	-0.08	1.18	5.59	12.71
Other	4.02	4.05	13.36	16.98
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.34	0.18	10.93	19.55
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.10	0.04	9.88	19.02
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.56	-0.42	12.13	18.81
F – CPI excluding administered prices	1.32	1.66	9.58	22.53

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	January 2020		January 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	1.35	12.15	1.06	20.35
Food and non-alcoholic beverages	22.77	4.65	9.04	6.43	30.97
Alcoholic beverages and tobacco	6.06	-0.02	42.21	0.62	2.63
Clothing and footwear	6.96	-6.65	6.00	-7.95	12.47
Housing	14.34	1.20	14.76	-3.10	17.16
Household equipment	7.77	-1.44	7.51	0.65	29.07
Health	2.80	3.96	14.07	3.56	17.99
Transport	15.62	0.87	12.95	0.20	14.71
Communication	3.80	-0.25	2.14	0.74	11.54
Recreation and culture	3.26	1.86	5.66	3.18	23.15
Education	2.58	0.64	15.11	0.07	10.02
Restaurants and hotels	8.67	1.39	13.52	1.07	19.89
Miscellaneous goods and services	5.37	4.88	15.01	3.62	29.63

Source: TURKSTAT.

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

	Weight	January 2020		January 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	1.84	8.84	0.45	32.93
Mining	3.23	2.33	12.76	2.83	22.50
Manufacturing	89.22	1.85	8.45	0.47	29.61
Manufacturing excl. petroleum products	85.25	1.68	8.05	0.59	29.67
Manufacturing excl. petroleum products and base metals	75.47	1.55	8.73	0.96	29.96
Electricity, gas, steam and air-conditioning sup.	6.61	0.95	13.07	0.38	92.80
Water supply	0.95	5.46	4.27	-6.88	2.80
D-PPI (MIGs Classification)					
Intermediate Goods		1.36	5.15	0.51	32.36
Durable Consumption Goods		2.60	8.93	1.02	23.67
Durable Consumption Goods (Excl. Jewelry)		2.22	8.06	0.86	22.90
Non-Durable Consumption Goods		1.71	13.37	0.42	24.95
Capital Goods		2.55	8.78	1.90	32.43
Energy		3.01	13.75	-1.27	61.49

Source: TURKSTAT.