



JANUARY PRICE DEVELOPMENTS

4 FEBRUARY 2021

Summary

In January, consumer prices rose by 1.68%, and annual inflation increased by 0.37 points, hitting 14.97%. Owing to cumulative exchange rate effects and international prices, the trend of strong increases in producer prices continued. The main drivers of annual inflation were the core goods and energy groups. In core goods excluding clothing, prices remained on an upward track due to cumulative exchange rate effects, demand conditions, ongoing supply constraints in certain sectors and international metal prices. A partial recovery notwithstanding, inflation in the clothing group remained low. Energy inflation picked up amid rising oil prices as well as the developments in administered prices such as electricity, municipal water and natural gas. Annual inflation edged down in services, and registered decreases in the food group in tandem with the correction in fresh fruits and vegetables. On the other hand, the rise in raw milk purchase prices coupled with the international agricultural commodities drove inflation in other food products upwards. Against this backdrop, annual inflation as well as the trends of B and C indices increased.

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 1.68%, and annual inflation increased by 0.37 points, hitting 14.97% (Chart 1). In this period, annual rates of change in the B and C indices increased by 1.48 and 1.19 points to 16.00% and 15.50%, respectively (Chart 2).

The Covid-19 outbreak caused drastic changes in household consumption patterns in 2020, leading to updates in weights within the CPI basket. The weights of groups hit by the pandemic such as restaurants-hotels, clothing-footwear, education, recreation-culture and transport decreased compared to the previous year. However, the weights of subcategories such as food, housing and household equipment increased. The most notable change occurred in food and non-alcoholic beverages with a share that increased by 3.17 points to 25.94%. In this period, the core goods group had a higher weight, while the services sector, which was hit by the pandemic, had a decreased share.

Across subcategories, contributions of core goods and energy groups to annual consumer inflation rose month-on-month by 0.63 and 0.30 points, respectively, while those of food, alcohol-tobacco-gold and services declined by 0.38, 0.10 and 0.08 points, respectively.

Chart 1: CPI and D (Annual % Change)

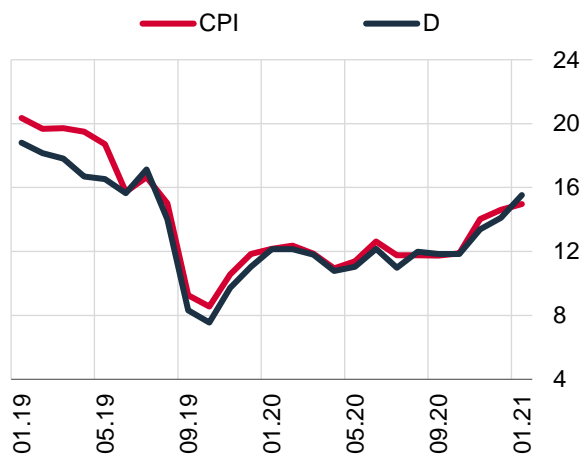
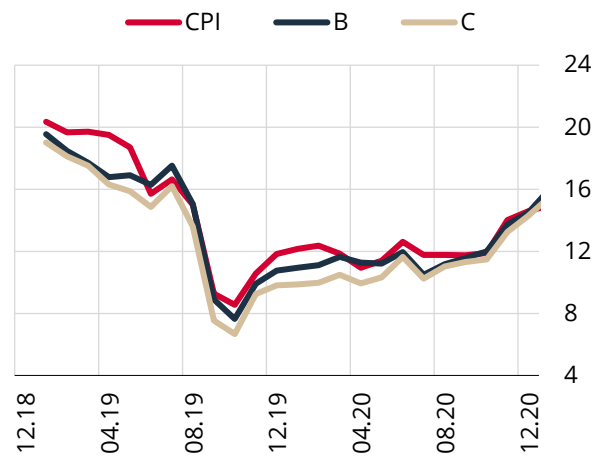


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators continued to increase in the trends of B and C indices (Chart 3). In this period, while the inflation trend surged in core goods, it remained almost flat in services (Chart 4).

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

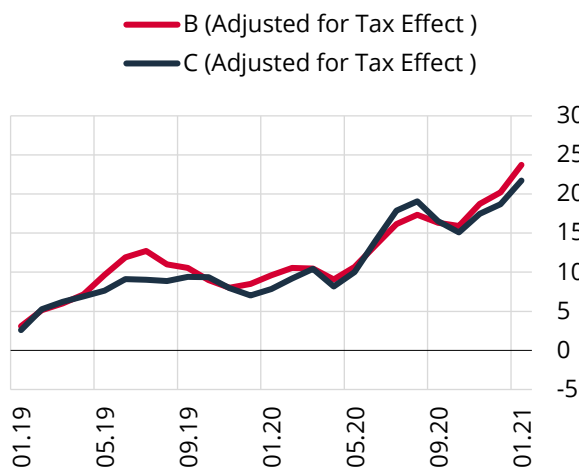
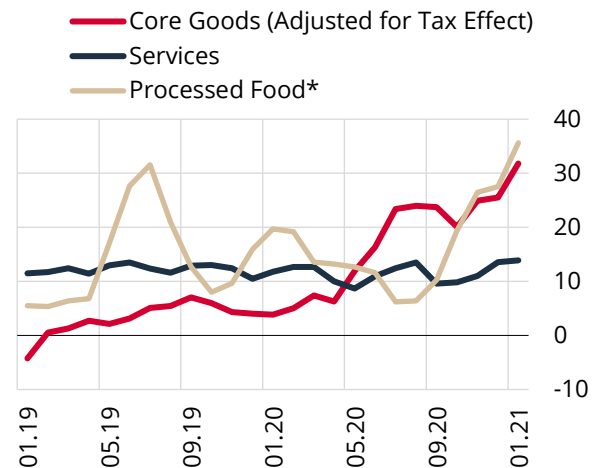


Chart 4: Main Components of B Index (Seasonally Adjusted, Annualized 3-Month Average % Change)



* There is no seasonal effect in the processed food group.

In January, services prices increased by 1.87%, and the group's annual inflation edged down by 0.14 points to 11.52% (Chart 5). Annual inflation rose in transport services, crept up in rent, restaurants-hotels and communication groups, and decreased in other subcategories (Chart 6). The rise in transport services was driven by the adjustments in intra-city transport fees. Annual inflation in restaurants-hotels was led by catering services, which was shaped by the developments in food prices as well as the minimum wage. In the rent item, monthly inflation gained pace, and annual inflation maintained the upward course. Meanwhile, increases in health services notwithstanding, annual inflation decreased in other services groups on the back of exchange rate developments. Excluding communication services, the trend of the seasonally-adjusted services inflation remained high.

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

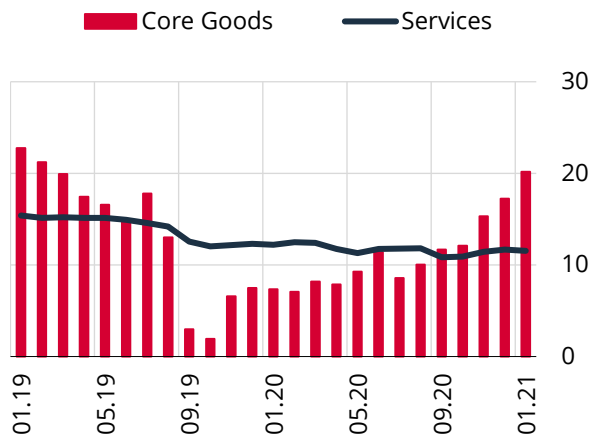
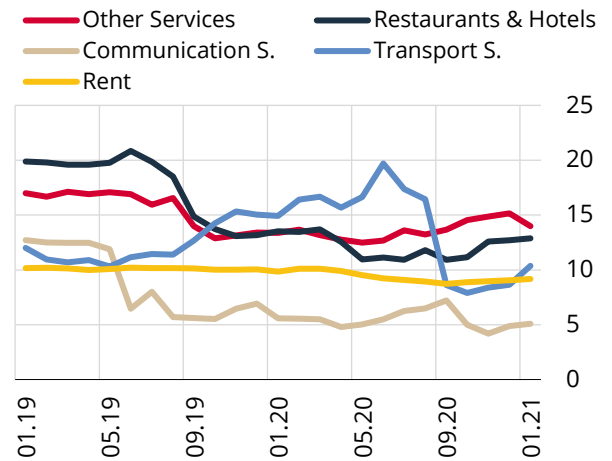


Chart 6. Services (Annual % Change)



In January, core goods inflation rose by 2.94 points to 20.18% (Chart 5). In this period, annual inflation increased across all subcategories (Chart 7). Prices of durable goods that are sensitive to the exchange rate and financing conditions increased by 1.45% in January, while the hike in furniture prices (6.31%) proved notable. In this period, electrical and non-electrical appliances also registered price increases, while in the other core goods group that reveals the cumulative exchange rate effects, monthly inflation climbed to 2.03%. In the clothing and footwear group, seasonal sales were below the level of the previous year, and annual inflation rose to 1.91%.

Chart 7. Core Goods (Annual % Change)

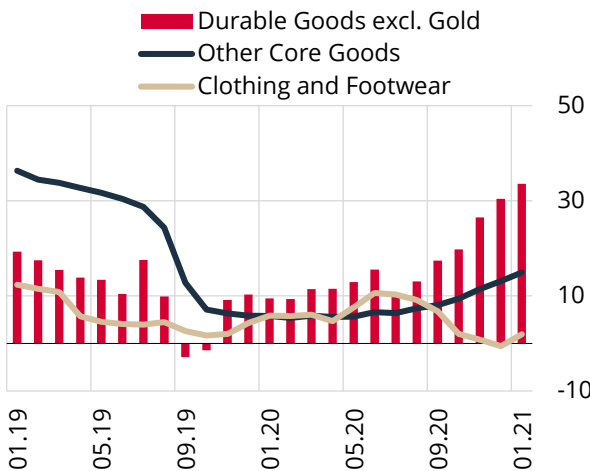
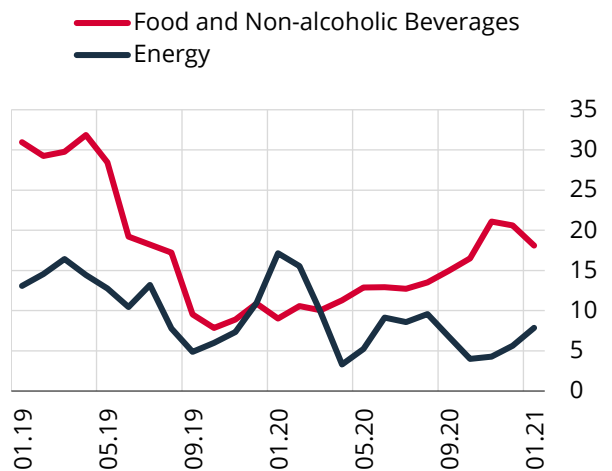


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In January, energy prices surged by 3.24% (Table 1). Adjustments in administered prices affected the energy group: prices of electricity, municipal water and natural gas rose by 6.18%, 7.15% and 1.09%, respectively. Meanwhile, the rate of increase in fuel prices remained limited to 0.65% due to the appreciated Turkish lira coupled with the implementation of a sliding scale system despite the increase in international oil prices. All in all, annual energy inflation rose by 2.22 points to 7.86% (Chart 8).

In January, prices of food and non-alcoholic beverages increased by 2.48%, while the base effect pulled the group's annual inflation down by 2.50 points to 18.11% (Chart 8 and Table 2). In this period, annual inflation rose by 2.59 points to 18.11% in the processed food group, but declined by 8.26 points to 18.08% in the unprocessed food group due to the base effect (Chart 9). Seasonally adjusted data for the unprocessed food group point to a substantial monthly decline in prices of fresh fruits and vegetables, with vegetables in the lead. In this period, other unprocessed food group reveals the effect of the raw milk price adjustment on milk prices (14.52%), while the hikes in meat prices are also notable. In January, processed food prices posted a monthly upsurge by 3.75%. In the fats-oils group that reflects the impact of international prices of oils, high-rated increases (5.43%) still persist, while the indirect effects of the adjustment in raw milk prices spread across the related groups, primarily cheese and other dairy products (10.48%). All in all, annual food inflation excluding fresh fruits and vegetables reached 19.89% (Chart 10).

In January, the SCT imposed on alcoholic beverages was increased through the auto-adjustment mechanism linked to domestic producer inflation in the second half of 2020. Against this background, annual inflation in alcoholic beverages surged by 11.73 points to 18.48%.

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

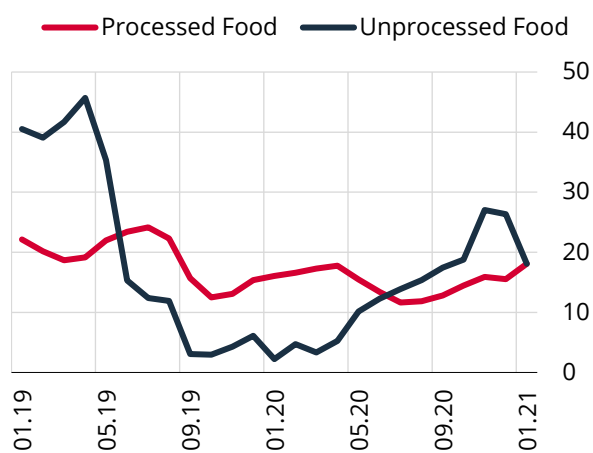
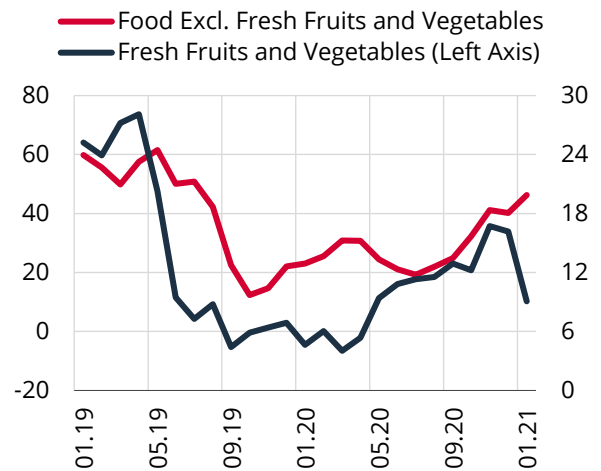


Chart 10. Fresh Fruits-Vegetables and Other Food
(Annual % Change)



D-PPI

In January, domestic producer prices rose by 2.66%, and annual D-PPI inflation increased by 1.01 points to 26.16% (Chart 11 and Table 3), mainly due to the cumulative exchange rate effects and ongoing increases in international commodity prices as well as supply constraints and strong demand conditions in certain sectors. This period was marked by notable increases in agricultural commodity and oil prices, in particular. The trend of manufacturing industry prices excluding petroleum and base metals remained high, albeit with some deceleration in this period (Chart 12).

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

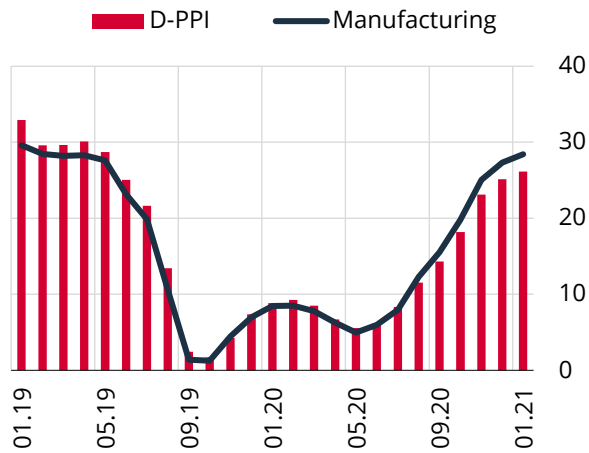
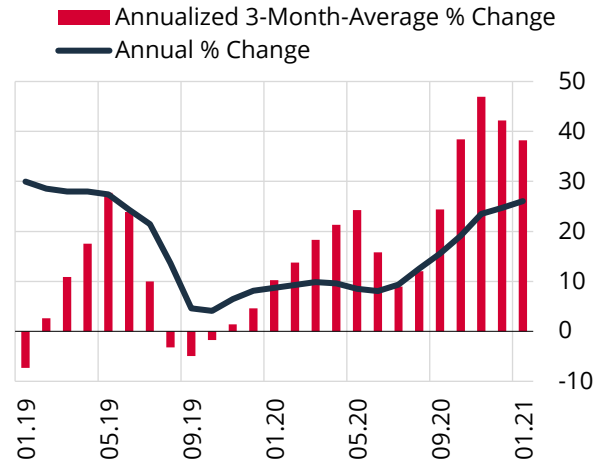


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation increased in durable and non-durable consumption goods and intermediate goods, remained flat in the energy group, and decreased in the capital goods group (Table 3, Charts 13 and 14). In monthly terms, prices increased across all subcategories, most notably, in durable and non-durable goods. Prices of intermediate goods rose due to paper products, iron-steel and construction intermediate inputs, while annual inflation in the base metal group reached 56.85%. Prices in capital goods were pushed up by railway vehicles, parts and accessories of land vehicles and machines. The paper and paper products group, which provide inputs to many sectors, exhibited a non-stop upsurge, and the group’s annual inflation climbed to 42.55%. In durable consumption goods, price increases in furniture, other transport vehicles and home appliances proved notable. In non-durable consumption goods, price hikes were seen in dairy products in particular, which were followed by meat products and fats-oils. Overall, the producer prices-driven pressures on consumer prices continued strongly, with core goods and food groups in the lead.

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

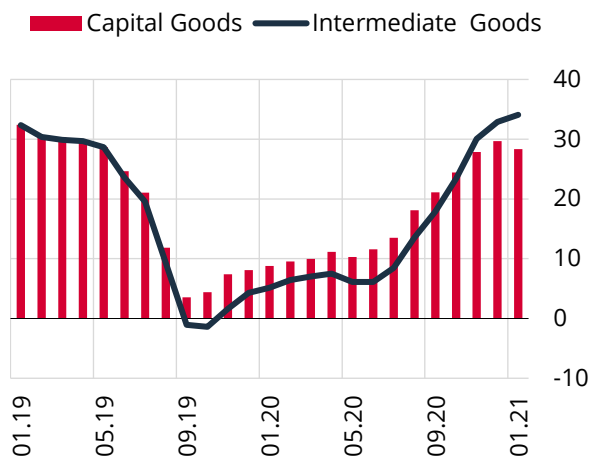
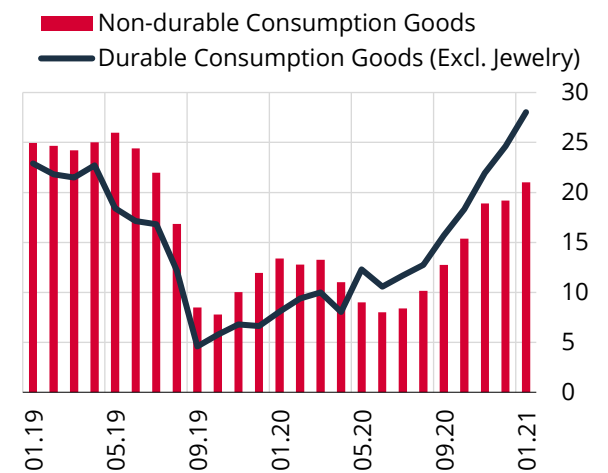


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	January 2021	January 2020	January 2021	January 2020
CPI	1.68	1.35	14.97	12.15
1. Goods	1.61	1.07	16.49	12.11
Energy	3.24	1.11	7.86	17.14
Food and non-alcoholic beverages	2.48	4.65	18.11	9.04
Unprocessed food	1.15	8.22	18.08	2.22
Fresh fruits and vegetables	-1.02	20.26	10.22	-4.56
Other unprocessed food	2.38	1.97	22.89	7.66
Processed food	3.75	1.48	18.11	16.08
Bread and cereals	1.80	2.02	19.05	17.51
Other processed food	4.83	1.19	17.55	15.31
Goods excluding energy and food	0.41	-1.28	18.34	12.49
Core goods	0.47	-1.99	20.18	7.35
Durable goods (excluding gold)	1.45	-0.94	33.55	9.47
Clothing and footwear (*)	-4.49	-6.81	1.91	5.82
Other core goods	2.03	0.41	14.94	5.79
Alcoholic beverages and tobacco	0.67	-0.02	1.35	42.21
Gold	-3.02	6.31	48.02	29.49
2. Services	1.87	2.00	11.52	12.20
Rents	1.23	1.14	9.17	9.85
Restaurants and hotels	1.56	1.39	12.89	13.52
Transport	2.35	0.75	10.38	14.92
Communication	0.13	-0.08	5.09	5.59
Other	2.96	4.02	13.98	13.36
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	1.64	0.34	16.00	10.93
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	1.14	0.10	15.50	9.88
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.82	0.56	15.53	12.13
F - CPI excluding administered prices	1.41	1.32	16.62	9.58

Source: TURKSTAT.

* Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	January 2021		January 2020	
		Monthly	Annual	Monthly	Annual
CPI	100	1.68	14.97	1.35	12.15
Food and non-alcoholic beverages	25.94	2.48	18.11	4.65	9.04
Alcoholic beverages and tobacco	4.88	0.67	1.35	-0.02	42.21
Clothing and footwear	5.87	-4.37	2.12	-6.65	6.00
Housing	15.36	3.02	11.56	1.20	14.76
Household equipment	8.64	2.90	23.25	-1.44	7.51
Health	3.25	4.25	16.99	3.96	14.07
Transport	15.49	1.12	21.43	0.87	12.95
Communication	4.64	0.31	6.32	-0.25	2.14
Recreation and culture	3.01	1.23	9.75	1.86	5.66
Education	2.28	-0.03	6.13	0.64	15.11
Restaurants and hotels	5.91	1.56	12.89	1.39	13.52
Miscellaneous goods and services	4.73	1.94	24.53	4.88	15.01

Source: TURKSTAT.

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

	Weight	January 2021		January 2020	
		Monthly	Annual	Monthly	Annual
D-PPI	100	2.66	26.16	1.84	8.84
Mining	3.51	2.46	19.17	2.33	12.76
Manufacturing	87.27	2.73	28.42	1.85	8.45
Manufacturing excl. petroleum products	83.46	2.67	29.61	1.68	8.05
Manufacturing excl. petroleum products and base metals	75.28	2.63	26.07	1.55	8.73
Electricity, gas, steam and air-conditioning sup.	8.38	0.72	0.02	0.95	13.07
Water supply	0.85	15.61	25.88	5.46	4.27
D-PPI (MIGs Classification)					
Intermediate Goods		2.25	34.08	1.36	5.15
Durable Consumption Goods		4.34	29.87	2.60	8.93
Durable Consumption Goods (Excl. Jewelry)		5.01	28.03	2.22	8.06
Non-Durable Consumption Goods		3.28	21.02	1.71	13.37
Capital Goods		1.48	28.34	2.55	8.78
Energy		2.99	3.22	3.01	13.75

Source: TURKSTAT.