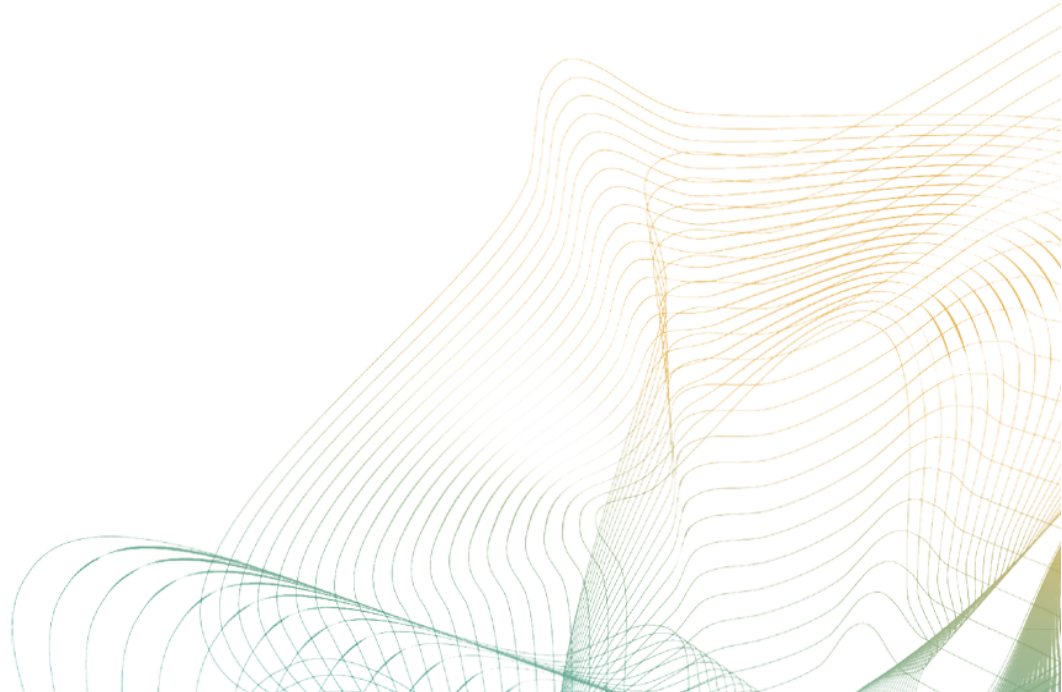




July Price

Developments

5 August 2020



Summary

In July, consumer prices increased by 0.58%, and annual inflation fell by 0.86 points to 11.76%. Energy prices continued to rise amid recovering international oil prices whereas annual food inflation inched down. Annual core goods inflation was down due to base effects from tax adjustments in July 2019, while services inflation was flat. Accordingly, annual inflation went down in B and C indices but their trends 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 July, consumer prices increased by 0.58%, and annual inflation fell by 0.86 points to 11.76% (Chart 1). The annual rate of change in B and C indices decreased by 1.46 and 1.39 points to 10.49% and 10.25%, respectively (Chart 2).

Across subcategories, contributions from core goods, food and energy to annual consumer inflation were down by 0.78, 0.12 and 0.06 points month-on-month, respectively, while those from alcohol-tobacco-gold and services rose by 0.08 and 0.02 points, respectively.

Chart 1: CPI and D (Annual % Change)

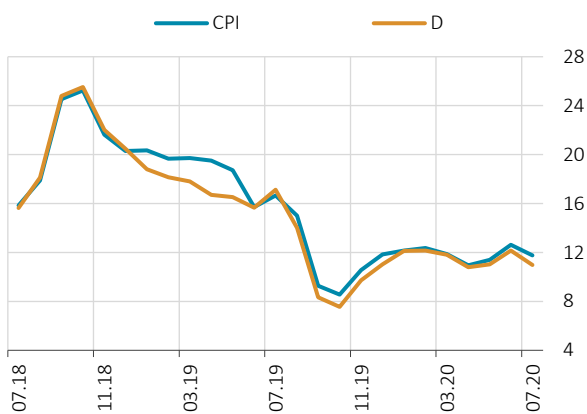
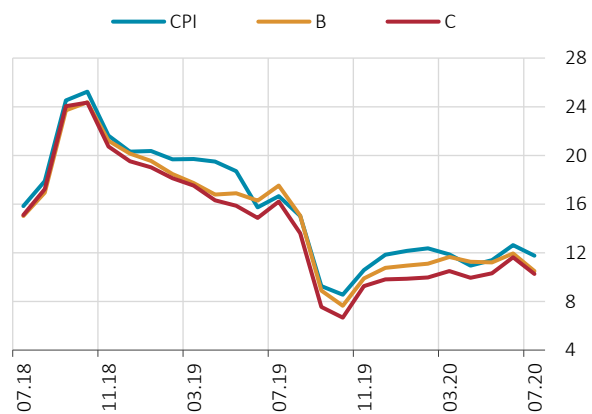


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of B and C indices increased (Chart 3). In this period, inflation trends went up in services and, more markedly, core goods (Chart 4).

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

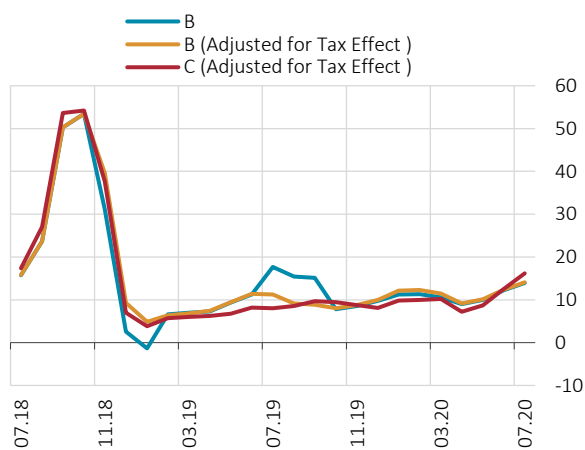
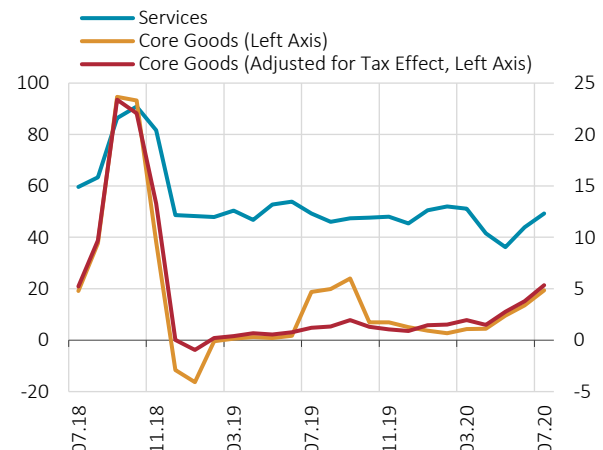


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month Average % Change)



In July, prices of services rose by 1.06% while annual services inflation was flat at 11.80% (Chart 5). Annual inflation was up in communication and other services but down in other subcategories, especially in transport (Chart 6). The fall in prices of transport services was driven by intercity bus fares (down 6.33% with the help of the price ceiling). Prices continued to rise in restaurants-hotels, albeit at a slower clip than in the previous month. Across other services, prices increases were notable in the maintenance and repair of personal transport equipment, educational services and package tours, and slightly slowed

down in barber and hairdressing services. Meanwhile, impending VAT cuts on some services are considered to have a downward effect on the group inflation in the upcoming period.

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

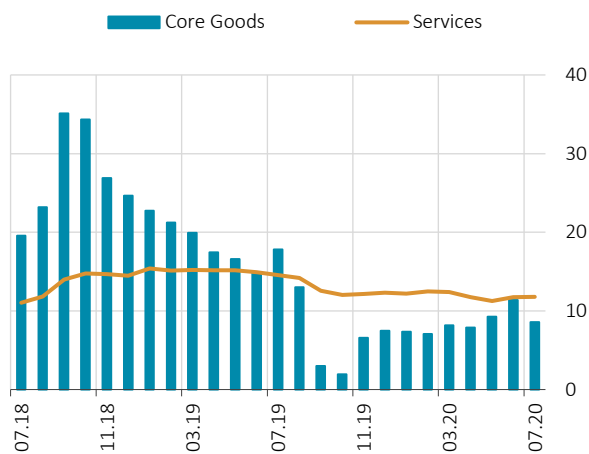
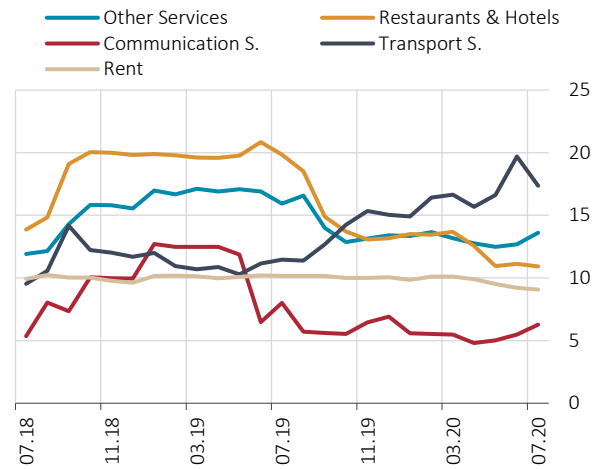


Chart 6. Services (Annual % Change)



Annual core goods inflation decreased by 2.81 points to 8.58% in July (Chart 5). In this period, annual inflation went down in all subcategories (Chart 7). Although prices were higher in furniture, automobiles and electrical/non-electrical home appliances, annual durable goods inflation was significantly lower thanks to a high base effect from a year earlier. The monthly drop in clothing prices was close to seasonal averages, whereas prices of other core goods rose slightly.

Chart 7. Core Goods (Annual % Change)

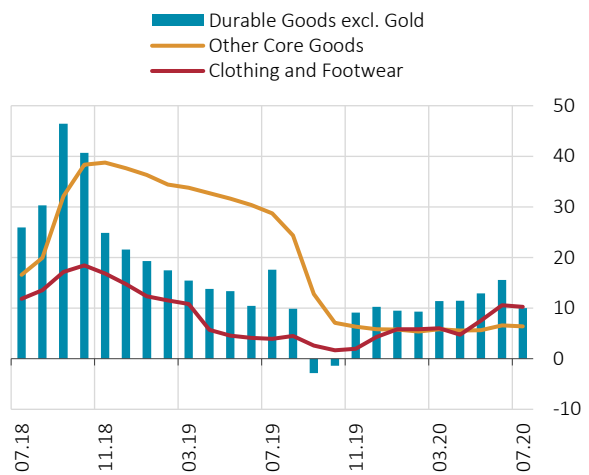
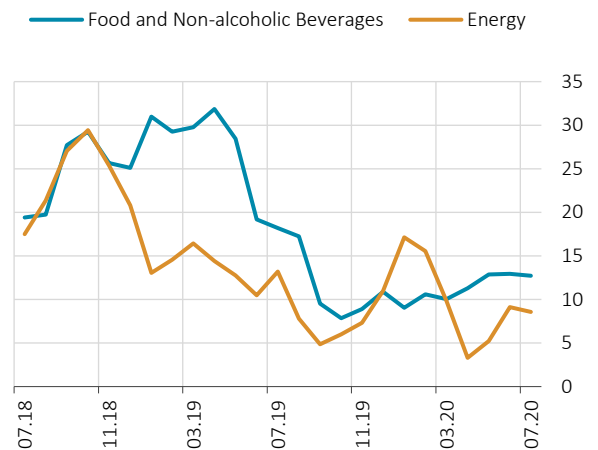


Chart 8. Food and Non-alcoholic Beverages and Energy (Annual % Change)



In July, energy prices increased by 2.50% (Table 1). Recovering international energy prices pushed fuel and bottled gas prices up by 5.73% and 4.99%, respectively. In addition, municipal water rates surged by 2.46%. However, annual energy inflation fell by 0.55 points to 8.57% due to a high base effect from readjusted electricity prices a year ago (Chart 8).

Annual inflation in food and nonalcoholic beverages went down by 0.20 points to 12.73% (Chart 8 and Table 2). Unprocessed food prices were down 2.77% month-on-month, but annual unprocessed food inflation rose to 13.85% due to base effects. Having been mild for some time, processed food prices recorded a monthly increase of only 0.16% in July. Thus, amid base effects, annual processed food inflation fell to 11.64% (Chart 9). Monthly price drops were smaller for fresh fruits and vegetables while prices in the other unprocessed food subcategory were flat. Among other processed food items, prices

were markedly higher in eggs, but went down in pulses following high monthly inflation rates in recent months. The favorable outlook in processed food prices spread across all subcategories. Against this background, annual inflation in food excluding fresh fruits and vegetables posted a small decrease (Chart 10).

Lump sum and minimum lump sum special consumption taxes on tobacco and alcohol were raised in early July in line with the six-month change in D-PPI, pushing prices of alcoholic beverages up by 3.61%. Tobacco prices, however, remained flat.

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

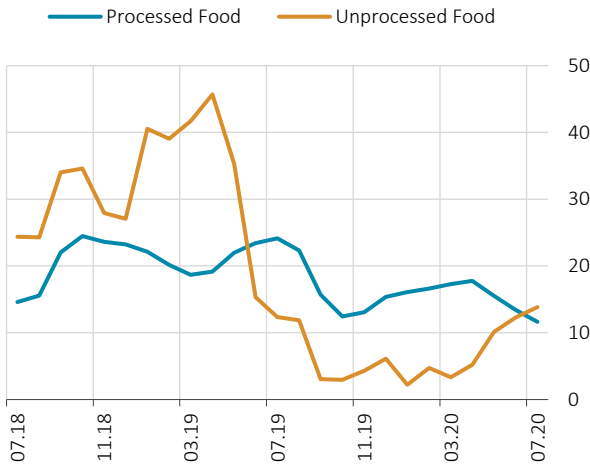
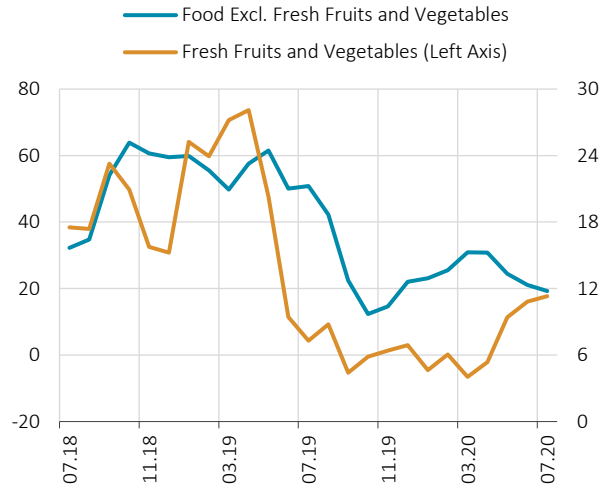


Chart 10. Fresh Fruits-Vegetables and Other Food (Annual % Change)



D-PPI

In July, domestic producer prices rose by 1.02% while annual D-PPI inflation soared by 2.16 points to 8.33% (Chart 11 and Table 3). In this period, the seasonally adjusted trend of manufacturing industry prices excluding petroleum and base metals decreased (Chart 12).

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

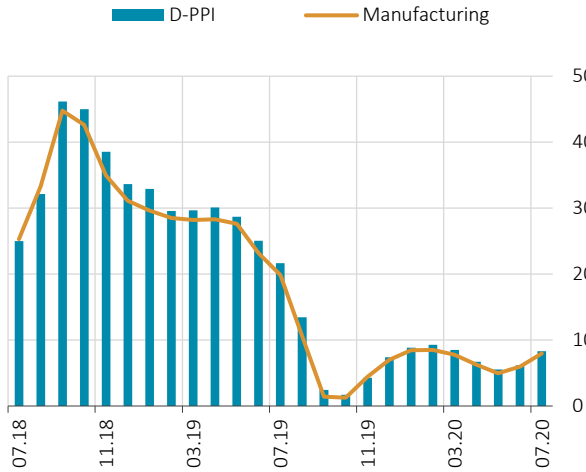
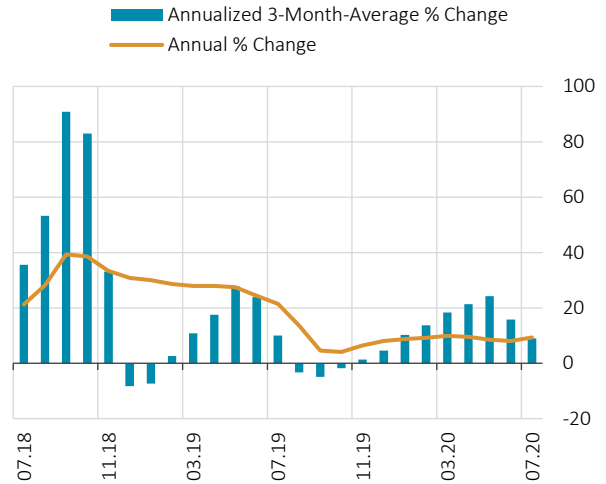


Chart 12. Manufacturing Excluding Petroleum and Base Metals



According to main industrial groupings, annual inflation was remarkably higher across all subcategories, energy in particular (Table 3, Chart 13 and Chart 14). In monthly terms, energy prices were mainly driven higher by rising prices of refined petroleum products, crude oil and gas production amid recovering international oil prices. The rise in intermediate goods was led by precious base metals, base chemicals and non-iron metal ores; whereas prices of capital goods were pushed up by motor vehicles along with their parts and accessories and machines. Price increases in durable goods stemmed from furniture, home appliances and jewelry, whereas prices of nondurable goods went down on the back of falling prices of processed meat products and fruits and vegetables. In sum, producer prices saw increased annual inflation in July but their underlying trend decelerated.

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

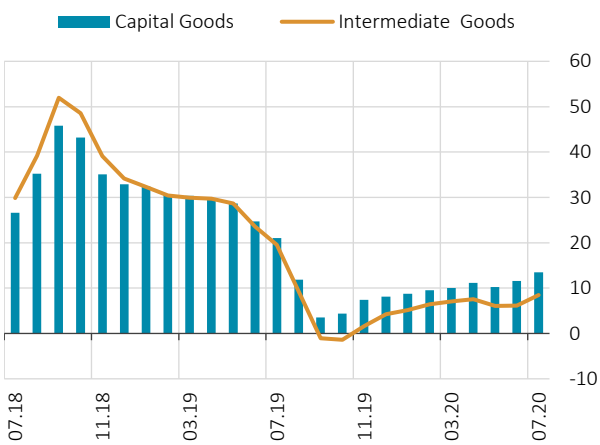
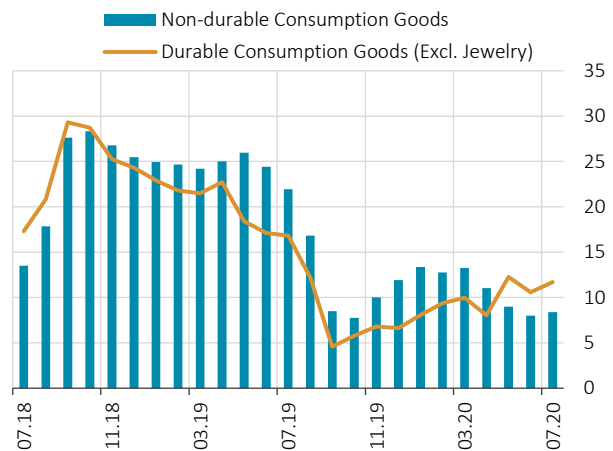


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	July 2020	July 2019	July 2020	July 2019
CPI	0.58	1.36	11.76	16.65
1. Goods	0.38	1.49	11.70	17.45
Energy	2.50	3.01	8.57	13.19
Food and non-alcoholic beverages	-1.28	-1.11	12.73	18.21
Unprocessed food	-2.77	-4.11	13.85	12.37
Fresh fruits and vegetables	-8.08	-9.36	17.73	4.30
Other unprocessed food	0.08	-1.24	11.78	16.80
Processed food	0.16	1.74	11.64	24.15
Bread and cereals	0.38	1.38	12.90	25.66
Other processed food	0.04	1.94	10.96	23.35
Goods excluding energy and food	0.83	2.75	12.05	18.48
Core goods	0.56	3.16	8.58	17.81
Durable goods (excluding gold)	2.79	7.99	9.98	17.58
Clothing and footwear (*)	-3.57	-3.30	10.28	3.95
Other core goods	0.54	0.70	6.41	28.73
Alcoholic beverages and tobacco	0.23	0.75	21.78	19.23
Gold	6.36	1.04	51.12	33.38
2. Services	1.06	1.03	11.80	14.57
Rents	1.00	1.13	9.07	10.17
Restaurants and hotels	1.22	1.42	10.92	19.85
Transport	-0.91	1.06	17.37	11.45
Communication	1.24	0.49	6.26	8.00
Other	1.61	0.79	13.61	15.93
3. Core Measures				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.71	2.04	10.49	17.53
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.83	2.10	10.25	16.20
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	1.08	2.16	10.97	17.13
F – CPI excluding administered prices	0.64	1.01	10.60	16.94

Source: TURKSTAT.

(*) Does not cover clothing services.

Table 2. CPI and Subcategories (% Change)

	Weight	July 2020		July 2019	
		Monthly	Annual	Monthly	Annual
CPI	100	0.58	11.76	1.36	16.65
Food and non-alcoholic beverages	22.77	-1.28	12.73	-1.11	18.21
Alcoholic beverages and tobacco	6.06	0.23	21.78	0.75	19.23
Clothing and footwear	6.96	-3.48	10.34	-3.20	4.18
Housing	14.34	0.93	12.53	3.10	16.05
Household equipment	7.77	2.38	7.78	4.24	25.41
Health	2.80	0.80	14.17	0.25	17.93
Transport	15.62	2.44	8.81	4.46	13.67
Communication	3.80	1.76	5.81	0.83	6.29
Recreation and culture	3.26	1.33	6.04	1.60	17.47
Education	2.58	1.74	12.60	0.90	13.68
Restaurants and hotels	8.67	1.22	10.92	1.42	19.85
Miscellaneous goods and services	5.37	2.39	21.90	0.63	26.93

Source: TURKSTAT.

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

	Weight	July 2020		July 2019	
		Monthly	Annual	Monthly	Annual
D-PPI	100	1.02	8.33	-0.99	21.66
Mining	3.23	4.11	8.94	-0.43	20.59
Manufacturing	89.22	0.99	7.95	-0.84	19.88
Manufacturing excl. petroleum products	85.25	0.66	9.23	-0.88	20.24
Manufacturing excl. petroleum products and base metals	75.47	0.64	9.35	-0.58	21.42
Electricity, gas, steam and air-conditioning sup.	6.61	-0.44	12.69	-3.36	47.57
Water supply	0.95	3.74	12.06	-0.67	-6.03
D-PPI (MIGs Classification)					
Intermediate Goods		0.94	8.47	-1.23	19.57
Durable Consumption Goods		2.15	14.54	0.81	17.73
Durable Consumption Goods (Excl. Jewelry)		1.93	11.70	0.90	16.82
Non-Durable Consumption Goods		-0.21	8.38	-0.56	21.96
Capital Goods		1.22	13.50	-0.50	21.05
Energy		3.62	0.65	-2.19	31.15

Source: TURKSTAT.