

## Box 2.4

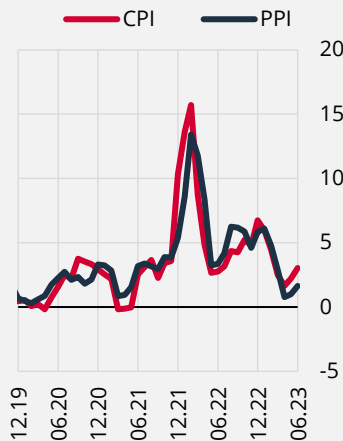
### Inflation Risks in Durable Goods

The main determinants of consumer inflation throughout 2022 were the ongoing supply shocks and TL-denominated international commodity prices. As of the second half of the year, these factors improved significantly. TL-denominated international commodity prices were more optimistic, and supply chain problems such as supplier delivery times and transportation costs eased. A similar picture continued throughout the first half of 2023, with the exception of TL depreciation in June. These developments have played an influential role particularly in the prices of durable goods, which can be sizably and rapidly affected by supply shocks and TL-denominated international commodity prices. The recent demand outlook also highlights the rapid increase in demand for durable goods in the first half of the year. Against this backdrop, the year-on-year inflation of durable goods excluding gold was 43.3% in June 2023. Among the sub-items of this group, annual inflation in white goods, automobiles and furniture was 61.8%, 46.6% and 37.5%, respectively. This box discusses sub-items of durable goods in more detail, and examines their pricing behavior in terms of producer costs and demand dynamics.

In order to evaluate the effects of producer costs on the pricing dynamics of the prominent items in the durable goods group, PPI indicators harmonized with CPI's scope and weights are examined. Indicators suggest that although consumer and producer prices may diverge in the short term due to factors such as taxes and the position in the supply chain, they act in harmony in the long term (Chart 1, Chart 2 and Chart 3). Matched data suggest a similar picture in the recent period as well, with the increases in producer prices being rapidly reflected on consumer prices and only slight differences are observed between the price increases.

**Chart 1: White Goods CPI and Adjusted PPI**

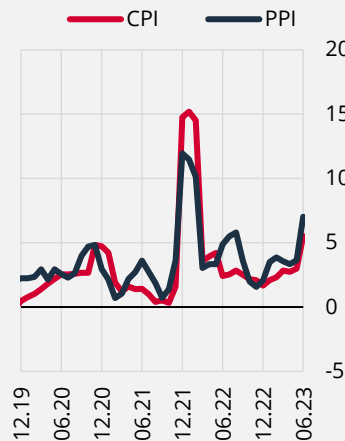
(Seasonally Adjusted, 3-Month Average % Change)



Source: CBRT, TURKSTAT.

**Chart 2: Automobiles CPI and Adjusted PPI**

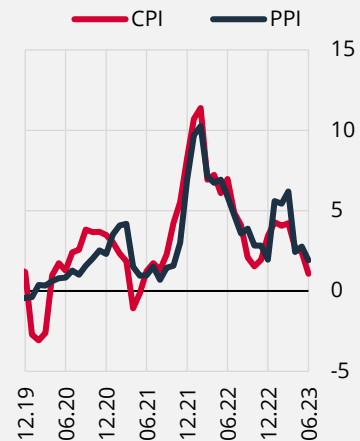
(Seasonally Adjusted, 3-Month Average % Change)



Source: CBRT, TURKSTAT.

**Chart 3: Furniture CPI and Adjusted PPI (Seasonally Adjusted, 3-Month Average % Change)**

(Seasonally Adjusted, 3-Month Average % Change)



Source: CBRT, TURKSTAT.

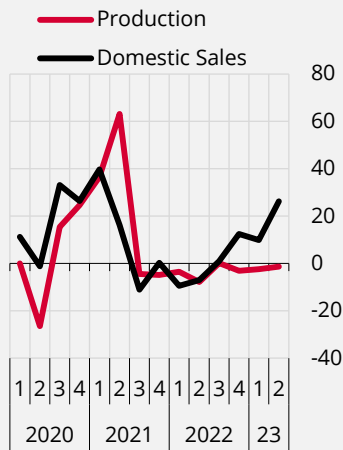
When the demand dynamics in durable goods are considered within the framework of production, imports, domestic sales and exports, domestic demand is relatively stronger compared to production as of the first half of 2023, and there are signs of partial slowdown in foreign demand in line with the global growth outlook. A closer examination of the outlook for white goods, automobiles, and furniture items, which are among the main sub-items of durable consumer goods, reveals that the main trend confirms the differentiation between demand and production, although there are partial differentiations on a sectoral basis.

Total domestic sales in the white goods sector continued to increase in the second quarter of the year compared to the previous quarter, and the annual rate of increase reached 26.2% compared to the same period of the previous year (Chart 4). Similarly, credit card spending data also confirms the strong demand in the sector. On the other hand, due to the slowdown in foreign demand, total white goods production remained almost flat compared to the same period of the previous year.

In the automobile sector, the strong course of domestic sales stands out especially in the first half of the year. As of the second quarter, total automobile sales recorded a marked increase on an annual basis (Chart 5). On the production side, a more limited annual increase was registered due to the loss of momentum stemming from foreign demand.

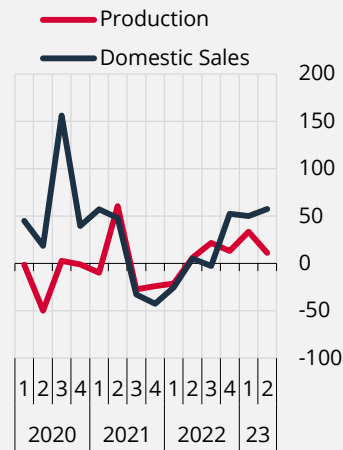
In the furniture sector, since there is no direct source of data showing production and domestic sales, alternative indicators are used to represent production and domestic demand. According to survey-based indicators and card expenditure data, domestic demand follows a more positive course, while production displays a relatively more balanced outlook compared to demand (Chart 6).

**Chart 4: White Goods Production and Domestic Sales (Annual % Change)**



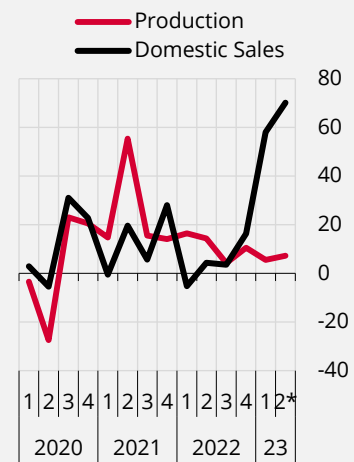
Source: TURKBESD.

**Chart 5: Automobile Production and Domestic Sales (Annual % Change)**



Source: ODMD, OSD.

**Chart 6: Furniture Production and Domestic Sales\* (Annual % Change)**

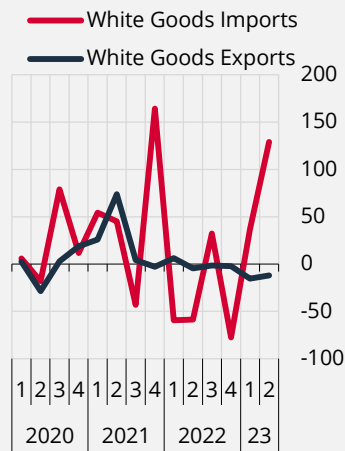


Source: CBRT, TURKSTAT.

\* The average of April and May for production. The industrial production index of the furniture sector was used to represent the production, and real domestic card expenditures on furniture were used to represent the domestic sales.

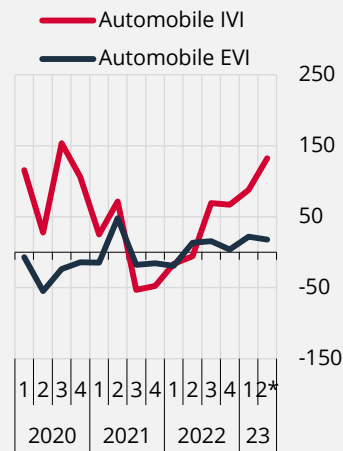
Foreign trade developments in these sub-groups of goods also confirm a similar outlook. While exports followed a more balanced course due to the slowdown in foreign demand, imports in these groups increased significantly compared to the same period of the previous year due to the strong domestic demand (Chart 7, Chart 8 and Chart 9).

**Chart 7: White Goods Exports and Imports**  
(Annual % Change)



Source: TURKBESD.

**Chart 8: Automobile Exports and Imports\*\***  
(Annual % Change)

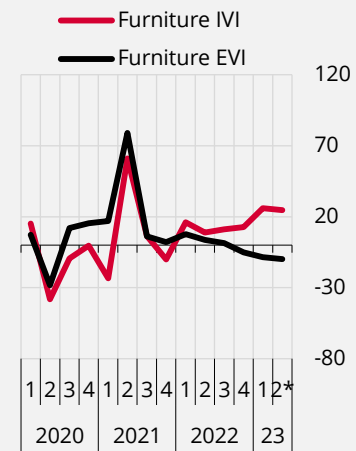


Source: CBRT, TURKSTAT.

\* The average of April and May.

\*\* EVI: Export Volume Index, IVI: Import Volume Index

**Chart 9: Furniture Exports and Imports\*\*** (Annual % Change)



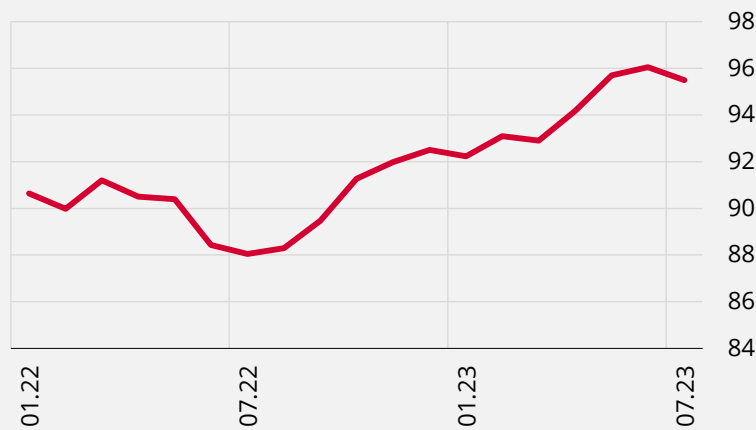
Source: CBRT, TURKSTAT.

\* The average of April and May

\*\* EVI: Export Volume Index, IVI: Import Volume Index

Regarding the upcoming period, survey-based indicators show that consumers' tendency to spend on durable goods remains high, albeit with some loss of momentum (Chart 10).

**Chart 10: TURKSTAT Consumer Confidence Index- Assessment of Spending on Durable Goods** (Seasonally Adjusted, 3-Month Moving Average)



Source: TURKSTAT.

To conclude, supply-side effects are rapidly and largely reflected on prices in the main sub-items of the durable goods group. When the recent exchange rate developments are evaluated together with the strong demand for durable consumer goods, they point to risks on pricing behavior. On the other hand, selective credit tightening decisions, which strengthen the monetary tightening process, are expected to alleviate both cost and demand-side pressures in the upcoming period.