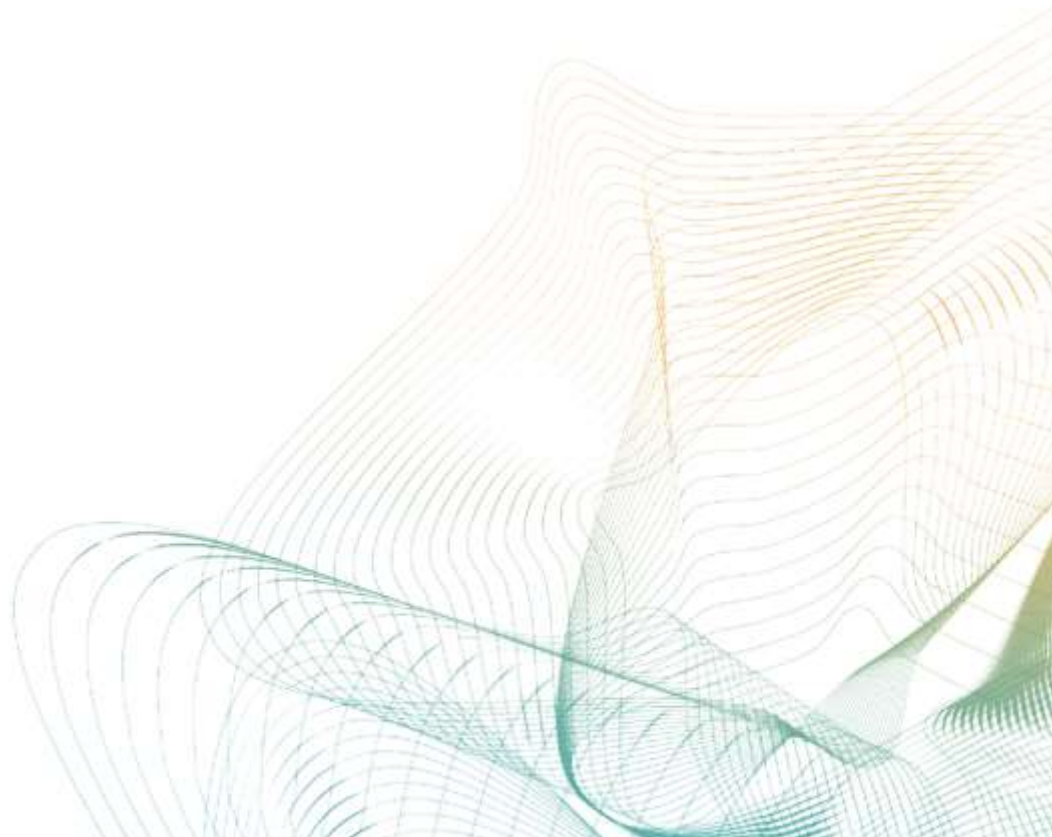


 July Price

Developments

6 August 2018



## Summary

In July, consumer prices rose by 0.55 percent and annual inflation increased by 0.46 points to 15.85 percent. The highest contribution to inflation came from the core goods group, which has a high exchange rate pass-through. This item witnessed price hikes across subgroups. The annual rate of increase in food products exhibited some deceleration, but remained high. The brisk course of the tourism sector feeds into price increases in affiliated sectors. Against this background, core indicators posted an increase in annual inflation and maintained a high course in the underlying trend.

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Price Developments are published within one working day 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 the monthly inflation developments by the public during the period between the announcement of the official price statistics and the Monetary Policy Committee meeting.

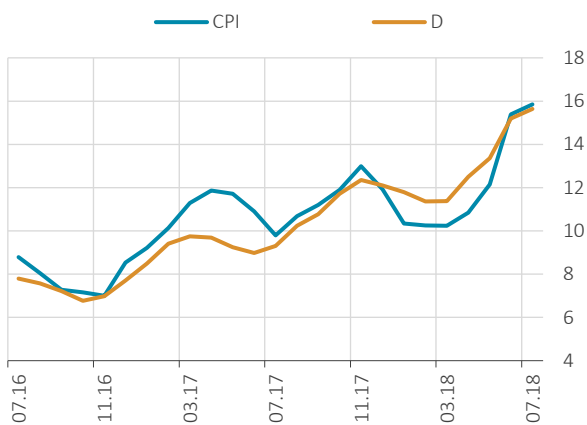
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## Evaluations

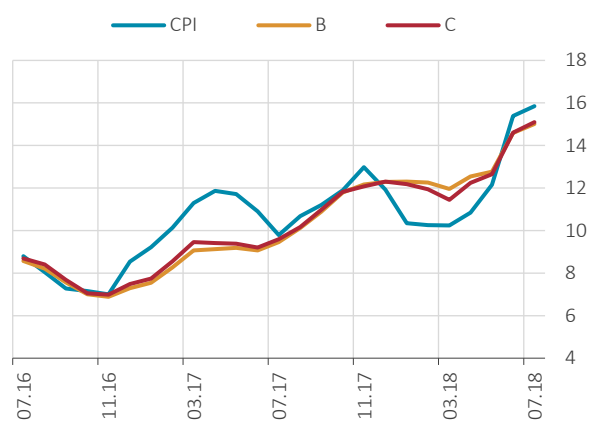
In July, consumer prices rose by 0.55 percent and annual inflation increased by 0.46 points to 15.85 percent (Chart 1). The annual rate of change in the B and C indices rose by 0.43 and 0.50 points to 15.01 and 15.10 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to inflation indicates month-on-month increases of 0.26, 0.07, 0.06 and 0.05 points in the core goods, food, energy and services groups, respectively. The contribution of alcohol-tobacco groups did not register a noticeable change.

**Chart 1: CPI and D (Annual % Change)**

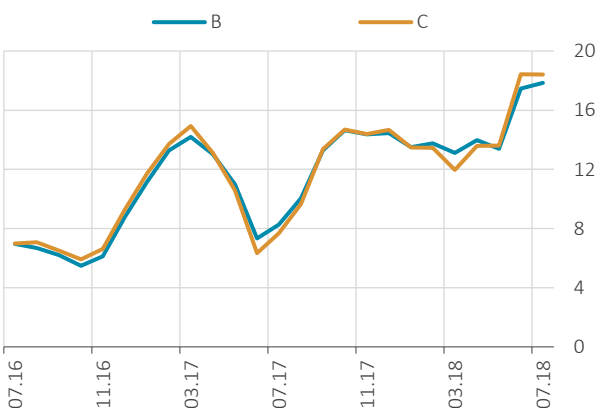


**Chart 2: CPI, B and C (Annual % Change)**

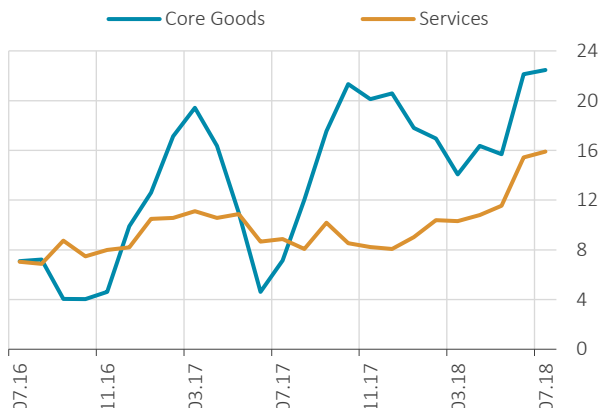


Three-month averages of seasonally-adjusted core inflation indicators exhibit a sustained high course in the underlying trend of inflation (Chart 3). In this period, the underlying trend increased further in core goods and services (Chart 4).

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



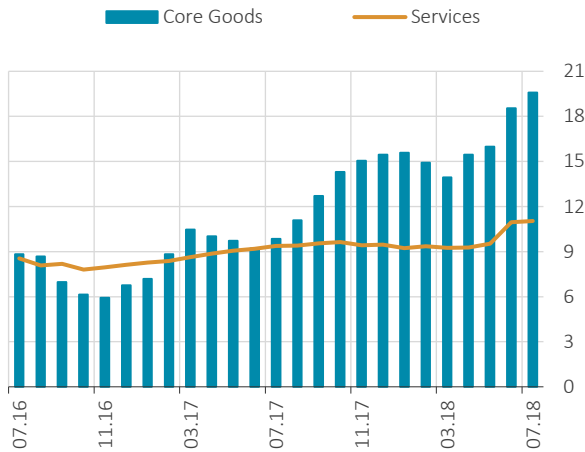
**Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)**



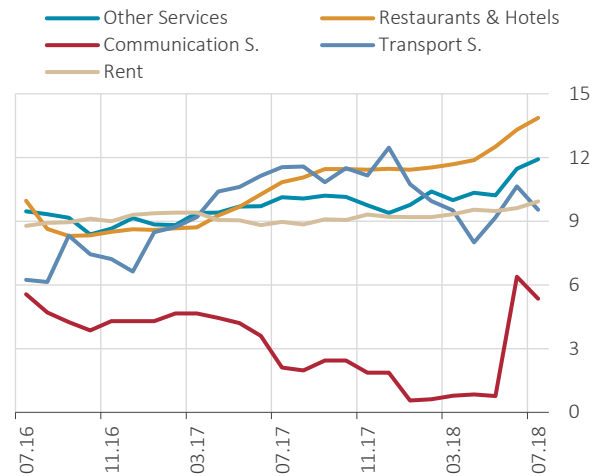
Prices of services increased by 1.33 percent and annual services inflation rose by 0.08 points to 11.04 percent in July (Chart 5 and Table 1). This increase was driven by restaurants-hotels, other services and rent groups, while annual inflation in transport and communication declined (Chart 6). Inflation in food and accommodation services under the restaurants-hotels group remained on the increase owing also to the brisk course of the tourism sector. This group also reflected price hikes in alcoholic beverages, to which SCT adjustments were introduced in July. The increase in other services inflation was led by the

developments in health services and maintenance-repair items that are sensitive to the exchange rate. In this period, rent inflation gained momentum in tandem with the headline inflation.

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

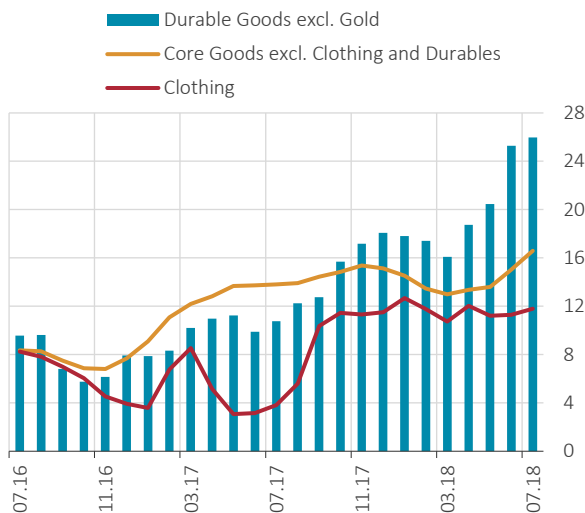


**Chart 6. Services (Annual % Change)**

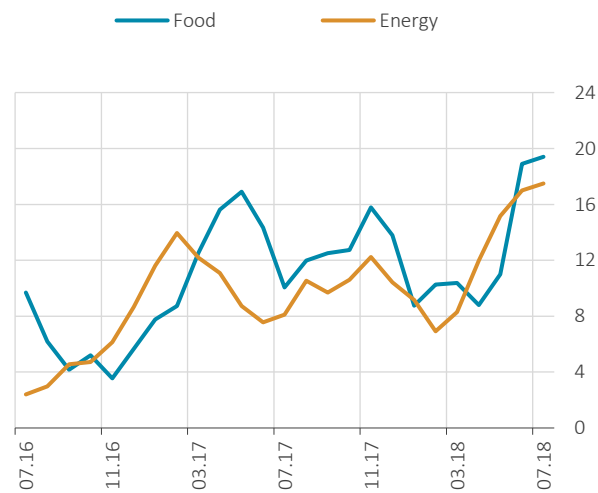


Annual core goods inflation increased by 1.03 points and hit 19.58 percent in July (Chart 5). Annual inflation registered increases in all subgroups in this period (Chart 7). Widespread price hikes stemming from cumulative exchange rate effects in durable goods and other core goods continued. Accordingly, furniture, automobiles and white goods groups stood out among durable goods. In other core goods, price increases in domestic products (cleaning materials, textile products, kitchen supplies etc.) and maintenance-repair items were noticeable. All in all, the cumulative depreciation in the Turkish lira continued to weigh on inflation in the core goods group, which has high import content.

**Chart 7. Core Goods (Annual % Change)**



**Chart 8. Food and Energy (Annual % Change)**

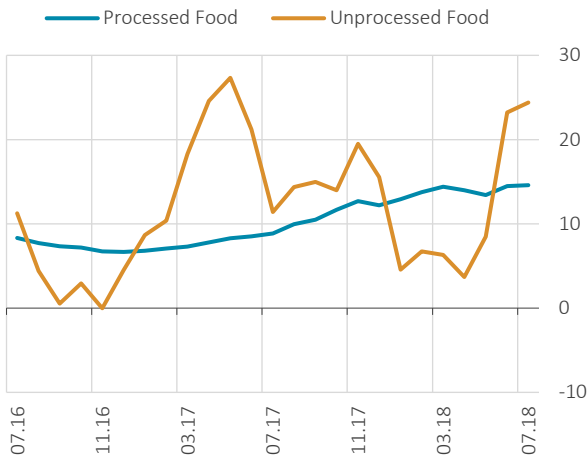


Energy prices were up 0.54 percent in July (Table 1). This is attributable to the prices of solid fuel (1.85 percent), municipal water (1.47 percent) and natural gas (1.08 percent). Thus, annual energy inflation rose by 0.50 points to 17.49 percent (Chart 8). Due to the outlook in electricity and natural gas prices, the uptrend in energy inflation is expected to continue in the short term.

Annual inflation in food and nonalcoholic beverages increased by 0.51 points to 19.40 percent in July (Chart 8). Annual inflation rose in the unprocessed food group, but remained relatively flat in the processed food group (Chart 9). Seasonally adjusted unprocessed food prices remained flat, thus recording no noticeable correction in this period. Red meat prices receded, while rice and egg prices increased notably among this group. Thus, annual inflation in the unprocessed food group reached 24.41 percent. Processed food prices on the other hand, rose by 1.13 percent on a monthly basis due to price hikes that spilled over into all subgroups.

In July, price of alcoholic beverages and tobacco products rose by 0.76 percent (Table 1). Prices of alcoholic beverages soared by 10.26 percent owing to the lump sum SCT rise, while tobacco products witnessed no change in prices due to the adjustment in lump sum and ad valorem SCT. Against this background, annual inflation in the alcohol-tobacco group increased by 0.37 points to 1.43 percent.

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



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

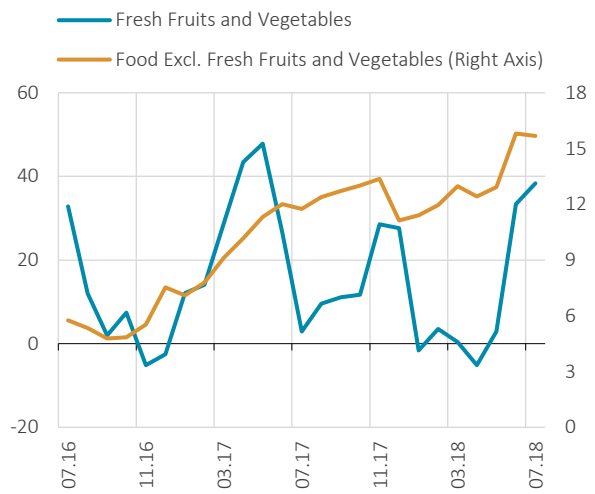


Table 1. CPI and Subcategories (% Change)

	Monthly		Annual	
	July 2018	July 2017	July 2018	July 2017
<b>CPI</b>	<b>0.55</b>	<b>0.15</b>	<b>15.85</b>	<b>9.79</b>
<b>1. Goods</b>	<b>0.24</b>	<b>-0.33</b>	<b>17.94</b>	<b>9.97</b>
Energy	0.54	0.11	17.49	8.12
Food and nonalcoholic beverages	-0.28	-0.71	19.40	10.07
Unprocessed food	-1.60	-2.53	24.41	11.39
Fresh fruits and vegetables	-3.12	-6.62	38.37	2.87
Other unprocessed food	-0.67	-0.27	17.16	17.04
Processed food	1.13	1.03	14.59	8.87
Bread and cereals	0.97	0.69	12.06	8.17
Other processed food	1.22	1.23	16.03	9.27
Goods excluding energy and food	0.50	-0.26	17.09	10.72
Core goods	0.52	-0.35	19.58	9.86
Durable goods (excluding gold)	1.43	0.88	25.96	10.75
Clothing and footwear <sup>(*)</sup>	-3.16	-3.60	11.81	3.82
Other core goods	2.00	0.65	16.59	13.82
Alcoholic beverages and tobacco	0.76	0.39	1.43	14.14
Gold	-0.93	-1.08	33.16	12.16
<b>2. Services</b>	<b>1.33</b>	<b>1.26</b>	<b>11.04</b>	<b>9.38</b>
Rents	1.17	0.88	9.93	8.97
Restaurants and hotels	2.26	1.75	13.86	10.84
Transport	0.79	1.81	9.53	11.55
Communication	-0.94	0.04	5.35	2.10
Other	1.64	1.23	11.92	10.12
<b>3. Core Measures</b>				
B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold	0.96	0.58	15.01	9.46
C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold	0.93	0.49	15.10	9.60
D - CPI excluding unprocessed food, alcoholic beverages and tobacco	0.86	0.48	15.64	9.30

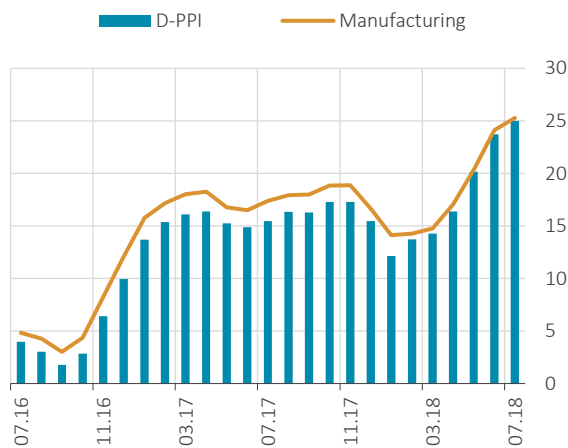
Source: TurkStat.

(\*) Does not cover clothing services.

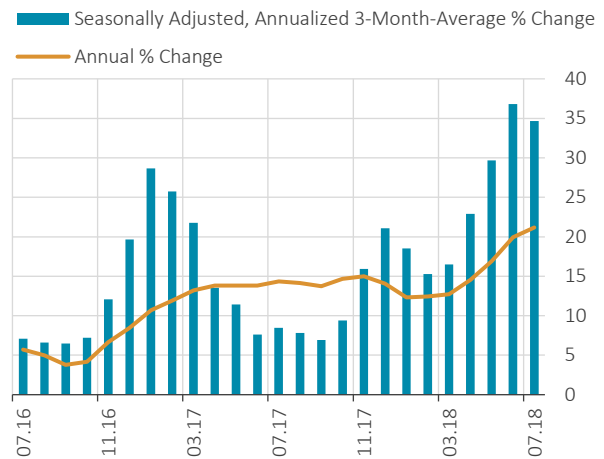
## D-PPI

Domestic producer prices increased by 1.77 percent in July, and annual inflation rose by 1.29 points to 25.00 percent (Chart 11). The upsurge in producer prices that spread through the subgroups was mainly led by the cumulative depreciation in the Turkish lira. Annual inflation in the manufacturing industry rose by 1.18 points to 25.28 percent in this period. The seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals remained high in this period (Chart 12).

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

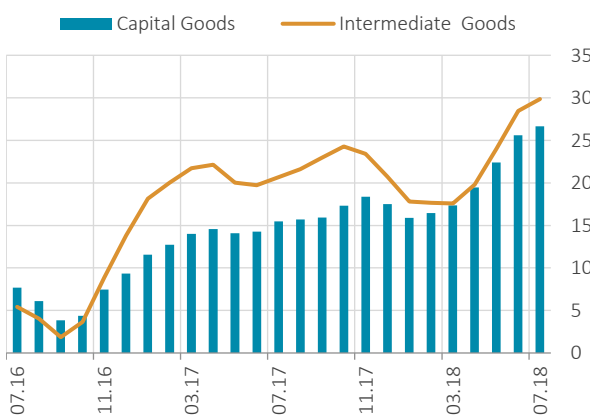


**Chart 12. Manufacturing Excluding Petroleum and Base Metals**

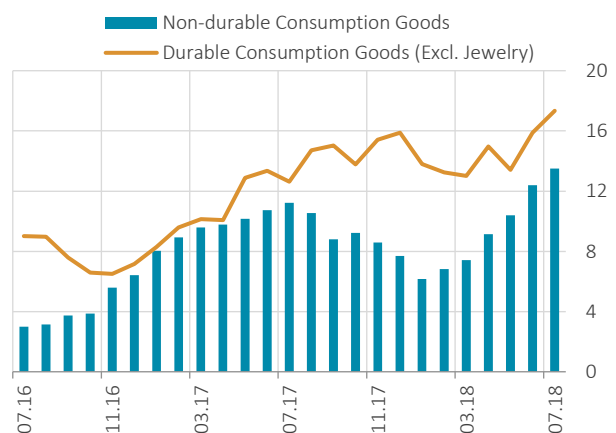


According to the Main Industrial Groupings (MIGs), all subcategories continued to see sharp price increases and higher annual inflation rates in July (Table 3, Charts 13 and 14). Price hikes in intermediate goods were mostly led by iron-steel, chemical products, plastics and rubber, textiles and paper products, while prices of capital goods were pushed up by motor vehicles and their spare parts and accessories, machines and metal construction materials. In this period, furniture, consumer electronics and home appliances accounted for higher prices of durable goods, while prices of non-durable goods were driven higher by food products (particularly meat products and oils) as well as tobacco and clothing. All in all, producer-driven cost pressures on consumer prices remained high in July.

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



**Chart 14. Consumption Goods (Annual % Change)**



## Tables

Table 2. CPI and Subcategories (% Change)

	Weight	July 2018		July 2017	
		Monthly	Annual	Monthly	Annual
<b>CPI</b>	100.00	0.55	15.85	0.15	9.79
Food and nonalcoholic beverages	23.03	-0.28	19.40	-0.71	10.07
Alcoholic beverages and tobacco	5.14	0.76	1.43	0.39	14.14
Clothing and footwear	7.21	-3.07	11.85	-3.51	3.92
Housing	14.85	1.10	12.78	0.44	7.50
Household equipment	7.66	1.82	20.32	0.63	7.24
Health	2.64	1.20	11.78	0.33	11.89
Transport	17.47	1.09	24.21	1.13	15.24
Communication	3.91	-0.11	4.69	0.13	1.80
Recreation and culture	3.39	1.62	9.67	1.36	11.22
Education	2.67	1.06	10.81	1.05	10.11
Restaurants and hotels	7.27	2.26	13.86	1.75	10.84
Miscellaneous goods and services	4.76	0.58	17.24	0.20	10.61

Source: TurkStat.

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

	Weight	July 2018		July 2017	
		Monthly	Annual	Monthly	Annual
<b>D-PPI</b>	100.00	1.77	25.00	0.72	15.45
Mining	3.26	0.86	24.86	0.23	8.68
Manufacturing	89.02	1.87	25.28	0.91	17.37
Manufacturing excl. petroleum products	86.52	1.90	23.75	0.87	16.70
Manufacturing excl. petroleum products and base metals	79.60	1.81	21.17	0.79	14.34
Electricity, gas, steam and air-conditioning sup.	6.74	0.99	23.06	-1.57	-3.54
Water supply	0.98	1.44	7.06	0.56	11.60
<b>D-PPI (MIGs Classification)</b>					
Intermediate Goods		2.08	29.86	0.99	20.68
Durable Consumption Goods		1.06	18.05	-0.14	13.05
Durable Consumption Goods (Excl. Jewelry)		1.16	17.34	-0.09	12.63
Non-Durable Consumption Goods		1.43	13.50	0.44	11.23
Capital Goods		2.48	26.64	1.64	15.47
Energy		1.01	36.51	-0.21	7.78

Source: TurkStat.