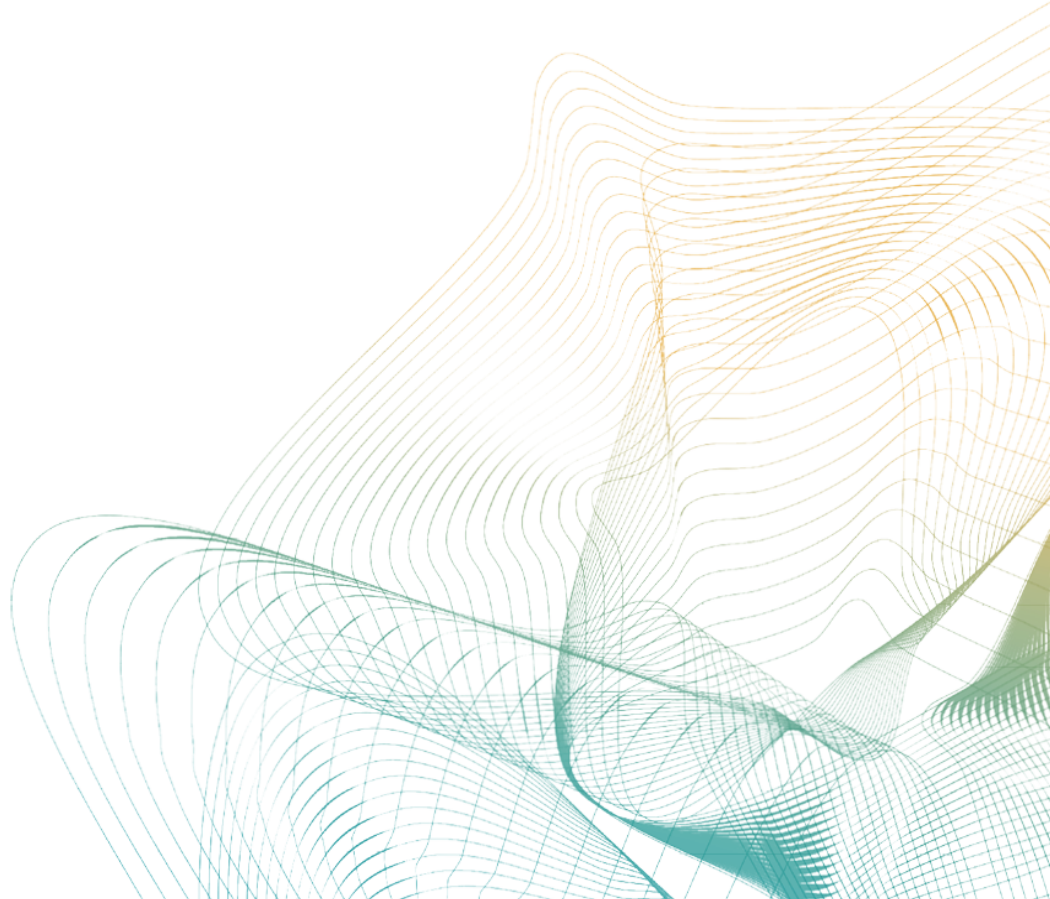


 May Price

Developments

5 June 2018



Summary

In May, consumer prices rose by 1.62 percent and annual inflation increased by 1.30 points to 12.15 percent. The rise in inflation spread across sub-groups. Notwithstanding the modest increase in processed food prices, food inflation went up due to unprocessed food prices. Energy inflation was pushed further upwards by oil prices as well as exchange rate developments. The cumulative depreciation in the Turkish lira continued to weigh on core goods inflation, particularly on durable consumption goods inflation. Meanwhile, annual services inflation posted an increase as well. All in all, core indicators registered an uptick in annual inflation and maintained a high course in the underlying 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 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 May, consumer prices rose by 1.62 percent and annual inflation increased by 1.30 points to 12.15 percent (Chart 1). The annual rate of change in the B and C indices rose by 0.23 and 0.40 points to 12.77 and 12.64 percent, respectively (Chart 2).

An analysis of the contribution of subcategories to annual inflation indicates month-on-month increases of 0.49 and 0.38, 0.21 and 0.08 points in the food, energy, core goods and services groups, respectively. The contribution of alcohol-tobacco groups did not register a noticeable change, while that of the gold group inched up by 0.13 points.

Chart 1: CPI and D (Annual % Change)

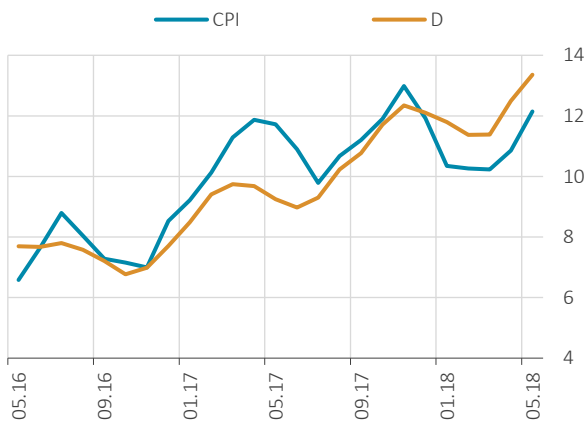
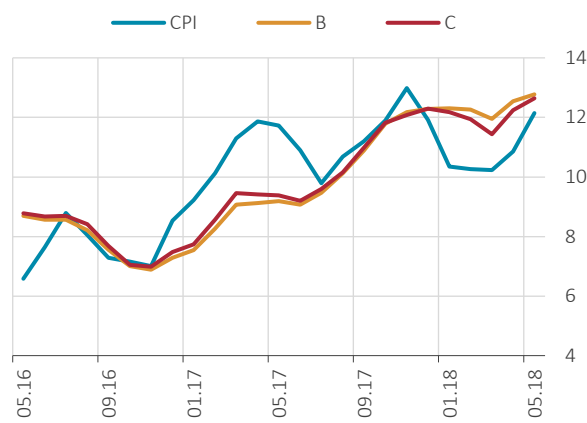


Chart 2: CPI, B and C (Annual % Change)



Three-month averages of seasonally-adjusted core inflation indicators show that the underlying trend of inflation revealed an almost flat course (Chart 3). The underlying trend rose slightly in services in contrast to a limited decline in core goods due to clothing prices (Chart 4). The underlying trend in core inflation indicators excluding clothing witnessed an uptick. All in all, the underlying trend in core inflation indicators remained high.

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

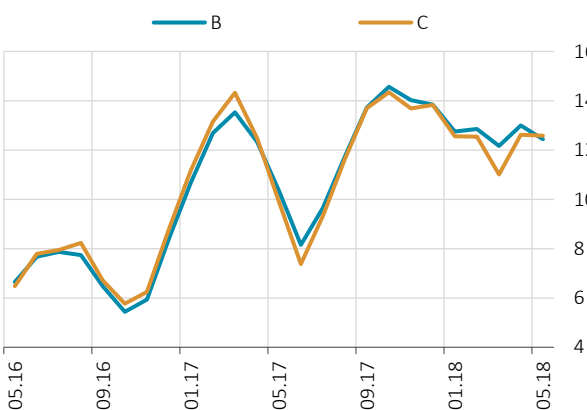
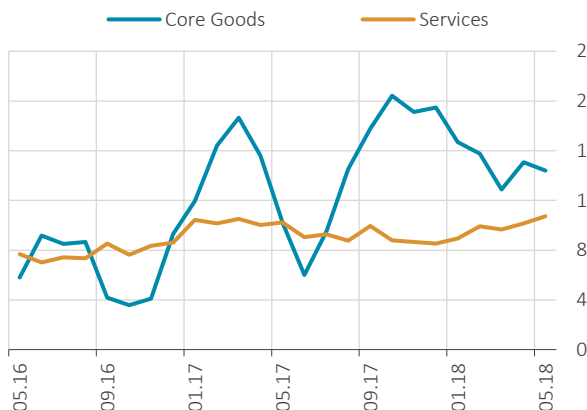


Chart 4: Core Goods and Services (Seasonally adjusted, Annualized 3-Month-Average % Change)



Prices of services increased by 1.17 percent and annual services inflation rose by 0.25 points to 9.52 percent in May (Chart 5 and Table 1). Annual inflation went up in the restaurants-hotels and transport services, and remained relatively flat in other groups in this period (Chart 6). The rise in inflation in

transport services is attributed to the highway passenger transport fares. Under the restaurants-hotels group, inflation posted an increase both in catering and accommodation services, the latter being driven by the rebound in tourism. Meanwhile, inflation in other services remained relatively flat, despite the price increases in the maintenance and repair services, which are sensitive to the exchange rate developments.

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

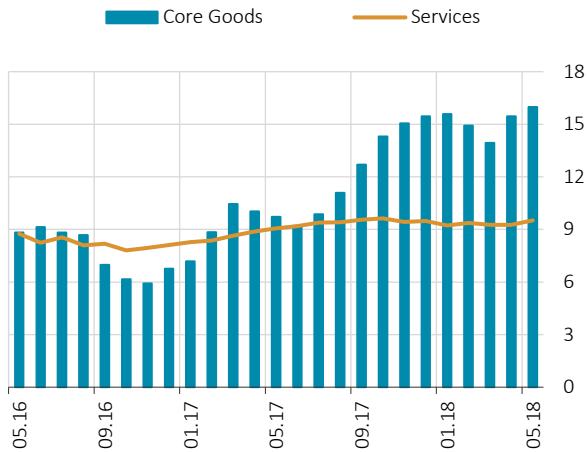
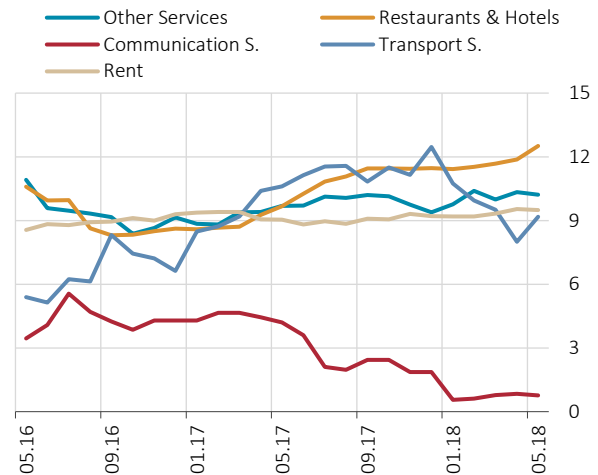


Chart 6. Services (Annual % Change)



Annual core goods inflation increased by 0.52 points to 15.98 percent in May (Chart 5). Annual inflation fell slightly in the clothing group, but increased in other sub-groups in this period (Chart 7). The upsurge in prices of durable goods persisted in May, which was driven by automobiles and white goods. In the other core goods group, price increases were mainly driven by exchange-rate sensitive housing maintenance-repair equipment and domestic cleaning products, which have high imported components. In sum, core goods inflation registered an increase in May due to the exchange rate effects.

Chart 7. Core Goods (Annual % Change)

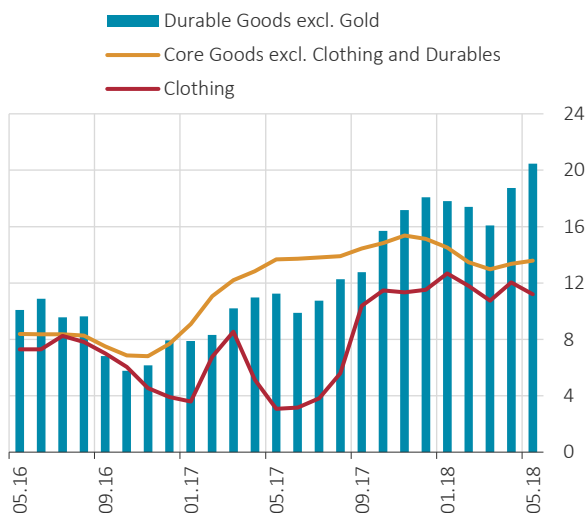
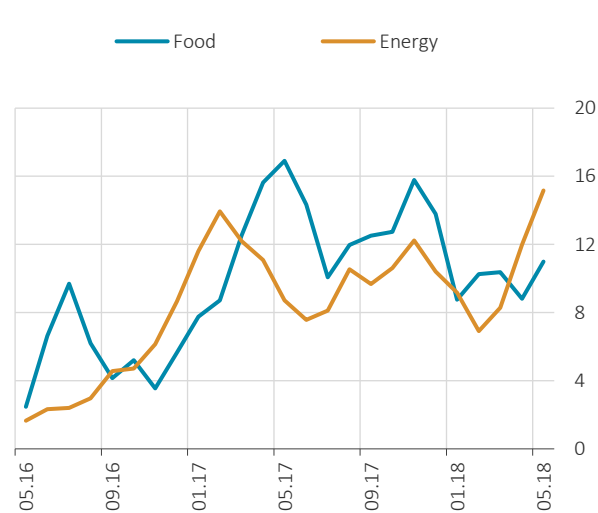


Chart 8. Food and Energy (Annual % Change)



Energy prices rose by 1.74 percent in May (Table 1). Fuel and bottled gas prices were up 3.19 and 2.25 percent, respectively, due to the depreciating Turkish lira and higher international oil prices. Moreover, solid fuel prices increased by 1.44 percent while tap water tariffs rose by 1.11 percent. Accordingly,

annual energy inflation soared by 3.18 points to 15.17 percent, reflecting the low base from a year ago as well (Chart 8).

Annual inflation in food and nonalcoholic beverages increased by 2.19 points to 11.00 percent in May (Chart 8). Annual inflation was up in unprocessed food but slightly down in processed food (Chart 9). Seasonally adjusted prices of unprocessed food were significantly higher in this period, largely due to soaring prices of vegetables, potatoes, white and red meat and eggs. On the other hand, processed food prices posted a modest increase of 0.37 percent in May. Thus, annual food inflation excluding fresh fruits and vegetables rose to 12.92 percent (Chart 10).

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

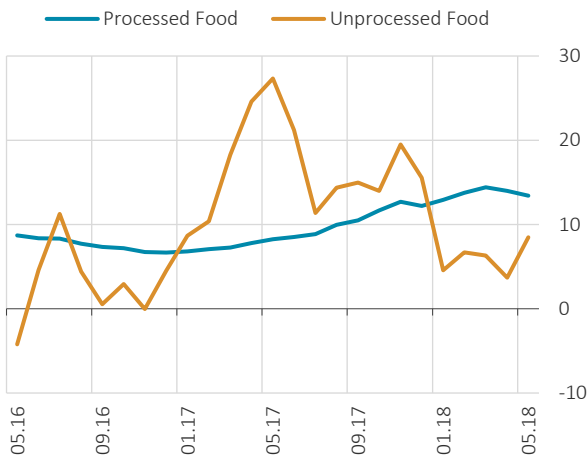


Chart 10. Fruits-Vegetables and Other Food (Annual % Change)

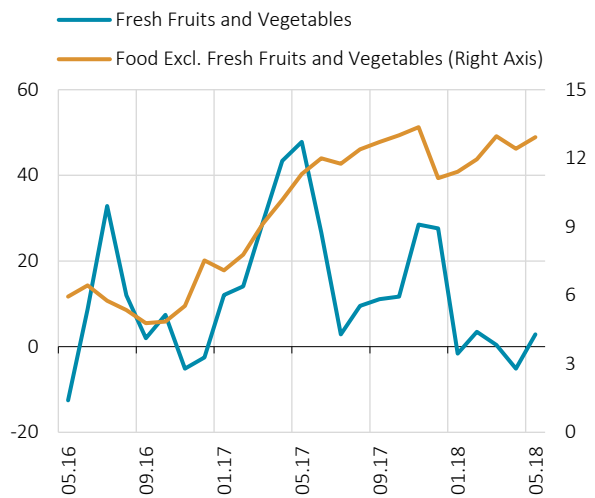


Table 1. CPI and Subcategories (% Change)

| | Monthly | | Annual | |
|---------------------------------------------------------------------------------------------------|-------------|-------------|--------------|--------------|
| | May 2018 | May 2017 | May 2018 | May 2017 |
| CPI | 1.62 | 0.45 | 12.15 | 11.72 |
| 1. Goods | 1.81 | 0.24 | 13.25 | 12.90 |
| Energy | 1.74 | -1.07 | 15.17 | 8.72 |
| Food and nonalcoholic beverages | 1.45 | -0.55 | 11.00 | 16.91 |
| Unprocessed food | 2.58 | -1.95 | 8.49 | 27.33 |
| Fresh fruits and vegetables | 0.02 | -7.77 | 2.87 | 47.82 |
| Other unprocessed food | 4.08 | 2.06 | 11.94 | 16.96 |
| Processed food | 0.37 | 0.87 | 13.42 | 8.27 |
| Bread and cereals | 0.65 | 1.19 | 11.16 | 7.92 |
| Other processed food | 0.22 | 0.69 | 14.71 | 8.47 |
| Goods excluding energy and food | 2.07 | 1.25 | 14.00 | 11.96 |
| Core goods | 2.23 | 1.77 | 15.98 | 9.71 |
| Durable goods (excluding gold) | 1.37 | -0.08 | 20.47 | 11.25 |
| Clothing and footwear(*) | 5.28 | 6.07 | 11.20 | 3.07 |
| Other core goods | 1.14 | 0.93 | 13.59 | 13.68 |
| Alcoholic beverages and tobacco | 0.15 | 0.00 | 1.05 | 21.69 |
| Gold | 6.11 | -3.92 | 28.77 | 20.05 |
| 2. Services | 1.17 | 0.93 | 9.52 | 9.06 |
| Rents | 0.71 | 0.76 | 9.49 | 9.04 |
| Restaurants and hotels | 1.45 | 0.89 | 12.51 | 9.68 |
| Transport | 1.53 | 0.44 | 9.18 | 10.61 |
| Communication | 0.81 | 0.88 | 0.77 | 4.20 |
| Other | 1.16 | 1.28 | 10.22 | 9.70 |
| 3. Core Measures | | | | |
| B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold | 1.47 | 1.26 | 12.77 | 9.19 |
| C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold | 1.70 | 1.33 | 12.64 | 9.38 |
| D - CPI excluding unprocessed food, alcoholic beverages and tobacco | 1.58 | 0.81 | 13.36 | 9.24 |

Source: TurkStat.

(*) Does not cover clothing services.

D-PPI

Domestic producer prices increased by 3.79 percent in May and annual PPI inflation rose to an all-time high of 20.16 percent (Chart 11). The upsurge in producer prices was attributed to recent exchange rate movements and rising commodity prices, particularly for oil. Manufacturing prices rose on the back of petroleum products, meat products, base metals, plastics, textiles, publishing activities, chemical products and manufacture of furniture. Price hikes spread across all subcategories. Thus, the seasonally adjusted underlying trend of manufacturing prices excluding oil and base metals also gained substantial momentum (Chart 12).

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

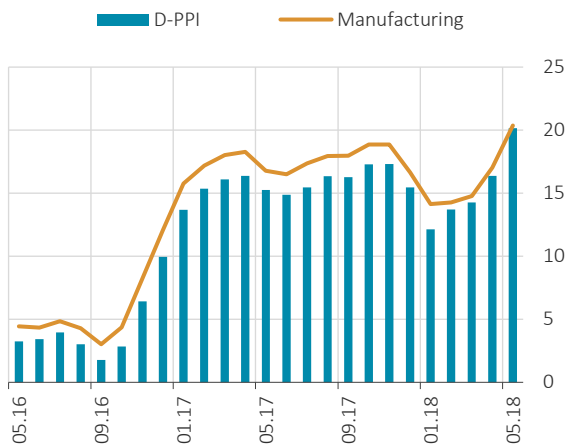
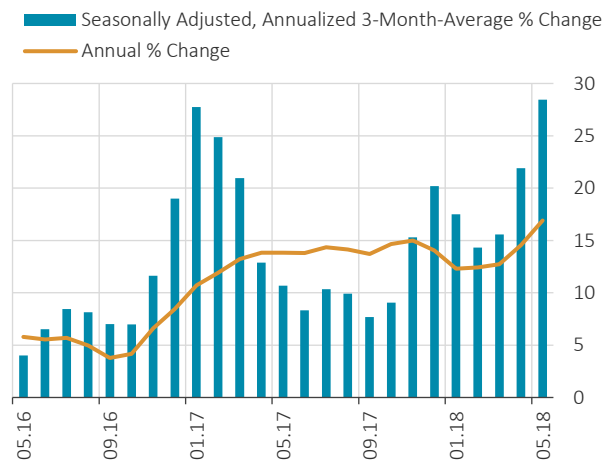


Chart 12. Manufacturing Excluding Petroleum and Basic Metals



According to the Main Industrial Groupings (MIGs), prices were remarkably higher across all subcategories in May, particularly for energy (Table 3). Price increases in intermediate goods were mostly led by iron-steel, plastics, textiles, basic chemical products and woven products, while prices of capital goods were pushed up by metal construction materials, machines, motor vehicles and their spare parts and accessories. In this period, furniture and home appliances accounted for higher prices of durable goods, while prices of nondurable goods were driven higher by publishing activities, miscellaneous textiles and apparels as well as food products such as meat, oil, fruits and vegetables. All in all, weighing on consumer prices at a significantly stronger rate than a month ago, producer-driven cost pressures remained high.

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

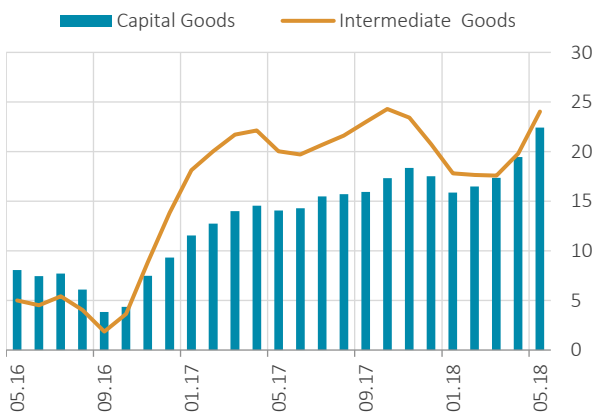
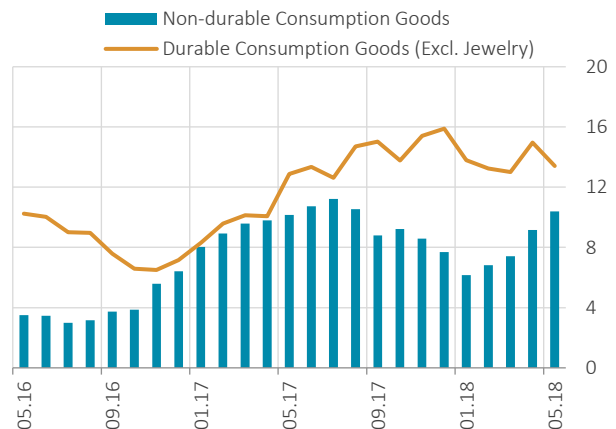


Chart 14. Consumption Goods (Annual % Change)



Tables

Table 2. CPI and Subcategories (% Change)

| | Weight | May 2018 | | May 2017 | |
|----------------------------------|--------|----------|--------|----------|--------|
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100.00 | 1.62 | 12.15 | 0.45 | 11.72 |
| Food and nonalcoholic beverages | 23.03 | 1.45 | 11.00 | -0.55 | 16.91 |
| Alcoholic beverages and tobacco | 5.14 | 0.15 | 1.05 | 0.00 | 21.69 |
| Clothing and footwear | 7.21 | 5.21 | 11.23 | 5.97 | 3.15 |
| Housing | 14.85 | 0.95 | 11.24 | 0.40 | 7.56 |
| Household equipment | 7.66 | 0.87 | 16.87 | 0.77 | 6.70 |
| Health | 2.64 | 0.34 | 10.09 | 0.23 | 13.29 |
| Transport | 17.47 | 2.32 | 20.02 | -0.73 | 15.81 |
| Communication | 3.91 | 0.34 | -0.22 | 0.51 | 3.72 |
| Recreation and culture | 3.39 | 1.24 | 6.93 | 2.42 | 10.86 |
| Education | 2.67 | 1.03 | 11.01 | 0.90 | 9.48 |
| Restaurants and hotels | 7.27 | 1.45 | 12.51 | 0.89 | 9.68 |
| Miscellaneous goods and services | 4.76 | 2.06 | 15.38 | -0.91 | 11.60 |

Source: TurkStat.

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

| | Weight | May 2018 | | May 2017 | |
|---------------------------------------------------------|--------|----------|--------|----------|--------|
| | | Monthly | Annual | Monthly | Annual |
| D-PPI | 100.00 | 3.79 | 20.16 | 0.52 | 15.26 |
| Mining | 3.26 | 2.63 | 19.61 | -0.54 | 13.95 |
| Manufacturing | 89.02 | 3.43 | 20.37 | 0.57 | 16.77 |
| Manufacturing excl. petroleum products | 86.52 | 3.17 | 19.11 | 0.77 | 15.92 |
| Manufacturing excl. petroleum products and basic metals | 79.60 | 3.03 | 16.91 | 0.97 | 13.83 |
| Electricity, gas, steam and air-conditioning sup. | 6.74 | 9.34 | 18.69 | 0.31 | -1.60 |
| Water supply | 0.98 | 1.15 | 5.25 | 0.72 | 11.25 |
| D-PPI (MIGs Classification) | | | | | |
| Intermediate Goods | | 3.69 | 24.02 | 0.16 | 20.04 |
| Durable Consumption Goods | | 1.94 | 14.25 | 2.74 | 14.34 |
| Durable Consumption Goods (Excl. Jewelry) | | 1.77 | 13.42 | 3.16 | 12.89 |
| Non-Durable Consumption Goods | | 2.53 | 10.39 | 1.38 | 10.16 |
| Capital Goods | | 3.11 | 22.41 | 0.62 | 14.07 |
| Energy | | 8.81 | 29.59 | -1.20 | 11.50 |

Source: TurkStat.