

## Turkey: A good start to 3Q

Turkish industrial production data shows a good start to 3Q, after turning positive in 1Q and recording growth in 2Q. Encouraging signals in August hint continuation of the recovery momentum



Source: Shutterstock

**4.3%** IP growth

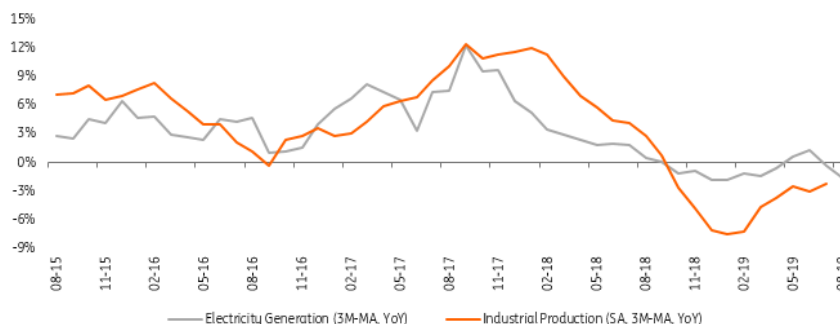
In July, MoM

After a temporary setback by -3.5% month on month in June, indicative of the challenging recovery process, industrial production (seasonal and calendar-adjusted basis) recorded a sharp correction by +4.3% MoM in July - the largest since mid-2016. Such volatility is likely attributable to the Ramadan effect, as statistical adjustments are not always enough. On the other hand, calendar-adjusted industrial production stood at -1.2% YoY, continuing a sequence of negative readings since September 2018 - though this is the least negative figure in this period.

The monthly increase in the IP to the highest point since the financial volatility in 2018 is attributable to intermediate, energy and capital goods, providing positive signals for future

production, while non-durable consumer goods also stood out among major drivers. On the flip side, durable consumer goods recorded a production decline on a monthly basis, limiting the growth in adjusted IP, likely attributable to the expiration of tax cuts in July.

## Industrial production vs electricity generation



Source: CBT, ING

Among the sectors, other transport equipment (dominated by defence industry products) was the sector providing the highest monthly contribution to IP performance, followed by textiles and wearing apparel. Only three sectors dragged the adjusted IP growth in July, likely a signal of improving sectoral diffusion of economic activity. Among those, furniture stood out, reflecting weakening demand with the expiration of tax cuts in these items.

The industrial production numbers show a good start to 3Q, after turning positive in 1Q and recording growth in 2Q. Encouraging signals in August with improving consumer and business confidence indices, rising purchasing managers index to the highest level in a year and higher capacity utilisation rate all hint at the continuation of recovery momentum while base effects from the last year are not negligible.

The likely turn of the credit impulse to the positive territory with the central bank's decision to encourage lending and improve the rate environment should also be supportive for activity.

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