

## Turkey: IP stronger than expected

Industrial production grew in December by 8.7% year-on-year, once again surprising to the upside. But the data show some softening in 4Q over the strong 3Q performance



Source: istock

# 8.7%

Better than expected

### IP Growth

(Calendar adjusted, YoY)

Turkey's industrial production index (calendar adjusted) grew in December by 8.7%YoY, above the Bloomberg consensus of 6.8%.

- Manufacturing production pulled the headline rate up by 7.4ppt.
- Contributions of "electricity, gas, steam and air conditioning supply" and "mining and quarrying" were also positive with 0.65ppt and 0.73ppt, respectively.

The seasonal and calendar adjusted (SA) IP index rose 0.93% MoM vs the 0.5% consensus and has

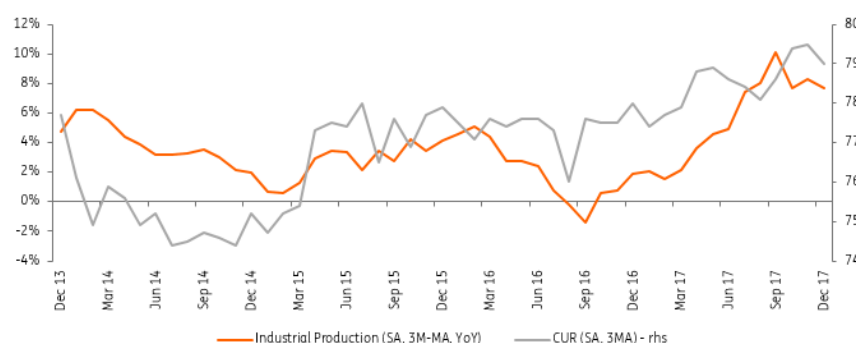
remained in positive territory in the second half of 2017, showing continued strength in industrial activity. However, the performance in 4Q shows softening to some extent with 1.7% over 2.0% QoQ growth in 3Q and 2Q, respectively.

Among broad economic categories, the only sector with a negative reading was energy, the third in a row with -0.19% MoM, likely attributable to mild winter conditions. In 4Q, the sector contracted by -3.0% QoQ, the lowest since 2Q12.

On the flip side, production in durable goods moved into positive territory with +1.80 MoM, showing some recovery in activity after a dip following the withdrawal of favourable tax treatment at the end of 3Q. Still, production of durable goods in 4Q was deeply negative with -13.2% QoQ.

More importantly, capital goods production mildly improved in December by 0.6%, and the 4Q performance has been the strongest in the last four quarters. Capital goods production has been volatile in recent periods and the 4Q data show that after a strong reading in 3Q GDP, investment in machinery equipment will likely recover further on a quarterly basis. Finally, the major contributors to the headline rate intermediate goods and undurable consumer goods showed positive growth at 1.62% MoM and 0.75% MoM, driving the headline further into positive territory.

## IP vs Capacity Utilisation



Source: TurkStat, ING Bank

In the manufacturing sector, the biggest contributor was food products, pulling the calendar adjusted headline up by 1.03ppt, followed by fabricated metal products at 96ppt and other non-metallic mineral products at 0.95ppt. Automotive, which pulled the calendar adjusted headline up by 0.51ppt, contributed strongly to the monthly performance due to strong demand from the EU, which has been a significant trend for more than a year. Out of 24 sectors in manufacturing, the number with negative contributions in 2H17 has floated in the range of two-to-four, and the share of the other sectors has been consistently at single digit levels, showing the extent of economic activity last year.

Overall, industrial production has beaten the market consensus again in December showing a continued recovery in activity. However, IP growth in the last quarter of 2017 was the lowest in the last five quarters, hinting at some loss of momentum amid the removal of some incentives at the end of 3Q. It should be noted that the PMI in January, which jumped to 55.7-- the highest since early 2011, along with recovering sectoral confidence indicators suggests that industrial production is likely to maintain its solid performance in the near

term.

## Author

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).