

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

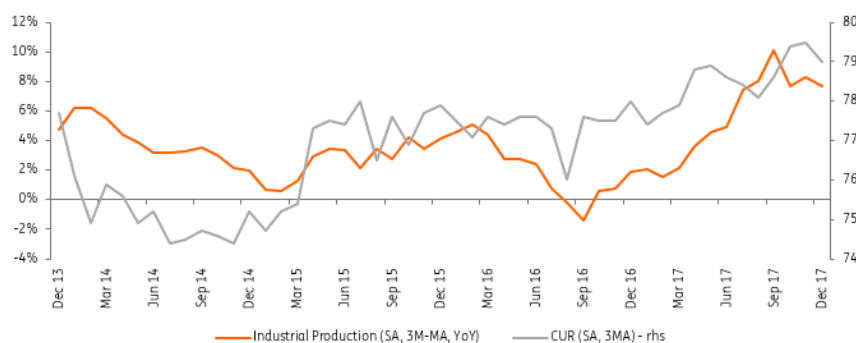
remained in positive territory in the second half of 2017, showing continued strength in industrial activity. However, the performance in 4Q shows softening to some extent with 1.7% over 2.0% QoQ growth in 3Q and 2Q, respectively.

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

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