

Snap | 8 December 2017

TURKEY

Turkey: Solid IP growth in October

October IP rose by 7.3% YoY, surprising to the upside, while it expanded by 0.7% in sequential terms and remained in positive territory for the fourth consecutive month



Source: istock

7.3%

IP Growth

(Calendar adjusted, YoY)

Better than expected

At 7.3% YoY in October, industrial production index (calendar adjusted) growth was well above consensus at 5.3% YoY. Sector-wise, manufacturing production was the source of improvement in YoY performance, lifting October IP by 6.4ppt, followed by "electricity, gas, steam and air conditioning supply" with +0.9ppt, while the impact of mining and quarrying on the headline was negligible. On the other hand, following positive readings in the previous three months, the seasonal and calendar adjusted (SA) IP index remained in positive territory at 0.7%, and hinted at continuing strength in industrial activity.

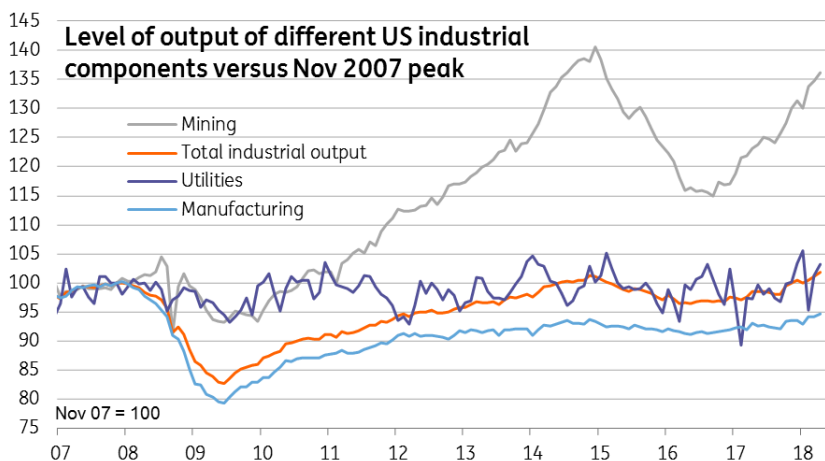
Normalization in durable goods

Among broad economic categories, production in durable good turned deeply negative at -18.5% MoM, showing a normalization after the last minute impact of favourable tax treatment that was reversed at the end of 3Q. Another negative reading was in energy, at 2.72% MoM, somewhat moderated by the relatively strong figure in September. On the flipside, heavyweight contributors to the headline - intermediate goods and nondurable consumer goods - were positive at 1.15% MoM and 0.91% MoM. Finally, a jump in production of capital goods by 8.2% MoM was noteworthy, showing a strong start to 4Q after a contraction in 3Q. Capital goods production has been volatile in recent periods and whether this strong figure is a start of a more sustainable recovery in investment appetite is yet to be seen

Food and automotive contributed the most

In the manufacturing sector, food products turned out to be the major contributor (0.90ppt), followed by automotive that, once again, provided a high contribution to monthly performance due to continuing demand from the EU, pulling the calendar adjusted headline up by 0.76ppt. Fabricated metal products and machinery and equipment were other strong performers at 0.73ppt and 0.67ppt respectively. Basic pharmaceuticals and refined petroleum products, on the other hand, were the only groups that dragged on the headline.

IP vs Capacity Utilization



Source: Macrobond

Overall, after an impressive 3Q outcome, industrial production made a good start to the last quarter of this year, showing continuation of robust activity along with other indicators such as PMI and capacity utilization. However, with signs of moderation in demand indicators such as consumer confidence, auto and white goods sales as well as momentum loss in credit growth, the pace of industrial production may soften in

coming months.

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