

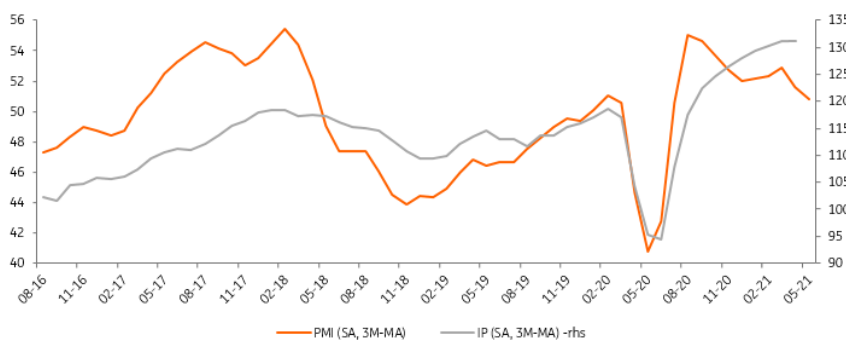
# Turkey's industrial output contracts on month for first time in a year

Following a relatively strong 1Q outturn, we saw a sequential contraction in industrial production in April for the first time in a year due to the introduction of a full lockdown, currency volatility and elevated rates



Source: Shutterstock

## PMI vs IP



Source: TurkStat, Markit, ING

After a long and continuous rebound in industrial production (seasonal and calendar adjusted, SA) following the reopening from the first wave last year, we saw the first sequential contraction in April, at -0.9% month-on-month (vs our call at -0.5% MoM). The data support the view that activity is losing momentum given pandemic-related restrictions, higher currency volatility and tightening financial conditions. In year-on-year terms, industrial production (calendar adjusted) printed a significant 66% expansion, in line with expectations due to the presence of a large carry-over from 2020.

Regarding broad economic categories, intermediate goods production was the major driver of the monthly drop, pulling the headline down by 0.9ppt, followed by durable consumer goods at -0.5ppt. While the heavy-weight intermediate goods slowdown supports expectations of a loss in momentum, frontloaded purchases of durable goods since the second half of 2020 are likely starting to constrain production activity. On the flip side, capital goods production has remained strong with a +0.4ppt contribution, though the pace should slow down on the back of moderating investment demand, with elevated interest rates and weak loan growth. Production in a large number of sectors was negative on a monthly basis, while food products, textiles, and automotives turned out to be major drags on the headline.

Overall, following a relatively strong 1Q outturn, we saw a sequential IP contraction in the first month of the second quarter with the introduction of a full lockdown, while financial volatility and higher rates added to the weaker performance. This will likely continue in the coming months as evidenced by high-frequency data i.e. manufacturing PMI falling into the contraction zone in May, weakness in sectoral PMIs etc, though accelerating vaccinations and an expected recovery in tourism should limit the downside in activity.

## 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).