Turkey: industrial production resumes recovery

Industrial production recorded another solid monthly growth rate in May, showing that the recovery process, in place since the beginning of this year, has remained intact following a negative reading in April

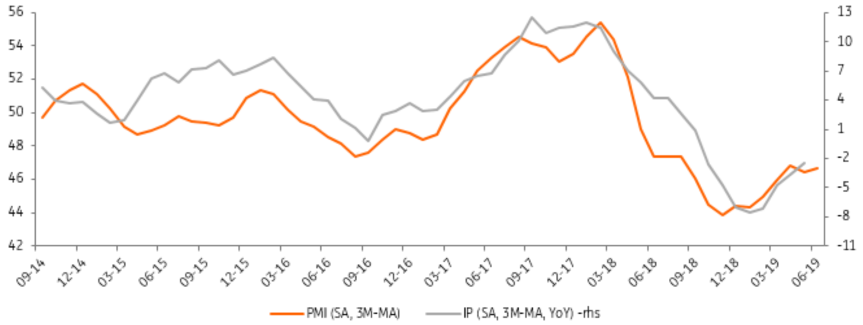
Source: iStock

1.3% IP growth

in May, MoM

Following the first sequential contraction in April, which likely reflected the impact of renewed volatility in financial markets, industrial production on a seasonal- and calendar-adjusted basis, recorded a healthy 1.3% month-on-month increase in May, providing evidence that the recovery process in place since the beginning of this year has remained intact. On a year-on-year basis, industrial production (calendar-adjusted) growth was down 1.3%, but that was better than the consensus estimate of -2.5% YoY, likely reflecting the positive impact of Ramadan.

Industrial production vs PMI



Source: TurkStat, Markit, ING

The monthly increase in IP to the highest level since the Aug-18 volatility is largely attributable to intermediate, energy and capital goods production, providing positive signals for future production. On the flip side, durable and nondurable consumer goods recorded production declines on a monthly basis, hinting at the continued fragility of domestic demand, as evidenced by plunging consumer confidence to the lowest level since the inception of the series in 2009.

Among sectors, other transport equipment (dominated by defence industry products) stands out, with a strong contribution to the headline rate, followed by other export related sectors like automotive.

After turning positive in 1Q for the first time since 2017, industrial production is likely to record another quarter of growth in 2Q given encouraging signals in June such as improving consumer and business confidence, rising PMI to the highest level in a year and higher capacity utilisation rates etc. Going forward, a likely acceleration in lending with new credit guarantee fund packages should be supportive for activity while base effects from last year will contribute to the momentum in the second half. Policy determination and a prudent policy mix will remain key to sustain this performance.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr