

## Turkey: Industrial production signals growth recovery

The February data supports the view that the growth outlook has been improving lately amid rising credit momentum and a gradual recovery in confidence indicators. But downside risks remain



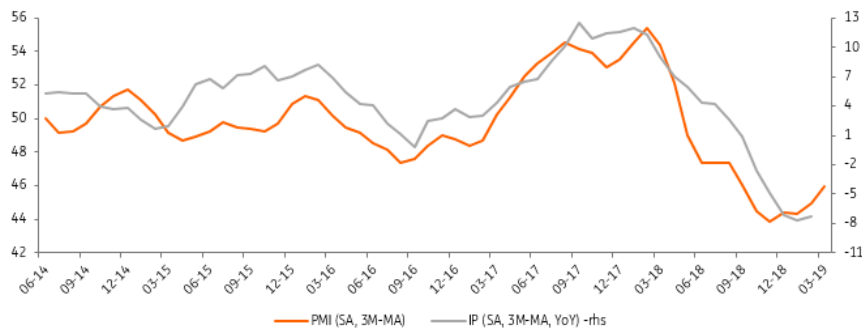
Source: Shutterstock

**1.3%** IP growth  
(sequential change in February)

The industrial production index (on a seasonal and calendar adjusted basis, SA) increased in February by 1.3% month-on-month following a positive reading in January for the first time since July. IP fell in December to the lowest level since early 2017. The improvement this year shows a gradual change in direction after volatility last year caused a significant adjustment in economic activity, although the pace of recovery in industrial production is still weak.

Manufacturing stood out as the major driver of the improvement, contributing 1.2 percentage points to the headline, while contributions of "electricity, gas, steam and air conditioning supply" and "mining and quarrying" were negligible. Among sectors, automotive, computer & electronic products, basic metals and textile were the top performers, each providing a 0.2 percentage point lift to the seasonally-adjusted manufacturing performance. Chemicals, which are sensitive to domestic demand, dragged down manufacturing production by 0.2ppt. The data shows that the recovery is still not broad-based, as almost a third of manufacturing-related sectors recorded production declines in February.

## IP vs PMI

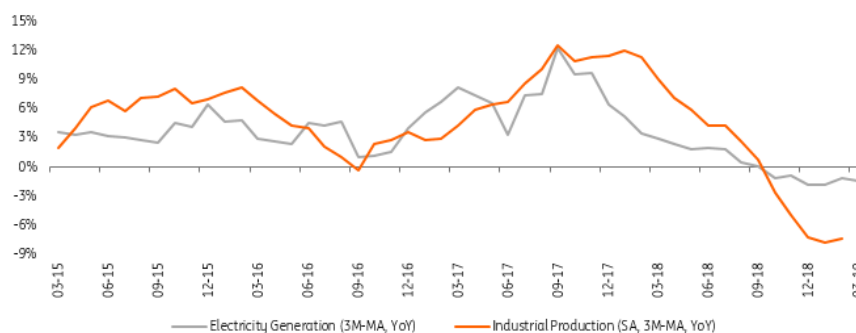


Source: TurkStat, Markit, ING Bank

Calendar-adjusted industrial production growth in February was -5.1% YoY, slightly better than the market consensus at -5.3%.

Among broad economic categories, all groups that recorded positive growth rates in January continued to do so in February. Intermediate goods production was the major driver of the monthly IP growth, rising 1.0% month-on-month (providing a 0.4ppt contribution to the headline) while undurable consumer goods rose 1.4% MoM (0.4ppt contribution). Energy and capital goods production pulled the headline up by 0.2ppt each, while the impact of durable consumer goods' was relatively small at 0.1ppt, despite the government's ongoing support with temporary tax cuts (on white goods, furniture and autos).

## IP vs Electricity Generation



Source: CBT, ING Bank

Overall, the IP data indicates the trend has been stabilising lately, with 0.7% growth over 4Q18 (vs negative quarterly IP growth rates in 2018). Credit momentum has been moving towards positive territory with support of state banks and confidence indicators have gradually recovered. A number of stimulus measures announced by the government in recent months for both households and companies will be helpful for the economic recovery, though downside risks remain due to global and geopolitical uncertainties. The impact of financial volatility in the past month should also be watched closely.

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