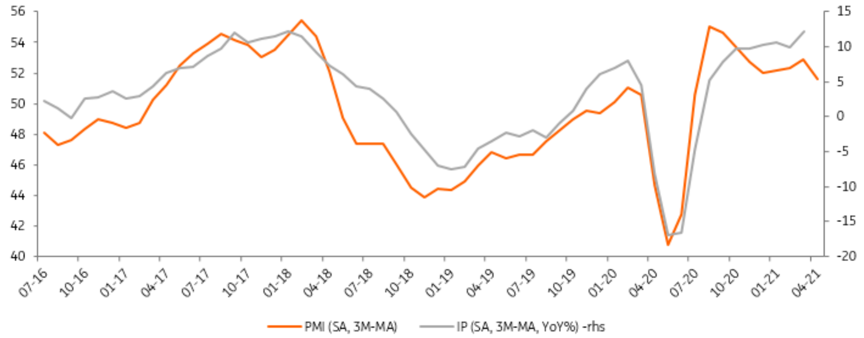
Turkey: Industrial production stays strong in March, signals further GDP growth

IP recorded notable growth in March, signaling further strong GDP growth in 1Q. This was despite renewed second wave pandemic control measures, along with continuing policy tightening in recent months.

Source: Flickr

PMI vs IP



Source: TurkStat, Markit, ING

The rebound in industrial production (seasonal and calendar adjusted, SA) continued in March, up 0.7% MoM. It was supported by the external outlook, increasing demand for intermediate inputs from Turkey and a continuing recovery in domestic demand - backed by recent momentum gains in consumer lending. This is, however, despite the implementation of a second round of Covid-19 restrictions at varying levels since November. In year-on-year terms, industrial production (calendar adjusted) printed another higher than expected figure at 16.6%, also reflecting the supportive base from the last year.

After a jump in 3Q20 (30.1% QoQ) thanks to reopening after the first wave and large credit expansion along with other stimulus measures and further strength in 4Q20 (4.7% QoQ), IP (SA) continued to grow in 1Q21 and turned out to be 2.6% QoQ. This reflects the ongoing rebound after the relatively soft quarantine measures of the second wave, intended to minimise the impact on production.

Of the broad economic categories, all with the exception of energy recorded positive growth rates on sequential basis in 1Q, indicating a continuation of the broad based recovery in economic activity. Capital, intermediate and durable goods recorded growth rates above 5% QoQ . Of the manufacturing sectors providing the biggest contribution to IP performance, seven of 24 (and generally with relatively lower weightings) contracted in this period.

Overall, despite renewed pandemic control measures in the second wave along with the implementation of more restrictive policies in recent months, the IP figures signal further strong GDP growth in 1Q. However, except for basic metals and land & sea vehicles, all sectors' headline PMI fell to below 50 in April. Output levels in the same month are below 50 for all subsectors, suggesting that economic activity is losing steam in the second quarter, along with continuing financial tightening.

Author

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

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