Turkish industrial production remains strong in 3Q

Strong figures suggest the recovery continues, driven by macro-prudential easing, the credit guarantee fund facility and a supportive fiscal stance

Source: istock

10.4%

August IP growth

Calendar adjusted (YoY)

Better than expected

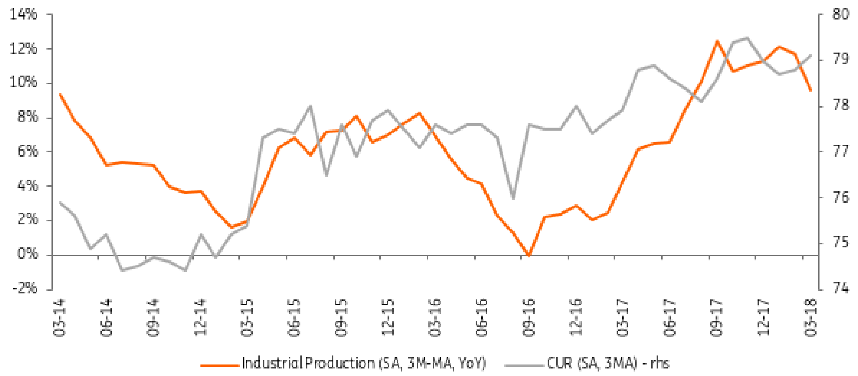
The September reading supports the view the activity strength remains in the third quarter following momentum gained in second-quarter over the previous quarter.

The strong August reading was driven by manufacturing production, lifting the headline by 8.51percentage points, followed by "electricity, gas, steam and air conditioning supply" with +1.63ppt. The impact of mining and quarrying on the headline figure was also slightly positive at

0.25ppt.

In the manufacturing sector, food products turned out to be the major contributor, followed by furniture showing the likely impact of last-minute demand ahead of reversal of tax reductions at the end of September. The automotive sector, once again, maintained high contribution to monthly performance due to continuing demand from the EU pulling the calendar adjusted headline up by 0.98ppt.

Industrial production vs Capacity utilization



Source: TurkStat, CBT

1.9%

Quarterly Industrial Production performance

Seasonal and calendar adjusted (QoQ)

Following a strong 2.30%, month-on-month reading in July and consequent moderation in August, production remained practically unchanged. The seasonal and calendar adjusted (SA) IP index recorded some improvement in the last month of the third-quarter to 0.6%.

Accordingly, the quarterly performance remained strong and close to the level realised in the second quarter. Among broad economic categories, production in all groups with the exception of capital goods rose markedly in the third quarter.

Durable goods stood out with the highest sequential growth rate at 7.1% quarter-on-quarter, showing the impact of tax incentives, followed by energy at 3.5% QoQ and heavyweight undurable goods at 2.6% QoQ.

Capital goods production that recorded a robust sequential pace at 5.1% in the second quarter seemed to have lost momentum in 3Q with -1.5% QoQ, showing fading impact of credit impulse with the credit guarantee fund facility nearing the ceiling.

> Overall, the industrial production figures hint the recovery that started in the last quarter of 2016 continues, driven mainly by policy measures such as macro-prudential easing, the credit guarantee fund facility and supportive fiscal stance, along with buoyant external

demand.

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