

Macro: Widespread and accelerating slowdown in industrial production

In November, seasonally and calendar adjusted Industrial Production Index (IPI) decreased by 1.4% mom, while remaining flat on an annual basis. Thus, the cumulative decline in the last 5 months reached 3.1%. While the weakening spread across all subgroups, more pronounced in durable goods, the slowdown in the underlying trend was slightly stronger. High labor-intensive sectors such as clothing, textiles and leather continue to lead this trend. Survey indicators point that both domestic and external demand conditions continue to have an impact on industrial production. In this framework, we may continue to see a monthly contraction in the underlying trend of industrial production in December.

In seasonally and calendar adjusted terms (s.a.), PPI fell by 1.4% mom and remained flat on an annual basis (Charts 1 and 2). The calendar-adjusted annual rate of increase was slightly positive at 0.2%. As of November, the fourth-quarter production average was 1.3% below the third-quarter average. (Charts 3 and 4).

Chart 1. Industrial Production Index (IPI) (yoy)

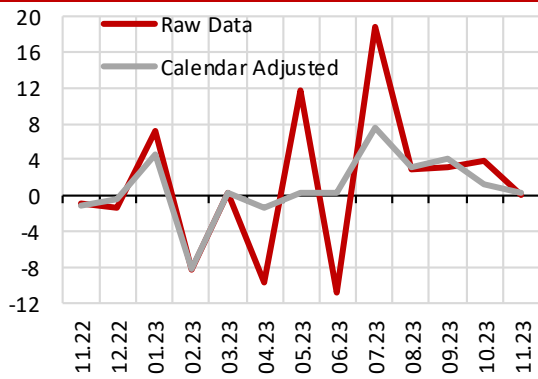


Chart 2. IPI (seasonally and calendar adjusted)

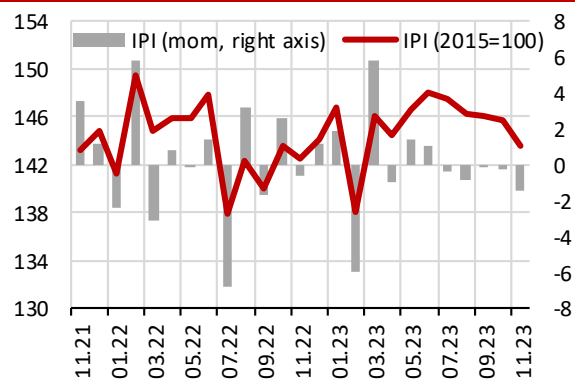
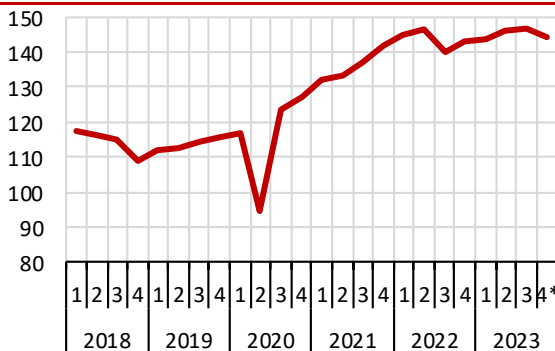
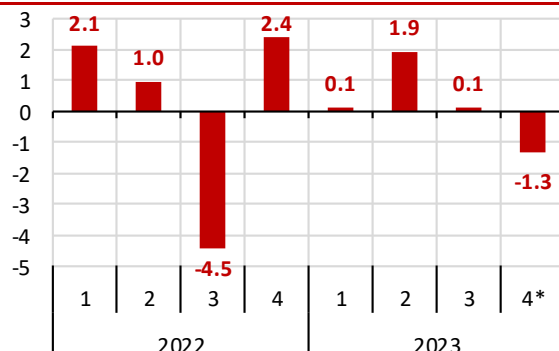


Chart 3. IPI (seasonally and calendar adjusted. 2015=100)



*As of November
Source: Turkstat

Chart 4. IPI (seasonally and calendar adjusted. qoq)



*As of November
Source: Turkstat

The seasonally adjusted PPI has been declining for 5 months in a row. While the decline in November was the strongest monthly decline in the last 5 months, the cumulative decline in this period reached 3.1%. Although there was no significant divergence in November, the fact that the cumulative contraction in the manufacturing industry in the last 5 months was 4.2%, higher than the contraction in the IPI, implies that the slowdown in the underlying trend in the second half of the year is even stronger.

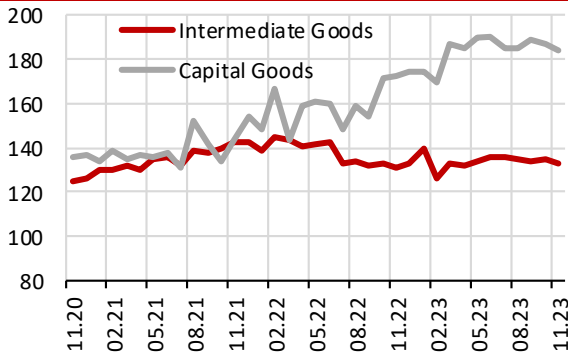
The slowdown in November was also widespread. According to the Main Industrial Groupings (MIGs), nondurable goods posted a limited decline, while durable goods fell sharply. The degree of contraction in other groups was similar (Charts 5 and 6, Table 1).

Production in **non-durable consumption** goods declined slightly. On the other hand, the cumulative contraction in the last five months was 6.9%, above other main industrial groups. As we mentioned in previous reports, clothing, textile and leather sectors played the major role in this weakening. Although **clothing** rose by 1.7% mom in November, its cumulative decline was 16.6%. After the 7.9% decline, the cumulative contraction in **leather** reached 12.3%. In **textiles**, the monthly contraction (2.2%) accelerated again and the total contraction in the last 5 months reached 8.9%.

After monthly increases of 2.1% and 3.0% in September and October, **durable goods** production contracted by 7.3% mom in November, contributing -0.4 pp to industrial production. **Furniture** production fell by 4.2% mom in November, while the monthly decline in the manufacture of **electrical and non-electrical household appliances** was 1.4%. It is understood that the course of sectors other than these two main components pulled the group production down significantly.

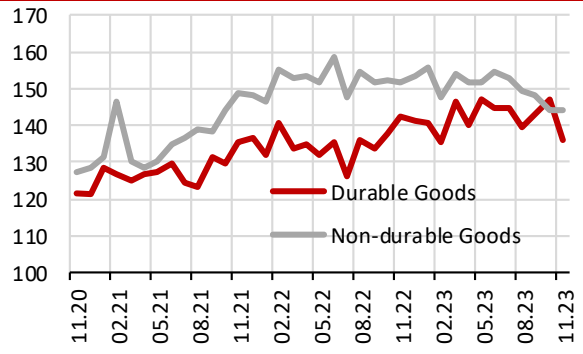
Intermediate goods fell by 1.4% mom and contributed -0.6 pp to the monthly PPI. Among the construction-related sub-items, **mineral products** fell by 4.7% mom, the sharpest monthly decline since February, while production in **base metals** remained strong at 1.7%. The weakening in mineral products was also observed in the CUR data. On the other hand, **fabricated metal** production in other construction-related sectors declined by 2.5%, extending the downtrend to 4 months (cumulative decline of 6.5%). **Rubber-plastic** production, on the other hand, increased by 0.7% mom, ending its 4-month decline.

Chart 5. IPI (seasonally and calendar adjusted. 2015=100)



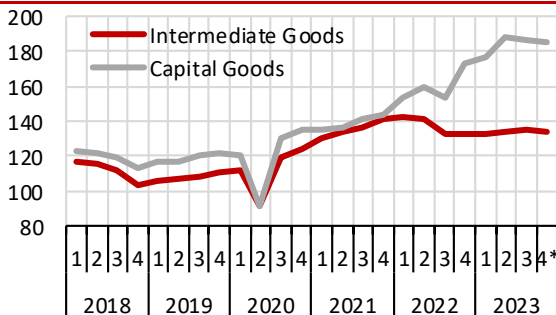
Source: Turkstat

Chart 6. IPI (seasonally and calendar adjusted. 2015=100)



Source: Turkstat

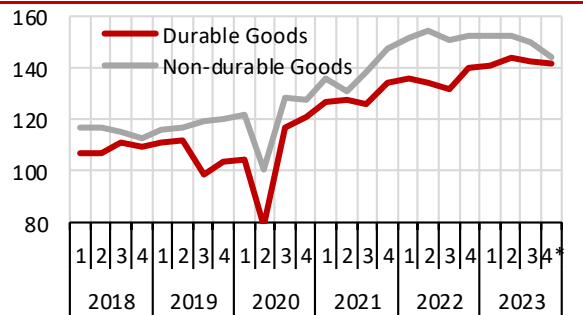
Chart 7. IPI (seasonally and calendar adjusted. 2015=100)



*As of November

Source: Turkstat

Chart 8. IPI (seasonally and calendar adjusted. 2015=100)



*As of November

Source: Turkstat

Capital goods production decreased by 1.4% mom in November after contracting by 1.0% mom in October. Among the sub-items, **other transportation** vehicles, which followed a volatile course, increased by 4.7% in November after a contraction of 16.4% in October, while **computer-optical equipment** production decreased by 12.7% in November after a contraction of 11.3%. The 5-month

cumulative increase in this sector reached 18.8%. Production in the **vehicle** sector contracted by 2.1% after 2 months of increase, while **machinery and equipment installation and repair** fell by 2.6%. The decline in **machinery and equipment manufacturing** was 2.0%.

Comparing sectoral production levels with their trends provides important information to assess the strength of sectoral activity. Accordingly, as of November, the weakest activity belongs to the clothing sector, which produced 18% below its trend. In the same period last year, it was 4.3% above its trend. After clothing, the weakest sectors are printing and reproduction of recorded media (-11.1%), leather (-10.2%), furniture (-6.9%), rubber and plastics (6.2%) and textiles (-5.9%). Sectors with strong activity but above trend were machinery and equipment installation and repair (12.7%) and petroleum products (9.0%). Production in the industry as a whole also fell 2.9% below trend.

Leading indicators point that the slowdown in industrial production in December continued due to domestic and external demand.

- The weakening trend in the ISO Turkey Manufacturing Purchasing Managers' Index (PMI), which started in the second half of the year and gradually gained strength, continued in December. As in the previous months, both domestic and external demand conditions are effective in this weakening.
- Despite the continued decline in real sector and construction confidence indices, capacity utilization rate edged down to 77.3% in seasonally adjusted terms. CUR is likely to decline in the coming months in line with other indicators. On the other hand, confidence indices in services and retail trade sectors increased.
- According to provisional foreign trade data, seasonally adjusted foreign trade deficit remained high in December, slightly widening compared to November.

Table 1. Industrial Production Index (Seasonally and Calendar Adjusted)

	Monthly % Chg				Quarterly % chg			
	Aug.23	Sep.23	Oct.23	Nov.23	2023-Q1	2023-Q2	2023-Q3	2023-Q4*
IPI	-0.8	-0.1	-0.3	-1.4	0.1	1.9	0.1	-1.3
Mining and quarrying	0.5	0.9	5.8	-4.5	-2.1	-2.7	6.8	4.2
Mining of coal and lignite	1.2	-4.6	13.8	-5.9	-32.7	-8.4	6.4	7.5
Extraction of crude petrol. and n. gas	2.1	0.5	3.3	2.0	3.6	3.9	4.5	5.3
Mining of metal ores	-2.2	2.9	6.2	-5.2	7.1	-0.8	9.5	4.6
Other mining and quarrying	4.7	-0.2	3.2	-6.5	-2.5	-7.5	3.2	1.2
Manufacturing	-1.3	0.1	-0.3	-1.3	0.3	2.1	-0.7	-1.4
Food products	-3.0	2.0	-1.3	1.2	1.2	-0.6	1.5	-0.4
Beverages	-2.6	0.6	-1.0	4.5	-7.3	1.5	1.7	0.8
Tobacco products	0.1	7.7	-7.3	-3.2	-3.9	16.3	0.7	-4.2
Textiles	-4.1	-2.6	-0.4	-2.2	-3.7	4.6	-3.6	-4.6
Wearing apparel	-0.9	-2.5	-5.6	1.7	2.9	-1.0	-10.8	-6.7
Leather and related products	-2.8	-6.0	5.0	-7.9	-1.7	-4.2	-5.8	-4.2
Wood and cork products	-3.5	-2.2	2.1	-2.9	12.9	-3.5	-0.3	-2.0
Paper and paper products	-0.6	-5.4	-1.5	-0.2	-4.8	1.9	4.9	-5.4
Recorded media	-0.9	-7.4	3.6	-9.8	-8.9	2.6	-7.1	-6.7
Coke and refined petroleum products	3.6	-5.8	13.0	-2.7	-6.9	1.8	4.5	8.4
Chemicals and chemical products	3.7	1.3	0.0	0.6	-2.0	0.0	-2.3	2.4
Basic pharmaceutical products	-3.2	-0.6	-11.4	1.2	-4.0	1.2	15.2	-12.2
Rubber and plastic products	-2.8	-1.8	-1.0	0.7	4.2	-1.4	-1.1	-2.7
Other non-metallic mineral products	-0.7	-1.2	2.1	-4.7	1.7	-2.6	0.0	-1.3
Base metals	-1.8	0.4	3.1	1.7	1.4	3.3	0.9	3.6
Fabricated metal products	-0.2	-2.8	-1.1	-2.5	3.7	6.2	-2.0	-4.2
Computer, electronic and optical products	-1.7	20.0	-11.3	-12.7	-5.8	-1.6	7.2	-7.0
Electrical equipment	-3.0	-1.1	0.7	-0.9	3.6	-0.2	-1.7	-1.4
Machinery and equipment	-3.3	4.3	-2.3	-2.0	2.7	0.6	0.5	-1.6
Motor vehicles.	-8.3	3.3	3.9	-2.1	4.4	4.8	-2.2	2.0
Other transport equipment	23.7	9.3	-16.4	4.7	-3.0	28.4	0.0	-3.4
Furniture	-9.9	-1.6	4.3	-4.2	-1.9	0.9	-5.7	-2.6
Other manufacturing	1.3	1.8	5.6	-5.6	1.7	3.1	-1.7	4.2
Repair and installation of mach. and equip.	1.5	-6.8	13.0	-2.6	6.6	3.0	8.6	6.9
Electricity, gas, steam	2.1	-1.9	-2.2	-1.0	1.6	2.3	3.8	-3.3
IPI	-0.8	-0.1	-0.3	-1.4	0.1	1.9	0.1	-1.3
Intermediate Goods	-1.2	-0.4	0.6	-1.4	0.6	0.8	0.5	-0.8
Durable Consumer Goods	-3.4	2.1	3.0	-7.3	0.3	2.2	-1.1	-0.6
Non-durable Consumer Goods	-2.3	-0.7	-2.6	-0.1	-0.1	0.2	-1.8	-3.9
Energy	2.3	-2.4	0.7	-1.3	-1.6	1.9	4.1	-0.8
Capital Goods	-0.1	2.3	-1.0	-1.4	2.3	6.5	-1.1	-0.3
Low Technology	-2.8	-1.0	-0.8	-1.2	-0.9	0.9	-2.2	-2.9
Medium-Low Technology	-0.8	-2.1	2.9	-1.5	2.3	1.6	0.9	0.4
Medium-High Technology	-0.2	0.3	-0.2	-1.4	1.4	3.1	-0.4	-0.8
High Technology	2.4	19.1	-14.3	0.1	-4.5	10.3	0.0	-3.3

* As of November
Source: TURKSTAT

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