Macro: Economic activity gains strength after two quarters of contraction

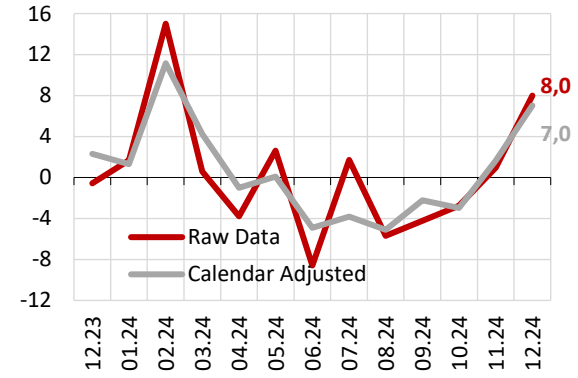
In December, the seasonally and calendar adjusted Industrial Production Index (IPI) rose by 5.0% mom and 8.0% yoy, confirming the recent outlook of survey indicators for the manufacturing sector. The quarter-on-quarter increase was 3.4%, which did not make up for the cumulative contraction in the previous two quarters. With a few exceptions, the monthly and quarterly increases were spread across all sectors. However, the rate of increase was uneven across sectors. In fact, around half of the monthly increase in December came from other transport equipment and computer, electronic and optical equipment, while 1.3 points of the quarterly increase came from other transport equipment. Therefore, the strong movement in December is not equally valid in terms of the underlying trend.

Survey indicators suggest that the improvement in industrial production last quarter was driven by the recovery in domestic demand. The same indicators point to a correction in January. This outlook suggests that the pick-up in demand in the last quarter may have been fuelled by demand brought forward to avoid expected cost increases. Therefore, both the possible correction in volatile items and the signals regarding the underlying trend suggest that the IPI may weaken again in the first quarter of 2025. The weakening outlook for external demand also seems to be another factor limiting the IPI.

Following this strong outlook from the IPI in December, our backcast models also started to imply higher values for annual GDP growth in the last quarter. Although not yet final, an annual growth rate of 3.0% or more in the final quarter seems possible on the basis of the available data. We expect the quarterly growth to be strong in line with this annual growth. This outlook suggests a stronger demand outlook for the final quarter of 2024 than the flat output gap forecast in the recent Inflation Report.

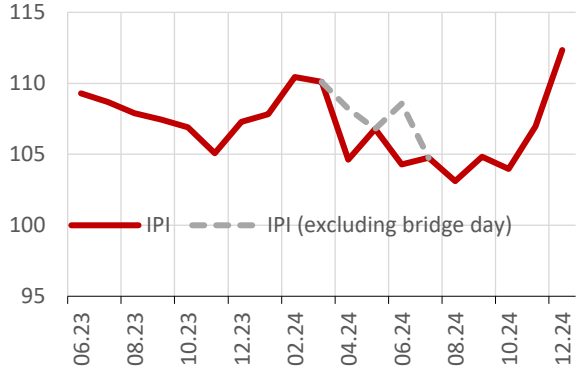
In seasonally and calendar adjusted (s.a.) terms, the IPI rose by 5.0% mom and 8.0% yoy in December, reaching a historical high (Charts 1 and 2). In calendar-adjusted terms, the annual change was more limited at 7.0%. On a quarterly basis, the IPI rose by 3.4% in the last quarter, but this could not compensate for the cumulative decline in Q2 and Q3 (-3.9% and -1.0% respectively) (Charts 3 and 4). In 2024 as a whole, the IPI grew by 0.4%, less than in 2023 (1.6%).

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



Source: Turkstat

Chart 2. IPI (s.a, 2021=100)

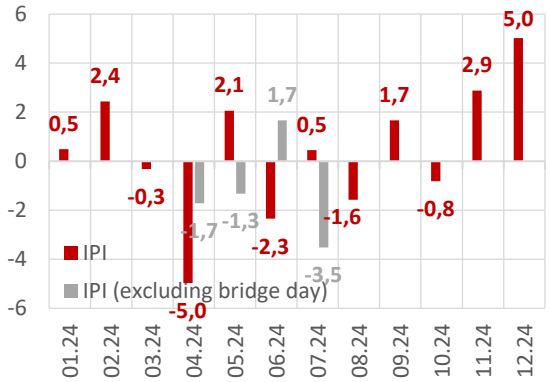


Source: Turkstat, Akbank

The IPI (s.a.) posted a strong increase of 5.0% in December, following a monthly rise of 2.9% in November. The increase in the manufacturing sector was stronger at 5.6% (Charts 5 and 6, Table 1). Output rose in all but three sectors in December, while the monthly increase was uneven across sectors. Highly volatile items played an important role in the high monthly and annual rates of increase in December. The manufacture of **computers, electronic and optical equipment** (up 62.0% mom) and **other transport equipment** (up 24.9% mom) each contributed 1.2 percentage points to the monthly change in the IPI, accounting for almost half of the total monthly increase (Chart 5). It should be noted that the total weight of these two sectors in the IPI is 6.5%. After these two sectors, the highest

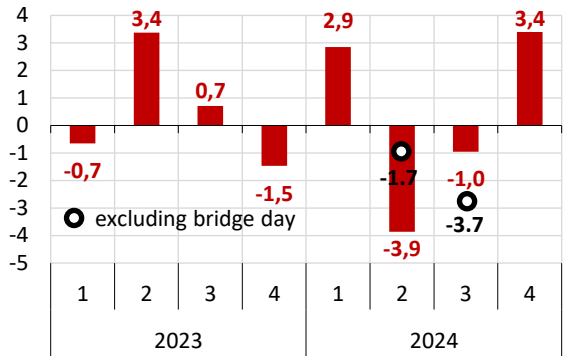
contribution came from **machinery and equipment** (0.5 pp) and **fabricated metal products** (0.35 pp) (Table 2). Sectors with negative contribution to the monthly change in the IPI were **coke and refined petroleum products** (down 2.1% mom), **other manufacturing** (down 3.1% mom) and **basic pharmaceutical products** (down 7.8% mom) (Chart5, Table 2).

Chart 3. IPI (s.a., mom)



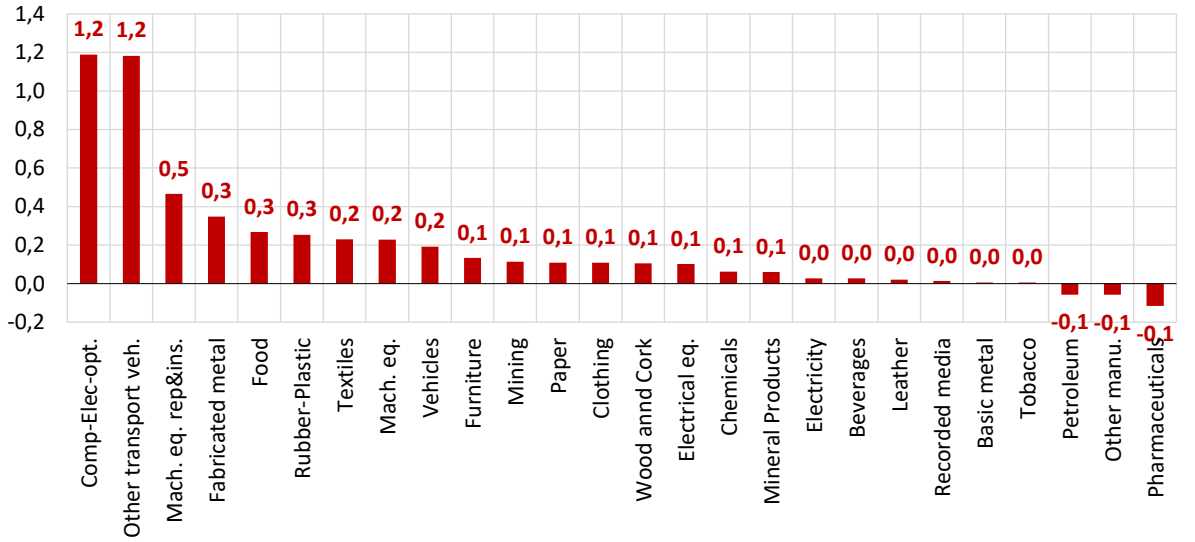
Source: Turkstat, Akbank

Chart 4. IPI (s.a., qoq)



Source: Turkstat, Akbank

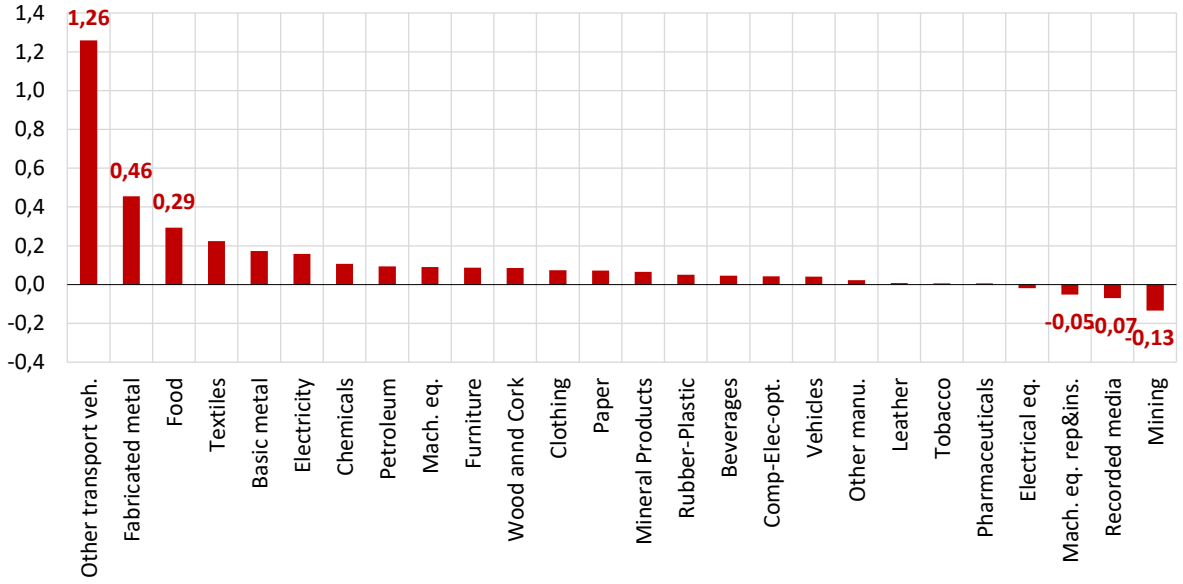
Chart 5. Contributions to the Monthly Change in IPI in December (% points, seasonally adjusted)



Source: Turkstat, Akbank

The IPI recorded a strong quarterly increase of 3.4%. The low base and the strong performance of volatile items played an important role in the strong increase. As with the monthly contributions, quarterly growth was spread across most sectors, but not balanced. Other transport equipment made the largest quarterly contribution to IPI growth, adding 1.3 points (Graph 6). Fabricated metal products (up 6.5 % quarter on quarter) was the second largest contributor, adding 0.5 points, while food products (up 2.5 %) was the third largest contributor, adding 0.3 points. The only sectors that contracted on a quarterly basis were electrical equipment, recorded media and mining.

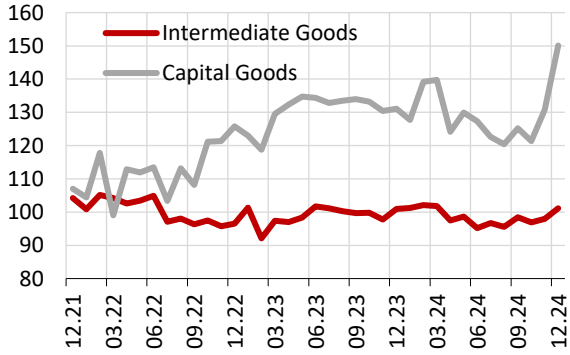
Chart 6. Contributions to the Quarterly Change in IPI (% points, seasonally adjusted)



Source: Turkstat, Akbank

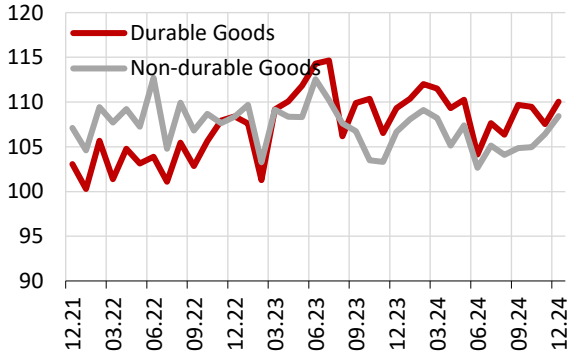
Against this background, the monthly and quarterly increases were also broadly based across the product groups. However, the largest contribution to output growth was made by capital goods (monthly contribution: +3.1 pp, quarterly: +1.9 pp). Capital goods also made a large contribution to annual growth in December. In contrast, growth in the production of durable consumer goods was more limited (Graphs 7, 8, 9 and 10; Table 2).

Chart 7. IPI (seasonally and calendar adjusted. 2021=100)



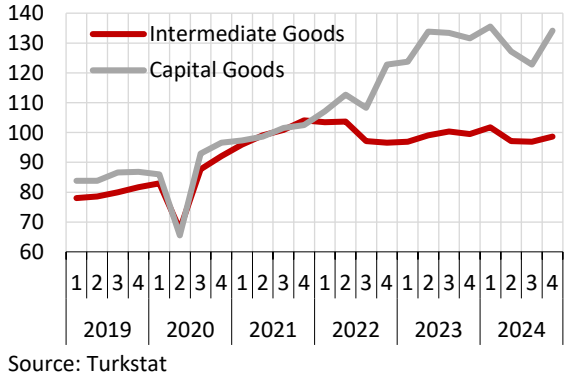
Source: Turkstat

Chart 8. IPI (seasonally and calendar adjusted. 2021=100)



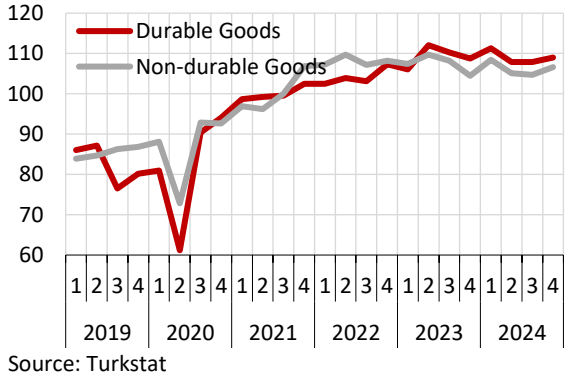
Source: Turkstat

Chart 9. IPI (seasonally and calendar adjusted. 2021=100)



Source: Turkstat

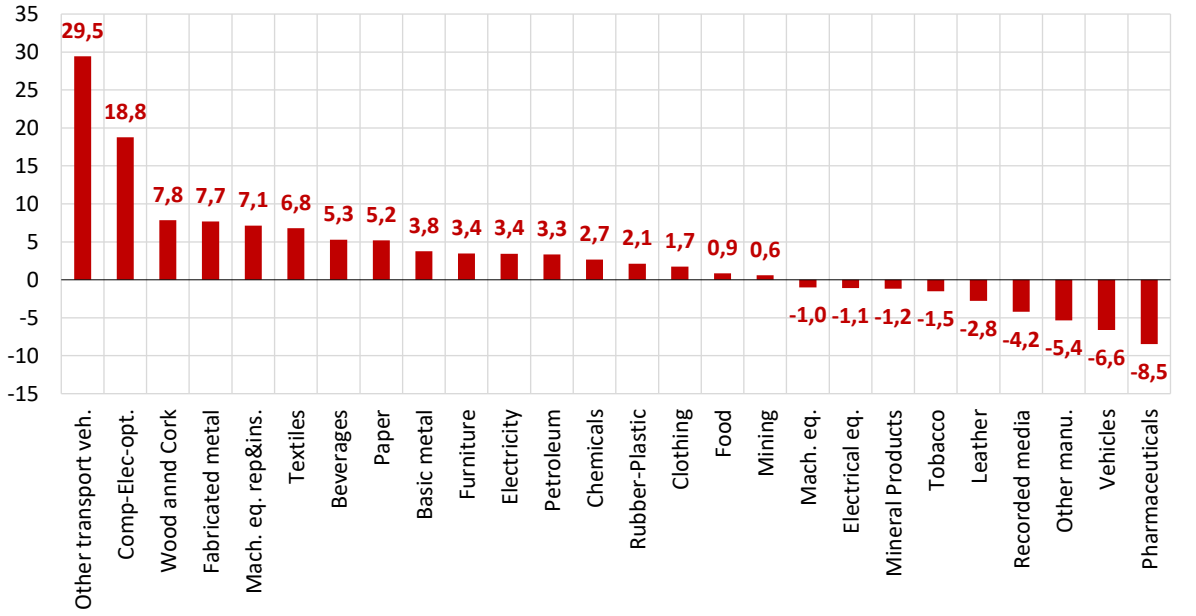
Chart 10. IPI (seasonally and calendar adjusted. 2021=100)



Source: Turkstat

The levels of sectoral production vis-a-vis their trends provides important information to assess the strength of sectoral activity. Accordingly, as of the end of 2024, IPI was 3.7% above its trend. In the last quarter, it remained 0.5% below its trend on average. In this regard, it does not seem possible to talk about a deep output gap. As of end-2024, the weakest sectoral activity belongs to pharmaceuticals, which produced 8.5% below its trend (Chart 11). The weakest sectors were vehicles (-6.6%), other manufacturing (-5.4%), printing and reproduction of recorded media (-4.2%) and leather (-2.8%). It is not surprising that other transport equipment and computer, electronic and optical equipment, with their strong increases in recent months, have risen well above their trends. However, the fact that production in these sectors deviated so much from the trend and remained volatile makes it highly likely that we will see a strong correction in these sectors in the first quarter of 2025.

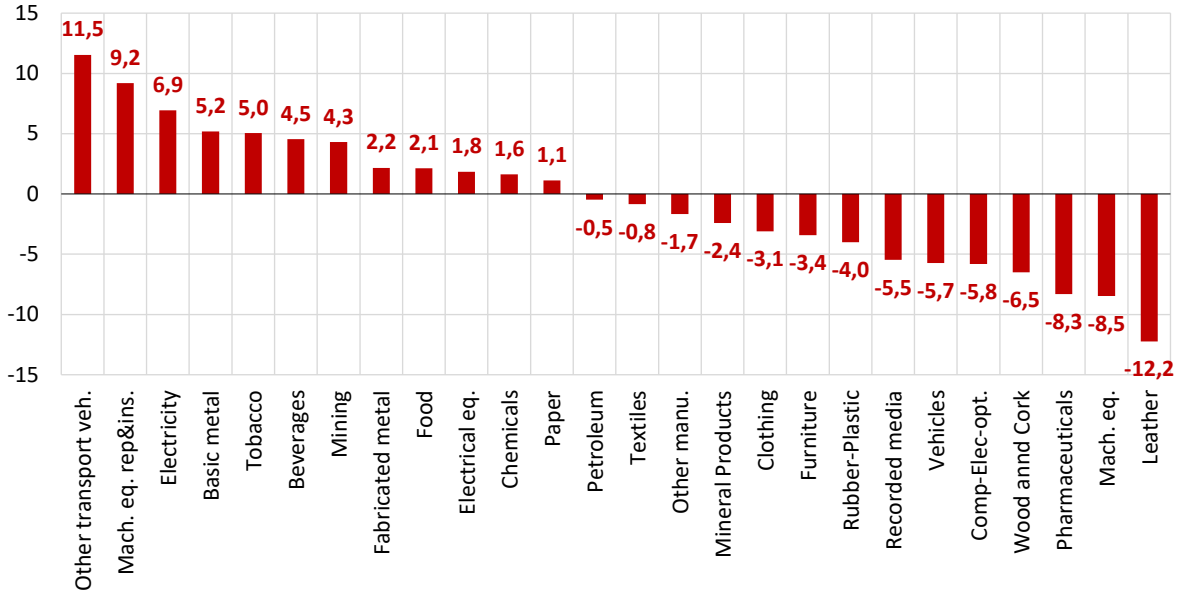
Chart 11. Difference from the Trend of Industrial Production* (%)



* The trend is estimated separately for each series using the HP filter.
Source: TURKSTAT, Akbank

Finally, with the December data, the yearly outlook for IPI was also complete. Accordingly, **IPI increased slightly by 0.4% in 2024 a**nd annual growth slowed down compared to 2023 (.6%) (Table 1). Production in the manufacturing industry contracted by 0.3%, pointing to a weaker outlook than the IPI. In fact, production in the electricity, gas, steam and mining sectors increased by 6.9% and 4.3%, respectively. Within the manufacturing industry, other transport equipment had highest growth rate with 11.5% (Chart 12). This sector has been experiencing double-digit growth since 2014, except for the pandemic period. Other sectors with high growth rates were machinery-equipment installation and repair, basic metals, tobacco and beverages. Production in important sectors such as textiles, clothing, minerals, furniture, vehicles, wood and cork, and plastics and rubber contracted in 2024. In sum, it is possible to say that the main trend of IPI weakened significantly and contracted in 2024.

Chart 12. Annual Production Growth by Sector (%)



Source: TURKSTAT

Table 1. Industrial Production Index (Annual Percentage Change)

	Sep. 24	Oct. 24	Nov.24	Dec.24	2024-Q1	2024-Q2	2024-Q3	2024-Q4	2024
IPI	**-4.2**	**-2.7**	**1.0**	**8.0**	**5.3**	**-3.1**	**-2.8**	**2.2**	**0.4**
Mining and quarrying	**-2.3**	**-10.4**	**-4.8**	**3.5**	**14.8**	**9.0**	**0.9**	**-4.2**	**4.3**
Mining of coal and lignite	12.9	-2.4	4.1	3.9	11.0	27.1	16.2	1.8	13.0
Extraction of crude petrol. and n. gas	51.1	50.1	49.7	120.7	42.5	51.2	53.4	68.9	54.4
Mining of metal ores	-15.7	-27.3	-20.5	-17.4	14.2	1.8	-12.4	-22.0	-6.5
Other mining and quarrying	-7.2	-11.9	-7.7	-4.4	5.0	-4.7	-5.8	-8.1	-4.0
Manufacturing	**-4.7**	**-3.2**	**0.4**	**7.8**	**4.7**	**-4.5**	**-3.3**	**1.8**	**-0.3**
Food products	-2.0	-1.6	-2.6	-1.4	10.2	1.5	0.1	-1.9	2.1
Beverages	-3.5	9.1	-0.5	9.7	12.3	5.3	-2.4	6.2	4.5
Tobacco products	-12.3	1.2	3.8	5.0	20.4	0.3	-0.7	3.3	5.0
Textiles	-1.8	0.2	4.9	5.4	1.4	-6.0	-2.4	3.4	-0.8
Wearing apparel	4.0	11.1	10.7	9.6	-12.5	-12.7	4.2	10.5	-3.1
Leather and related products	-8.0	-10.9	-2.3	-0.4	-17.5	-16.4	-9.6	-4.6	-12.2
Wood and cork products	-8.1	-8.4	-2.4	5.8	0.0	-13.8	-10.6	-1.5	-6.5
Paper and paper products	-2.2	-0.3	1.5	8.0	6.0	-0.4	-4.0	3.0	1.1
Recorded media	4.6	-11.9	-8.9	-2.1	-7.6	-10.2	3.2	-7.7	-5.5
Coke and refined petroleum products	-20.6	-21.1	-3.0	-5.7	12.8	6.0	-6.9	-10.2	-0.5
Chemicals and chemical products	-2.3	-0.1	0.8	3.9	4.2	-1.1	1.8	1.5	1.6
Basic pharmaceutical products	-15.4	-2.2	-7.2	-15.6	0.2	-7.2	-17.7	-8.7	-8.3
Rubber and plastic products	-4.0	-4.6	-4.7	-0.1	0.9	-8.4	-5.4	-3.1	-4.0
Other non-metallic mineral products	-6.4	-4.1	-0.3	-2.0	2.9	-5.0	-4.8	-2.2	-2.4
Base metals	2.5	2.9	5.4	2.7	10.6	2.0	4.7	3.7	5.2
Fabricated metal products	1.7	3.8	14.2	18.2	3.1	-7.3	-0.3	12.3	2.2
Computer. electronic and optical products	-16.3	-17.5	-24.2	19.0	2.3	-9.7	-15.3	-1.3	-5.8
Electrical equipment	0.7	-0.9	-0.3	-4.3	6.7	0.2	2.9	-1.9	1.8
Machinery and equipment	-14.2	-7.4	-9.5	-5.9	-5.0	-11.3	-10.1	-7.5	-8.5
Motor vehicles	-9.0	-12.2	-13.4	-6.0	8.3	-8.7	-11.5	-10.6	-5.7
Other transport equipment	-30.4	-17.5	20.9	65.3	39.1	-1.3	-17.5	29.5	11.5
Furniture	-0.6	1.7	1.3	8.0	-1.8	-12.6	-3.4	4.0	-3.4
Other manufacturing	-1.5	-3.0	0.9	-6.7	3.0	-7.3	0.9	-3.1	-1.7
Repair and installation of mach. and equip.	9.4	-0.8	-0.3	25.1	15.0	9.7	4.4	9.1	9.2
Electricity. gas. steam	**1.1**	**7.6**	**11.1**	**11.4**	**7.5**	**6.3**	**4.3**	**10.0**	**6.9**
IPI	**-4.2**	**-2.7**	**1.0**	**8.0**	**5.3**	**-3.1**	**-2.8**	**2.2**	**0.4**
Intermediate Goods	-3.6	-2.8	-0.3	1.0	4.8	-3.3	-2.6	-0.7	-0.5
Durable Consumer Goods	-4.2	-0.9	-0.7	1.1	6.6	-3.1	-0.7	-0.2	0.5
Non-durable Consumer Goods	-3.1	-0.2	0.2	0.7	0.4	-5.5	-1.9	0.2	-1.6
Energy	-0.6	1.9	9.6	11.5	11.0	9.9	4.7	7.6	8.1
Capital Goods	-8.4	-8.8	-0.2	22.1	8.9	-6.5	-7.4	5.9	0.3
Low Technology	-1.5	0.4	1.8	3.4	1.7	-5.3	-1.1	1.9	-0.6
Medium-Low Technology	-3.1	-3.0	0.7	4.0	5.7	-2.6	-2.2	0.6	0.3
Medium-High Technology	-7.3	-6.3	-0.2	1.5	4.4	-2.4	-5.2	-1.5	-1.3
High Technology	-20.8	-13.6	-6.9	49.5	21.0	-17.1	-14.6	16.1	2.1

Source: TURKSTAT

Table 2. Industrial Production Index (Seasonally and Calendar Adjusted)

	Monthly % Change				Quarterly % Change			
	Sep. 24	Oct. 24	Nov.24	Dec.24	2024-Q1	2024-Q2	2024-Q3	2024-Q4
IPI	**1.7**	**-0.8**	**2.9**	**5.0**	**2.9**	**-3.9**	**-1.0**	**3.4**
Mining and quarrying	**1.2**	**-4.3**	**2.5**	**2.2**	**3.0**	**-3.5**	**-0.6**	**-2.5**
Mining of coal and lignite	-2.3	-3.8	1.9	3.8	7.6	5.7	-4.2	-5.9
Extraction of crude petrol. and n. gas	1.8	3.7	3.8	5.5	26.0	11.4	11.8	10.8
Mining of metal ores	7.3	-11.6	5.2	1.0	-7.2	-5.7	-3.7	-7.5
Other mining and quarrying	-4.1	-0.1	-1.1	0.4	8.0	-12.7	-0.5	-1.5
Manufacturing	**2.0**	**-0.9**	**3.0**	**5.6**	**2.7**	**-4.3**	**-1.2**	**3.9**
Food products	-0.8	1.3	1.4	2.3	5.6	-5.2	-1.4	2.5
Beverages	0.6	10.8	-3.9	5.6	6.8	-4.0	-6.0	9.9
Tobacco products	-1.6	3.0	0.1	1.3	2.2	-0.7	0.6	1.6
Textiles	5.0	-2.0	2.4	3.1	2.7	-0.8	-1.3	3.0
Wearing apparel	4.4	-2.5	1.5	2.3	3.2	1.4	4.1	1.5
Leather and related products	-1.7	-0.7	4.6	2.3	-2.6	-0.6	-1.8	0.9
Wood and cork products	4.5	-0.7	2.4	9.6	2.4	-12.3	0.9	8.0
Paper and paper products	3.3	-0.2	1.4	4.4	3.2	-2.2	-0.9	2.9
Recorded media	-3.7	-7.4	-2.4	2.5	1.8	0.4	2.5	-10.7
Coke and refined petroleum products	-20.4	10.9	18.8	-2.1	-3.4	-3.2	-7.8	3.8
Chemicals and chemical products	0.7	0.7	1.8	1.4	2.8	-2.8	-0.9	2.3
Basic pharmaceutical products	-2.6	3.0	-0.4	-7.8	-2.1	-5.3	-1.0	0.4
Rubber and plastic products	4.2	-3.5	0.6	6.8	3.2	-6.9	-0.8	1.3
Other non-metallic mineral products	-0.4	0.9	-0.2	1.0	3.8	-5.8	-1.6	1.1
Base metals	2.4	0.3	2.5	0.1	3.0	-3.6	1.1	3.3
Fabricated metal products	5.7	-3.1	6.2	4.8	2.2	-2.1	3.4	6.5
Computer. electronic and optical products	20.9	-18.6	-14.0	62.0	0.3	-12.4	-0.5	1.7
Electrical equipment	5.6	-4.0	2.2	2.4	2.9	-4.1	1.1	-0.4
Machinery and equipment	1.5	0.6	-1.3	5.8	-5.5	-4.3	-0.6	2.3
Motor vehicles	10.3	-2.2	-3.1	4.0	1.4	-7.7	-5.9	0.8
Other transport equipment	-8.8	2.3	44.5	24.9	17.2	-10.1	-14.6	35.7
Furniture	2.8	1.0	-1.0	5.8	4.8	-4.7	0.2	3.8
Other manufacturing	1.3	-0.9	1.8	-3.1	-2.4	-3.9	2.2	1.2
Repair and installation of mach. and equip.	0.8	0.3	-1.3	14.8	-1.4	2.1	1.6	4.8
Electricity. gas. steam	**-2.0**	**3.3**	**2.0**	**0.4**	**4.4**	**1.5**	**1.6**	**2.2**
IPI	**1.7**	**-0.8**	**2.9**	**5.0**	**2.9**	**-3.9**	**-1.0**	**3.4**
Intermediate Goods	3.0	-1.6	1.0	3.2	2.2	-4.5	-0.2	1.8
Durable Consumer Goods	3.1	-0.2	-1.8	2.3	2.4	-3.0	0.0	1.1
Non-durable Consumer Goods	0.7	0.1	1.4	1.9	3.8	-3.1	-0.4	1.8
Energy	-5.9	4.1	5.6	0.5	4.0	1.4	-0.4	2.5
Capital Goods	4.0	-3.1	7.8	14.7	3.0	-6.2	-3.5	9.3
Low Technology	1.9	-0.2	1.4	2.8	3.8	-3.1	-0.2	2.6
Medium-Low Technology	0.2	0.2	2.2	3.6	1.3	-3.6	-0.6	2.9
Medium-High Technology	5.7	-2.0	5.4	1.0	0.6	-1.6	-4.2	3.0
High Technology	-2.0	-6.9	8.1	51.6	11.3	-22.6	2.9	20.7

Source: TURKSTAT

Industrial Production (December 2024) February 10, 2025

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