

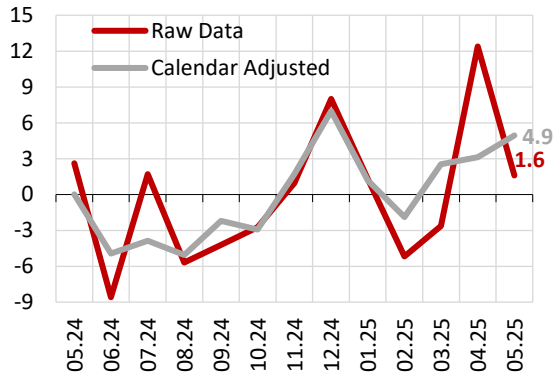
Macro: Strong monthly increase; weak underlying trend

In May, Industrial Production Index (IPI) increased by 3.1% mom in seasonally and calendar adjusted (s.a.) terms, while it grew by 4.9% yoy in calendar adjusted terms. The strong monthly increase in May was driven by capital goods, which we have been referring to frequently in recent months. The correction in computers, electronic and optical equipment and other transportation vehicles, which historically exhibit high volatility, contributed 1.3 pp to the monthly increase in industrial production in May. As for the rest of the increase, although it was spread across most of the sectors, construction-related sectors as well as textile and clothing production stood out.

We do not consider the strong monthly increase in May as a recovery or a strong trend in industrial production. In fact, while the two-month average has remained almost flat, we have seen a cumulative contraction in the IPI since the beginning of the year. Leading indicators suggest that the underlying trend will remain weak in the upcoming period, driven by both domestic and external demand.

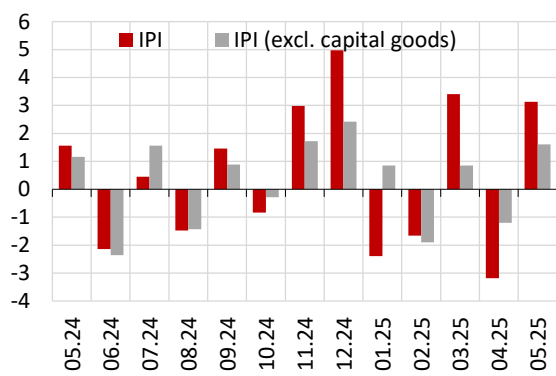
In May, Industrial Production Index (IPI) increased by 3.1% mom in seasonally and calendar adjusted (s.a.) terms and 1.6% yoy (Charts 1, 2 and 3). On a calendar-adjusted basis, the annual increase was higher at 4.9% due to the difference in the number of days worked (1 day).

Chart 1. IPI (yoy, %)



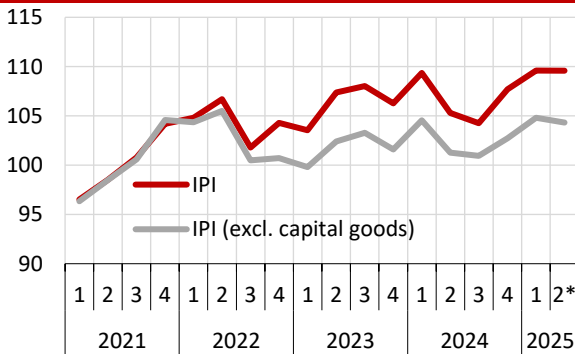
Source: Turkstat

Chart 2. IPI (seasonally adjusted, mom, %)



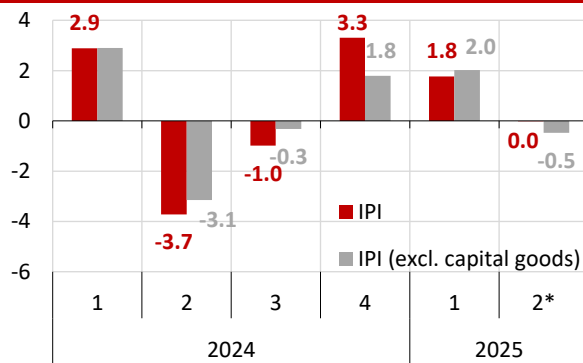
Source: Turkstat, Akbank

Chart 3. IPI (seasonally adjusted, 2021=100)



* Average for April-May
Source: Turkstat, Akbank

Chart 4. IPI (seasonally adjusted, qoq, %)



* Average for April-May
Source: Turkstat, Akbank

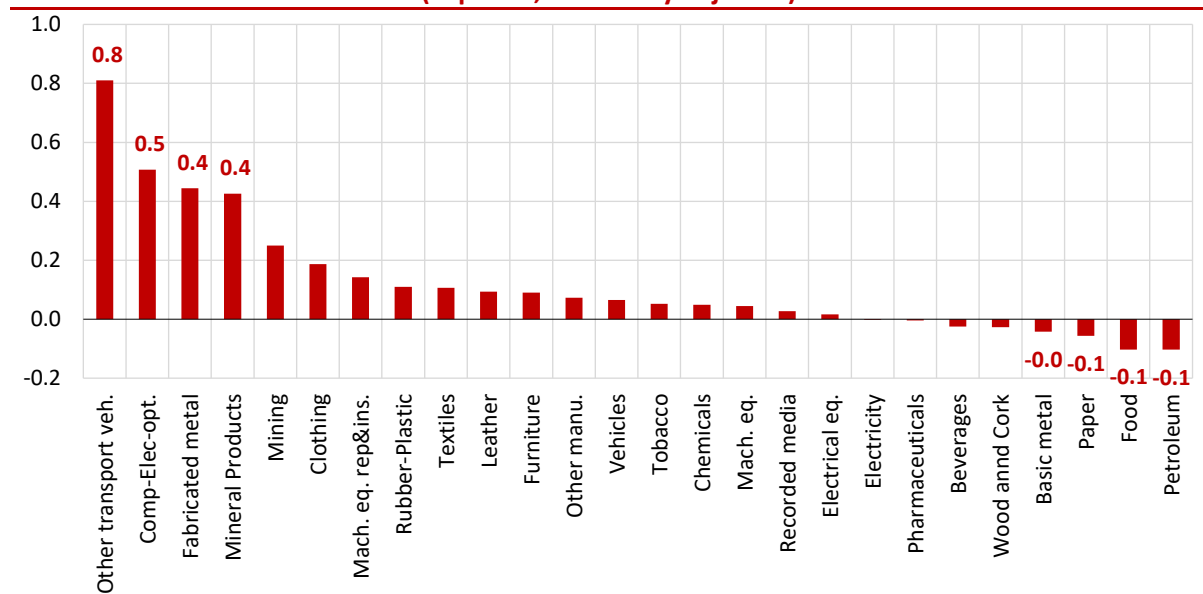
Over the past year, capital goods have caused significant volatility in the IPI. During this period, the monthly rate of change in the IPI was realized within a wide range (-3.2 to 5.0), whereas excluding capital goods, it was realized within a narrower range (-2.4 to 2.4) (Chart 2). Taking a longer perspective, we observe that capital goods started to decouple from the IPI in the last quarter of 2022 and the IPI excluding capital goods hovered significantly below the headline index (Chart 3). This suggests that the composition of the IPI has changed significantly in recent years, with capital goods

becoming the main driver of industrial production growth. It can be said that other transportation vehicles, which includes defense industry, stand out in this context.

Excluding capital goods, the monthly increase was 1.6% in May, lower than the headline IPI monthly increase of 3.1% (Chart 2). A similar outlook also applies to the quarterly change. On an April-May average, IPI remained flat in Q2, but contracted by 0.5% excluding capital goods (Chart 4).

Although the monthly increase in production spread across most sectors, the contribution to the increase was concentrated in the first 4 sectors. The highest contribution came from **other transportation vehicles** with 0.8 percentage points (pp) (Chart 5). External demand continues to be the determining factor in the change in production in this sector, which also includes defense industry products and exhibits high monthly volatility. According to TEA data on June exports, the volatility in defense and aerospace exports continued, albeit at a slightly lower level compared to previous months, and the exports decreased by 16% compared to May. Therefore, other transportation vehicles production index may make a downward correction in June and make a negative contribution to IPI. Manufacture of **computers, electronic and optical equipment** (s.a.) grew by 27.9% mom, pushing up the monthly total industrial production growth by 0.5 pp. In January-April period, domestic demand was the determining factor in the contraction, while the increase in external demand came to the fore in May. Export data for June, on the other hand, indicated that exports declined by 23.8%. **Fabricated metal** and **mineral products manufacturing**, which includes glass, cement and ceramic products, were the other two sectors that stood out with a monthly growth of 6.5% and 6.8%, respectively, contributing 0.8 pp to total industrial production growth. **Clothing** and **textile** sectors (s.a.), which have a high share in the total manufacturing industry and exports, recorded weaker monthly increases of 4.3% and 1.7%, respectively, but noteworthy given their recent trends. In fact, the cumulative production decline in these two sectors over the last five months was 8.8% and 4.2%, respectively. On the other hand, production of **refined petroleum products**, **food** and **paper** fell by 3.7%, 0.8% and 2.2% on a monthly basis, respectively.

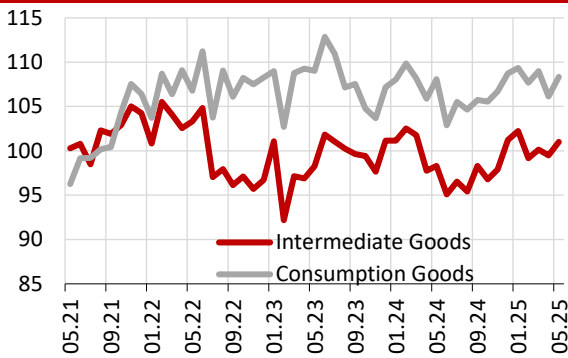
Chart 5. Contributions to the Monthly Change in IPI in March
(% points, seasonally adjusted)



Source: Turkstat. Akbank

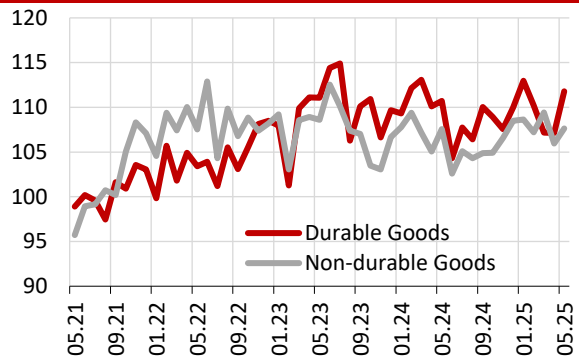
Across goods groups, the production of capital goods rose by 8.6% mom, largely correcting the sharp decline in the previous month (Chart 6). As mentioned above, other transportation vehicles and computer, electronic and optical equipment, which are included in capital goods, were influential in this development. Excluding these two sectors, capital goods increased by 3.4% mom, offsetting the decline in April (2.6%). In this month, non-durable goods and intermediate goods rose by 1.6% and 1.5%, respectively (Charts 6 and 7). Durable goods grew by 4.3% in May. Energy production, on the other hand, grew by 0.7%, the average increase in the first four months of the year (Charts 8 and 9). On a quarterly basis, intermediate goods and consumer goods declined, while energy and capital goods increased (Charts 10-12). Capital goods excluding other transportation vehicles and computer, electronic and optical equipment also posted quarterly increases.

Chart 6. Intermediate and Consumption Goods (seasonally adjusted, 2021=100)



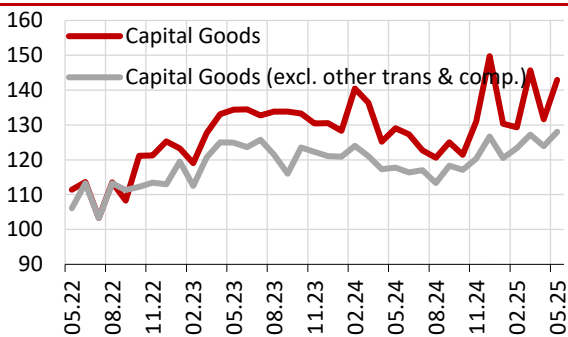
Source: Turkstat, Akbank

Chart 7. Consumption Goods (seasonally adjusted, 2021=100)



Source: Turkstat

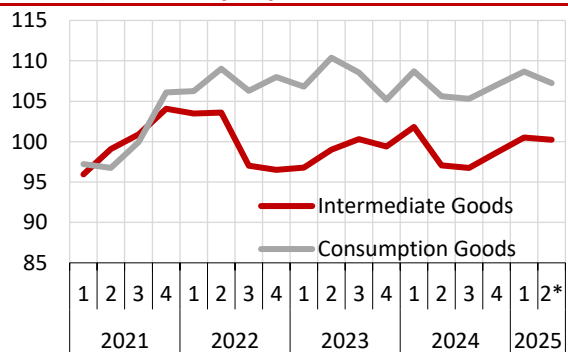
Chart 8. Capital Goods (seasonally adjusted, 2021=100)



* Average for April-May

Source: Turkstat, Akbank

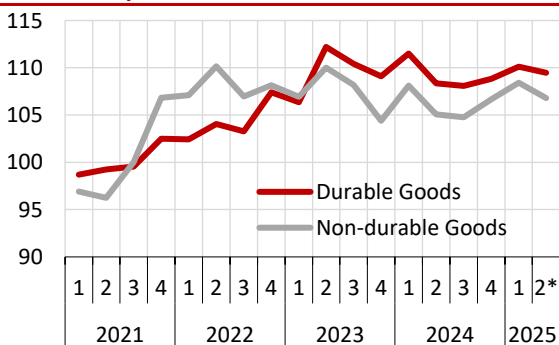
Chart 9. Intermediate and Consumption Goods (seasonally adjusted, 2021=100)



* Average for April-May

Source: Turkstat, Akbank

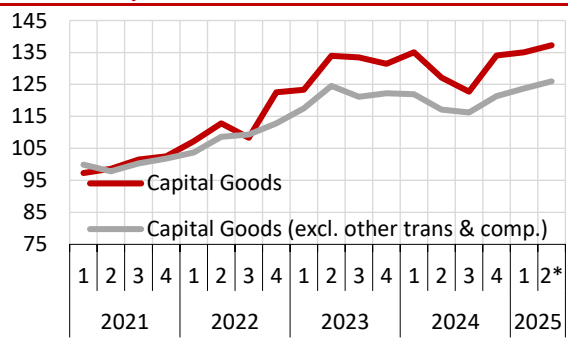
Consumption Goods (seasonally adjusted, 2021=100)



* Average for April-May

Source: Turkstat

Chart 11. Capital Goods (seasonally adjusted, 2021=100)



* Average for April-May

Source: Turkstat, Akbank

Despite the strong monthly increase in IPI, we do not consider this as a recovery or a strong trend in industrial production. First of all, we can say that this month's 3.1% increase comes after last month's 3.2% decline and therefore, the low base helped us to see a strong monthly increase. The fact that the two-month average is almost flat signals a weak trend. When we look at the last 5 months instead of the last two months, we see that the IPI contracted by 0.9% cumulatively. Even when we exclude volatile items, there is a very limited cumulative increase over the last 5 months. Therefore, it is not possible to talk about a strong industrial production.

On the other hand, the widespread monthly increases across sectors in May and the relatively positive outlook in labor-intensive sectors (textiles, clothing, leather) and construction-related sectors signal that we may have experienced a Ramadan holiday-induced fluctuation in these sectors in the April-May period. We did not think that there were significant bridge day effects in April due to the non-extended Ramadan holiday and the high number of days between it and the weekend. However, both the monthly changes in these sectors and the fluctuations in the April-May data on labor market indicators (unemployment rate, hours worked per capita), which are probably driven by casual workers, signal that the Ramadan holiday was actually extended in these sectors and that there were bridge day effects. Under this assumption, the April-May average, which eliminates the bridge day effects, would be a more accurate approach to assess the underlying trend. In fact, survey-based leading indicators for the industry continue to support the weak course.

Table 1. Industrial Production Index (Annual % Change)

	Feb.25	Mar.25	Apr.25	May.25	2024-Q3	2024-Q4	2025-Q1	2025-Q2*
IPI	-5.2	-2.6	12.4	1.6	-2.8	2.2	-2.2	6.4
Mining and quarrying	-7.6	1.3	7.3	6.0	0.9	-4.2	-2.1	6.6
Mining of coal and lignite	-5.1	9.7	-0.3	8.7	16.2	1.8	-0.6	4.5
Extraction of crude petrol. and n. gas	41.2	38.1	42.1	30.4	53.4	68.9	42.8	35.9
Mining of metal ores	-18.0	-0.1	-0.5	-6.9	-12.4	-22.0	-8.6	-3.8
Other mining and quarrying	-12.2	-12.7	10.2	7.4	-5.8	-8.1	-8.5	8.6
Manufacturing	-6.0	-3.3	12.7	1.1	-3.3	1.8	-2.7	6.3
Food products	0.5	3.9	16.0	3.3	0.1	-1.9	0.1	9.0
Beverages	-9.8	-1.8	12.4	2.9	-2.4	6.2	-3.8	7.2
Tobacco products	-5.9	-15.9	19.6	15.2	-0.7	3.3	-7.2	17.1
Textiles	-5.7	-10.1	6.9	-7.8	-2.4	3.4	-4.9	-1.4
Wearing apparel	-2.7	-4.7	6.9	-11.8	4.2	10.5	-0.4	-3.9
Leather and related products	-5.3	-5.5	1.9	-8.1	-9.6	-4.6	-2.3	-3.6
Wood and cork products	1.1	-5.1	23.8	5.0	-10.6	-1.5	-1.1	13.3
Paper and paper products	-6.3	-5.6	11.2	-1.6	-4.0	3.0	-3.3	4.3
Recorded media	-7.2	-11.3	2.9	-11.0	3.2	-7.7	-5.6	-4.8
Coke and refined petroleum products	2.3	5.9	11.2	12.8	-6.9	-10.2	4.4	12.0
Chemicals and chemical products	-6.1	-6.4	7.7	-2.2	1.8	1.5	-3.8	2.4
Basic pharmaceutical products	-20.3	-11.7	11.0	-4.9	-17.7	-8.7	-12.9	2.3
Rubber and plastic products	-9.7	-12.0	10.7	-2.9	-5.4	-3.1	-8.4	3.1
Other non-metallic mineral products	-12.8	-5.8	15.2	7.6	-4.8	-2.2	-5.2	10.9
Base metals	0.3	-2.1	11.5	0.6	4.7	3.7	-0.1	5.6
Fabricated metal products	4.7	2.9	19.9	10.9	-0.3	12.3	4.3	14.9
Computer. electronic and optical products	22.3	-12.5	4.9	28.7	-15.3	-1.3	4.6	17.5
Electrical equipment	-3.5	-8.3	16.8	-4.6	2.9	-1.9	-3.3	4.6
Machinery and equipment	-8.9	-11.3	4.9	-9.3	-10.1	-7.5	-8.8	-3.0
Motor vehicles	-16.1	-9.4	17.7	-0.3	-11.5	-10.6	-12.3	7.5
Other transport equipment	-46.3	30.4	11.6	5.7	-17.5	29.5	-5.8	8.2
Furniture	-6.7	-9.9	12.5	-1.3	-3.4	4.0	-4.3	4.6
Other manufacturing	1.5	-11.9	16.2	0.4	0.9	-3.1	-2.4	7.3
Repair and installation of mach. and equip.	2.9	9.1	13.6	13.9	4.4	9.1	9.0	13.8
Electricity, gas, steam	7.2	2.9	12.3	4.7	4.3	10.0	5.0	8.3
IPI	-5.2	-2.6	12.4	1.6	-2.8	2.2	-2.2	6.4
Intermediate Goods	-6.9	-7.4	11.6	-0.3	-2.6	-0.7	-4.6	5.0
Durable Consumer Goods	-3.6	-11.6	5.8	-4.6	-0.7	-0.2	-3.5	0.0
Non-durable Consumer Goods	-3.3	-2.1	12.4	-2.3	-1.9	0.2	-2.2	4.2
Energy	6.9	6.1	12.6	8.3	4.7	7.6	6.4	10.4
Capital Goods	-10.0	3.5	16.2	8.1	-7.4	5.9	-1.4	11.7
Low Technology	-2.9	-4.2	11.7	-2.6	-1.1	1.9	-2.1	3.7
Medium-Low Technology	-4.9	-3.4	12.8	4.3	-2.2	0.6	-1.8	8.1
Medium-High Technology	-6.4	-1.9	14.5	-1.7	-5.2	-1.5	-4.0	5.3
High Technology	-27.8	-0.6	7.1	22.0	-14.6	16.1	-6.9	15.1

* average for April and May

Source: Turkstat

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

	Monthly % Change				Quarterly % Change			
	Feb.25	Mar.25	Apr.25	May.25	2024-Q3	2024-Q4	2025-Q1	2025-Q2*
IPI	-1.7	3.4	-3.2	3.1	-1.0	3.3	1.8	0.0
Mining and quarrying	-7.6	8.0	-2.5	5.3	-0.9	-3.0	6.7	2.6
Mining of coal and lignite	-7.4	16.3	-9.6	20.6	-4.1	-5.4	3.6	7.2
Extraction of crude petrol. and n. gas	-0.1	3.0	3.9	0.9	9.7	6.0	5.1	6.5
Mining of metal ores	-13.2	13.9	-1.1	-3.6	-4.1	-7.1	9.1	0.9
Other mining and quarrying	-5.5	1.6	-2.2	7.3	-0.1	-1.4	8.5	0.5
Manufacturing	-1.7	3.7	-3.5	3.2	-1.2	3.9	1.5	-0.1
Food products	0.3	1.5	-1.9	-0.8	-0.6	2.6	4.6	-1.2
Beverages	-2.6	0.9	4.7	-4.9	-5.8	9.3	0.2	1.9
Tobacco products	3.4	-8.2	10.4	12.8	0.7	1.2	-2.3	12.1
Textiles	-1.3	-1.3	-3.2	1.7	-1.1	2.7	-1.7	-3.7
Wearing apparel	-5.0	3.5	-8.8	4.3	1.8	1.0	-2.6	-6.3
Leather and related products	-5.6	2.4	-7.2	11.5	-2.3	0.9	1.2	-2.3
Wood and cork products	3.7	-3.9	0.3	-2.1	1.1	7.9	6.8	-2.2
Paper and paper products	-2.0	2.7	1.4	-2.2	-0.8	2.9	0.6	1.4
Recorded media	-1.2	-0.9	-2.6	4.0	2.6	-10.7	5.2	-1.7
Coke and refined petroleum products	-1.3	1.1	5.1	-3.7	-8.2	3.8	12.5	3.5
Chemicals and chemical products	-1.9	0.7	-0.5	1.2	-1.3	3.0	0.9	-0.2
Basic pharmaceutical products	-4.4	10.8	0.6	-0.3	-0.5	0.5	-3.1	5.8
Rubber and plastic products	-2.5	-0.1	-1.4	2.8	-1.2	1.5	2.1	-0.9
Other non-metallic mineral products	-8.3	6.1	-2.5	6.8	-1.4	1.9	5.0	1.8
Base metals	-1.9	-0.9	-0.4	-0.8	1.0	3.2	1.9	-2.0
Fabricated metal products	4.5	1.3	-5.4	6.5	3.2	7.1	0.3	-0.1
Computer, electronic and optical products	4.6	3.2	-19.0	27.9	1.9	0.2	18.1	-4.5
Electrical equipment	1.1	-1.0	2.4	0.4	1.0	-0.5	2.2	2.3
Machinery and equipment	-1.9	1.3	-3.8	1.1	-1.2	2.1	-2.7	-3.0
Motor vehicles	1.9	3.5	3.6	1.0	-4.9	1.1	3.0	7.2
Other transport equipment	-19.6	78.8	-30.1	23.8	-16.0	35.1	-10.7	4.1
Furniture	-3.9	-1.4	-0.8	3.5	-0.3	3.2	1.3	-1.3
Other manufacturing	-0.3	-5.9	1.9	3.4	2.4	1.2	0.8	-0.6
Repair and installation of mach. and equip.	1.4	3.7	-3.7	4.4	1.4	4.6	4.2	1.3
Electricity, gas, steam	3.5	-3.5	0.2	0.0	1.9	1.4	1.0	-1.1
IPI	-1.7	3.4	-3.2	3.1	-1.0	3.3	1.8	0.0
Intermediate Goods	-3.0	1.0	-0.6	1.5	-0.3	1.9	1.9	-0.3
Durable Consumer Goods	-2.4	-2.7	0.0	4.3	-0.3	0.7	1.2	-0.6
Non-durable Consumer Goods	-1.3	2.1	-3.2	1.6	-0.3	1.8	1.6	-1.5
Energy	1.2	-0.6	0.8	0.7	-0.5	1.6	3.9	1.1
Capital Goods	-0.8	12.7	-9.7	8.6	-3.5	9.2	0.8	1.6
Low Technology	-1.5	0.3	-2.3	1.1	-0.3	2.4	1.3	-2.1
Medium-Low Technology	-2.8	1.9	-1.0	2.3	-0.7	3.0	3.1	0.5
Medium-High Technology	0.8	3.5	-0.4	3.4	-4.3	3.4	1.0	3.9
High Technology	-7.9	42.2	-32.1	25.3	3.2	19.4	-1.8	-7.0

* average for April and May

Source: Turkstat

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