Macro-note – Industrial Production

Industrial production falls 0.8% month-on-month in October, but records a 2.2% year-on-year increase. The slowdown in economic activity continues.

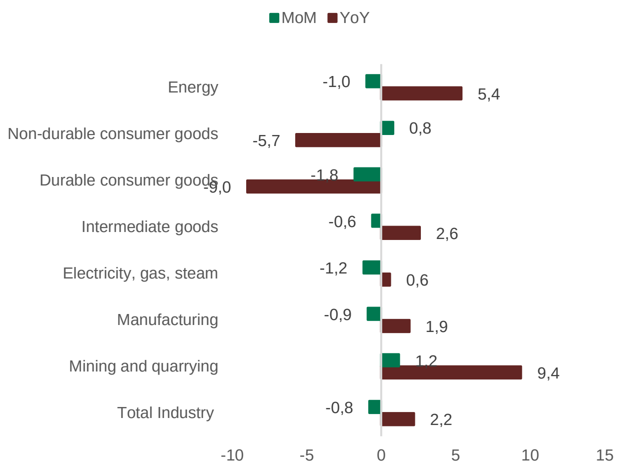
Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

According to industrial production index data, seasonally and calendar-adjusted production fell by 0.8% in October compared to the previous month. The monthly slowdown in production reduced annual production growth to 2.2% (from 3%). The contraction in production is contrary to our expectations. Based on leading indicators, we had expected a limited recovery, yet the actual figures reveal a continued slowdown in production activity. The economic administration has long aimed to curb inflation through a negative output gap and a cooling of economic activity. In this context, the monetary tightness and macro-prudential measures have adjusted total demand to be consistent with disinflation by bringing the production level below potential. Therefore, the cautious approach to interest rate cuts is slowing the acceleration in production data. Despite the moderate recovery in external demand, uncertainties are limiting the increase in production activities. Despite the tightness in monetary and fiscal policies, the slowdown in the disinflation process is forcing policymakers to maintain the current stance for some time. The repercussions of this on the real and financial economy are, of course, negative. The slowdown is greater than anticipated, particularly considering the cash flow, borrowing costs, and investments of the real sector. Publicly traded companies operating in the real sector are also feeling the effects of this cycle. Negative pressure continues, especially in companies and sectors where sales and production figures fall below target values. Despite companies' cautious production structures, the output gap is not at the targeted level. The main reason for this is that companies are turning to their internal resources, which they have used as a buffer during periods of high interest rates. As a result, despite the slowdown in production, domestic demand remains strong. While the fact that industrial production exceeded growth figures in the third quarter suggests that for production the worst is now behind us, uncertainty persists. The determination to continue the disinflation process affects production activity in the expectation and forward order channels. Upward risks in pricing behavior, the problem of maturity mismatch in industrial companies, and factors keeping uncertainty alive are evident. The latest inflation figures show a significant decrease in food prices, while the inertia in services inflation continues, albeit limited. Whether this improvement is permanent will become clearer in the December inflation figures. This month, the central bank appears likely to implement a rate cut in the 100-200 basis point range, considering the current outlook. While expectations are for a 150 basis point cut, options of a 200 basis point cut in a hawkish scenario and a 100 basis point cut in a cautious stance are still on the table. The common message of all scenarios is that moderate interest rate cuts will continue and that a recovery in industrial production will follow.

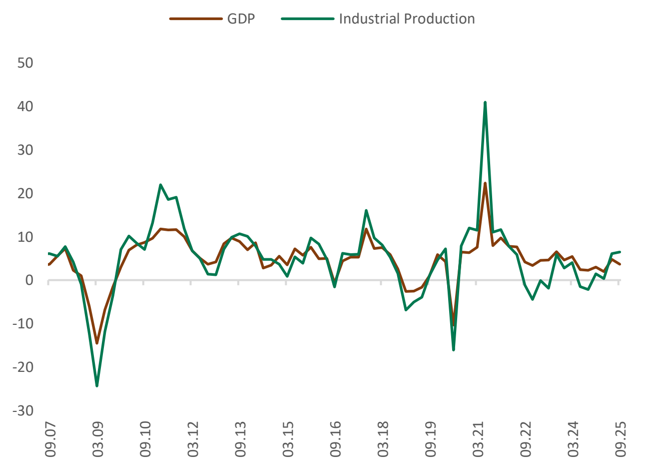
Since policymakers' priority is to bring inflation to a level consistent with targets, regardless of the cost, the path of interest rate cuts has diverged significantly from previous estimates. With year-end inflation expected to stabilize at around 32-33%, the disinflation process of the last six months presents a negative outlook. This creates negative pressure on the real sector, which has long linked its production and order dynamics to interest rate cuts. Although financing costs are not creating the necessary tightness, the CBRT will not back down until firms' use of credit reaches the levels implied by the tightness. This cycle, characterized by low growth, near-flat output, and relatively high inflation, will conclude in 2025. Therefore, political uncertainties, pricing behavior, and the upward trend in expectations are limiting the Central Bank of Turkey's (TCMB) room for maneuver. Unless a structural break occurs, particularly in service and food inflation, the volatile and near-flat trend in production data will continue until the first half of 2026.

When we examine the sub-sectors; in October 2025, the mining and quarrying sector index increased by 9.4% compared to the same month of the previous year, the manufacturing industry sector index increased by 1.9%, and the electricity, gas, steam and air conditioning production and distribution sector index increased by 0.6%. In terms of monthly change levels, the mining and quarrying sector index increased by 1.2% compared to the previous month, the manufacturing industry sector index decreased by 0.9%, and the electricity, gas, steam and air conditioning production and distribution sector index decreased by 1.2%. The negative trend continues in durable consumer goods. On the other hand, the sharp contraction in high-technology products is the main factor putting pressure on industrial production. The pressure, which is spread to almost all sub-sectors, shows a slowdown in the total industry in October, not just a sector-specific one.

Table 1: Industrial Production Rate of Change (%)



Graph 1: Industrial Production and GDP Growth (YoY %)



In summary, industrial production decreased by 0.8% monthly in October and increased by 2.2% annually. The volatile monthly trend is accompanied by base effects leading to declines in the annual data. The annual increase fell from 8.4% in June to 2.2% in September. While year-end growth forecasts remain below potential growth, the slowdown in some sectors has become more pronounced. The weakening of production and recession concerns in global markets may mitigate the impact of the slowdown in domestic production. Coordinated tightening of monetary and fiscal policies will bring price and financial stability. We have lowered our expectations for the recovery in production and industry for 2025, albeit slightly. We would like to emphasize that new decisions and implementations will necessitate updates to our forecasts.

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: http://www.sekeryatirim.com/english/index.aspx

For additional information, please contact:

Research

Kadir Tezeller	**Head**	**+90 (212) 334 33 81**	ktezeller@sekeryatirim.com.tr
Burak Demirbilek	**Utilities**	**+90 (212) 334 33 33-128**	bdemirbilek@sekeryatirim.com.tr
Atasav Can Tuglu	**Food & Beverages, Automotive, Retail, Aviation**	**+90 (212) 334 33 33-334**	atuglu@sekeryatirim.com.tr
Basak Kamber	**Glass, Pharmaceutical, Defense, Telcos, Cons. Dur.**	**+90 (212) 334 33 33-251**	bkamber@sekeryatirim.com.tr
M. Mucahid Yıldırım	**Banking**	**+90 (212) 334 33 33-150**	myildirim@sekeryatirim.com.tr
Yusuf Kemal Erdekli	**Cement, Conglomerates, Real Estate**	**+90 (212) 334 33 33-115**	yerdekli@sekeryatirim.com.tr
O. Furkan Ozdemir	**Iron & Steel, Oil- Gas & Deriv.**	**+90 (212) 334 33 33-245**	oozdemir@sekeryatirim.com.tr

Economy & Politics

Abdulkadir Dogan	**Chief Economist**	**+90 (212) 334 91 04**	adogan@sekeryatirim.com.tr

Institutional Sales

Deniz Keskin	**Trader**	**+90 (212) 334 33 36**	dkeskin@sekeryatirim.com.tr
Kerim Culum	**Trader**	**+90 (212) 334 33 33-316**	kculum@sekeryatirim.com.tr

DISCLAIMER

I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.