Macro-note – Industrial Production

Industrial production increases by 2.5% month-on-month and 2.4% year-on-year in November. The convergence between production data and GDP growth continues...

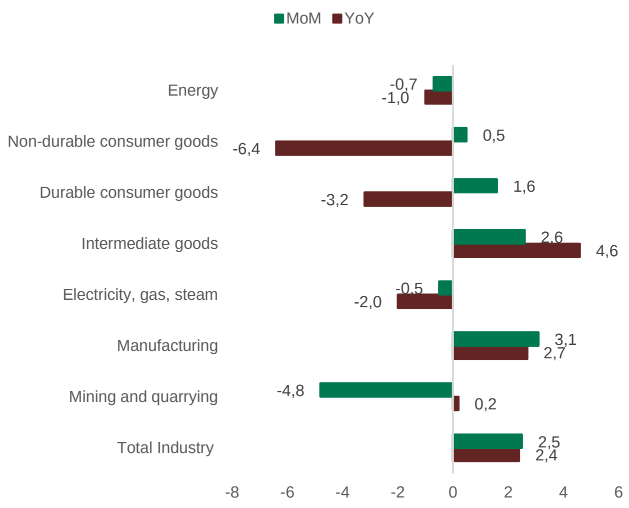
Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

According to industrial production index data, seasonally and calendar-adjusted production increased by 2.5% in November compared to the previous month. The monthly recovery in production raised the annual production growth rate to 2.4% (previously 2.2%). We can say that this development is in line with our expectations. We expected a gradual recovery in production and economic activity amid interest rate cuts. While growth data maintained its strong momentum, production data had diverged negatively throughout 2024. The economic administration had long aimed to curb inflation through a negative output gap and cooling economic activity. In this context, monetary tightening and macroprudential measures adjusted total demand to be consistent with disinflation by pulling the production level below its potential. During this period, the driving force behind growth came from consumption and the services sector. The delayed effects of the current tight monetary policy and the contributions of the disinflation process are bringing about a recovery in production. The acceleration of disinflation, particularly in the last three months, is creating room for the CBRT to cut interest rates. This will accelerate both the recovery in domestic demand and the momentum in production and order data. However, the slowdown in external demand and the gradual nature of the recovery are slowing down export-oriented production data. Considering Turkey's production, inflation, real and financial economy as a whole, we can say that the worst is behind us for the post-2021 period. In particular, the slowdown in the pace of disinflation in 2025 prolonged pricing behaviors and uncertainty in the real sector for some time. In the base scenario, 2025 was supposed to be the year of recovery. Local political and global commercial/economic developments delayed this scenario for a period. Negative pressure continues, especially in companies and sectors where sales and production figures remain below target values. Despite companies' cautious production structure, the output gap is not at the targeted level. The wealth effect created by savings under the mattress is offsetting the contraction in tight monetary policy. On the sector side, companies turning to their own internal resources, which they used as a buffer during the high interest rate period, is limiting the decline in the output gap. As such, despite the slowdown in production, domestic demand remains buoyant. Although industrial production figures exceeding growth rates in the third quarter indicate that the worst is behind us in terms of production, uncertainty persists. The determination to continue the disinflation process is affecting production activity in the expectations and forward orders channel. Upward risks in pricing behavior, maturity mismatch issues in industrial companies, and uncertainty are emerging as factors keeping uncertainty alive. The latest inflation figures show a marked decline in food prices, while inertia in service inflation continues, albeit to a limited extent. We ended 2025 with a policy rate of 38% and an inflation rate of 30.89%. The December inflation rate for the year's first interest rate decision points to a marked slowdown on a monthly basis. In this context, the CBRT may be more comfortable cutting interest rates to ease production.

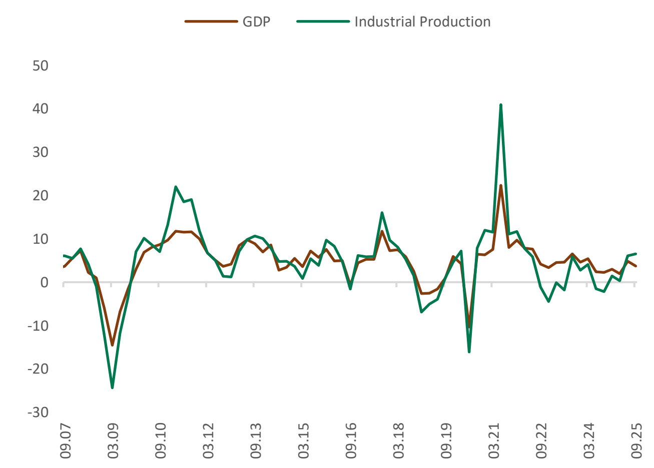
Our expectations for an interest rate reduction path and recovery in production data in 2026 are also parallel. Although industrial production reacts to interest rates with a lag, the recovery will become apparent starting in the second quarter of the year. The real sector, which has long linked production and order dynamics to interest rate reductions, will experience relief throughout 2026. Although financing costs are not creating the necessary tightness, the CBRT will not back down until companies' credit usage reaches the levels implied by the tightness. Therefore, policy uncertainties, pricing behavior, and the upward trend in the expectation channel are limiting the CBRT's room for maneuver.

Looking at the sub-sectors, in November 2025, the mining and quarrying sector index increased by 0.2% compared to the same month of the previous year, the manufacturing sector index increased by 2.7%, and the electricity, gas, steam, and air conditioning production and distribution sector index decreased by 2.0%. In terms of monthly changes, the mining and quarrying sector index decreased by 4.8% compared to the previous month, the manufacturing sector index increased by 3.1%, and the electricity, gas, steam, and air conditioning production and distribution sector index decreased by 0.5%. While the outlook for manufacturing and intermediate goods is relatively positive, the outlook for durable and non-durable consumer goods is negative. Although monthly data shows signs of recovery, a significant improvement is not expected until the second quarter of 2026. Energy production, meanwhile, continues to be weak due to both volatility in commodity prices and uncertainty in external demand.

Table 1: Industrial Production Rate of Change (%)



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



In summary, industrial production rose by 2.5% month-on-month and 2.4% year-on-year in November. The annual increase fell to 2.4% in November from 8.4% in June. Year-end growth forecasts remain below potential growth, while the slowdown in some sectors has become more pronounced. Production data will be slightly closer to output growth in the 2025 closing figures. The easing 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 stability and financial stability. We have lowered our expectations for recovery in production and industry in 2025, albeit to a limited extent. We maintain our production index forecast, which is increasingly correlated with growth data for the end of 2026. We would like to emphasize that new decisions and measures 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

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