Macro-note – Industrial Production

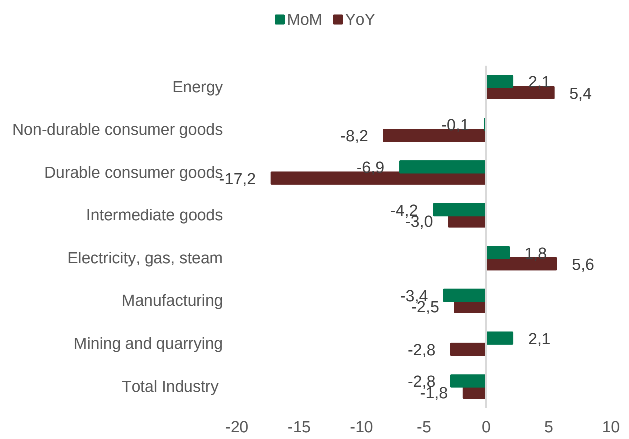
Industrial production contracted by 2.8% month-on-month and 1.8% year-on-year in January. The divergence between growth data and production indicators continues...

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

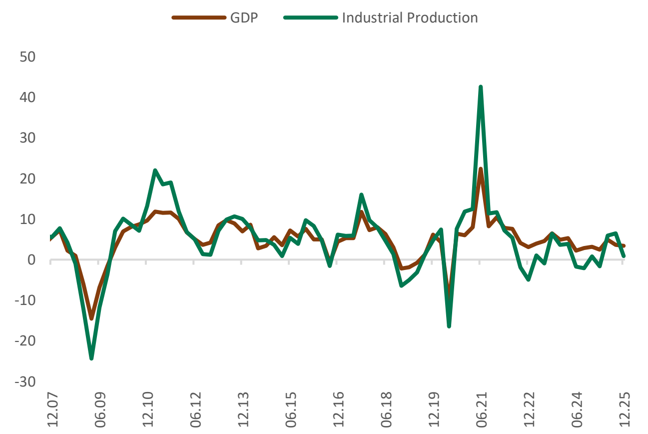
According to industrial production (IP) index data, seasonally and calendar-adjusted production fell by 2.8% in January compared to the previous month. Annual production contracted by 1.8%. We had expected a limited recovery in the annual data due to the base effect. This recovery materialized at 0.3 percentage points. The sharp decline in the monthly data limited our expectations for recovery in the annual data. When IP is assessed alongside the last quarter's GDP growth data, we see the negative impact of tight monetary policy on production data. While the Turkish economy grew by 3.6% in 2025, the increase in IP remained at 2.9%. Services and construction were the driving forces of growth, while production momentum lagged behind. Monetary tightening and macro-prudential measures continue to adjust total demand in line with disinflation by pulling the production level below its potential. Data from the first month of the year confirms this situation. Although production indicators in the real economy do not respond immediately to monetary policy decisions, this adjustment will continue gradually. Inflation keeping economic activity buoyant, led by services, limits the side effects of tight monetary policy on growth. However, while building the disinflation process, positive supply-side shocks are also important alongside curbing demand. Increases on the production side can be considered positive shocks as they support growth while also having a downward effect on inflation. In this context, positive developments in IP data can be said to be more important in terms of the sustainability and health of growth. Key indicators of economic activity, such as the Purchasing Managers' Index (PMI), still point to contraction in the production/order cycle. In particular, uncertainty in key export markets, volatility in costs, and declining risk appetite stand out as macro dynamics weighing on production and orders. Two recent developments could significantly impact IP in 2026. The first is the inclusion of products manufactured in Turkey under the 'Made in EU' scope. This situation, which will increase competition beyond the customs union, will particularly contribute to the growth of export-oriented industrial companies. The second is the instability and armed conflicts in our region as a result of geopolitical developments. This situation, which significantly increases energy costs, may also disrupt production activity. In this context, our recovery expectations in the base scenario may be delayed depending on how developments unfold. For industrial companies, the most prominent risks in the near term are the increase in financing costs due to tight monetary policy and maturity/exchange rate mismatches. The possibility of a rate cut by the Central Bank of the Republic of Türkiye (CBRT) this week has been shelved. Recent developments and the trend in inflation are prompting decision-makers to adopt a more cautious stance on interest rate cuts. The economic management is quite determined to achieve disinflation without sacrificing production and growth. Although demand-side pressures are limited, they remain strong. With both demand and supply-side pressures limited, no additional negative shocks are needed for disinflation to continue. In particular, upward deviations from the CBRT's assumptions could lead to a tighter monetary stance in the fight against inflation. Assuming that geopolitical developments and energy shocks are temporary, we forecast that the performance of industrial companies in 2026 will remain significantly above inflation. Positive developments on the Russia-Ukraine or US-Iran-Israel fronts would extend the momentum seen in equities in February.

Looking at the sub-sectors, in January 2026, the mining and quarrying sector index decreased by 2.8 per cent compared to the same month of the previous year, the manufacturing sector index decreased by 2.5 per cent, and the electricity, gas, steam and air conditioning production and distribution sector index increased by 5.6 per cent. In terms of monthly changes, the mining and quarrying sector index increased by 2.1% compared to the previous month, the manufacturing sector index decreased by 3.4%, and the electricity, gas, steam and air conditioning production and distribution sector index increased by 1.8%. The negative atmosphere in durable and non-durable consumer goods continues. The sharp contraction in the production level of intermediate goods is one of the most significant reflections of expectations. On the other hand, energy production continues to gain momentum.

Table 1: Industrial Production Rate of Change (%)



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



In summary, industrial production recorded a monthly decline of 2.8% and an annual decline of 1.8% in January. The continued annual decline in December and January stems from the base effect of 2025. There is no alarming deterioration in the monthly data. While growth data diverges positively from production data, it also raises questions about sustainability. The increased competitiveness of products manufactured in Turkey in the European market indicates that export-oriented companies will be more prominent in the near term. 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 maintain our production index forecast, which is increasingly correlated with growth data for the end of 2026. We emphasize here that subsequent decisions and implementations will prompt 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.