

May industrial production & sector turnover indices

Contraction in IP moderates in May compared to April, but still remains significant

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The industrial production index registered a whopping 30.6% YoY deceleration in May, following the 31.4% YoY deceleration registered in April. Yet, the May result is partially attributable to fewer working days due to the Bayram holiday (it was in June last year), so the WD adjusted IP index point to a milder 19.9% YoY deceleration. The WD and seasonally-adjusted IP series also point to a 17.4% MoM improvement after the April's 30.2% MoM contraction.

Although the sequential recovery in May is significant, the current index level is still 18% below the March level and about 24% below the February level. Normalization measures and early indicators imply that the sequential recovery has continued at a considerable pace in June, but returning to pre-pandemic levels will most likely be possible by late 2020/early 2021.

Table 1: Industrial production index; major subcomponents

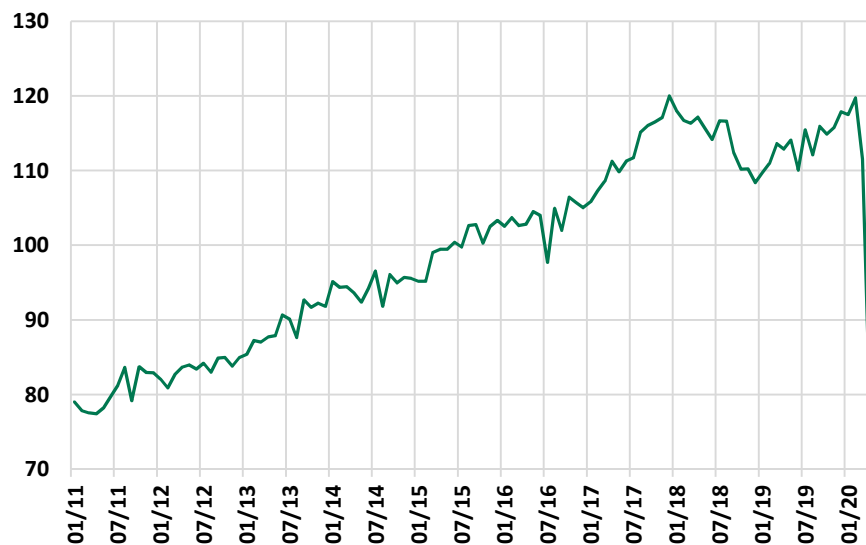
	Weight*	Unadjusted (YoY)			WD adjusted (YoY)			WD & seasonally adj. (MoM)		
		May-20	Apr-20	Mar-20	May-20	Apr-20	Mar-20	May-20	Apr-20	Mar-20
Total Industry		-30.6%	-31.2%	-1.0%	-19.9%	-31.3%	-1.7%	17.4%	-30.2%	-6.8%
Intermediate goods	39%	-28.6%	-27.6%	2.6%	-17.5%	-27.7%	2.1%	14.6%	-29.7%	-3.7%
Durable consumer goods	4%	-44.2%	-48.5%	-15.2%	-33.4%	-48.5%	-15.3%	25.9%	-41.2%	-9.4%
Undurable consumer goods	28%	-31.9%	-31.3%	-1.4%	-20.4%	-31.3%	-2.2%	13.9%	-28.2%	-6.8%
Energy	10%	-17.8%	-15.6%	-0.9%	-14.4%	-15.6%	-1.1%	3.7%	-13.5%	-4.7%
Capital goods	18%	-36.0%	-42.6%	-5.5%	-24.2%	-43.0%	-6.6%	40.2%	-40.2%	-14.3%
Mining and Quarrying	4%	-22.0%	-14.0%	-3.6%	-14.2%	-13.8%	-5.3%	4.5%	-12.5%	-1.9%
Manufacturing Industry	87%	-31.9%	-33.1%	-0.9%	-20.6%	-33.2%	-1.6%	19.3%	-32.3%	-7.1%
Food Products	12%	-19.4%	-10.4%	5.8%	-10.1%	-10.5%	5.4%	0.6%	-12.4%	-1.1%
Textile Industry	7%	-44.6%	-59.2%	-6.2%	-32.2%	-59.7%	-6.4%	64.2%	-57.3%	-13.4%
Fabricated Metal Products (exc. machinery)	7%	-30.7%	-27.4%	6.2%	-15.8%	-27.4%	4.8%	17.1%	-30.5%	-4.8%
Manufacture of Other Non-Metallic Minerals	7%	-22.2%	-17.8%	2.9%	-11.7%	-17.9%	2.7%	8.6%	-24.5%	-0.4%
Wearing Apparel	7%	-55.5%	-59.4%	-12.8%	-46.2%	-59.4%	-12.8%	31.2%	-53.1%	-16.9%
Manufacture of Motor Vehicles, Trailers, Semi-Trailers	5%	-49.1%	-76.1%	-18.5%	-36.8%	-77.3%	-20.0%	189.6%	-73.6%	-22.8%
Machinery and Equipment; not elsewhere classified	5%	-29.2%	-27.6%	3.3%	-16.0%	-27.7%	2.5%	17.7%	-29.3%	-4.2%
Rubber and Plastics Product	5%	-27.5%	-32.4%	2.0%	-14.0%	-32.5%	2.0%	25.2%	-33.3%	-3.9%
Manufacture of Chemicals and Chemical Products	5%	-21.6%	-15.8%	8.9%	-11.2%	-15.8%	8.0%	8.9%	-24.4%	0.4%
Basic Metal Industry	3%	-27.1%	-24.9%	3.0%	-20.1%	-24.9%	2.9%	8.1%	-25.2%	-1.0%
Manufacture of Electrical Equipment	3%	-37.0%	-40.2%	-4.8%	-23.5%	-40.2%	-5.7%	31.4%	-38.6%	-8.3%
Electricity, Gas and Water	8%	-16.7%	-14.9%	-0.9%	-13.3%	-14.9%	-0.9%	4.9%	-12.4%	-5.7%

Source: TURKSTAT, SEKER Invest

* weights may change from month to month, and therefore are rough figures

Most of the subsectors faced a severe YoY contraction

Most of the subsectors seems to have registered a severe YoY contraction, which is actually not surprising, with the wearing apparel, motor vehicles, furniture, textile, and electrical equipment sectors affected the most, as already signaled by the capacity utilization rates disclosed earlier. We see that, the YoY contraction in these sectors are respective 46%, 37%, 33%, 32%, and 24%. On the other hand, paper sector was the only sector registering a YoY growth by some 4% and the pharmaceutical sector production fell by a mere 0.4% YoY. Note that all these figures are in WD adjusted terms.

Graph 1: Industrial production index; seasonally and WD adjusted

Source: TURKSTAT

Aside from IP data, TURKSTAT has also disclosed sectoral turnover and volume indices today, which displays similar results to that of IP:

The **retail sector volume index** for May also pointed to a 16.7% YoY deceleration in WD adjusted terms and 20.9% in unadjusted terms. Yet, the headline figure was actually limited by food spending, which increased by 3.0% YoY, while non-food spending has actually fallen by 25.5% (in WD adjusted terms).

Skipping the nominal changes in the turnover indices and focusing on real changes, we calculate that the **wholesale and retail trade turnover index** fell by some 16% in real terms, and the **services (ex-trade) turnover index** saw a 33% YoY deceleration, as we see that shrinkage in revenues for hotels-restaurants and air transportation of over 70% was partially compensated for by the information & communications sector, where revenues rose by 2% YoY in real terms. The **construction turnover index** also points to some 16% YoY deceleration in May.

Economic activity has bottomed out in April

Industrial production and other sectoral turnover/volume indices for May actually point to similar results already suggested by capacity utilization, electricity consumption and manufacturing PMI, etc. Accordingly, we believe that it is certain (and unsurprising) that the economy has bottomed out in April, that and the sequential improvement has started from May (and has become more pronounced in June and early July as indicated by other indicators). Accordingly, we are likely to witness a positive reading for YoY IP growth in June in unadjusted terms (note that there were 4.5 days more working days compared to Jun-19).

That said, the sequential recovery is partially attributable to inventory pile-up and pent-up demand after two months of lockdown. We would still expect the sequential recovery to continue over the coming months, although the pace of recovery may somewhat dwindle, as time passes.

On the other hand, easing lending rates have also boosted consumer loans recently, especially for housing and automotive segments, which would mitigate the initial downtrend in economic activity and ultimately limit the pace of a potential GDP contraction in 2020.

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