Macro-note – Industrial Production

Industrial production decreases by 2.2% month-over-month in September and increases by 2.9% year-over-year. The slowdown and volatility in production continues.

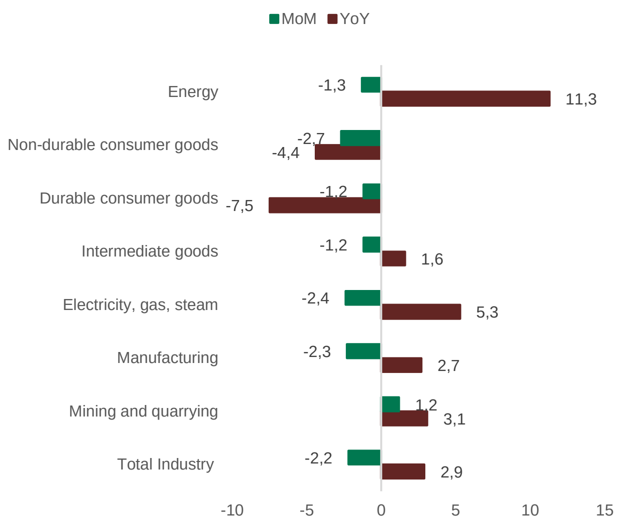
Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

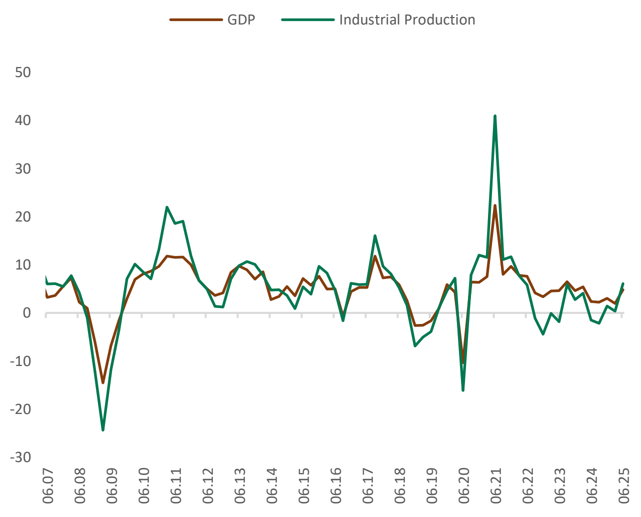
According to industrial production index data, seasonally and calendar-adjusted production decreased by 2.2% in September compared to the previous month. The slowdown in monthly production pushed annual production growth to 2.9% (from 7.3%). The cautious stance on interest rate cuts is slowing the acceleration in production figures. The ongoing global uncertainty continues to put pressure on domestic production driven by external demand. The continuation of tight monetary policy in the third quarter and the slowdown in the disinflation process are likely to have a negative impact on industrial production. The prolonged flattening of the output gap will keep actual production figures below potential production levels. As noted in the latest inflation report, companies' reliance on their own domestic resources, which they used as a buffer during the high interest rate period, is maintaining the buoyancy in domestic demand despite the slowdown in production. The failure of the correlation between inflation and growth to produce the expected effect is causing a divergence at this point. The economic administration has constructed a disinflation process without sacrificing growth, adopting a monetary policy stance based on a baseline scenario where the impact of the decline in prices on production and employment will be limited. Currently, the pace of decline in inflation is slowing due to inertia and food prices, while production data is showing a more pronounced sense of tightness. Considering the recent inflation trend and the combined messages in monetary policy texts, the tight stance is likely to persist for some time. In this context, we may see a more subdued, near-flat trend in production in the final quarter.

Because policymakers' priority is to bring inflation to a level consistent with targets, regardless of the cost, the interest rate cut path has diverged significantly from previous forecasts. With year-end inflation expected to stabilize at 32-33%, the disinflationary period of the last six months presents a negative outlook. This puts negative pressure on the real sector, which has long linked production and order dynamics to interest rate cuts. Although financing costs are not generating the necessary tightness, the CBRT will not back down until companies' credit use reaches the levels implied by the tightness. This cycle will conclude 2025 with low growth, near-flat production, and relatively high inflation. Therefore, political uncertainties, pricing behavior, and the upward trend in the expectations channel limit the CBRT's room for maneuver. Unless there is a structural break, particularly in services and food inflation, the fluctuating and nearly flat trend in production data will continue until the first half of 2026.

Examining the sub-sectors, in September 2025, the mining and quarrying sector index increased by 3.1% compared to the same month of last year, the manufacturing sector index increased by 2.7%, and the electricity, gas, steam, and air-conditioning production and distribution sector index increased by 5.3%. In monthly changes, the mining and quarrying sector index increased by 1.2% compared to the previous month, the manufacturing sector index decreased by 2.3%, and the electricity, gas, steam, and air-conditioning production and distribution sector index decreased by 2.4%. The most striking development is the long-standing negative trend in durable and non-durable consumer goods. Despite the limited recovery in the manufacturing sector, core domestic consumption goods remain weak. These figures provide a further indication that demand-pull inflation is under control. With interest rate cuts, the most significant recovery will be seen in these items.

Table 1: Industrial Production Rate of Change (%)	Graph 1: Industrial Production and GDP Growth (YoY %)





In summary, industrial production decreased by 2.2% month-on-month in September and increased by 2.9% year-on-year. This fluctuating monthly trend brings with it base-effect declines in annual data. While annual growth was 8.4% in June, it slowed to 3% in September. We are experiencing a period in which the cooling of production and the negative trend in the output gap are clearly felt. 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 lead to price and financial stability. We have lowered our production and industrial recovery expectations for 2025, albeit to a limited degree. We emphasize here that subsequent decisions and actions 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

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