

Macro-note – Industrial Production

Industrial production rises by 1.2 per cent month-on-month in December, but contracts by 2.1 per cent year-on-year. The cooling in production data continues...

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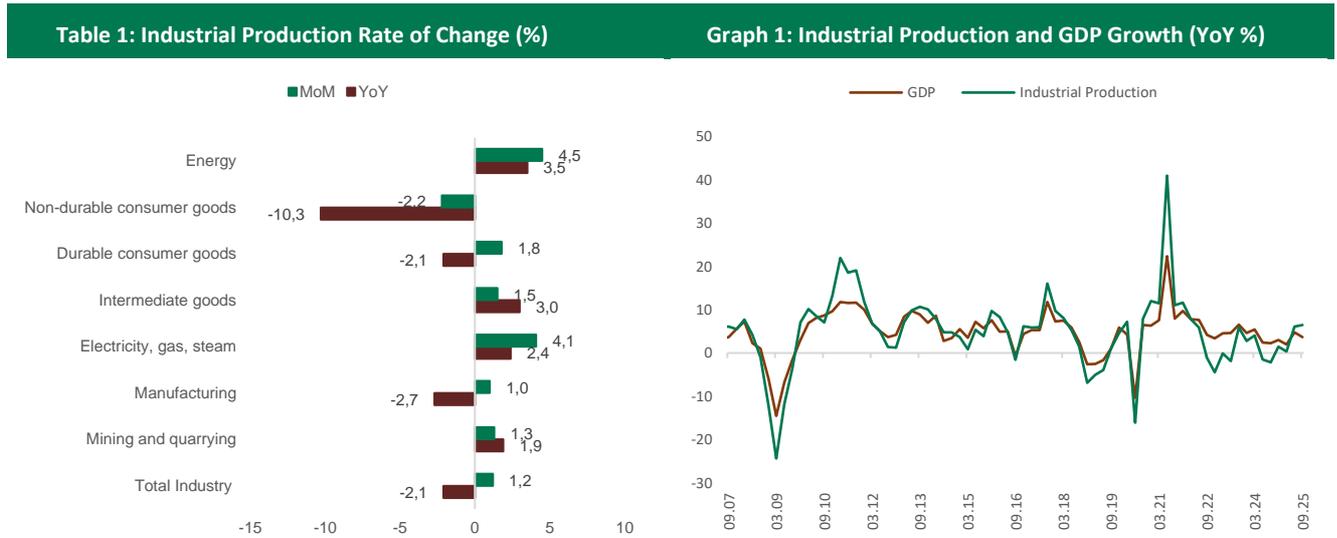
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According to industrial production index data, seasonally and calendar-adjusted production recorded a 1.2% increase in December compared to the previous month. Annual production contracted by 2.1%. We had expected a limited increase in the monthly data and a decline in the annual data due to the base effect. Looking at the actual results, we note that the data was in line with our expectations. The tight stance in monetary policy brings with it a marked cooling in production data, despite occasional limited recoveries. In particular, the slowdown in the pace of disinflation, coupled with smaller interest rate cuts, signals additional pressure on production from monetary policy. Monetary tightening and macro-prudential measures continue to adjust aggregate demand in line with disinflation by pulling the production level below its potential. Although production indicators in the real economy do not respond immediately to monetary policy decisions, this adjustment will continue gradually. Growth data, driven by the recovery in the services sector, construction and financial services, has not been negatively affected by the side effects of the tight monetary stance to such an extent. However, the same cannot be said for industrial production indicators. Production, order and sales indicators point to the real economy being significantly affected by financial conditions. Both the purchasing managers' index (PMI) and order/sales indicators for the coming period price in the expectation that the monetary policy stance will remain tight for some time. With domestic demand and production conditions as they are, the slowdown in external demand and the protracted recovery are also slowing down export-oriented production data. In particular, uncertainty in key export markets, volatility in costs and a decline in risk appetite stand out as macro dynamics pulling down production and orders. Notably, the slowdown in the pace of disinflation in 2025 has prolonged pricing behavior and uncertainty in the real sector for some time. In the base scenario, 2025 was to be the year of recovery. Yet, local political and global commercial/economic developments delayed this scenario for a period. Despite this negative atmosphere, we believe that 2025 was the trough for production data in the post-pandemic period. We continue to expect a gradual recovery and positive divergence in industrial companies from 2026 onwards. 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 these risks alive. The first inflation figures of the year are presenting the Central Bank of the Republic of Turkey (CBRT) with a more cautious reduction map regarding interest rate cuts. Whether or not any changes will be made to the interim targets in this week's inflation report presentation will also be decisive for production momentum in the first quarter of the year. If the pace of interest rate cuts brings year-end funding to the 28-30% band, the spread for real interest rates in the market will be maintained at 6-7 points. The current outlook suggests that inflation will stabilize at around 24 per cent unless there are additional positive developments. Negative supply-side pressures will lead to a slowdown in production momentum. Although the first inflation and leading production indicators for 2026 increase uncertainty, we expect a more positive atmosphere in the second half of the year. The economic management is quite determined to achieve disinflation without compromising production and growth. Sector-specific incentives and regulations supporting production despite financial tightness also point to this. In this context, we believe that industrial companies' share performance will provide a positive net return above inflation throughout 2026.

Looking at the sub-sectors, in December 2025, the mining and quarrying sector index increased by 1.9 per cent compared to the same month of the previous year, the manufacturing sector index decreased by 2.7 per cent, and the electricity, gas, steam and air conditioning production and distribution sector index increased by 2.4 per cent. In terms of monthly changes, the mining and quarrying sector index increased by 1.3% compared to the previous month, the manufacturing sector index increased by 1.0%, and the electricity, gas, steam and air conditioning production and distribution sector index increased by 4.1%. The negative atmosphere in durable and non-durable consumer goods continues. Manufacturing, however, contracted significantly on an annual basis. The relatively moderate trend in intermediate goods points to buoyant import demand.



In summary, although industrial production rose by 1.2% month-on-month in December, it ended the year with a 2.1% contraction. The annual increase peaked at 8.4% in June before turning into contraction. Year-end growth forecasts fell short of potential growth, while the slowdown in some sectors became 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 both price 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 emphasize here that subsequent decisions and measures will prompt updates to our forecasts.

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