Macro-note – Industrial Production

Whilst industrial production saw a near-flat recovery in June, rising by 0.1 per cent month-on-month, annual production contracted by 1.4 per cent. Production figures, which fell short of our expectations, indicate that monetary policy has significantly slowed economic activity.

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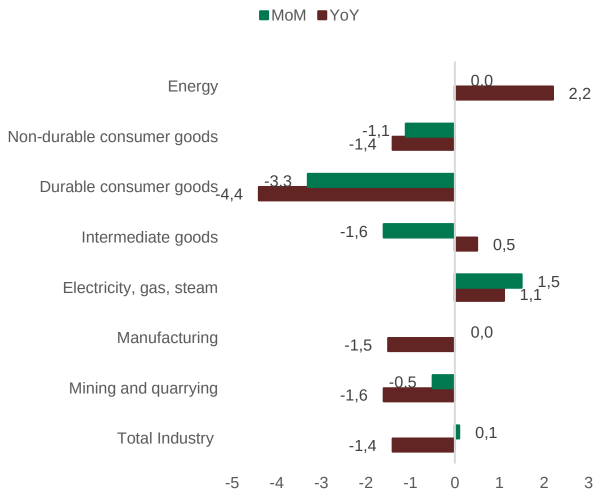
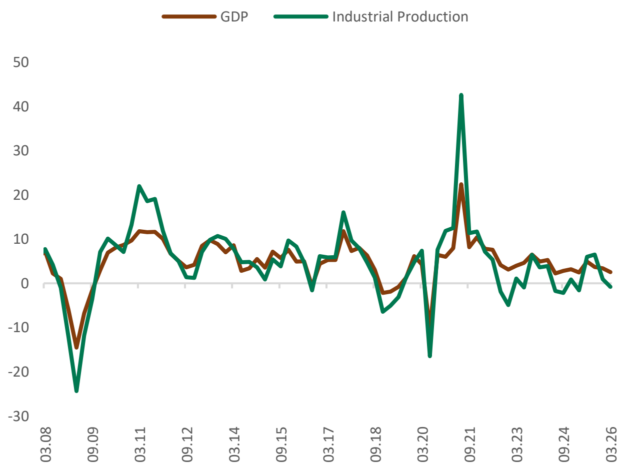
According to industrial production index data, seasonally and calendar-adjusted production rose by 0.1 per cent in June compared with the previous month. Year-on-year production, however, contracted by 1.4 per cent. Our expectation for June was for a modest recovery in monthly production and a shift to positive territory in annual production. The actual figures, however, indicate that the slowdown in production has fallen short of expectations. In particular, a negative atmosphere has prevailed for some time in sectors we monitor closely—such as the manufacturing industry and durable consumer goods—which form the cornerstone of long-term growth and the labor market. As highlighted in the Central Bank of the Republic of Turkey (TCMB) reports, the slowdown in economic activity continues to be reflected gradually in real economic indicators, albeit with a lag, on both the production and demand sides. In the first quarter, we observed that production diverged negatively from growth. Although growth data is not yet available, leading indicators suggest that, whilst there has been a slowdown in growth, the positive trend continues. When assessed alongside the situation in actual industrial production, we observe that the negative divergence in production continued in the first half of the year. In this context, once price movements in sectors driving growth—such as services, finance and housing—are brought under control, we may see a limited easing of monetary policy and a shift towards production-led growth. Although the primary priority remains the continuation of a negative output gap until inflation is brought under control, developments in the composition of growth are leading to marked divergences in real economic indicators. Recent monetary policy, centered on reining in domestic demand and slowing economic activity, has contributed to price stability, albeit gradually. However, negative supply shocks resulting from geopolitical developments have fueled the entrenchment of inflation through effects beyond the scope of monetary policy. Assessing this impact as a short-term, supply-side shock, policymakers took measures in light of the possibility that further tightening might slow the economy and push inflation upwards, albeit to a limited extent. It can be said that, through these measures, macroprudential measures were adopted instead of further monetary tightening, thereby minimizing the negative impact of this transition period on the economy. Given that geopolitical tensions are considered to be short-term shocks, their medium- to long-term effects will depend on the volatility caused by the shock in economic indicators. In this context, the direction in which commodity prices deviate from year-end forecast levels is of particular importance. If, in particular, oil prices stabilize at levels of USD75–80 per barrel, we can say that the rise experienced since the start of the year has been reflected in price and inflation dynamics. Any increases above these levels, however, could push central banks towards further tightening. A decline in oil prices and an easing of geopolitical risks will limit the impact of unforeseen shocks on domestic inflation. In July, a temporary rise in the inflation trend occurred as a result of renewed geopolitical tensions. We expect this effect to subside in August and September and anticipate that the CBRT will implement a modest rate cut at its September meeting. Industrial production and pent-up demand across sectors will gradually pick up from September onwards. In this context, the final quarter of the year and beyond will mark a period in which industry- and production-oriented sectors and companies will begin to outperform in the financial markets.

In June 2026, the mining and quarrying sector index fell by 1.6 per cent compared with the same month of the previous year, the manufacturing sector index fell by 1.5 per cent, and the electricity, gas, steam and air-conditioning production and distribution sector index rose by 1.1 per cent. In terms of monthly changes, the mining and quarrying sector index fell by 0.5 per cent compared with the previous month, the manufacturing sector index remained unchanged, and the electricity, gas, steam and air conditioning production and distribution sector index rose by 1.5 per cent. The long-standing slowdown in the production of durable and non-durable consumer goods was compounded by a slowdown in high-tech products. Bearing in mind that these effects intensify during periods of heightened uncertainty, it follows that these sectors are likely to see the most pronounced recovery following geopolitical tensions. We anticipate that volatility in energy production will gradually subside and that the recovery in the manufacturing sector will become more pronounced from the final quarter onwards.

Table 1: Industrial Production Rate of Change (%)



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



In summary, although industrial production rebounded by 0.1 per cent month-on-month in June, year-on-year production contracted by 1.4 per cent. The first half of the year concluded in a negative climate for industrial production, falling short of expectations. The weakness on the production side indicates that future positive shocks to inflation are not at the desired level. Whilst the supply side remains stable, even minor changes in demand can push inflation upwards. The momentum of the recovery in production will also make positive contributions to the disinflation programme from the supply side. Positive developments in the geopolitical landscape will also contribute to production and orders. From the final quarter of the year onwards, we will enter a period in which industrial production and growth figures are expected to converge. We would like to emphasize that any new decisions and measures taken will necessitate updates to our forecasts.

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