

Macro-note – Industrial Production

Industrial production fell by 1 per cent month-on-month in August, whilst contracting by 1.9 per cent year-on-year. Year-on-year industrial production has slowed significantly since April and is now stabilizing in negative territory.

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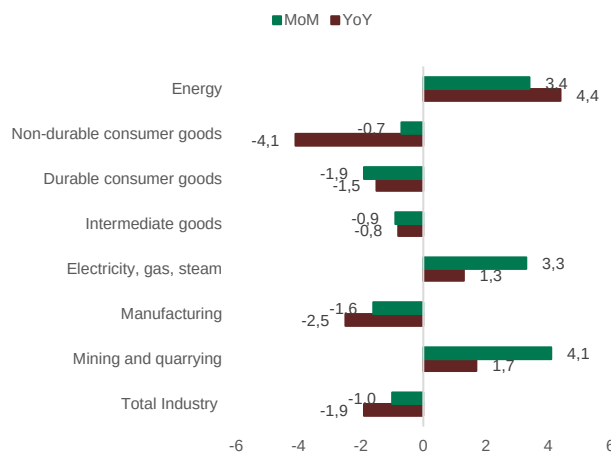
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According to industrial production index data, seasonally and calendar-adjusted production fell by 1 per cent in August compared with the previous month. Year-on-year production contracted by 1.9 per cent due to base effects. With production figures almost identical to those for July, this suggests that the contraction is stabilizing. The slowdown in industrial production began after April and became pronounced as of the third quarter. We are feeling the effects of the slowdown in economic activity on the real sector to a significant extent. In addition to the tightening of monetary policy, the slowdown in global demand and cost pressures are having a profound impact on production figures. The contraction in the manufacturing sector and intermediate goods, meanwhile, indicates that the negative sentiment persists in those areas of the economy that create employment and underpin sustainable growth. In an economy growing led by services and, to some extent, agriculture, industrial production continues to diverge negatively. Whilst economic activity remains buoyant in the services sector – where we see the clearest reflection of inflation – the agricultural sector is still recovering from last year's frost damage. The objective of monetary policy to foster a disinflationary process by slowing economic activity and demand poses a risk in terms of employment and sustainable growth. We have previously highlighted the local and global dynamics of this in our reports. Domestically, the negative trend in the expectations channel, in particular, is weighing on order and production activity. Whilst rising financing costs continue to put pressure on balance sheets, cash flow is failing to recover to the expected extent. 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. We observed this in the details of the second-quarter growth data as well. A closer examination of the composition of growth, rather than the slowdown itself, reveals the extent to which monetary policy is affecting production. The transition of an economy growing primarily through the services sector onto a healthy and sustainable path is also crucial for the labor market. Employment growth in production-oriented sectors not only creates added value but also contributes to the disinflationary process. On the other hand, whilst wage increases in the services sector contribute to growth, they have a structure that fuels inflation, albeit to a limited extent. Anchoring expectations is crucial to breaking this cycle. In this environment, where the dynamics fueling economic activity are closely tied to the future stance of monetary policy, verbal guidance from the CBRT will be a lifeline for the manufacturing sector. In this context, with inflation at around 30 per cent – a level where price rigidities are clearly evident – we believe there is a need for positive domestic shocks. This is because the current economic climate is characterized by a period in which negative external shocks are pushing inflation dynamics upwards. In particular, there is a need for positive domestic shocks to counterbalance the energy shocks arising from geopolitical tensions. In the final quarter, sector-specific loans supporting production and the easing of access to finance will also pave the way for the fight against inflation to be led by production. In this context, whilst a tight monetary stance is maintained, the facilitation of access to finance for specific sectors—achieved through macroprudential measures and liquidity management—will help to reignite production activities that have long been awaiting recovery.

In August 2026, the mining and quarrying sector index rose by 1.7 per cent compared with the same month of the previous year, the manufacturing sector index fell by 2.5 per cent, and the electricity, gas, steam and air-conditioning production and distribution sector index rose by 1.3 per cent. In terms of monthly changes, the mining and quarrying sector index rose by 4.1 per cent compared with the previous month, the manufacturing sector index fell by 1.6 per cent, and the electricity, gas, steam and air-conditioning production and distribution sector index rose by 3.3 per cent. We are seeing a recovery this month in deferred production of high-tech products. On the other hand, energy production remains relatively positive despite high prices. Production activity in intermediate goods, the manufacturing sector and durable/non-durable consumer goods has entered a distinctly negative cycle. Although there has been limited recovery and volatility, the main trend points to a slowdown in these sectors.

Table 1: Industrial Production Rate of Change (%)



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



In summary, whilst industrial production fell by 1 per cent month-on-month in August, year-on-year production contracted by 1.9 per cent. The contraction in industrial production became pronounced in the third quarter. Unless we see a recovery in September, we will close this quarter with a sharp contraction in industrial production. 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 small changes in demand can push inflation upwards. The momentum of the recovery in production will also make positive supply-side contributions to the disinflation programme. 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 will converge. We would like to emphasise that any new decisions and measures taken will necessitate updates to our forecasts.

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