Macro-note – Industrial Production

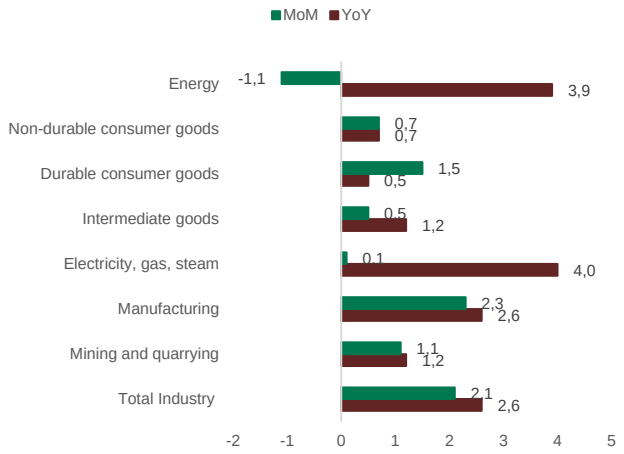
Industrial production rises 2.1% month-over-month and 2.6% year-over-year in September. The slowdown in production, which has been ongoing since April, is expected to give way to a moderate recovery as interest rates are gradually cut.

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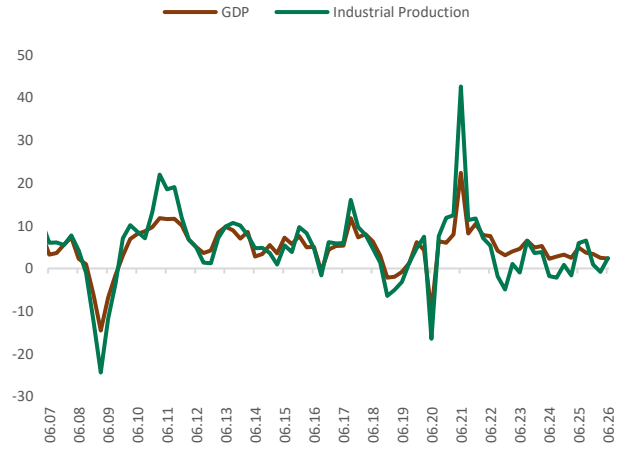
According to industrial production index data, seasonally- and calendar-adjusted production rose 2.1% in August compared to the previous month. Year-over-year production increased by 2.6%. We can say that the data printed in line with our expectations. Following the shock in April, production data had slowed significantly. The postponement of the interest rate cut and fine-tuning of the funding mechanism led to a lag of approximately two quarters in order and production data. Although the interest rate cut, which followed about six months later, indicates that monetary tightening is ongoing, expectations remain positive. The pullback in oil prices was the most significant development fueling this positive sentiment. Oil, which had risen back to the USD115 level, retreated to the USD90 level. These prices are close to the assumptions in the CBRT's inflation forecasts and create room for an interest rate cut. We expect the gap in the industrial sector—which has long underperformed the services and banking sectors—to close by 2027. Industrial companies that are particularly sensitive to interest rate cuts will see a noticeable recovery. Looking at the details of today's data, the first thing that stands out is the ultra-sharp rise in high-tech production, which appears to have boosted overall industrial output. Defense industry production had surged in September, and we see that this drove a 26% increase in high-tech products. Production momentum has been constrained not only by the tight domestic outlook but also by dynamics in global demand and costs. Weakness in our main export market persists, and costs have remained firm despite declining demand. However, expectations are growing that interest rate hikes in both Europe and the U.S. may be approached with caution—or even shelved—due to a moderation in external shocks. A closer look at the composition of growth—rather than just the slowdown itself—reveals the extent to which monetary policy has affected production. The shift of the economy—driven by the services sector—toward a healthy and sustainable path is also crucial for the labor market. Employment growth in production-oriented sectors not only creates value added but also contributes to the disinflation process. On the other hand, while wage increases in the services sector contribute to growth, they also 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 driving 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 30%—a level where price rigidity is clearly evident—we believe positive domestic shocks are needed. This is because the current economic climate is characterized by a period in which negative external shocks are pushing inflation dynamics upward. In addition to the decline in nominal interest rates, favorable conditions in sector-specific loans will support industrial production by reducing financing costs. 2026 is poised to be a lost year for the Turkish economy, but we see the clouds clearing toward the end of the year. If domestic political developments and external geopolitical concerns subside, 2027 will be a year in which the demand deferred from 2026 creates additional momentum for growth and industrial production. In this context, an asset management strategy that increases the weight of the industrial sector in the portfolio allocation for 2027 appears reasonable.

In September 2026, the mining and quarrying sector index rose by 1.2% compared to the same month of the previous year, the manufacturing sector index rose by 2.6%, and the electricity, gas, steam, and air conditioning production and distribution sector index rose by 4.0% year over year terms. In terms of monthly changes, the mining and quarrying sector index rose by 1.1% compared to the previous month, the manufacturing sector index rose by 2.3%, and the electricity, gas, steam, and air conditioning production and distribution sector index rose by 0.1%. High-tech industry was the largest contributor to the increase in industrial production. Developments in the defense industry supported this trend. However, the manufacturing sector—which we are closely monitoring—remains far from its targeted production levels or long-term averages, particularly in intermediate goods and durable consumer goods. This is triggering an output gap to the detriment of the industrial sector.

Table 1: Industrial Production Rate of Change (%)



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



In summary, industrial production rose by 2.1% month-over-month and 2.6% year-over-year in September. After closing the gap with second-quarter growth figures, industrial production is showing a more subdued trend in the third quarter. The recovery in September brought a moderate momentum to both the annual and quarterly data. On the production side, we remain below potential and, in an environment, where economic activity is slowing. This slowdown, which has persisted for approximately three years, may reverse by 2027. The momentum of the production recovery will also provide positive supply-side contributions to the disinflation program. Positive developments in the geopolitical landscape will also contribute to production and orders. Starting in the fourth quarter of the year, we will enter a period where industrial production and growth figures will converge. We would like to emphasize that new decisions and policies will necessitate updates to our forecasts.

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