

## INDUSTRIAL PRODUCTION HAS REACHED ITS BOTTOM

Seyfettin Gürsel<sup>\*</sup>, Onur Altındağ<sup>\*\*</sup>

### Executive Summary

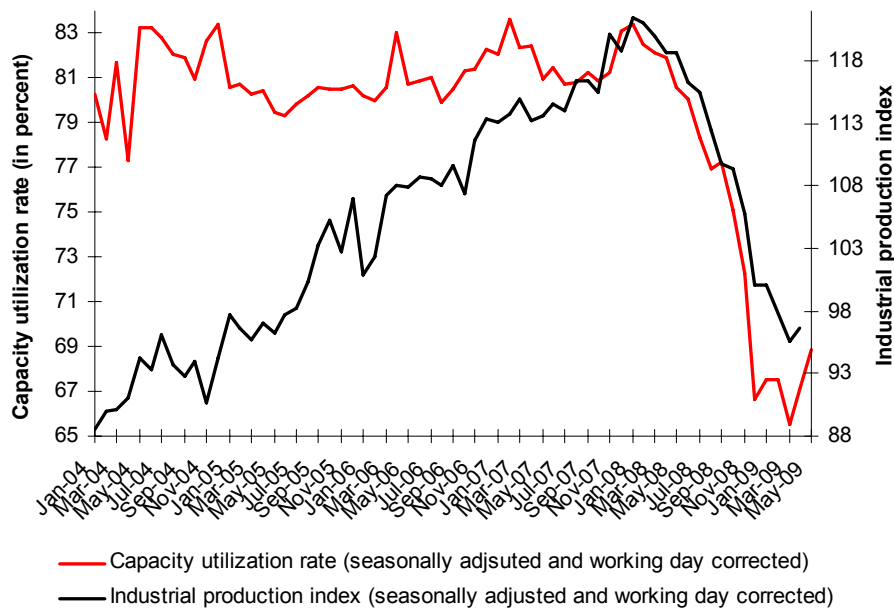
According to the industrial production index released by TURKSTAT in April, industrial production decreased by 18.5% annually. Meanwhile, we observe an increase of 1% after seasonally adjusting the data and correcting for the number of working days. This increase comes after 11 months of consecutive decreases. In addition, the industrial capacity utilization rate rose by 2.4% in April and 2.6% in May. It looks like the worst part is over; however, the pace of the recovery remains uncertain. Turkish economy will have to wait for the revival of the global economy, especially for the exports to reach its pre-crisis level.

### The Worst Part is Over

Industrial production index is one of the most important indicators for following the effects of the global crisis on the Turkish economy. According to the industrial production index released by TURKSTAT in April, industrial production decreased by 18.5% annually. Meanwhile, we observe an increase of 1% after seasonally adjusting the data and correcting for the number of working days. This increase comes after 11 months of consecutive decreases (Figure 1).

Another leading indicator, the capacity utilization rate, which was released recently, confirmed the increase in the industrial production (Figure 1). The capacity utilization rate rose by 2.4% in April and 2.6% in May. These are very strong signs of the beginning of a recovery in the Turkish economy.

**Figure 1 Industrial capacity utilization rate and industrial production index (Seasonally adjusted and working day corrected)**



Source: TURKSTAT, **betam**

<sup>\*</sup> Prof. Dr. Seyfettin Gürsel, **betam**, Director, seyfettin.gursel@bahcesehir.edu.tr

<sup>\*\*</sup> Onur Altındağ, **betam**, Researcher, ronuraltindag@gmail.com

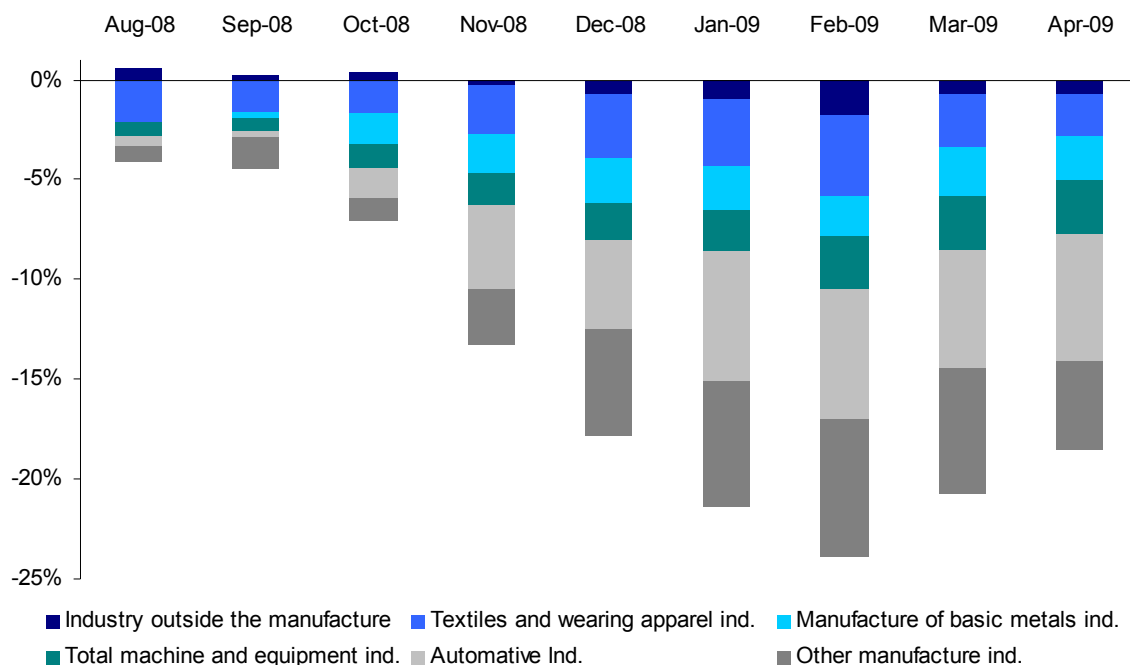
## Which Sectors Have Been Hit by the Crisis?

Despite the apparent upturn, the pace of the recovery remains uncertain. We examine the sub-sectors of the industrial production in order to get an intuition about the recovery period. In Figure 2, we present year-on-year changes of the industrial production index during the past 9 months and we highlight the contribution of each sector to these level changes.<sup>1</sup>

For example, from April 2008 to April 2009, the industrial index decreased by 18.5% and the contribution of the sub-sectors into this fall is as follows: 2.1 points from the textiles and wearing apparel; 2.2 points from the manufacture of basic metals; 2.7 points from the total machinery and equipment and 6.3 points from the automotive industry.

We observe that the contributions of the sub-sectors vary across time. In the first months of the crisis, the contribution of the textiles and wearing apparel industry was large in percentage but the decrease in absolute terms was weak. Especially starting from November, the decrease in the industrial index has accelerated following the sharp falls in the automotive industry production. The contribution of the automotive industry has since been important and consistent. In the following section, we describe the automotive industry in detail.

**Figure 2 Annual variation of the industrial production and contributions of the sub-sectors**



Source: TURKSTAT, **betam**

## Increase in Domestic Demand Remains Insufficient

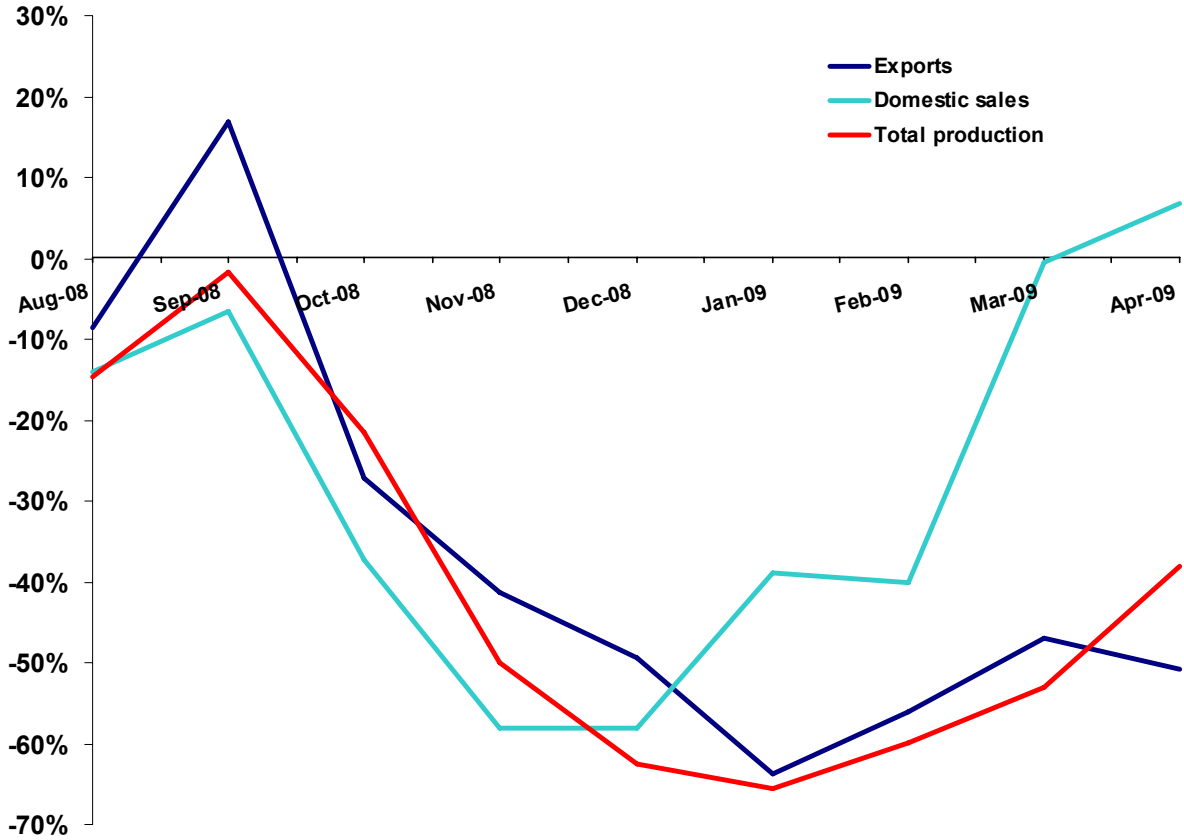
Considering the sub-sectors, there are four major contributors to the sharp decrease in the industrial production. The automotive industry comes out as the major contributor. The share of exports in the total automotive production is very important, e.g. during the first 8 months of 2008 the ratio of the exports to the total production was 80%. Following the tax reduction in April, this ratio fell down to 59.2% with an increase in domestic demand in short term. Nevertheless, we do not expect a recovery in the automotive industry without an accompanying increase in the foreign demand.

In Figure 3, observe that following the tax reduction, domestic sales mount up while the exports show a very modest increase, implying an increase in domestic sales that is far from compensating the decrease in the total production. After experiencing decreases of considerable sizes (up to 58% in

<sup>1</sup> Textiles and wearing apparel represents the sum of the manufacture of textiles and the manufacture of wearing apparel; dressing and dyeing of fur. Total machinery and equipment stands for the sum of the manufacture of machinery and equipment and the manufacture of machinery and equipment n.e.c.

November and December 2008), domestic sales start to recover and finally come up to an annual increase of 1% in April 2009. This is the first increase in annual domestic sales since the beginning of the crisis. However, the recovery in the total production is much slower due to the dominant impact of the decrease in the automotive exports. As a matter of fact, in April 2009, automotive total production has fallen by 38% compared to April 2008. To sum up, the total production is likely to catch up with the pre-crisis level given that the exports revert back to their long term trend.

**Figure 3 Automotive industry sales (12 months, % change)**



Source: TURKSTAT, **betam**

Considering the important share of the exports in the total production, manufacture of basic metals also suffers from the weak foreign demand as well. We do not expect an improvement before the revival of global demand. Additionally, an increase in investments is necessary for a recovery in total machine and equipment production.

Finally, the increase in domestic demand remains too weak to ensure a yearly increase in the industrial production. Exports need to increase to their pre-crisis levels, which in its turn depends mostly on the recovery of the global economy.