

Turkey

Alarm bells ringing as industrial production collapsed in January

Key findings

- **Output crashed 21.3% yr/yr.**
- **Manufacturing PMI tracked steep downturn in advance...**
- **...and provides signs of gradual stabilisation in rate of decline.**

Turkey's swiftly deteriorating economy took a further hit with the latest official industrial production figures. Data released on 9 March from the statistics office showed production declining by 21.3% on an annual basis, the worst performance in twelve years. That was much worse than forecast (16.6%) and added ballast to the growing picture of a pronounced recession, as Turkey fails to evade the worst effects of the collapse in European export demand.

Manufacturing PMI data compiled by Markit for ABN AMRO accurately signalled the steep industrial downturn at the end of 2008 (see Chart 1). The rate of contraction in production remained strong in February, despite showing further signs of stabilising as the Output Index rose to a four-month high.

The latest data suggest that the annual rate of contraction in industrial production may slacken somewhat in February but remain sharp overall. Since January 2006, the PMI Output Index has a **correlation of 0.80** with the official series. Over the fourth quarter of 2008, regression analysis applied to the PMI series equated to an average fall in output of 12%, close to the actual outcome of 12.6%.

The second chart suggests that the PMI survey results have tallied with interest rate decisions by the CBRT's monetary policy committee over the past two years in particular. Sharp falls in the benchmark rate over the

past four months have coincided with historically weak PMI numbers. Following the latest 150bps move, the main overnight borrowing rate stands at 11.5%. February PMI numbers released on 2 March will add to calls that a further cut at the March meeting is warranted.

Chart 1: PMI Output Index vs Turkstat industrial production

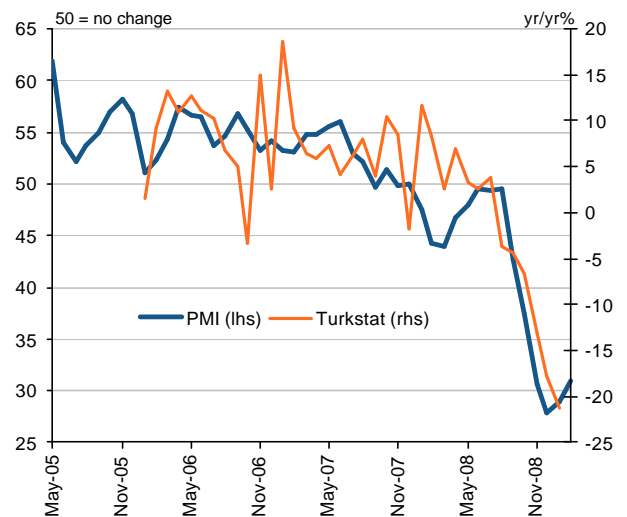
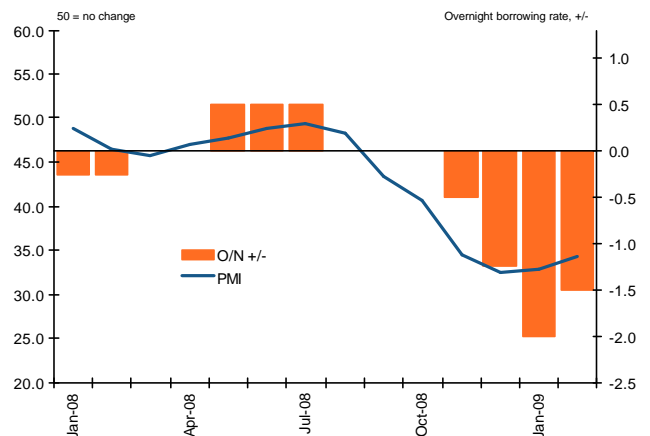


Chart 2: PMI vs CBRT policy rate



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