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Regime Switching Dynamics of the Turkish Manufacturing Industry

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ABSTRACT



The industrial sector, especially the manufacturing industry, has great importance considering its connection with other industries for emerging market economies. In this context, industrial sector is an important indicator for analysing the economic structure and providing a basis for forward-looking economic policies. This study aims to identify and explicitly compare the cyclical dynamics for the Turkish manufacturing industry by employing regime switching models that are based on probabilistic calculations. The paper reveals the nonlinear characteristics of the manufacturing industry. The results determine the regime switching parameter estimates of the manufacturing industry, identify the regime dependent heteroskedasticity, provide the smoothed probabilities along with the transition probability estimates, and identify regime classification for each of the states defined in the study.

KEYWORDS Markov Switching Models; Turkish economy; Manufacturing Industry

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