

ECONOMIC ACTIVITY PULSE

# Turkey: Growth Moderates but Still Robust

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**GDP growth moderated to 4.8% YoY in 1Q16 from 5.7% of the previous quarter, but still higher than market expectations (4.4%). Strong private and government consumption are behind the robust data while private investments and net exports contracted. Tourist related sectors were hit but not sharply. Looking ahead, further moderation is on the way in 2Q but growth will remain solid (3.8% according to our monthly GDP). In the light of this new data we maintain our above consensus GDP growth forecast for the whole 2016 (3.9%).**

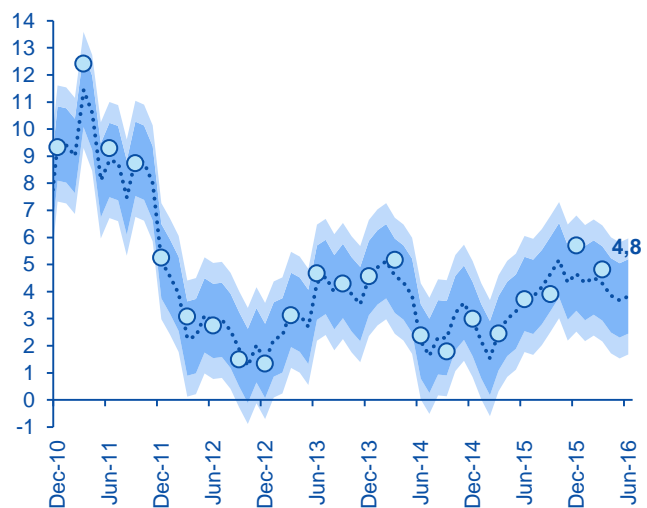
## Consumption continues to be the main driver of growth...

Upsurge in private consumption and less than expected deterioration in the sectors related to trade and tourism were the main reasons to behind our bias. Domestic demand -including stocks (0.4pp)- contributed 6.4pp, while external demand gave a negative contribution (1.5pp). Private consumption grew by 6.9%, the highest since 3Q11 when GDP growth was running at a rate close to 9%. Public expenditures continued to be supporting by growing 8.5% (8.7% growth in 4Q15) mainly through consumption expenditures. Private investment growth turned to a contraction of 0.3%, a negative signal for medium and longer term growth dynamics. In sectorial detail, the growth rate in the industrial sector was 5.7% (1.6pp cont.) in line with monthly industrial production figures had already suggested. Construction sector benefited from the Government pre-election promises as it grew by 6.6% (0.4pp cont.). The growth in the agricultural sector was 2.7%, lower than its 5-year average of 5.5% but in line with the TurkStat's first crop production estimate for 2016. Services sector continued to be supportive with 5.1% growth in the absence of a major deterioration in tourism related sectors. The accommodation and food sector only contracted by 1% while trade and transportation grew by 5.6% and 3.8%, respectively.

Turkey: Activity Indicators\* (3MA, YoY, SA)

Turkey: Garanti-BBVA Research Monthly GDP\*\* (SWDA YoY)

	Mean	2015			2016				
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	6.0	4.6	3.1	7.5	4.0	5.5	5.6	4.5	
Non-metal Mineral	4.4	1.5	-0.2	5.4	2.0	6.5	5.6	6.0	
Electricity Production	5.0	4.4	4.2	6.5	5.4	5.9	4.4	3.8	3.4
Auto Sales	13.9	7.8	-1.0	3.5	3.9	0.9	-6.0	-6.8	-0.3
Tourist Arrivals	4.9	-3.1	-2.6	-3.9	-4.5	-8.0	-10.3	-18.7	
Number of Employed	4.3	3.3	3.2	3.0	3.0	3.0			
Number of	0.6	2.7	1.7	1.9	1.2	0.9			
Auto Imports	17.8	12.3	3.7	5.6	5.7	2.8	0.2	-2.0	0.8
Auto Exports	9.3	29.6	21.5	23.1	5.0	7.3	6.6	13.9	22.4
Financial Conditions	75.1	82.2	80.4	80.5	79.1	79.3	84.8	87.0	85.5
Credit Growth-13Week	212	4.0	7.9	10.2	6.2	9.6	9.4	12.1	11.3
PMI Manufacturing	517	49.5	50.9	52.2	50.9	50.3	49.2	48.9	49.4
Real Sector Confidence	107.6	103.6	110.2	108.8	105.9	105.2	104.1	105.7	
GDP YoY		5.7%			4.8%				



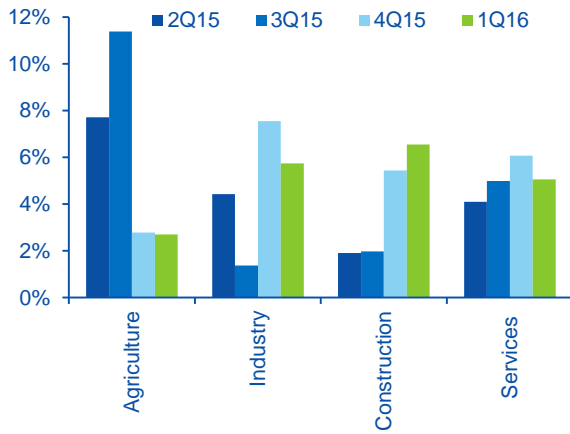
Source: Garanti Research & Turkstat, Garanti-BBVA Research Monthly GDP Model

\* Series are non-calendar adjusted SA. \*\*Garanti- BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation will be made in Turkey Economic Outlook 3Q2015.

## ... risks are balanced around above consensus 3.9% growth forecast

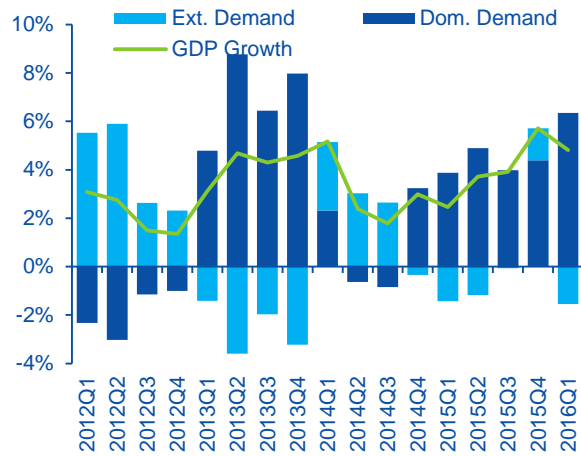
With almost 60% of the information, our monthly GDP growth indicator points at a moderation to 3.8% in 2Q16. Going into the summer season, weak tourism sector will weigh more on growth, while minimum wage hike and refugee impact will prevent a significant slowdown, in our view. All in all, risks are balanced around our 3.9% above consensus growth forecast for 2016.

**Turkey: Sectorial Growth (YoY)**



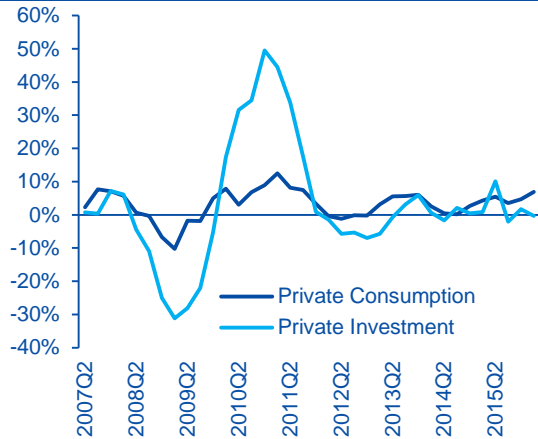
Source: Garanti Research & Turkstat

**Turkey: Contributors to GDP Growth**



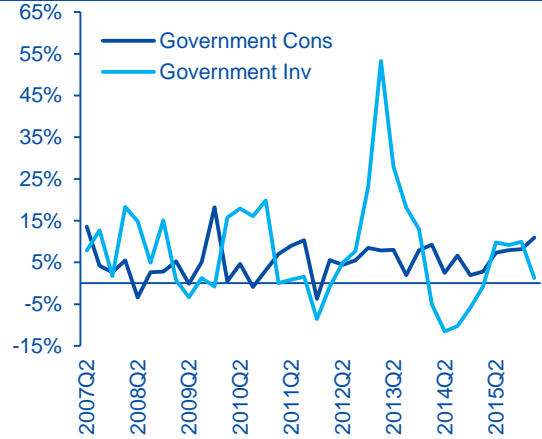
Source: Garanti Research & Turkstat

**Turkey: Private Consumption&Investment (YoY)**



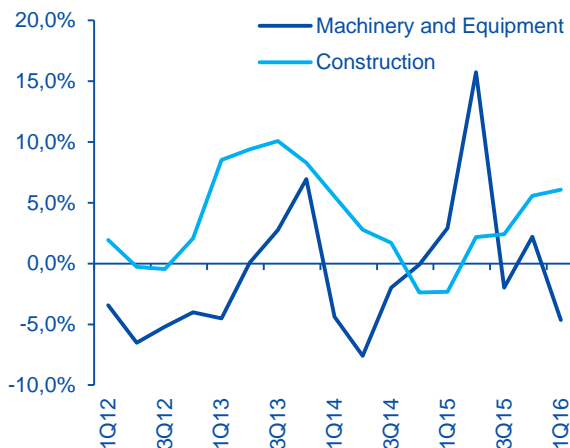
Source: Garanti Research & Turkstat

**Turkey: Government Consumption&Investment (YoY)**



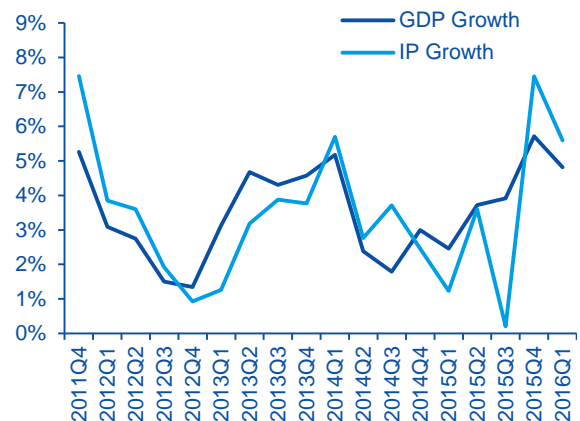
Source: Garanti Research & Turkstat

**Turkey: Investment Expenditures (YoY)**



Source: Garanti Research & Turkstat

**Turkey: GDP Growth vs. IP Growth (YoY)**



Source: Garanti Research & Turkstat

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