

ECONOMIC ACTIVITY PULSE

Turkey: Strong...and accelerating activity

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08 August 2017

Annual growth in industrial production (IP) was 3.4% yoy in June (cal. adj.) confirming our robust economic activity forecast for overall 2Q, as IP growth in 2Q jumped up to 4.5% yoy from 1Q's 2.1% reading. Retail trade data also brought some good news as the index was in a declining trend for the last 3 quarters but finally grew by 0.8% yoy in 2Q (cal. adj). Having this information at hand, our monthly GDP indicator (GBTRGDPY index at Bloomberg) nowcasts 5.1% YoY GDP growth (in unadjusted terms, including unfavorable calendar impact) in 2Q (96% of info), and implies further acceleration in 3Q. Strong support from base effect of 3Q, solid consumption growth as signaled by massive recovery in imports, high electricity production and supportive soft data especially in business conditions lead to welcoming news for the start of 3Q. Even with our expectation for a deceleration in 4Q, we think risks are on the upside for our 5% growth estimate for 2017.

Growth dynamics remain positive for the near future

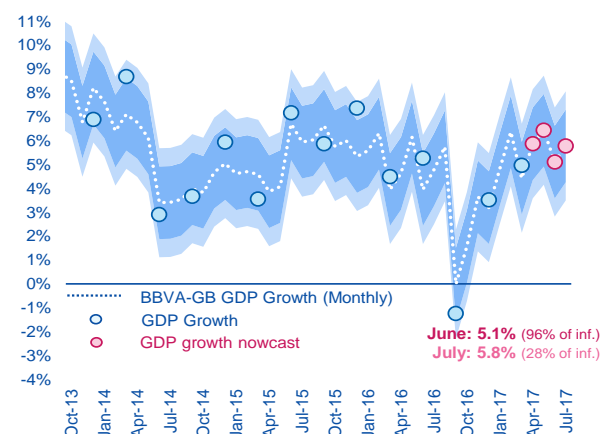
IP growth in June had support from various sub-items in 2Q, as the growth came from most of the sub-sectors in contrast to 1Q, which was mostly favored by electricity and automotive sectors. The composition also became more balanced as IP growth was mostly via exporting sectors in 1Q, but foremost it reversed and domestic demand oriented sectors also gave a similar contribution in 2Q. Besides, intermediary goods production growth was 3% in 2Q, correcting its declines for the last 3 quarters and the growth in capital goods production was tremendous with 12%, both showing a good signal for the investment outlook. Consumption goods production remained moderate, mostly supported by durable goods thanks to the Government incentives. Summing up, the data signals a slightly stronger growth in 2Q, adding up to both consumption and investment. Although our monthly GDP indicator signals a 5.8% growth in July with soft data and only electricity production in terms of hard data (28% info so far), acceleration will gain pace in 3Q resulting in at least 7% growth in 3Q even if GDP would not grow at all on quarterly basis.

Figure 1 Activity Indicators (3MA, YoY, SA)

	2016			2017							
	Mean	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
Industrial Production	3.6	0.4	2.0	3.3	12	17	2.3	4.2	2.1		
Non-metal Mineral	12	17	-10	-4.2	-6.9	-2.0	-0.4	2.7	0.9		
Electricity Production	4.2	2.6	5.1	6.4	7.1	8.2	7.3	6.6	4.5	8.4	
Auto Sales	3.3	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3	-9.7		
Tourist Arrivals	2.9	-23.8	-17.6	-11.7	-8.3	-7.0	0.9	7.5	20.8		
Number of Employed	2.1	15	13	13	14	17	19				
Number of Unemployed	4.3	16.1	18.6	20.3	21.0	20.9	19.4				
Auto Imports	5.7	31.7	16.4	11.1	-8.1	-12.7	-14.7	-13.9	-14.4		
Auto Exports	8.5	-10.6	-1.7	33.5	30.2	33.5	27.1	32.4	24.0		
Financial Conditions	73.3	80.1	73.6	59.0	42.6	38.3	34.4	30.6	35.6	40.5	
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	15.6	16.3	17.0	
Retail Sales	3.8	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7	0.2	0.5		
Real Sector Confidence	106.7	108.2	103.9	100.6	106.2	106.5	106.3	104.8	108.8	107.7	
MICA Forecast											
GDP YoY				3.5%		5.0%		5.9%	6.4%	5.1%	5.8%
				Contraction	Slow-down	Growth	Boom				

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (3MA, YoY)*



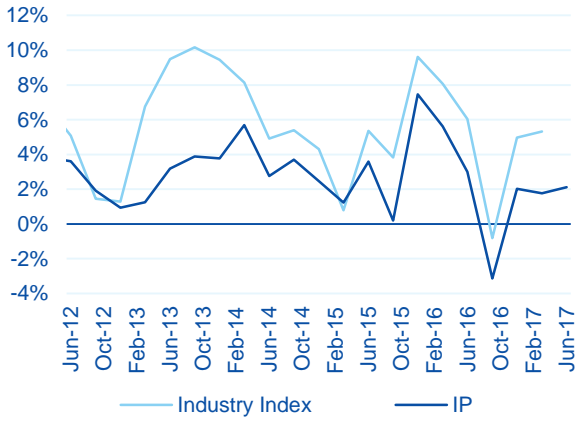
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

Favorable base effects and preliminary data give a good signal for 3Q

After the 2Q's more balanced and healthier data, favorable positive base effect for 3Q from previous year's contraction and shift in calendar days are likely to promote 3Q's GDP growth further. The details hinting an additional recovery in private consumption and investment, improving exports on accelerating EU and Russian demand and the lagged impact of the Government's procyclical measures (although we will have somewhat dying out effects as the Credit Guarantee Fund is soon to reach its limits) will keep risks on the upside for our 5% growth forecast for 2017.

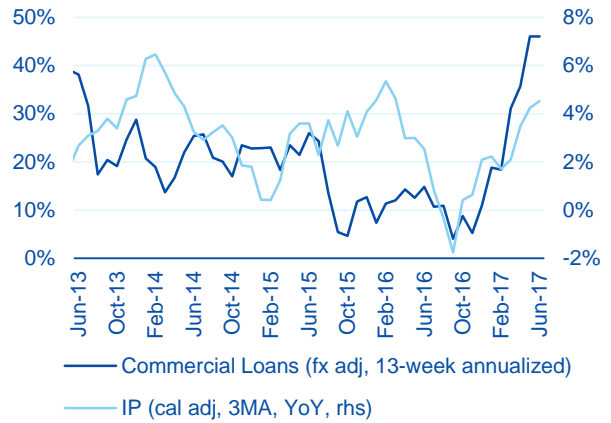
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



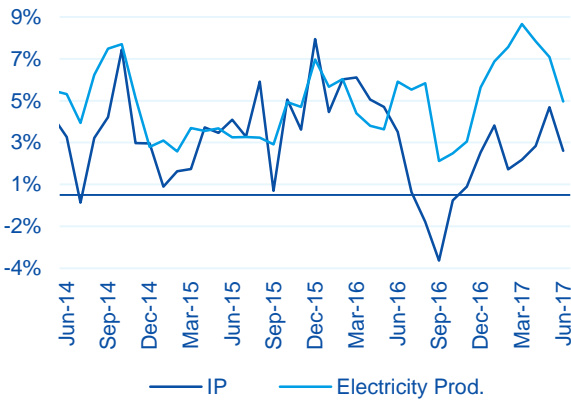
Source: Garanti Research, Turkstat

Figure 4 Loan Growth and IP



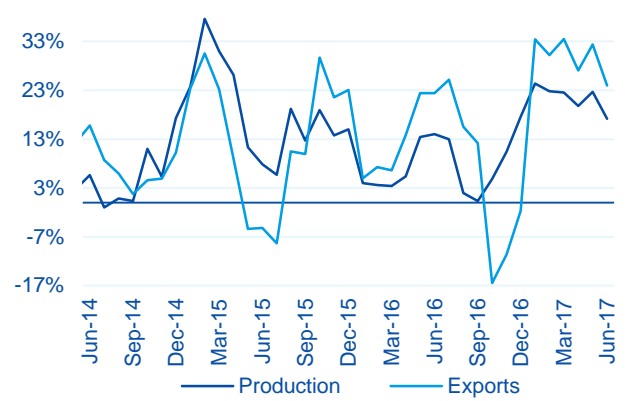
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 5 IP & Electricity Production (3MA, YoY)



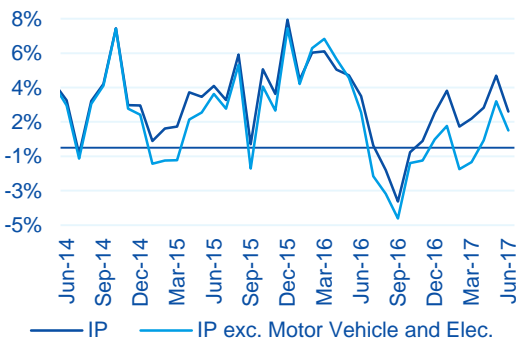
Source: Garanti Research, Turkstat, TETC

Figure 6 Automotive Prod. & Exports (3MA, YoY)



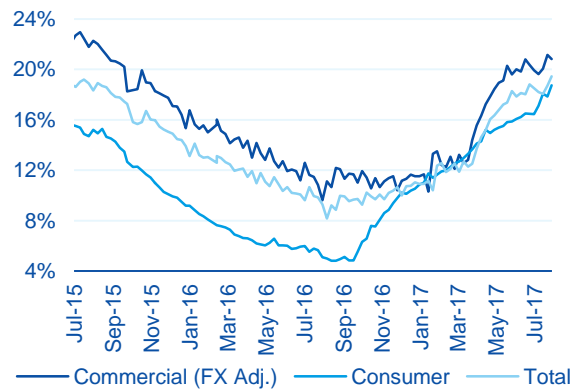
Source: Garanti Research, Turkstat, CBT, AMA

Figure 7 IP Excluding Motor and Electricity Production (3MA, YoY)



Source: Garanti Research & Turkstat

Figure 8 Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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