ECONOMIC ACTIVITY PULSE

Turkey: Robust 2Q GDP growth, as expected

Alvaro Ortiz / Seda Guler / Asuman Kemiksiz / Ali Batuhan Barlas / Gizem Onen

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2Q17 GDP growth came in at 5.1% yoy, just in line with our expectation though slightly below market's consensus of 5.3%. Investment and private consumption were the main contributors whilst government spending contribution was negative for the first time in 9 quarters. Government stimulus seems to leverage growth via both private consumption with more confident households and as desired by encouraging investments through funding channels. Our monthly GDP indicator (GBTRGDPY Index on Bloomberg) signals even more acceleration in 3Q (6.4% by August 3MA with 26% of information at hand), cumulating on the base impact and springtime in economic activity indicators on the production side. Along these lines we come up to the conclusion that our 5% forecast for the overall year has clear risks on the upside.

Investment is the leverage

Private consumption growth slightly eased in 2Q to 3.2% yoy, from 1Q's 3.6%. As a very positive news, investment took the lead in detailed segments as it grew significantly by 9.5% yoy in 2Q. Nonetheless, investment growth was mostly supported via construction while investment on machinery and equipment continued to fall in its 4th consecutive quarter. On the contrary, government spending fell 4.3% yoy in 2Q having 0.6pp negative contribution. All in all, domestic demand (including stocks) was the fundamental pioneer of the 2Q growth with 3.4pp contribution while external demand was also stick to the point with 1.7pp contribution. Beyond, it seems the Turkish economy has been consuming from stocks for the last 3 quarters, with 0.8pp negative contribution in 2Q. Yet, on the production page, services took the lead once again. Industry (mostly manufacturing) followed services posting a robust figure of 6.3% growth. Although growth rates of agriculture and construction improved in 2Q to 4.7% and 6.2% from 1Q's 1.7% and 6.0%, respectively; their contribution are still weak as their volume remain subdued compared to the other sectors.

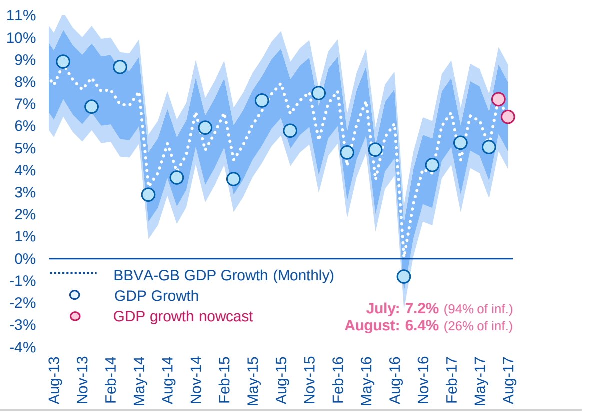
Figure 1 Activity Indicators (3MA, YoY, SA)

		2016		2017							
	Mean	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	3.6	0.4	2.0	3.3	12	17	2.3	4.2	2.1	7.7	
Non-metal Mineral	13	17	-10	-4.2	-6.9	-2.0	-0.4	2.7	0.9	8.2	
Electricity Production	4.3	2.6	5.1	6.4	7.1	8.2	7.3	6.6	4.5	8.4	8.5
Auto Sales	3.3	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3	-9.7	2.4	
Tourist Arrivals	0.3	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	11.1	26.5	36.5	
Number of Employed	3.5	1.5	1.3	1.3	1.4	1.7	1.9	2.0			
Number of Unemployed	5.7	16.1	18.6	20.3	21.0	20.9	19.4	16.2			
Auto Imports	5.5	31.7	16.4	11.1	-8.1	-12.7	-14.7	-13.9	-14.4	-6.7	
Auto Exports	8.7	-10.6	-1.7	33.5	30.2	33.5	27.1	32.4	24.0	23.2	
Financial Conditions	72.9	80.1	73.6	59.0	42.6	38.3	34.4	30.6	35.6	40.5	35.3
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	15.6	16.3	17.0	16.2
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	110.2
MICA Forecast										7.2%	6.4%
GDP YoY			4.2%			5.2%			5.1%		

Contraction | Slow-down | Growth | Boom

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (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

Growth to increase in the second half

Having at hand a revised 1Q growth (to 5.2% from 5.0%) and another strong performance in 2Q; the Turkish economy performed well in the first half of the year with 5.1% growth. This, the upward revision for 2016 (from 2.9% to 3.2%) and the huge carry-over (even if the economy does not grow on quarterly basis in the second half of the year, the GDP will grow at 5.5% yoy in overall 2017) pose clear risks on the upside. Our monthly GDP indicator points at 6.4% growth in August (3MA yoy) and if September data confirms we will have even an acceleration for 3Q. Thus, even our above consensus 5% forecast for 2017 remains low and we will need to upgrade near 1pp in our next revision .

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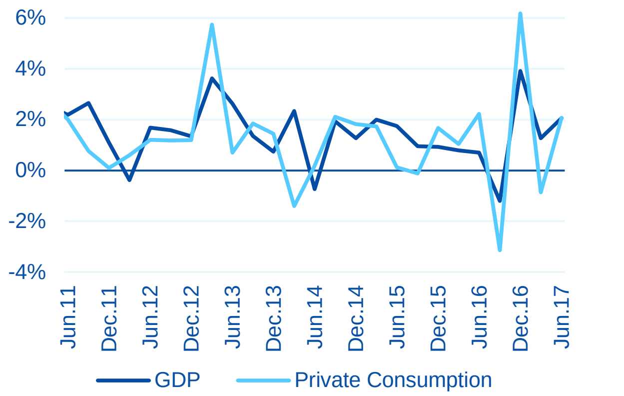
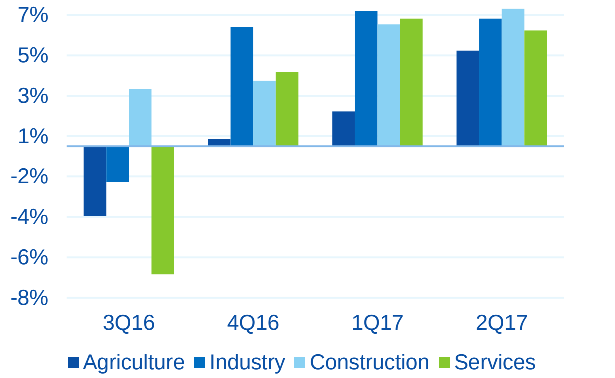
Figure 3 GDP Growth QoQ (Seasonally & Calendar Adj)



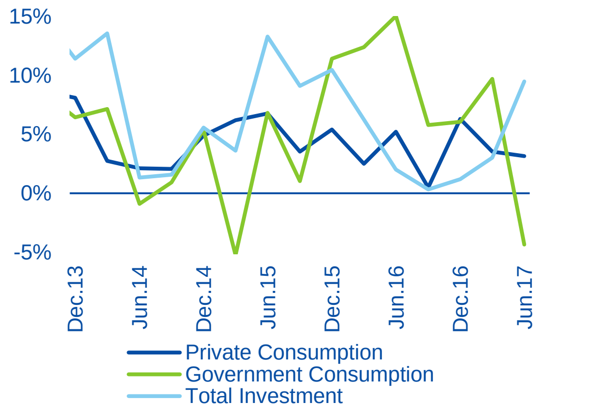
Source: Garanti Research, Turkstat

Figure 4 Sectorial Growth YoY



Source: Garanti Research, Turkstat

Figure 5 Domestic Demand Indicators YoY

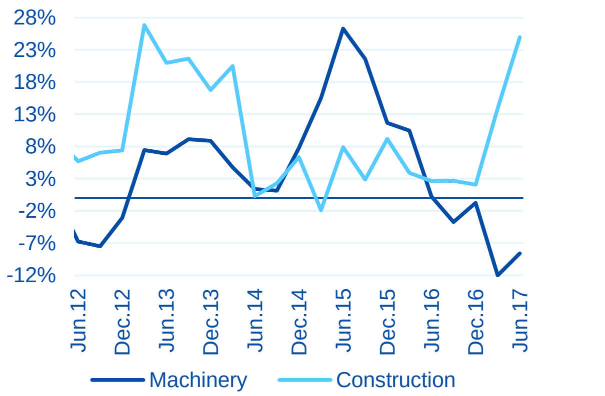


Source: Garanti Research, Turkstat

Figure 6 External Demand Indicators YoY

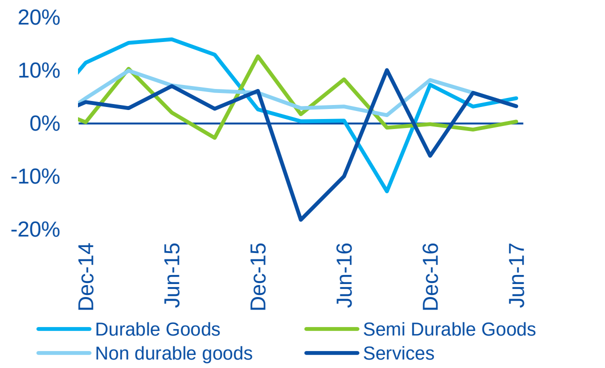
Source: Garanti Research, Turkstat

Figure 7 Gross Fixed Capital Formation YoY



Source: Garanti Research, Turkstat

Figure 8 Private Consumption Details YoY



Source: Garanti Research, Turkstat

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