

ECONOMIC ACTIVITY PULSE

# Turkey: Robust Activity in 3Q

Seda Guler / Asuman Kemiksiz / Gizem Onen

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In August, industrial production (IP) growth came in at 5.2% yoy (cal.adj.), consistent with market expectations. The realization took the IP growth up to 9.8% yoy in July-August period, a sharp acceleration from 2Q's 4.6%. In addition, retail sales index' growth rate accelerated further in August, taking the average growth of 3Q's first two months up to 2.6% yoy from 2Q's weaker 0.7% rate. Electricity production in 3Q posted its strongest growth rate (12.2%) in the last 28 quarters. Having this information at hand and another base impact in September, our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts 8.2% growth for 3Q (26% information for September). Considering 3Q's significant improvement, we will revise our 2017 growth expectation soon upwards (from current 5%), despite bearing in mind some moderation in Q4.

## 3Q activity data posts strong outlook so far

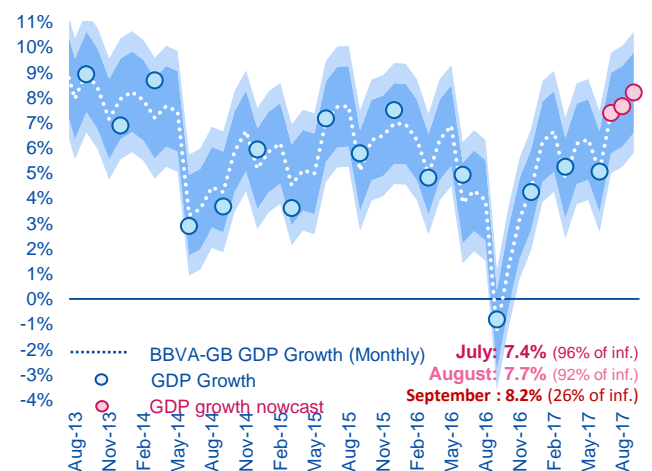
Calendar adjusted IP growth in August was supported by most of its sub-sectors. In July-August period, strong intermediate and capital goods production growth rate (8.6% and 16.3%, respectively) hints a more desired growth composition, weighting more on production and investment. A further acceleration in consumption goods was also recorded as durable goods production added to its strong path while non-durable goods production increased by 6%, after posting negative growth rate for 2 quarters in a row (-0.5% yoy in 1Q, -0.8% yoy in 2Q). Exporting sectors goods production in overall increased by 11.7% in the same period, accelerated from 2Q's 5.1% growth rate. Goods production from domestic oriented sectors grew by 8.5%. Therefore, we understand that in the first two months of the 3Q the economic activity's growth is broad based- supported by most of its sub-items. In September, we will have another strong favorable base impact with changes in calendar days. Moreover manufacturing PMI posted its 7th above-50 level in September but other soft indicators mostly fell in September signaling a slight moderation in overall confidence for the rest of the year. Strong exports performance (near 16% growth in 3Q), robust production and retail sales data had our monthly GDP indicator to nowcast 8.2% (26% of info) growth for 3Q.

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

	2017										
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Industrial Production	3.7	3.3	12	17	2.3	4.2	2.1	7.7	7.6		
Non-metal Mineral	1.4	-4.2	-6.9	-2.0	-0.4	2.7	0.9	8.2	8.4		
Electricity Production	4.4	6.4	7.1	8.2	7.3	6.6	4.5	8.4	8.5	12.2	
Auto Sales	3.3	6.4	-8.8	-7.5	+10.9	-10.3	-9.7	2.4	7.1		
Tourist Arrivals	0.9	-14.8	-9.2	-6.4	3.7	11.1	26.5	36.5	45.5		
Number of Employed	3.5	13	14	17	19	2.0	2.6				
Number of Unemployed	5.8	20.3	21.0	20.9	19.4	16.2	10.4				
Auto Imports	5.4	11.1	-8.1	-12.7	-14.7	-13.9	-14.4	-6.7	-3.4		
Auto Exports	8.7	33.5	30.2	33.5	27.1	32.4	24.0	23.2	9.8		
Financial Conditions	77.6	59.0	42.6	38.3	34.4	30.6	35.6	40.5	35.4	38.9	
Credit Growth-13Week	13.6	14.0	14.7	15.3	15.6	15.6	16.3	17.0	16.2	16.6	
Retail Sales	3.8	-2.3	-3.2	-2.3	-1.7	0.2	0.5	1.7	2.1		
Real Sector Confidence	105.9	100.6	106.2	106.5	106.3	104.8	108.8	107.7	110.2	110.8	
MICA Forecast											
GDP YoY						5.2%		5.1%	7.4%	7.7%	8.2%
						Contraction		Slow-down		Growth	Boom

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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



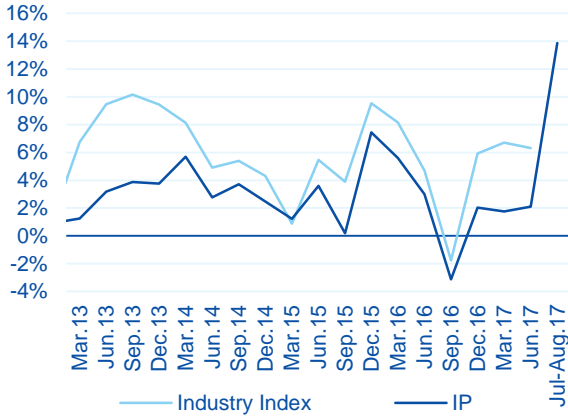
Source: \*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat \*Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

## Soon we will revise up our GDP growth expectation for 2017

As previous indicators had signaled and base impact assisted, hard data has been confirming our expectations for 3Q so far with also resilient support from fiscal stimulus. Consequently, following 1H's 5.1% yoy GDP growth, we expect 8.2% growth rate for 3Q, with restricted information from September. The activity position, for that reason, urged a revision on our overall 2017 expectation which will be upgraded in our next revision term to more closer to 6.0% levels.

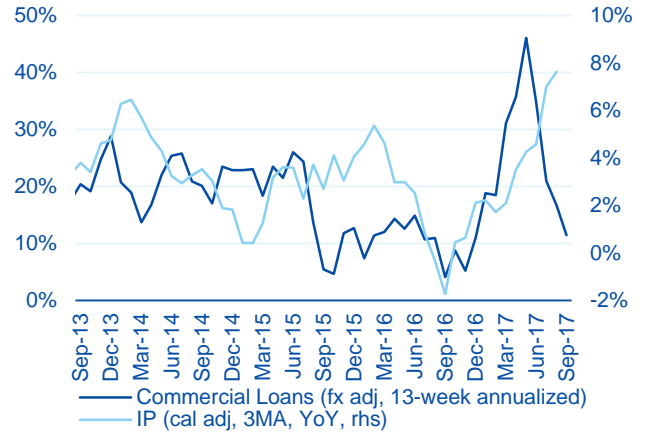
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**Figure 3** IP vs Industry component in GDP (3MA, YoY)



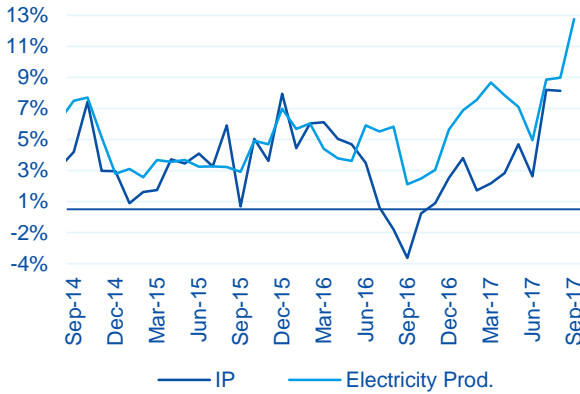
Source: Garanti Research, Turkstat

**Figure 4** Loan Growth and IP



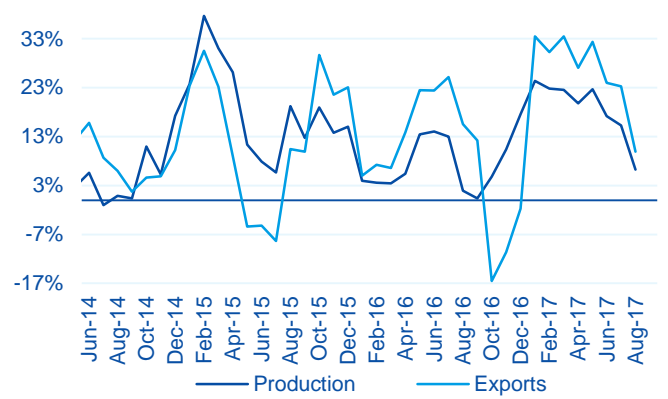
Source: Garanti Research, Turkstat, CBT, BRSA

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



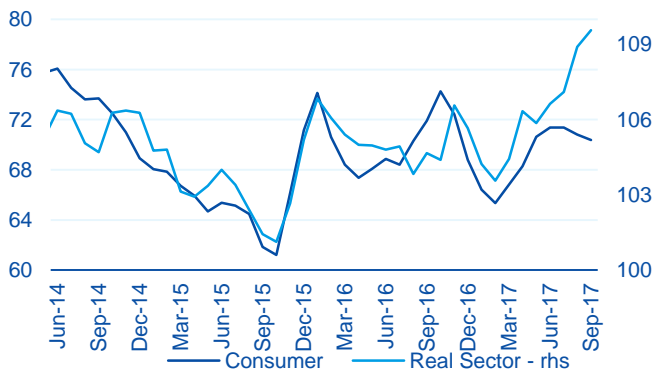
Source: Garanti Research, Turkstat, TETC

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



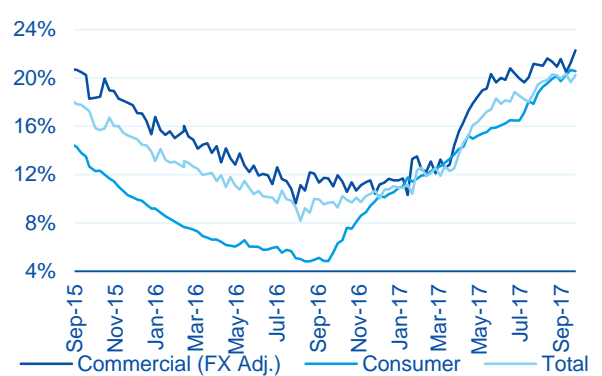
Source: Garanti Research, Turkstat, CBT, AMA

**Figure 7** Consumer and Real Sector Confidence (3MA)



Source: Garanti Research, CBT & Turkstat

**Figure 8** Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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