

Turkey: Unexpected Signal from August IP

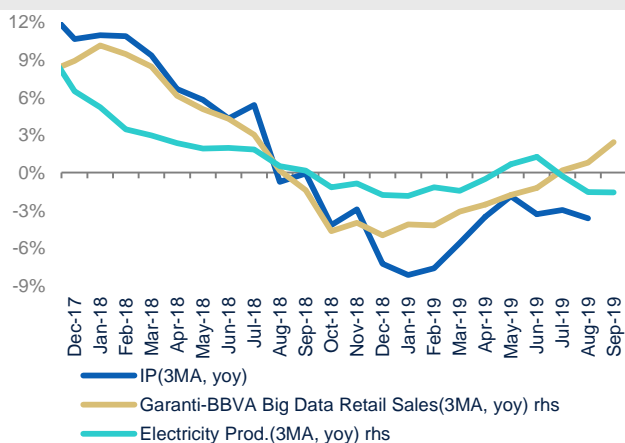
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Industrial Production (IP) declined by 3.6% yoy in calendar adjusted terms in August, lower than median market expectation and ours (Consensus:-0.7%, BBVA: -0.5%). Seasonal and calendar adjusted (sca) IP also declined by 2.8% mom after the sharp increase in July (4.3% mom), signaling losing momentum in economic activity. The bad data signal actually stemmed from the headline IP, which contracted by 1.6% yoy in August despite the expected positive impact of 3 more working days and the improvement in other leading indicators. The contraction in IP in the first two months of 3Q19 decelerated further to 0.9% yoy from 3.3% yoy in 2Q19 but we still expect a positive figure in the full 3Q. Our monthly GDP indicator (which includes a broader set of data) confirms this trend, nowcasting a growth rate of -0.2% yoy in August (96% of info) but a positive +1.5% yoy in September (47% of info). Strong base effects and the acceleration in credit growth on the ease in monetary policy put upside risk on economic activity, supporting our positive view for 4Q. However, complacency should be ruled out as uncertainties on geopolitical risks could dampen the upside risk. Hence, we maintained a prudent forecast of 0.3% GDP growth for 2019.

Leading indicators point an acceleration in economic activity in September

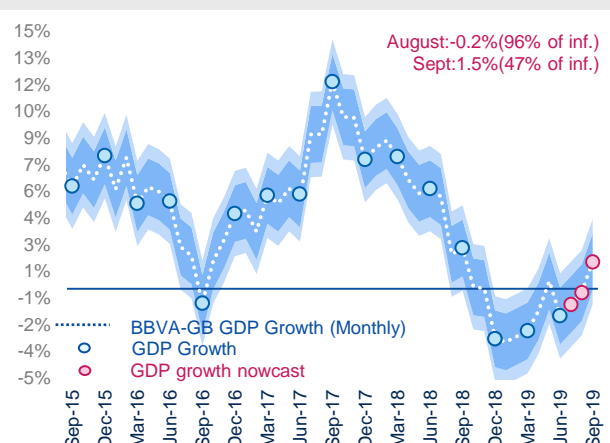
The monthly deterioration in IP was broad based as all main sub-indices, especially intermediate and capital goods productions, declined sharply, indicating negative signal on near term productive capacity. On the sectorial side, while manufacturing sector contracted by 2.7% mom, mining sector, grew by 4% mom on the average in the last 3 months, fell by 9.2% mom in August. On the other hand, the annual contraction in IP (ca) retreated further from 2.9% in 2Q19 to 2.3% in the first two months of 3Q19, supported by the recovery in intermediate, capital and non-durable consumption goods productions. The improvement in high frequency indicators such as capacity utilization and confidence indices, our Big Data Retail Sales Indicator, the recovery in real intermediate goods imports, electricity and auto productions, the pick-up in credit growth and September PMI (50), signal some acceleration in economic activity. Our monthly GDP indicator confirmed this expectation as it exhibited first green shoot of 1.5% yoy with 47% of information in September. Our demand subcomponents nowcasts (see graphs 6-8) also signal the pick-up in domestic demand as of September (boosted mainly by consumption) with some stabilization in net exports after four consecutive quarters of significant positive contribution.

Chart 1. Activity Indicators (3MA, YOY)*



Source: BBVA Research Turkey, Turkstat

Chart 2. BBVA Research monthly GDP (3ma, yoy)*

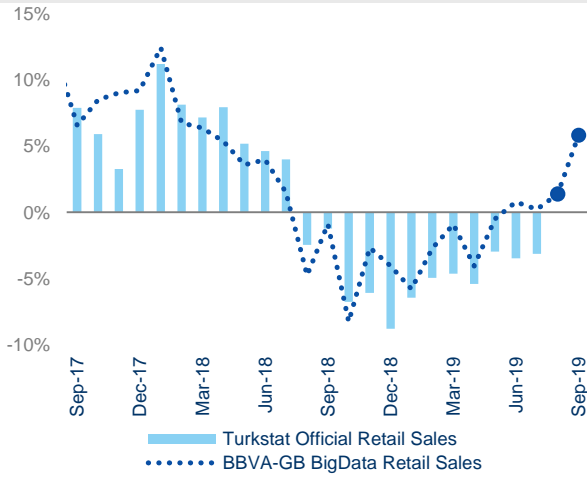


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BGG

The recovery is ongoing but increasing uncertainties required prudence

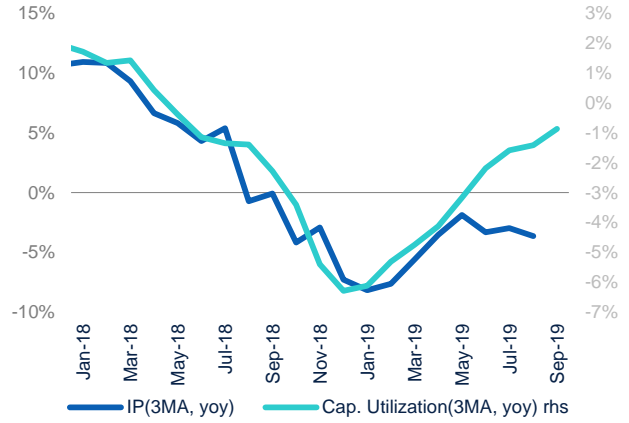
The supported base effect and the recent upsurge in credit growth on the ease in financial conditions could underpin economic activity in the near future. However, the recent volatility in the financial markets stemmed from geopolitical uncertainties could dampen this impact by affecting households and firm behavior if market volatility persist. Therefore, the policy mix should remain prudent to reinforce a constructive view on the economic recovery. We maintain our GDP forecast at 0.3% growth for 2019 and 3% for 2020.

Chart 3. **BBVA-GB Big Data Retail Sales index (yoy)**



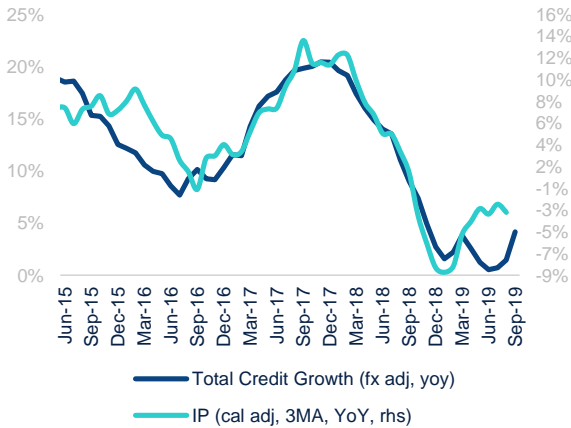
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **IP & Capacity Utilization (3ma, YoY)**



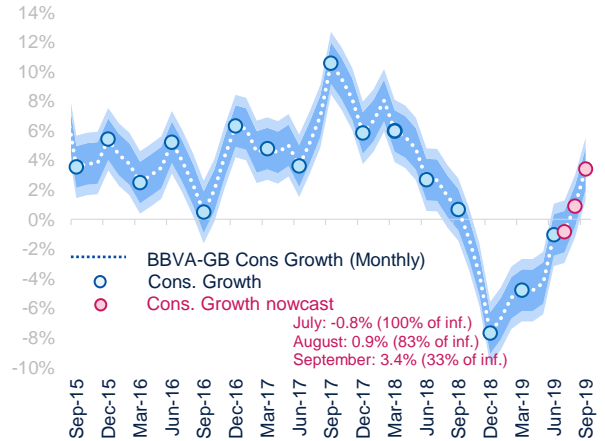
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Ind. Production & Credit (3ma & fx-adj yoy)**



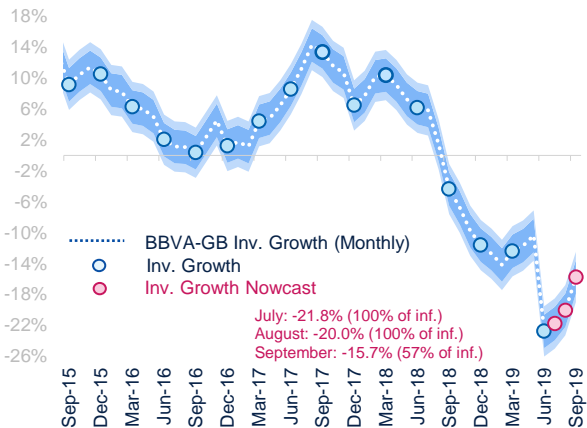
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6. **BBVA Monthly Consumption Nowcast(3m yoy)**



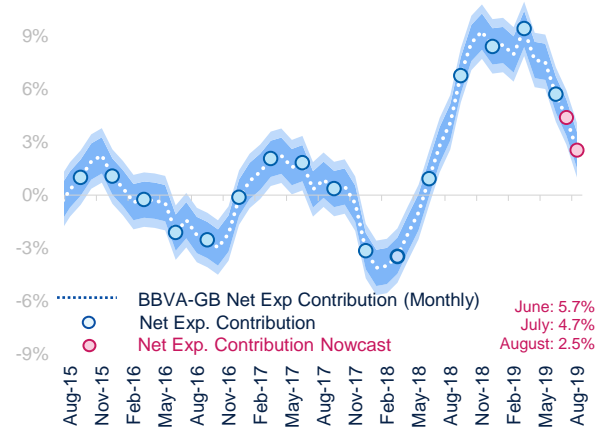
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Chart 7. **BBVA Monthly Investment Nowcast (3m yoy)**



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net External sector (contrib.)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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