

Turkey: Contraction in production deepens in April

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Industrial Production (IP) in April contracted by 31.4% yoy as the restrictions and the impact of the COVID on the activity intensified during the month. Retail sales also surprised on the downside by contracting 19.2% in yearly terms. On month-on month, the contraction deepened further with -30.4% in IP and -21% in retail sales. Accordingly, our Big Data indices for both Consumption and Investment have showed a sizeable adjustment during April, but they have started to bottom-out in May even with some acceleration currently since the economy enters into the normalization phase in June. Our monthly GDP indicator (GBTRGDPY Index in BBG) nowcasts a yearly GDP growth rate of -1.5% in April (96% info) and -7.4% (52% info) in May, which would still show a recovery pattern during June, led by both the lifting of the lock-down measures and the positive calendar day effects. While our current nowcasting output is at -7% (below our initial forecast of -5% yoy), June's first signs of recovery through our real time indicators show that the recovery has already started. We maintain our GDP growth estimate at 0% for 2020 and wait for June's indicators to confirm the pace of recovery. Important down side risks remain.

The Covid impact on activity is sharper than 2008 global financial crisis

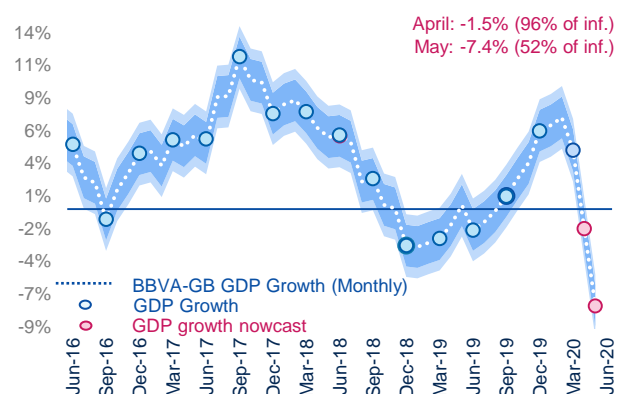
The deterioration in IP (sa & cal adj) deepened further in April as it declined by 30.4% mom on the back of the sizable fall in all main sub-sectors but especially capital and intermediate goods productions (-40.3% and -30.4%, respectively), signaling more worrisome outlook in the near future productive capacity. In the sectorial detail, broad-based worsening accelerated in all sectors but the export-oriented sectors suffered the most as the annual contraction in clothing, textile and automotive production ranged between 60% and 80% in calendar adjusted series. Looking ahead, due to the negative calendar effect stemming from the shift of Ramadan holiday to May this year, IP will decrease further by experiencing near 40% annual contraction levels in May (Chart 3). High frequency indicators such as confidence indices, auto production (-54% yoy in May), electricity production (-18% yoy), capacity utilization (-13.7pp yoy) and preliminary trade figures (intermediate imports, -30%, and exports, -41% yoy) all confirmed the ongoing negative impact of pandemia on economic activity in May. On the other hand, as the lockdown measures globally have begun to ease and positive calendar impact prevails in June, economic activity could recover faster than the previous shocks. Though, today's data and the performance of our big data indicators so far in June imply some downside risks on our initial 2Q GDP estimate (-5% yoy). The extra positive push as seen in our Big Data proxies (Chart 4 & 5) in the first week of June, reflecting the positive calendar day effects, seem to normalize rapidly as of the second week of June, which would determine the speed of the recovery from now onwards, also being accompanied by the normalization steps globally.

Chart 1. Activity Indicators (%yoy, 3M Moving Avg.)

	Mean	2019			2020				
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	6.5	19	3.7	5.6	7.2	9.7	5.7	-7.7	
Non-metal Mineral Production	4.7	-0.8	-5.4	-10	3.4	6.4	6.2	-2.5	
Electricity Production	4.2	-0.3	-0.5	-0.4	0.5	2.9	2.7	-3.6	-11.4
Auto Sales	3.6	47.7	44.6	25.3	17.0	41.2	41.6	18.1	-3.9
Garanti BBVA Investment	-0.1	-13.4	-8.4	-4.1	-5.6	-6.4	-16.2	-20.3	-30.7
Number of Employed	3.1	-2.2	-1.5	-0.8	0.0	-0.6	-2.6		
Number of Unemployed	4.5	21.5	16.2	8.5	0.9	-5.2	-9.9		
Auto Imports	4.8	34.5	36.4	18.9	7.4	31.9	48.0	29.0	7.4
Auto Exports	7.4	-3.1	-6.2	-2.2	-0.5	-0.2	-13.6	-40.8	-58.9
Garanti BBVA Retail Sales	5.4	3.4	7.6	10.2	10.8	11.5	7.3	-2.5	-11.2
Manufacturing PMI	50.9	49.0	49.5	49.5	51.3	52.4	48.1	33.4	40.9
Total Loans growth 13-week	18.8	13.4	22.9	18.4	24.7	27.6	39.4	66.1	66.6
Real Sector Confidence	105.6	100.9	102.0	103.6	104.1	106.9	99.7	66.8	76.9
MICA Forecast								-1.5%	-7.4%
GDP YoY				6.0%			4.5%		

Source: BBVA Research Turkey, Turkstat

Chart 2. BBVA Research Monthly GDP (%yoy, 3M Avg)*

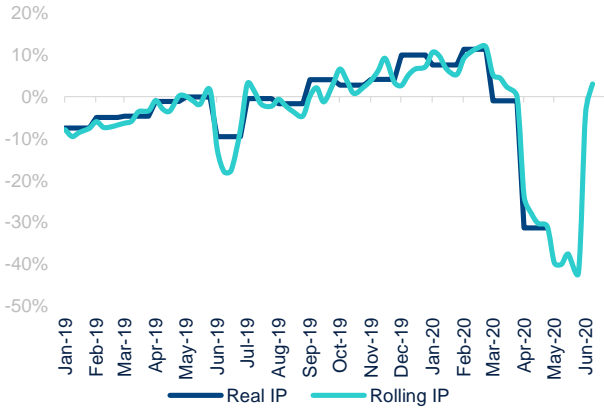


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

We maintain our 2020 GDP growth forecast at 0%

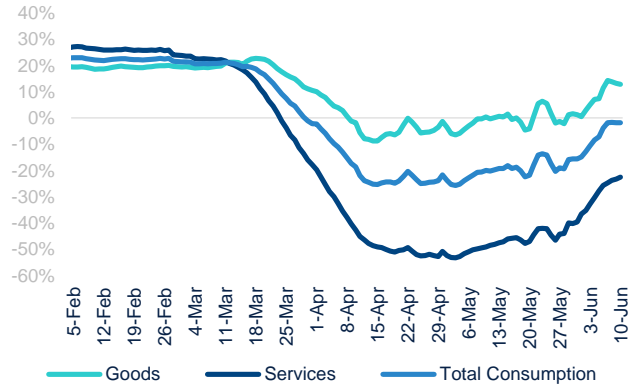
As high frequency indicators already show bottoming-out signals and the normalization phase has started faster than our expectations as of June, we expect a gradual recovery from now onwards. While May data confirm a sharp hit of the COVID in the economy, June indicators will be key to evaluate the pace of recovery as mobility restrictions ease. We still maintain our GDP forecast for 2020 at 0% until being sure about the performance of June indicators and the speed of the recovery.

Chart 3. **IP & Rolling IP Forecasts (yoy)**



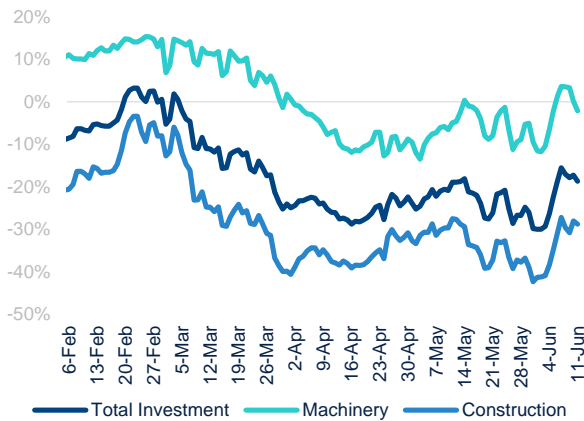
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BGG

Chart 4. **BBVA Big Data Consumption Proxies (28-day cum. YoY nominal)**



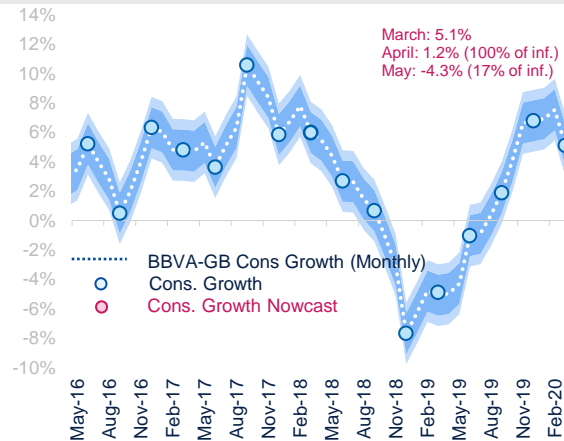
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **BBVA Big Data Investment Proxies (28-day cum. YoY nominal)**



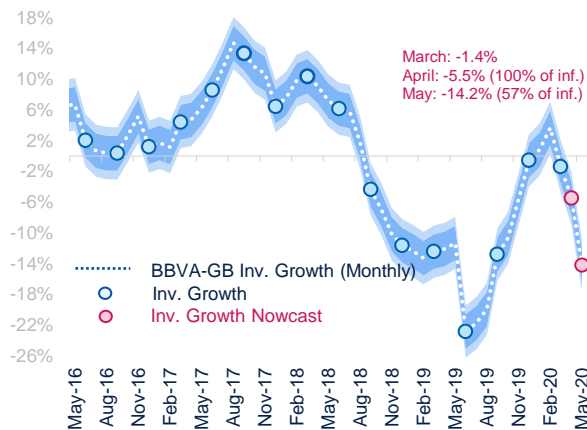
Source: BBVA Research Turkey

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



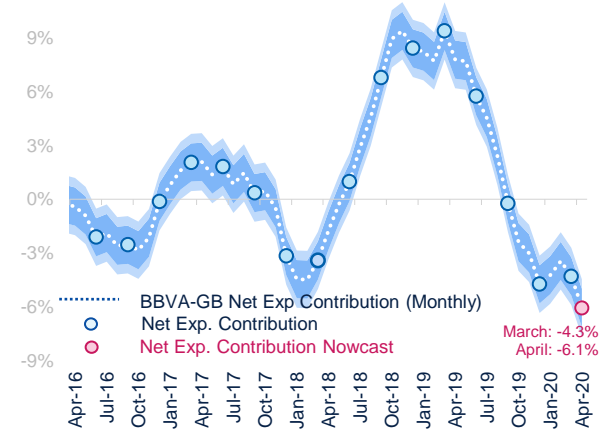
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net Exports Nowcast (yearly contribution)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BGG

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