

Turkey: Fast recovery in May industrial production

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Industrial Production (IP) in May contracted by 20% yoy in calendar adjusted terms, which signals a gradual recovery after the sharp drop of 31% in April. The month-on-month recovery at 17% also proved to be the strongest monthly increase historically. In contrast, retail sales remained relatively weak by contracting at 17% yoy, which corresponds to a monthly pick-up of 4%. Since May data also carry the negative impact of calendar days, the unadjusted figures showed deeper contractions, which will be reversed in June. Also, as our Big Data proxies and other high frequency indicators have already signaled, a stronger recovery pattern is on the way since mid-June. Our monthly GDP indicator nowcasts a yearly GDP growth rate of -8.2% (86% info) in May and -7.7% in June (52% info) which is followed by a faster recovery in July with -5% (33% info). Recent credit boost, looser policies and normalization pattern all over the world remain supportive, while uncertainties about a second wave, second round effects of the shock in terms of employment and financial stability, and still poor trade activity all over the world are the downside risks. We maintain our GDP growth estimate at 0% for 2020 with a compensation from a positive contribution of domestic demand. The normalization in the production capacity will be key in the shape of the recovery pattern in the rest of the year.

The recovery has been led by the manufacturing sector

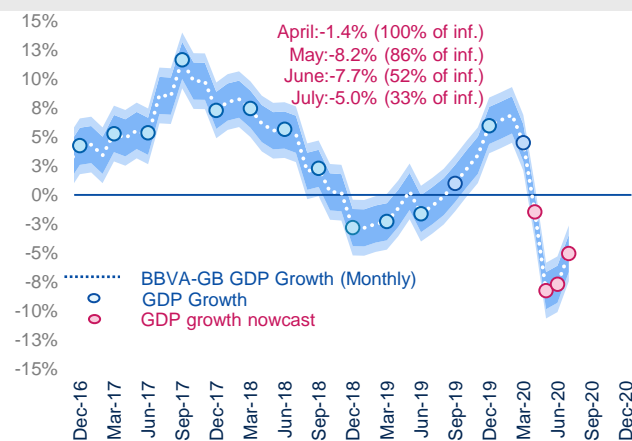
IP (sa & cal adj) has recovered by 17.4% mom after contracting sharply in the last two months, supported by all main sub-sectors, where capital (40.2%) and durable consumer goods production (25.8%) accelerated faster, both boosted by the recent credit impulse and the reopening of the economies. In further detail, all of the sectors recovered but the manufacturing sector took the lead by an increase of 19.3% mom, especially on the back of automotive, textile & clothing and electrical equipment production (important exporting sectors). High frequency indicators such as confidence indices, manufacturing PMI (up to 53.9 from 40.9 in May), auto production (-3.8% yoy from -54% in May), electricity production (-3.5% yoy from -18% in May) and preliminary trade figures (intermediate imports +4.2%, and exports +15.8% yoy) all confirmed the further recovery in economic activity in June, led by the ease in lockdown measures globally and domestic policy impulses. Therefore, industrial production will likely recover faster and realize +10% yoy growth in June, which will also be supported by positive calendar day effects (shift of Ramadan holiday to May this year) before some correction so far in July (Chart 3). Accordingly, our monthly GDP indicator nowcasts a yearly contraction between 7-8% in June and only a gradual recovery to 5% contraction in July with 33% of info. Our Big Data proxies also confirm this trend, especially in consumption; whereas investment still lacks a full recovery to experience the pre-Covid pattern, but in any case showing a better outlook on the machinery front.

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

Mean	2019			2020						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul		
Industrial Production	6.5	5.6	7.2	9.7	5.7	-7.7	-21.1			
Non-metal Mineral Production	4.7	-10	3.4	6.4	6.3	-2.5	-2.5			
Electricity Production	4.2	-0.4	0.5	2.9	2.7	-3.6	-11.4	-12.5	-7.7	
Auto Sales	3.6	25.3	17.0	41.2	41.6	1.1	-3.9	21.2		
Garanti BBVA Investment	-0.1	-4.1	-5.6	-6.4	-6.2	-20.3	-30.5	-18.3	-16.4	
Number of Employed	3.1	-0.8	0.0	-0.6	-2.6	-5.8				
Number of Unemployed	4.5	8.5	0.9	-5.2	-9.9	-11.1				
Auto Imports	4.8	18.9	7.4	31.9	48.0	29.0	7.4	24.6		
Auto Exports	7.4	-2.2	-0.5	-0.2	-13.6	-40.8	-58.9	-60.0		
Garanti BBVA T. Consumption	4.7	9.0	9.2	9.7	4.5	-7.3	-20.7	-17.7	-10.1	
Manufacturing PMI	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9		
Total Loans growth 13-week	19.7	18.4	24.7	27.6	39.4	66.1	68.6	73.3	76.6	
Real Sector Confidence	105.6	103.6	104.1	106.9	99.7	66.8	76.9	92.6		
MICA Forecast						-1.4%	-8.2%	-7.7%	-5.0%	
GDP YoY		6.0%		4.5%						

Source: BBVA Research Turkey, Turkstat

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

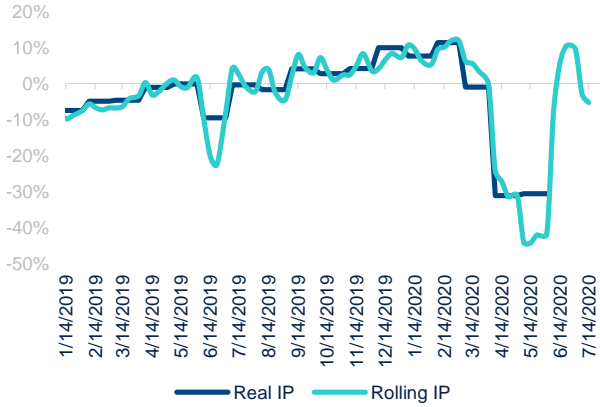


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPI Index in BBG)

We maintain our 2020 GDP growth forecast at 0%

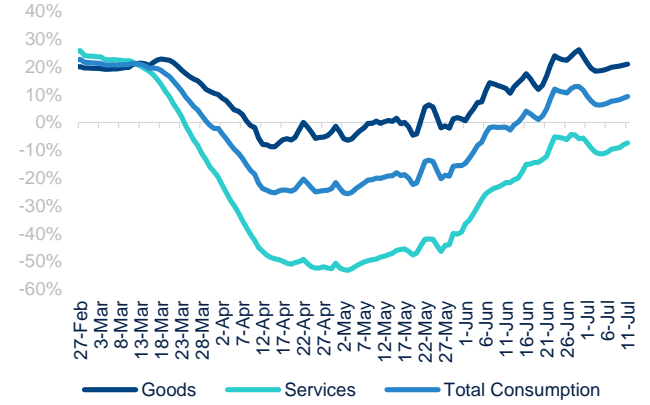
As our Big Data proxies and other high frequency indicators have already signaled a stronger recovery since mid-June, our GDP nowcast confirms this with a faster correction in July. Though, how the recent credit boost and other looser policies will be accompanied by the supply side of the economy remains key to sustain this momentum in the rest of the year. We still maintain our 2020 GDP forecast at 0%, with a revised range between +1% and -3%, and a higher contribution from domestic demand.

Chart 3. IP & Rolling IP Forecasts (yoy)



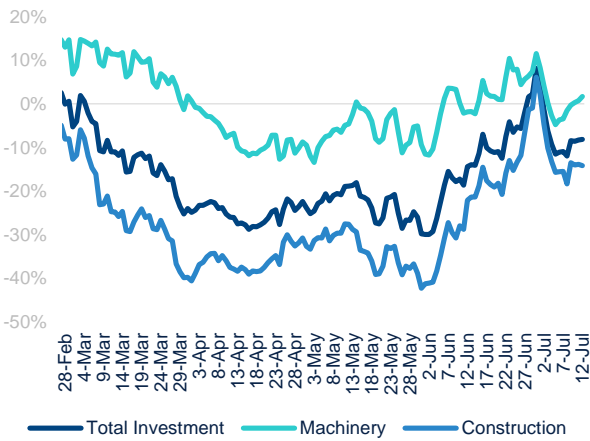
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BGG

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



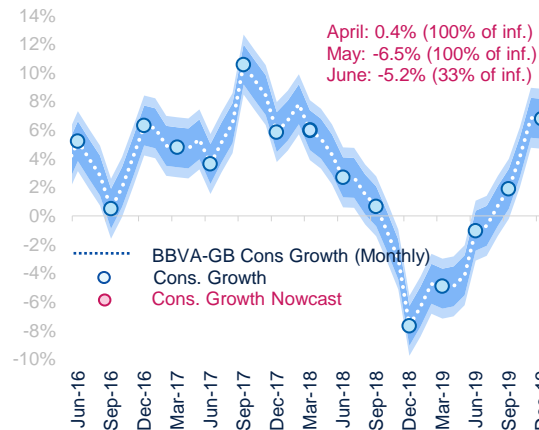
Source: BBVA-Research Turkey, Turkstat, TETC

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



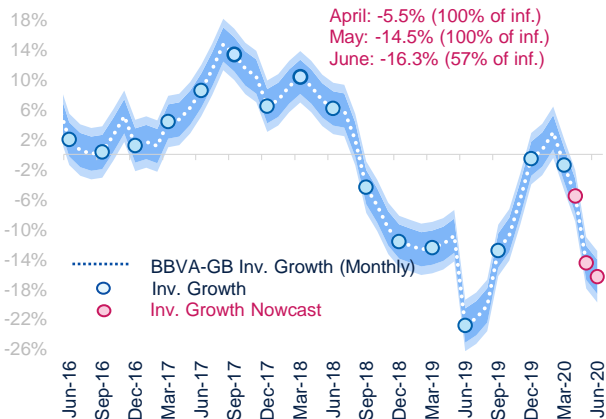
Source: BBVA Research Turkey

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



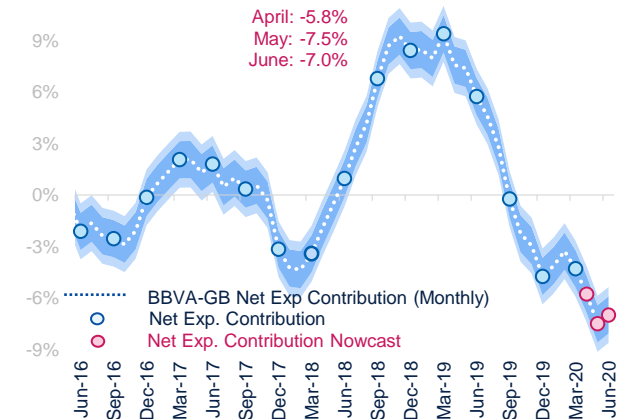
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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