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Turkey: Strong activity confirms our Big Data signals

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Industrial Production (IP) grew +0.1% yoy in June in calendar adjusted terms, which implies a faster recovery than expectations after the sharp drop of 25% during April-May. The month-on-month rise remained strong at two digits at 17.6% after growing by 18% in May (historically the highest rate). Retail sales also accelerated by increasing 16.5% mom, which corresponds to a yearly contraction of only -0.8% after the sizable decline of -19% on average in the previous two months. Both indicators confirmed our Big Data signals of the recovery pattern since mid-May. Our monthly GDP indicator nowcasts a yearly GDP growth rate of near -5.5% for 2Q, which is followed by a faster correction implying already positive growth rates as of July (+0.4%) and an acceleration to near +6% according to our Big Data and daily electricity consumption in the first two weeks of August. Looking ahead, we expect some moderation as credit growth has started to recede after the de facto tightening in financial conditions. We maintain our 2020 GDP growth forecast at 0% with some risks on the downside as uncertainties about a second wave of the virus and high volatility in both local and global financial markets remain.

The recovery pattern in economic activity accelerates in July

The month-on-month rise in IP (sa & cal adj) remained strong at 17.6%, supported by all main sub-sectors. A slight deceleration in capital goods production was compensated mainly by the pick-up in non-durable consumer goods production, while the highest contribution continued to come from intermediate goods. In further detail, most of the sectors kept recovering but the manufacturing sector took the lead by an increase of 18.9% mom, again especially on the back of textile & clothing, automotive, non-metallic minerals (input for the construction sector such as cement), metals, and electrical equipment production. High frequency indicators such as manufacturing PMI (56.9 in July), electricity production (+6% yoy in August so far) and record rises in both automobile and light commercial vehicle (+350% and +610% yoy in July, respectively) and houses sales (+210% yoy in June) confirmed not only the recovery in demand but also in the production side, led by the ease in lock-down measures globally and domestic policy impulses. Although also supported by positive calendar day effects in June (shift of Ramadan holiday to May this year), even with some correction as of July both our big data proxies and other high frequency indicators still remain relatively strong. Accordingly, our monthly GDP indicator corrects very fast, also boosted by both carry-over impact since it is a 3-month average indicator and positive calendar days which will be partially reversed in September. Our monthly GDP sub-components 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.

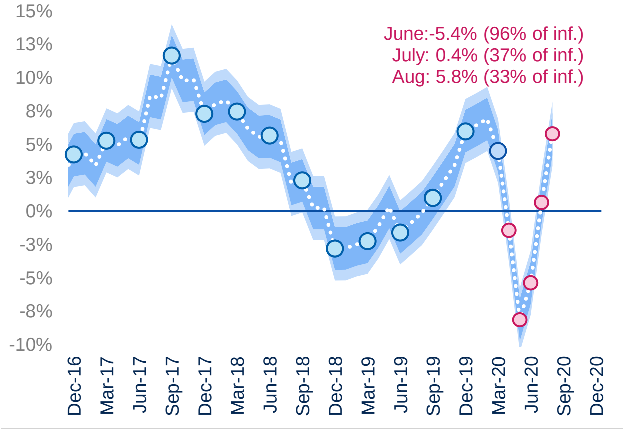
Chart 1. **Activity Indicators** (%yoy, 3M Moving Avg.)

		2019	2020							
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	6.5	5.6	7.2	9.7	5.7	-7.7	-21.1	-16.8		
Non-metal Mineral Production	4.7	-1.0	3.4	6.4	6.3	-2.5	-12.4	-5.0		
Electricity Production	4.2	-0.4	0.5	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.8
Auto Sales	3.6	25.3	17.0	41.2	41.6	18.1	-3.9	21.2		
Garanti BBVA Investment	-0.1	-4.1	-5.6	-6.4	-16.2	-20.3	-30.5	-18.4	-11.8	-3.5
Number of Employed	3.1	-0.8	0.0	-0.6	-2.6	-5.8	-7.9			
Number of Unemployed	4.5	8.5	0.9	-5.2	-9.9	-11.1	-10.3			
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	-6.8	0.2
Manufacturing PMI	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9	56.9	
Total Loans growth 13-week	19.6	18.4	24.7	27.6	39.4	66.1	68.6	76.6	56.7	51.9
Real Sector Confidence	105.6	103.6	104.1	106.9	99.7	66.8	76.9	92.6	100.7	
MICA Forecast						-1.4%	-8.1%	-5.4%	0.6%	5.8%
GDP YoY		6.0%			4.5%					

Contraction | Slow-down | Growth | Boom

Source: BBVA Research Turkey, Turkstat

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

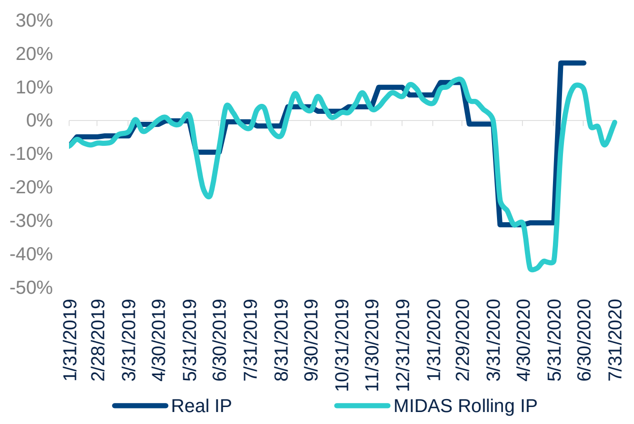


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

We maintain our 2020 GDP growth forecast at 0% but risks remain

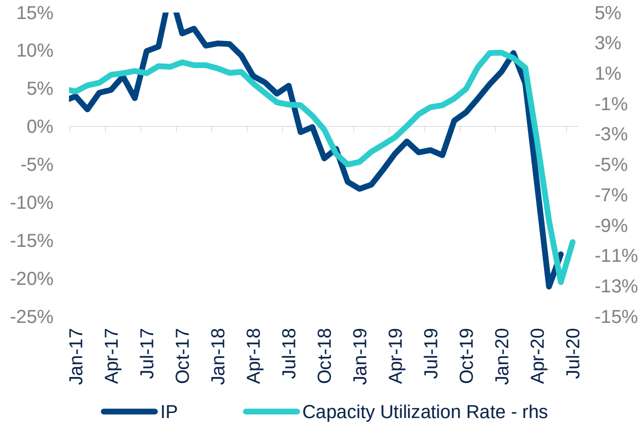
Hard data finally confirmed the robust signals by our Big Data (first) and soft data indicators (second) of a stronger than expected economic recovery since mid-May, which accelerates further in June, July and August. The necessary tightening in financial conditions and monetary policy to moderate excess credit and limit exchange rate volatility should lead to some moderation in August. We maintain our 2020 GDP growth forecast at 0% with some but limited downside risks.

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



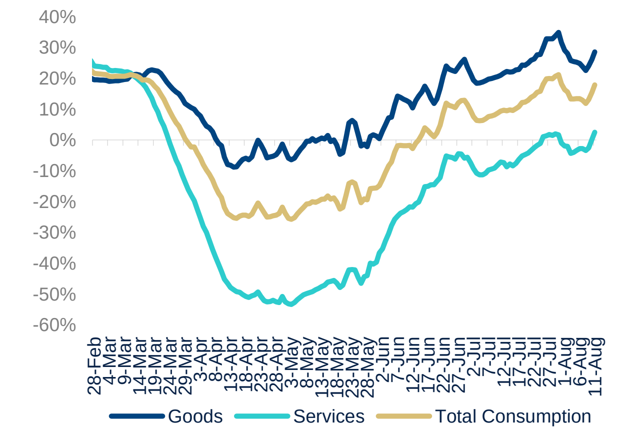
Source: BBVA Research Turkey, Turkstat,

Chart 4. **IP & Capacity Utilization Rate** (3-month yearly change)



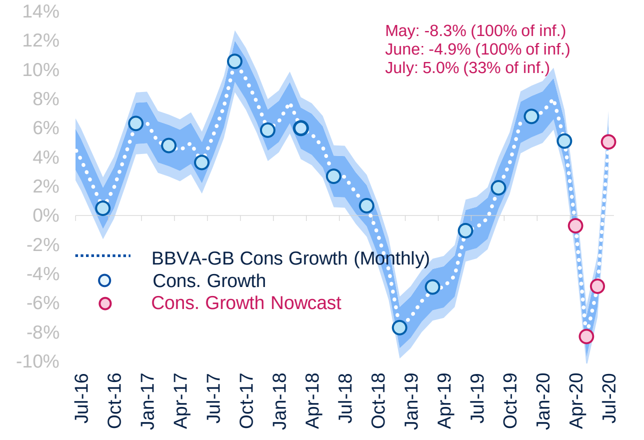
Source: BBVA-Research Turkey, Turkstat, TETC

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



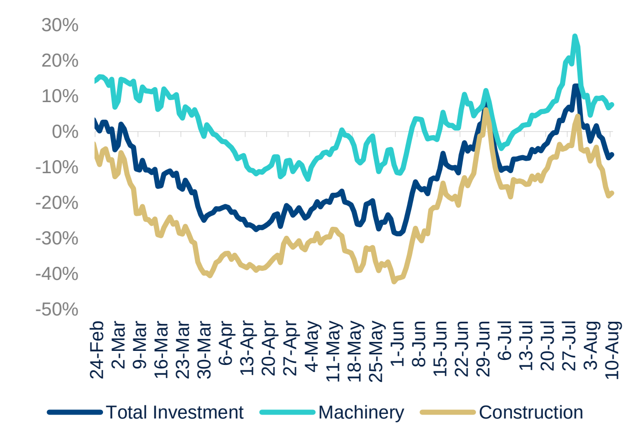
Source: BBVA Research Turkey

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



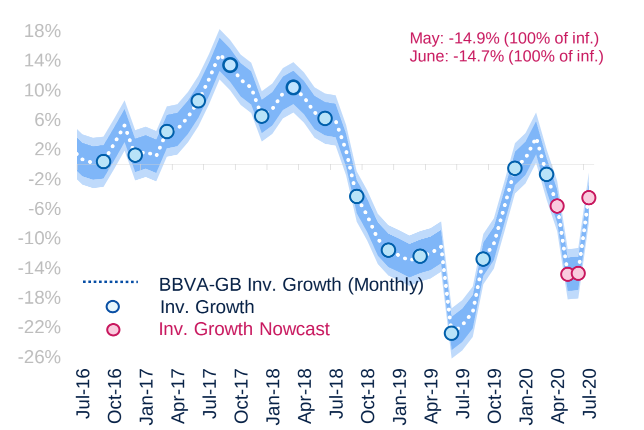
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Chart 7. **BBVA Big Data Investment Proxies** (28-day cum. YoY nominal)



Source: BBVA Research Turkey

Chart 8. **BBVA Monthly Investment Nowcast** (3m yoy)



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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