

# Turkey: Strong activity confirms our Big data

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Industrial Production (IP) grew by 10.4% yoy in calendar adjusted terms (+16% yoy in unadjusted series) in August, leading to a fast recovery of near 7% in July-August after the sharp contraction of 17% in 2Q. The month-on-month rise remained strong at 3.5%, resulting in the historically highest index level (2% higher than the February peak). Besides, retail sales showed some loss of momentum but to a lower extent, by increasing 1.4% mom, which corresponds to a yearly growth of 5.8% in August (9% in July-August vs. -12% in 2Q). Therefore, both confirmed the strong recovery pattern since mid-May as our Big Data proxies and other high frequency indicators have already signaled. Our monthly GDP indicator nowcasts a yearly GDP growth rate of near 7% for 3Q as of September (52% information), which would imply some negative deviation, led by still poor services sectors contribution. All in all, despite the recent financial tightening, September high frequency data confirms the continuation of strong momentum in activity, which we still expect to lose some pace during 4Q. Given the strength of the 3Q data and still strong big data at the beginning of 4Q we believe that a 0% GDP growth is now more likely. We maintain our 2021 GDP growth estimate at 5.5%.

## Strong IP led by both domestic demand and export-oriented sectors

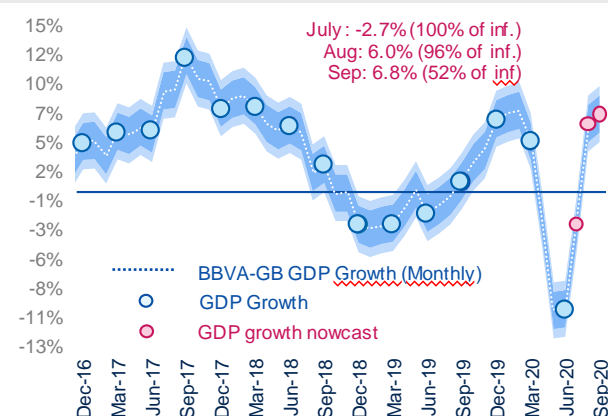
The ongoing strong rise in IP was supported by all main sub-sectors, while the highest contribution continued to come from intermediate goods which remained promising for future production. Besides, capital goods production was also strong but this time non-durable consumer goods production showed an acceleration, mostly implying a further push from domestic demand. In further detail, most of the sectors kept recovering but the manufacturing sector took the lead by an increase of 11.4% yoy, especially on the back of automotive, non-metallic minerals (input for the construction sector such as cement), metals, machinery, plastics and textile & clothing production, showing a solid recovery supported by both domestic demand and export-oriented sectors. Looking ahead, some of the high frequency indicators (manufacturing PMI, other sectorial confidence indices, commercial credits etc.) already started to show early sings of deceleration but some others (such as electricity production, capacity utilization rate, consumer credits, automotive & house sales etc.) have still kept the momentum high for economic activity in September. Accordingly, our monthly GDP indicators (as also seen in demand subcomponents, Charts 6-7) also confirm this trend, led by both consumption and investment, which shows a very rapid revival of domestic demand in 3Q and keeps the negative contribution of net exports at almost the same high negative level in 2Q (Chart 8). All in all, we still expect the downward impact of the recent financial tightening to materialize starting from 4Q but more clearly at the start of 2021.

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

	Mean	2020											
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		
Industrial Production	6.5	5.6	7.2	9.7	5.7	-7.7	-21.0	-16.7	-4.1	10.1			
Non-metal Mineral Production	4.7	-1.0	3.4	6.4	6.3	-2.5	-12.4	-4.9	6.3	24.5			
Electricity Production	4.2	-0.4	0.5	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.0	3.8		
Auto Sales	3.6	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	65.2	172.8	159.8		
Garanti BBVA Investment	-0.2	-4.1	-5.6	-6.4	-16.2	-20.3	-30.5	-18.4	-11.8	0.2	-6.3		
Number of Employed	3.1	-0.8	0.0	-0.6	-2.6	-5.8	-7.9	-8.2	-6.6				
Number of Unemployed	4.5	8.5	0.9	-5.2	-9.9	-11.1	-10.3	-7.2	-6.6				
Auto Imports	4.8	18.9	7.4	31.9	48.0	29.0	7.4	24.6	103.6	156.9	176.2		
Auto Exports	7.4	-2.2	-0.5	-0.2	-13.6	-40.8	-58.9	-60.0	-40.7	-28.6	-23.3		
Garanti BBVA T. Consumption	4.7	9.0	9.2	9.7	4.5	-7.3	-20.7	-17.7	-6.8	4.5	6.5		
Manufacturing PMI	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9	56.9	54.3	52.8		
Total Loans growth 13-week	19.6	18.3	24.7	27.6	39.4	66.1	68.6	76.6	56.7	47.9	36.9		
Real Sector Confidence	105.6	103.6	104.1	106.9	99.7	66.8	76.9	92.6	100.7	106.2	105.3		
MICA Forecast													
GDP YoY		6.4%			4.4%			-9.9%					
		Contraction			Slow-down			Growth					

Source: BBVA Research Turkey, Turkstat

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

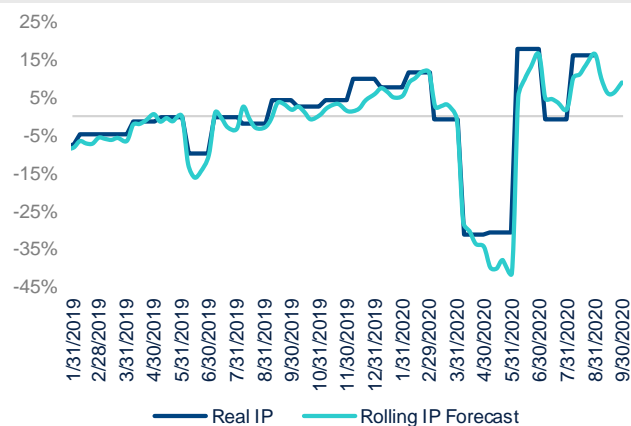


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

## A GDP growth near 0% is now likely. A Policy rebalancing would minimize risks

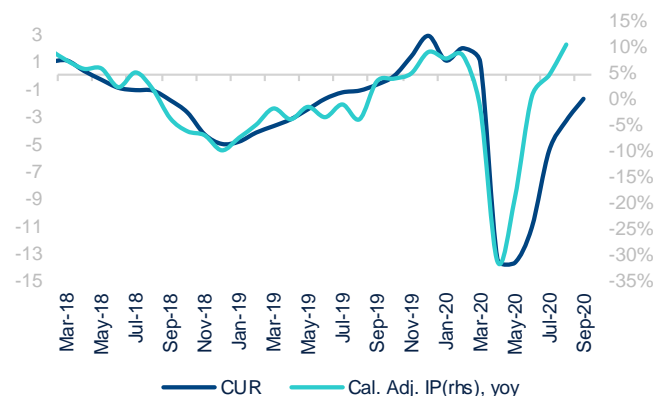
As our Big Data proxies and other high frequency indicators already signaled a strong recovery since mid-May, our GDP nowcasts confirm this with a faster correction during 3Q. The recent policy tightening, rapid credit deceleration and uncertainties attached to financial stability will moderate growth in the short term but our Big data remain robust at the beginning of 4Q and we maintain our 2021 GDP growth forecast at 5.5%. A policy rebalancing would help to minimize downside risks.

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



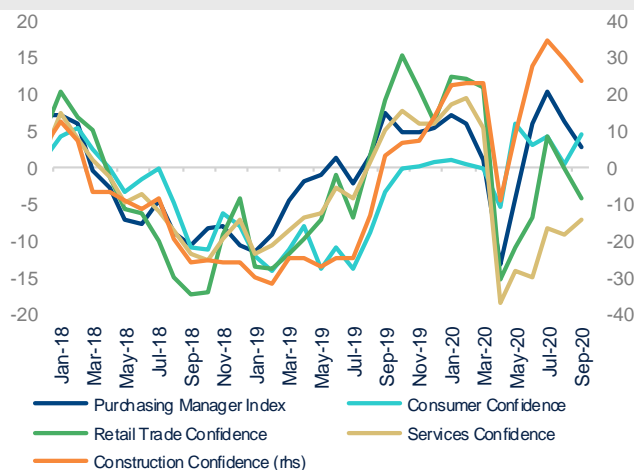
Source: BBVA Research Turkey, Turkstat,

Chart 4. **IP(cal. adj.) & Capacity Utilization Rate (CUR)**  
(YoY in IP & diff in CUR)



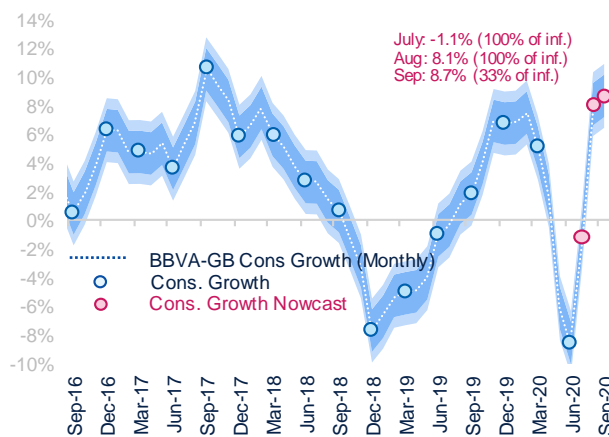
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Confidence Indices (yearly difference)**



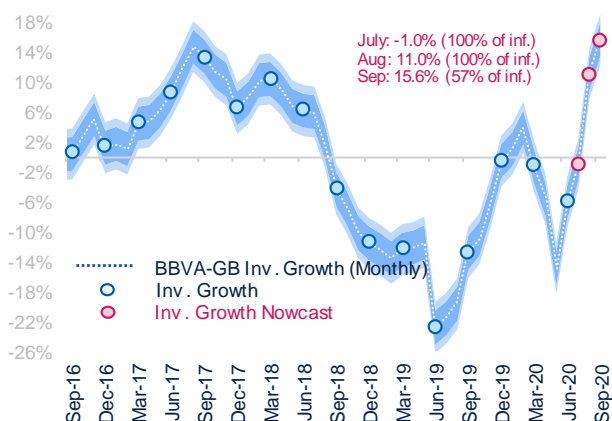
Source: BBVA Research Turkey

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



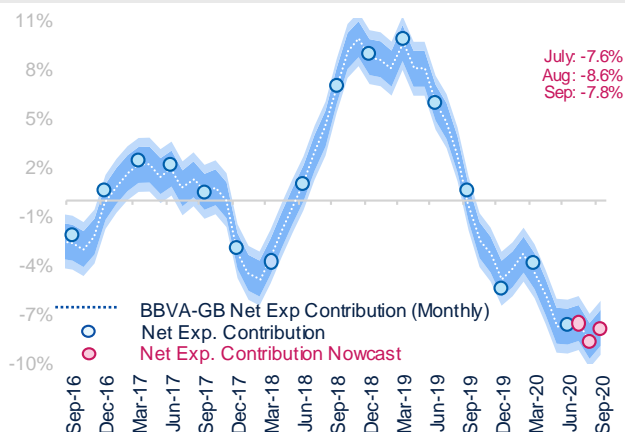
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net Exports Now cast (cont. pp)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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