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Turkey: May IP strengthened after the reopening

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Industrial Production (IP) grew by 41% yoy in calendar adjusted terms in May, implying 39% yoy growth in unadjusted series and being boosted by base effects. Most likely led by the start of the reopening in late May, the month-on-month figure turned to positive with 1.3% after a temporary contraction in April. Though, retail sales declined by 6% mom for the second consecutive month (still 27% yoy rise), which could also be changing in June when the lock-down measures were mostly lifted-off. Our Big Data proxies and other high frequency indicators have shown a fast recovery following the reopening, reflecting still a moderate positive quarterly growth rate in 2Q as our monthly GDP indicator nowcasts a yearly growth rate of 26% in June (69% info) and 20% in July (12% info). Tighter financial conditions and potential indirect effects from the employment after the expiration of ban on firings will likely result in an adjustment in the second half of the year. Even with that, we revise our 2021 GDP growth forecast on the upside to 8%, led by the strong momentum so far and recent upward revisions in global growth. We also downgrade our 2022 GDP growth forecast to 4%, which could still be favored by stronger external demand.

May IP showed some recovery, June figure may still be boosted by the reopening

Seasonal and calendar adjusted IP increased by 1.3% mom in May, mainly backed by the intermediate goods production with 3.9% mom and showed a correction after the reopening in late May (non-durable consumer goods 0.7%, energy 0.2%, durable consumer goods -1%, and capital goods -2.1% mom). On the sectorial side, mining production accelerated by 8.4% mom, while manufacturing sector remained moderate with 1.1% mom increase. There was a differing picture among the subsectors since basic metals, non-metallic minerals and fabricated metal were the ones giving the highest positive contribution, whereas motor vehicles and computer & electronics production mainly subtracted from the overall growth. All in all, IP showed some loss of momentum by growing 0.4% qoq in April-May period (vs. 2.6% in 1Q21), but if the impact of the further reopening in June is considered, the deceleration in the quarterly growth rate might still be limited as can be seen in the high frequency indicators. Manufacturing PMI rose back above 50 (51.3 vs 49.3 in May) and capacity utilization rate rose by 1.1pp (76.3% vs 75.2% in May) in June, and our big data indicators showed that consumption has only stabilized at strong levels and investment has remained moderate despite the slight slow-down in June (Figure 4-5).

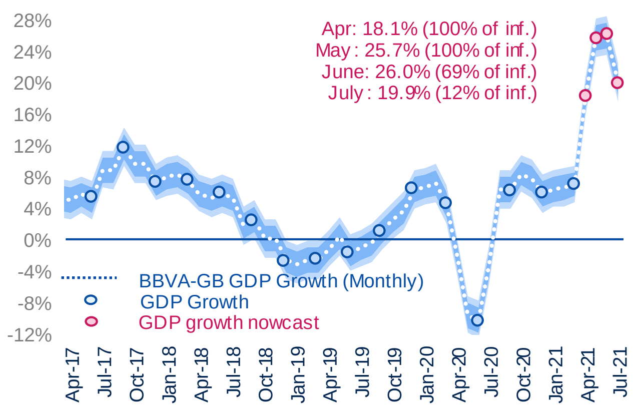
Figure 1. **Activity Indicators**
(%yoy, 3M Moving Avg.)

		2020			2021						
	Mean	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Industrial Production	6.5	12.1	9.8	10.2	9.6	8.7	11.3	26.6	38.9		
Non-metal Mineral Production	4.7	25.4	22.1	23.0	24.0	23.8	22.3	32.5	43.1		
Electricity Production	4.2	6.0	7.4	7.0	5.9	3.8	7.0	16.7	26.2	26.8	18.8
Auto Sales	2.8	111.4	78.7	42.0	30.7	26.2	60.5	76.8	98.1	54.0	
Auto Imports	4.1	90.0	52.9	26.9	23.2	23.6	58.5	64.9	88.7	57.9	
Auto Exports	7.7	-14.1	-12.1	-11.3	-12.0	-13.0	-5.5	32.8	62.5	59.3	
Number of Employed	3.2	-3.1	-3.9	-4.7	-3.3	-1.4	2.6	6.3	9.2		
Number of Unemployed	4.8	-12.3	-10.0	-7.7	-6.7	-3.3	2.1	8.1	8.9		
Real Sector Confidence	105.6	108.1	103.9	106.8	107.0	109.3	110.8	111.0	110.3	113.0	
Manufacturing PMI	50.9	53.9	51.4	50.8	54.4	51.7	52.6	50.4	49.3	51.3	
Total Loans growth 13-week	17.4	7.6	8.1	5.3	3.0	3.0	9.3	12.2	6.8	9.1	9.0
Garanti BBVA BigData Cons.	4.0	7.2	5.7	2.6	-1.6	-3.5	3.7	19.7	29.2	31.1	26.4
Garanti BBVA BigData Invest.	3.0	9.1	8.2	10.5	10.5	10.7	14.3	20.2	28.4	28.3	23.5
GDP Nowcasting Results YoY								18.1%	25.7%	26.0%	19.9%
GDP YoY				5.9%			7.0%				

Contraction	Slow-down	Growth	Boom

Source: Garanti BBVA Research, Turkstat

Figure 2. **Garanti BBVA Research Monthly GDP Indicator**
(%yoy, 3-month moving avg.)

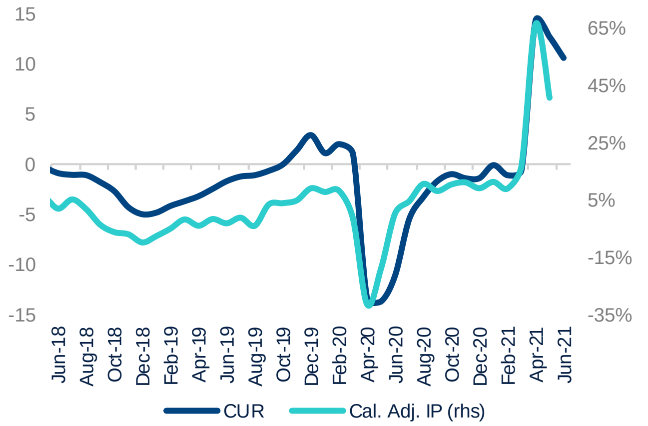


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

Stronger than expected 2Q activity will boost 2021 GDP growth on base effects

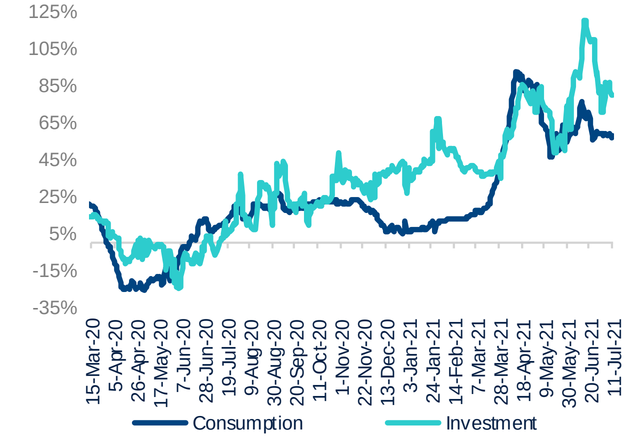
As indicated by our latest nowcast update, yearly GDP growth might reach above 15% in 1H21 on still growing domestic demand and strengthening net exports. Led by the current solid momentum and expected pick-up in global economic activity, we upgrade our 2021 GDP forecast to 8% even though we still assume an adjustment in the second half of the year.

Figure 3. **IP** (cal. adj. yoy) **& Capacity Utilization Rate** (yearly difference)



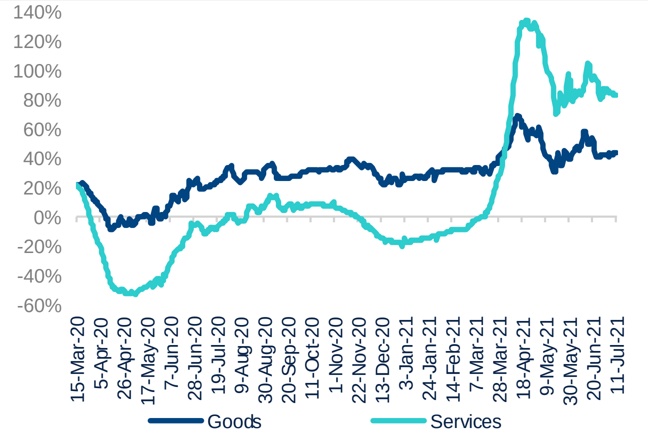
Source: Garanti BBVA Research, CBRT

Figure 4. **BBVA Big Data Demand Indicators** (28-day sum, nominal, YoY)



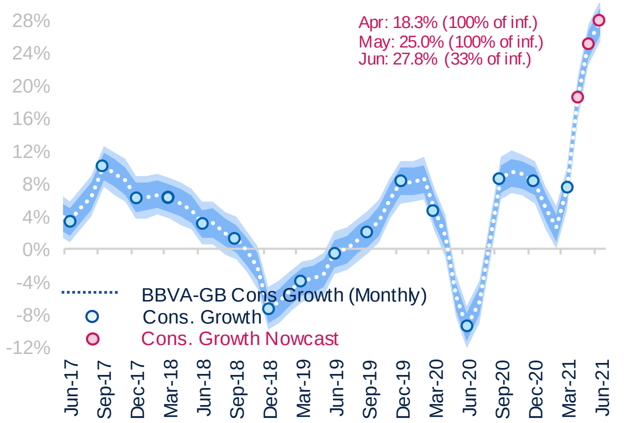
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Consumption Indicators** (28-day sum, nominal, YoY)



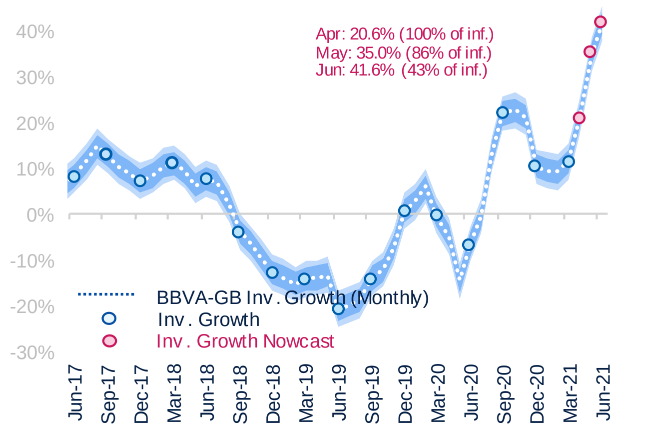
Source: Garanti BBVA Research

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



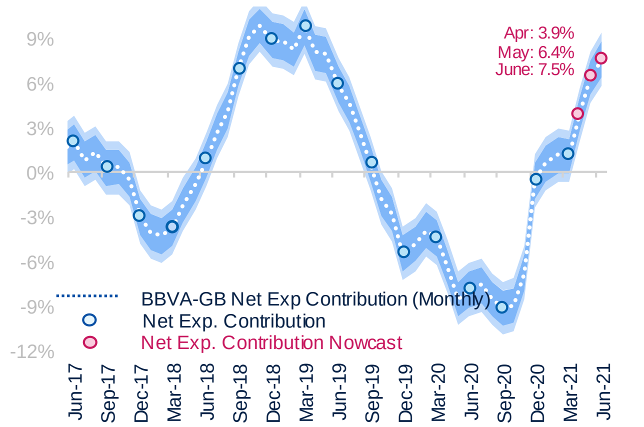
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Figure 8. **BBVA Monthly Net Exports Nowcast** (cont. pp)



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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