

Turkey: Industrial Production remained strong in 3Q

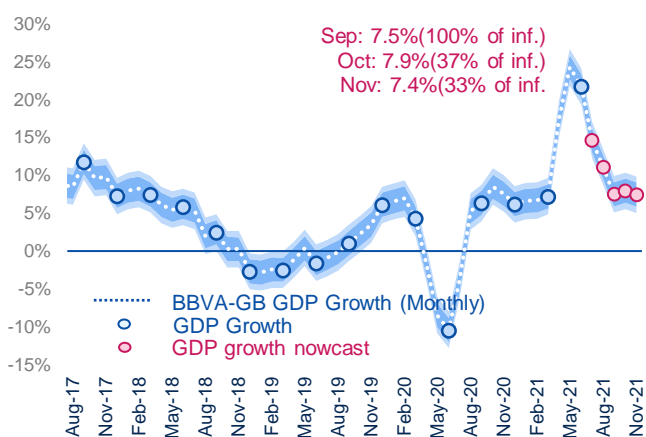
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Industrial Production (IP) grew parallel to expectations by 8.9% yoy in calendar adjusted terms (8.8% yoy in raw series) in September. The monthly figure shrank by 1.5% but brought the quarter-on-quarter growth rate to 1.6% in 3Q21. Given the increasing contribution of services in 3Q21, the pace could even be higher in overall activity as our monthly GDP indicator nowcasts a quarterly growth rate of near 2% for 3Q21. According to our Big Data proxies, the pace only limitedly decelerates in early November since domestic demand keeps growing on consumption and contraction in investment moderates. Exports remain solid led by stronger external demand and the contribution from net exports gains momentum. Current tighter conditions in financial markets might be caveats but recent acceleration in credits, post-pandemic effects and significantly deteriorated expectations keep domestic demand brought forward. We expect 2021 GDP growth to be 9.5% with risks on the upside considering the expansionary bias of the economy policies.

Strong 3Q IP growth despite the monthly contraction in September

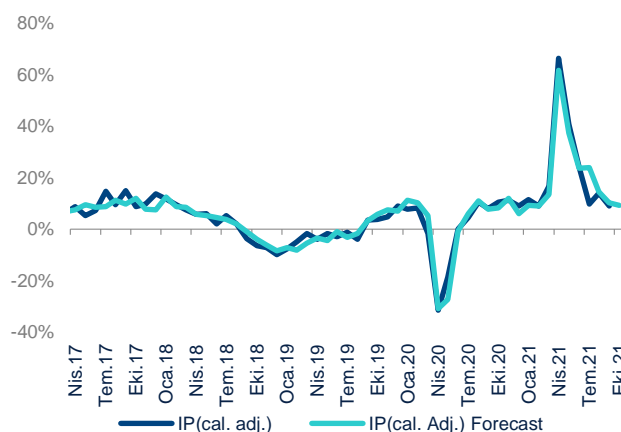
September IP showed an adjustment after August's very strong rebound and contracted by 1.5% mom. The only positive contribution came from durable consumer goods production (5.5% mom) whereas the rest of the main subsectors production shrank (capital goods -5%, energy -3%, intermediate goods -1% and non-durable consumer goods -0.4% mom). As a result, the quarter on quarter IP growth was realized as 1.6% for 3Q and slightly surpassed the 2Q quarterly growth rate of 1.5%. In main subsectors, the pace of recovery was more or less maintained in intermediary and capital goods production, whereas the acceleration of consumer goods production (mainly non-durable) was compensated by the deceleration in energy goods production. According to our calculations, monthly contraction in September might be temporary as it might be corrected in October (Figure 2), signaling that activity maintains a solid momentum. Leading indicators such as electricity production, manufacturing sector capacity utilization rate (down to 77.5% in Oct) and slight deterioration in manufacturing PMI (down to 51.2 in Oct) all indicate a slow-down in economic activity. Given the ongoing strong performance of our Big Data domestic demand indicators (Figures 3-5) in early November, overall demand might remain stronger than the pace of production, indicating further possible decline in inventories and ongoing pull factor on inflation outlook.

Figure 1. **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 (GBTRGDY Index in BBG)

Figure 2. **IP (cal. adj.) vs IP (cal. adj.) Forecast** (one month ahead forecast, YoY)

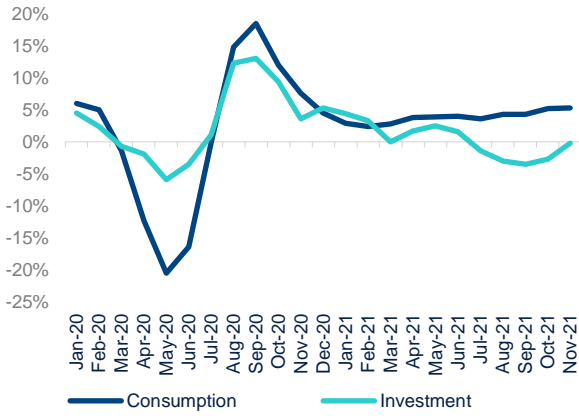


Source: Garanti BBVA Research, Turkstat

Current momentum remains strong, risks are on the downside for 2022

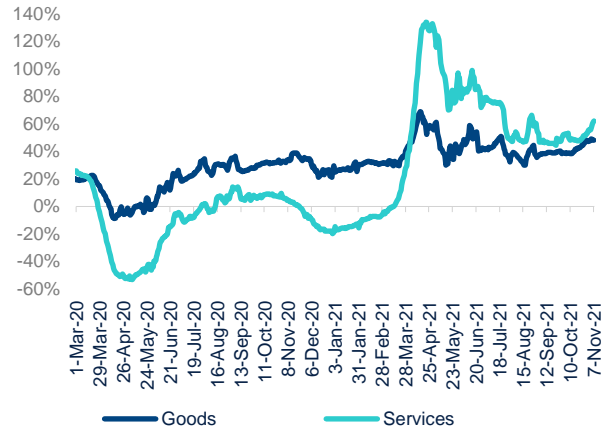
September IP resulted in a maintenance of recovery in 3Q21 supported by both domestic demand oriented and exporting sectors, as also confirmed by our GDP nowcasts signaling the growing contribution from consumption and net exports in 4Q21. We expect 2021 GDP growth to be realized as 9.5%, with risks still on the upside.

Figure 3. **BBVA Big Data Domestic Demand Indicators** (3-month qoq real)



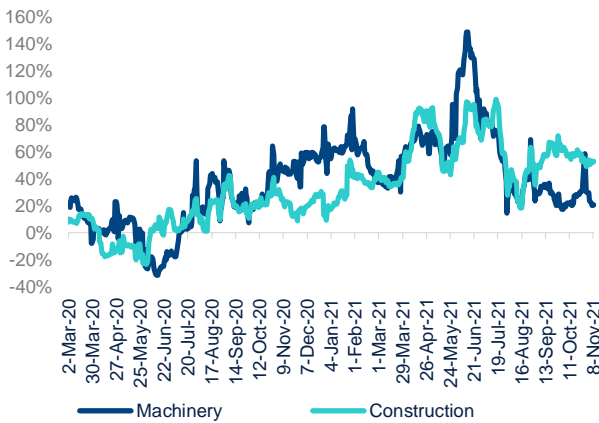
Source: Garanti BBVA Research, Turkstat

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



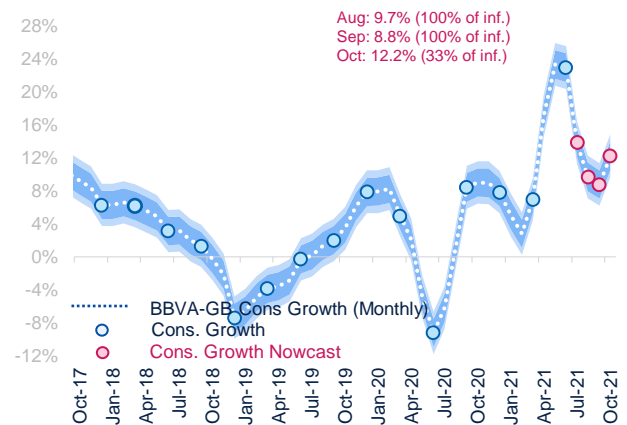
Source: Garanti BBVA Research, Turkstat

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



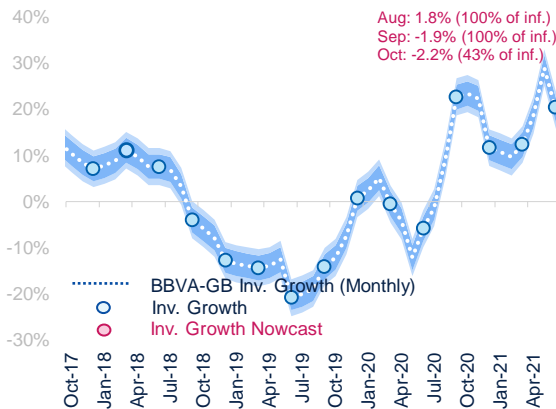
Source: Garanti BBVA Research, Turkstat

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



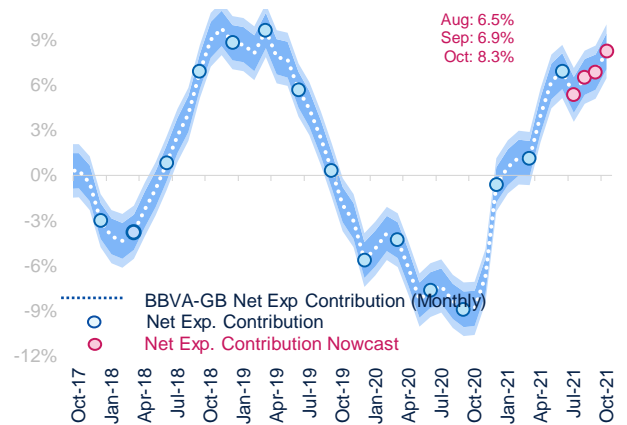
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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