

ECONOMIC ACTIVITY PULSE

# Activity Moderation Towards Potential

Garanti Research: Ugur N. Kucuk, Seda Guler, Asuman Kemiksiz | BBVA Cross EM: Gonzalo de Cadenas

**Industrial production (IP) grew by 4.7% (YoY) in March, undershooting the consensus estimate of 5%, while calendar adjusted figure was even lower at 2.9% (YoY). Retail sales grew by 4% (YoY) in March. Today's production and demand side data pointed at a modest slowdown in March confirming the earlier easing signals from the confidence indicators. On a quarterly basis, indicators suggest a moderation of GDP growth towards its potential in 1Q from the unsustainably high levels in the last quarter of 2015. In sum, we expect some moderation but we stick our 3.9% GDP growth forecast with neutral balance of risks.**

## IP supported by non-durable consumer goods in 1Q16...

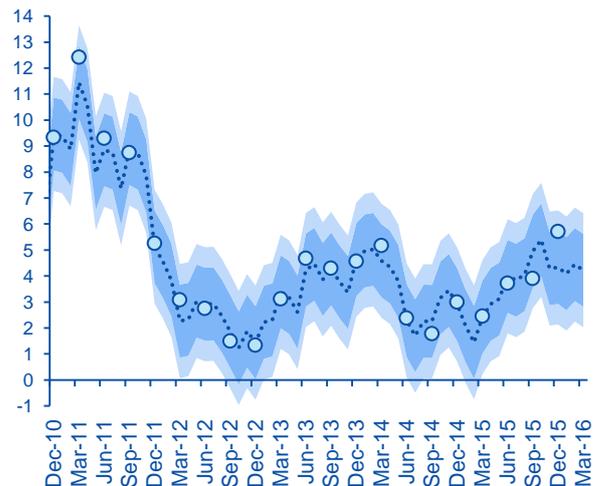
Despite the reversal of the low base year effect in March, IP continued to be solid being supported by an additional workday this year. Hence, IP grew by 5.6% (YoY) in 1Q16, moderated from high but unsustainable 7.5% in 4Q15. In the details, compared to 4Q15, the only sub-component that pushed up the growth rate was consumer goods production on the back of non-durable goods, behind which we think minimum wage hike stands. Capital goods production was the most suffered in 1Q16, led by the remarkable deceleration in automotive production.

In sectorial basis, manufacture of textiles, wearing apparel, basic metal and metal products were the prominent sectors on external demand with a total contribution by 2.6pp in 1Q16. Among the domestic demand oriented sectors, manufacture of chemical and pharmaceutical products (1.2pp), manufacture of computer and electronic products (0.4pp) and manufacture of other non-metallic mineral products (products for the construction sector, 0.3pp) offered the highest contributions.

Graph 1: Activity Indicators\* (3MA, YoY, SA)

Mean	2015				2016			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Prod (IP)	6.0	0.2	4.6	3.1	7.5	4.0	5.5	5.6
Non-metal Mineral	4.4	-1.5	1.5	-0.2	5.4	2.0	6.5	5.7
Electricity Prod.	5.0	2.4	4.4	4.2	6.5	5.3	5.7	4.1
Auto Sales	14.7	22.0	7.8	-1.0	3.5	3.9	0.9	-6.0
Tourist Arrivals	5.5	0.0	-3.1	-2.6	-3.9	-4.5	-8.0	-10.3
Number of Emp.	4.4	3.6	3.3	3.2	3.0	3.0	3.0	
Number of Unemp.	0.6	2.8	2.7	1.7	2.0	2.0	1.2	
Auto Imp	18.5	25.0	12.3	3.7	5.6	5.7	2.8	0.2
Auto Exp	9.1	9.7	29.6	21.5	23.1	5.0	7.3	6.6
Financial Conditions	74.6	77.2	82.2	80.4	80.5	79.1	79.3	84.8
Credit Growth-13week	21.7	6.2	4.0	7.8	10.2	6.2	9.6	9.4
PMI Manufacturing	51.9	48.8	49.5	50.9	52.2	50.9	50.3	49.2
Real Sector Conf.	107.7	99.7	103.6	110.2	108.8	105.9	105.2	104.1
MICA Forecast	4.0%							
GDP YoY	3.9%				5.7%			

Graph 2: Garanti-BBVA Research Monthly GDP\*\* (YoY)



Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

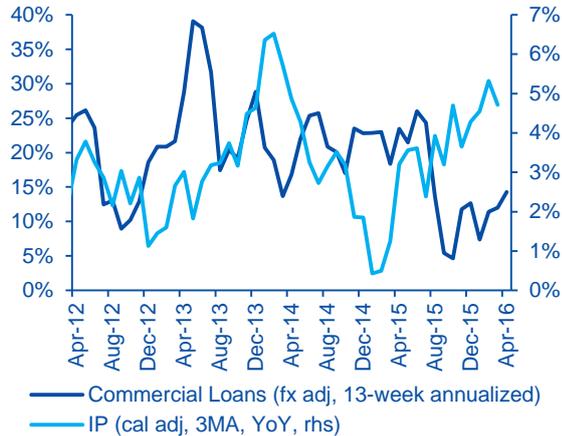
\* Series are non-calendar adjusted. \*\*Garanti- BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation was made in Turkey Economic Outlook 3Q2015.

## ...risks are balanced around our 3.9% full year forecast

The inclusion of the latest IP data, credit and financial conditions and PMI points our monthly GDP growing close to 4% in 1Q16, slowing down from an unsustainable 5.7% in 4Q15. Some further deceleration may be

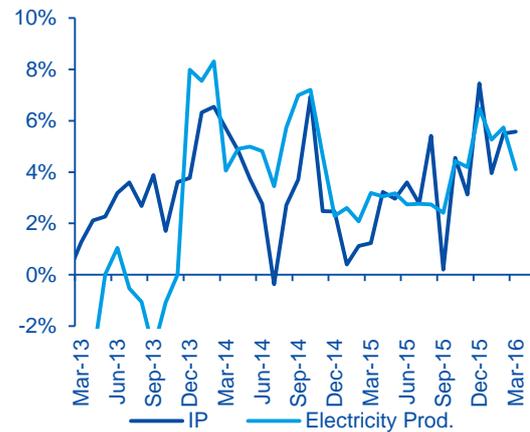
on the way in 2Q, as the weak tourism sector is gradually weighing and PMI remains weak.. However, strong pace in domestic consumption thanks to the minimum wage hike, a solid industrial production supported by the gradual recovery in the EU and the better credit data would limit the negative impacts of the tourism sector. All in all, we maintain our 2016 GDP growth estimate of 3.9% with neutral balance of risks.

**Graph 3: Loan Growth and IP**



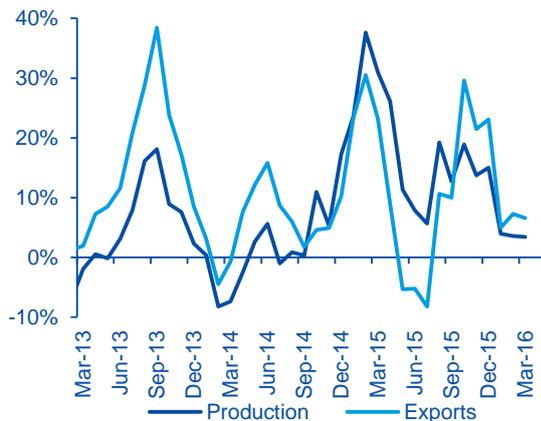
Source: Garanti Research, Turkstat, CBT, BRSA

**Graph 4: Electricity Production (3MA, YoY)**



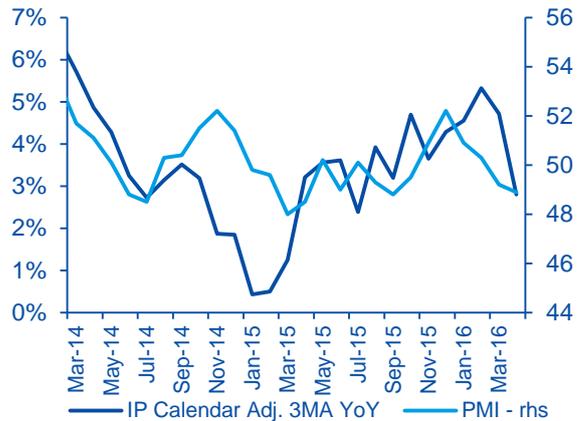
Source: Garanti Research, Turkstat, TETC

**Graph 5: Automotive Production & Exports (3MA, YoY)**



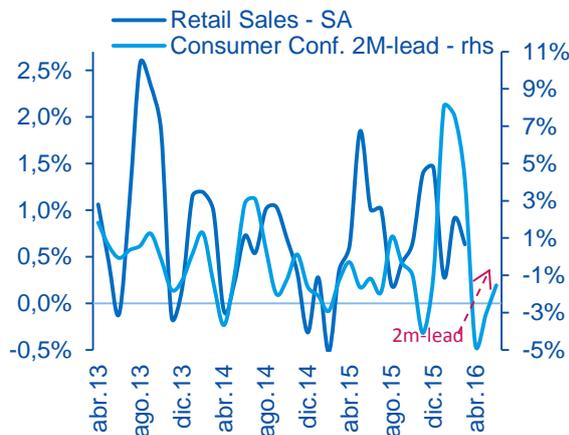
Source: Garanti Research & AMA

**Graph 6: Manufacturing PMI & Calendar Adj. IP**



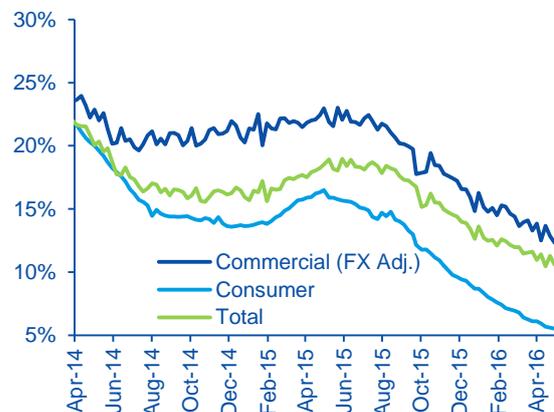
Source: Garanti Research & Markit

**Graph 7: Consumer Confidence & Retail Sales (3MA)**



Source: Garanti Research & Turkstat

**Graph 8: Loan Growth Rates (YoY)**



Source: Garanti Research, Turkstat, CBT, & BRSA

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