

ECONOMIC ACTIVITY PULSE

Turkey: Still Robust GDP Growth in 2Q

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Industrial production (IP) grew by 5.6% (WDA YoY) in May, beating the consensus estimate (4.1%). On a separate release, retail sales (ex-auto) growth slowed down to 1.3% (WDA YoY) in May from 3.4% of April. April-May production and demand side data pointed at a modest slowdown economic activity in 2Q16 especially in ex-auto items, partly confirming the earlier easing signals from the confidence indicators. The indicators suggest a moderation of GDP growth towards 4% in 2Q16 following the 4.8% growth of 1Q16. We expect some moderation ahead but we maintain our 3.9% 2016 annual GDP growth forecast.

The Industrial production beat expectations & monthly GDP grows at 4%...

Industrial production surprised on the upside by growing 5.6% YoY (consensus 4.1%). With this, the annual growth rate of IP rebounded to 3.8% in April-May period, partially relieving the wounds of the weak start to 2Q16 in April (0.7% YoY). The production of consumer and capital goods was the prominent factors behind the correction. Hence so far in 2Q, the slowdown in the IP growth (from 5.6% YoY growth in 1Q) was on the back of the deceleration in the manufacture of all of the main sub-items except for the capital goods. In the sectorial detail, the data gives mixed outlook for the components of the domestic demand. While the sectors including the food, pharmaceutical and chemical products are strong; non-metallic products (related to construction) and furniture sectors are weaker. Meanwhile, exporting sectors continue to post robust growth.

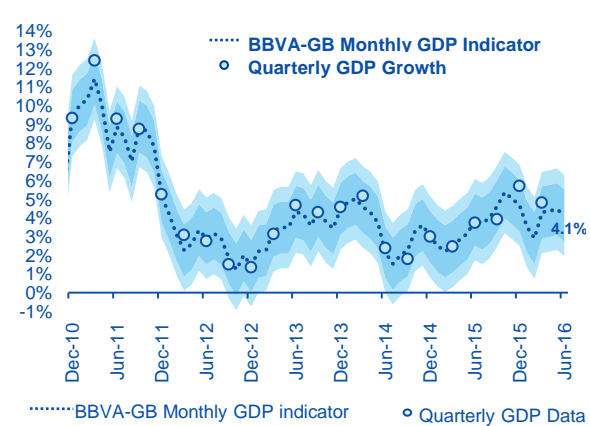
Figure 1
Activity Indicators* (3MA, YoY, SA)

| | Mean | 2015 | | | 2016 | | | | | |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Industrial Production | 4.1 | 4.6 | 3.1 | 7.5 | 4.0 | 5.5 | 5.6 | 4.5 | 4.1 | |
| Non-metal Mineral | 17 | 15 | -0.2 | 5.4 | 2.0 | 6.5 | 5.6 | 6.0 | 13 | |
| Electricity Production | 4.0 | 4.4 | 4.2 | 6.5 | 5.4 | 5.9 | 4.4 | 3.8 | 3.4 | |
| Auto Sales | 4.7 | 7.8 | -1.0 | 3.5 | 3.9 | 0.9 | -6.0 | -6.8 | -0.3 | |
| Tourist Arrivals | 3.3 | -3.1 | -2.6 | -3.9 | -4.5 | -8.0 | -10.3 | -18.7 | -27.6 | |
| Number of Employed | 3.9 | 3.4 | 3.3 | 3.1 | 3.1 | 3.2 | 3.4 | | | |
| Number of Unemployed | 3.9 | 2.7 | 1.7 | 1.9 | 1.2 | 0.9 | -0.2 | | | |
| Auto Imports | 7.2 | 12.3 | 3.7 | 5.6 | 5.7 | 2.8 | 0.2 | -2.0 | 0.8 | |
| Auto Exports | 6.5 | 29.6 | 21.5 | 23.1 | 5.0 | 7.3 | 6.6 | 13.9 | 22.4 | |
| Financial Conditions | 75.3 | 82.2 | 80.4 | 80.5 | 79.1 | 79.3 | 84.8 | 87.0 | 85.3 | 86.7 |
| Credit Growth-13Week | 211 | 4.0 | 7.9 | 10.2 | 6.2 | 9.6 | 9.4 | 12.1 | 11.3 | 13.5 |
| PMI Manufacturing | 51.7 | 49.5 | 50.9 | 52.2 | 50.9 | 50.3 | 49.2 | 48.9 | 49.4 | 47.4 |
| Real Sector Confidence | 107.5 | 103.6 | 110.2 | 108.8 | 105.9 | 105.2 | 104.1 | 105.7 | 105.7 | 104.3 |
| MICA Forecast GDP YoY | | | | 5.7% | | | 4.8% | | | 4.1% |

Contraction Slow-down Growth Boom

* 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. Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2
Garanti-BBVA Research Monthly GDP** (YoY)

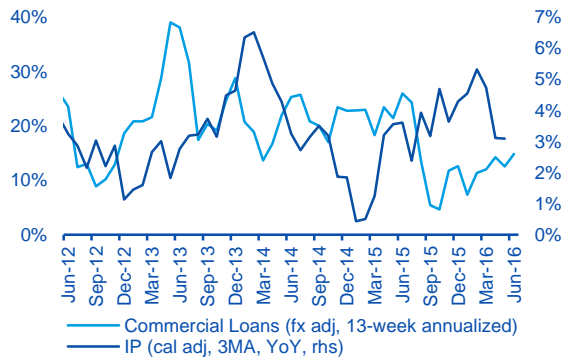


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... risks are neutral around our above consensus 3.9% growth forecast

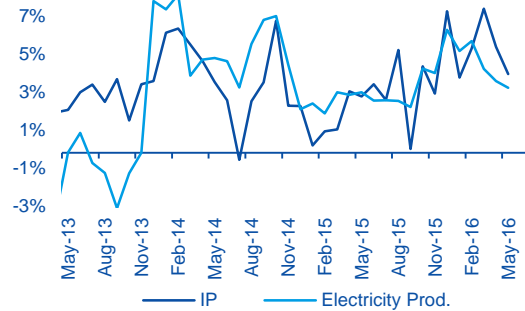
Our monthly GDP indicator points at a growth rate of 4.1% in 2Q, moderating from 1Q's 4.8% but still showing robust growth rates. Going into the high season in summer, tourism sector will weigh more on growth on the downside even after the recent initiative with Russia to suspend the sanctions. However, the lagged effects of minimum wage hike and refugees will prevent a significant slowdown, in our view. **We maintain our 3.9% above consensus growth forecast for 2016, risks are balanced.**

Figure 3
Loan Growth and IP



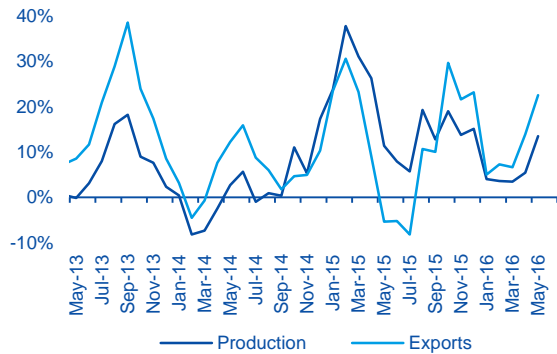
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 4
IP & Electricity Production (3MA, YoY)



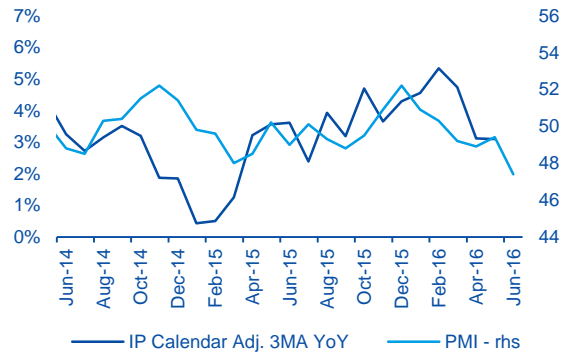
Source: Garanti Research, Turkstat, TETC

Figure 5
Automotive Production & Exports (3MA, YoY)



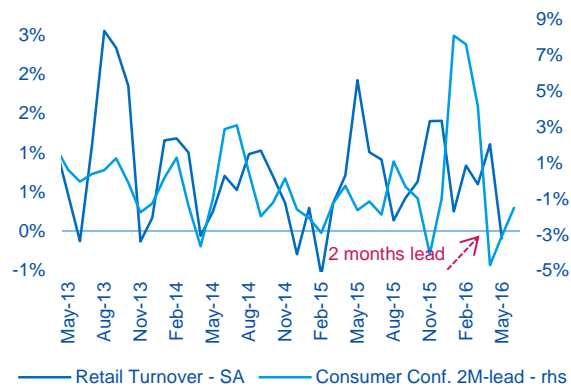
Source: Garanti Research, Turkstat, CBT, AMA

Figure 6
Manufacturing PMI & Calendar Adj. IP



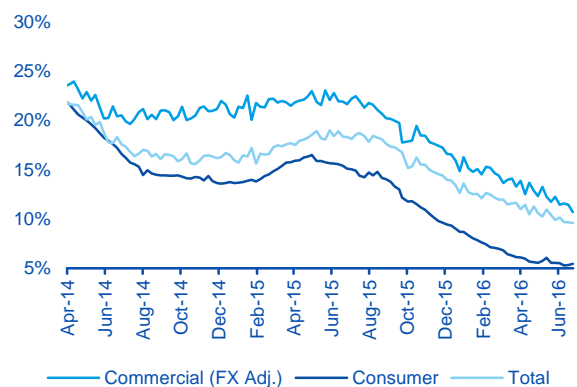
Source: Garanti Research, Turkstat, Markit Economics

Figure 7
Consumer Confidence & Retail Sales (3MA)



Source: Garanti Research, Turkstat

Figure 8
Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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