

ECONOMIC ACTIVITY PULSE

Turkey: IP confirms a sharper GDP deceleration in 3Q

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The industrial production (IP) contracted by 3.1% (WDA YoY) in September in line with our forecasts (-3.1%) but significantly below the market expectations (2.5% growth). 3Q IP growth realized at -3.2%, a quarterly contraction for the first time since 3Q09. The rest of high frequency activity indicators were also below normal. The retail sales grew 1% in September, implying a 0.5% contraction for 3Q. Thus, September production and consumption releases confirm our expectations of a sharper than expected activity deceleration in 3Q. We expect the economy to recover in 4Q due to monetary and fiscal impulses. We maintain our below consensus 2.7% GDP forecast for 2016. Risks are neutral.

IP is in line with our below consensus growth estimate

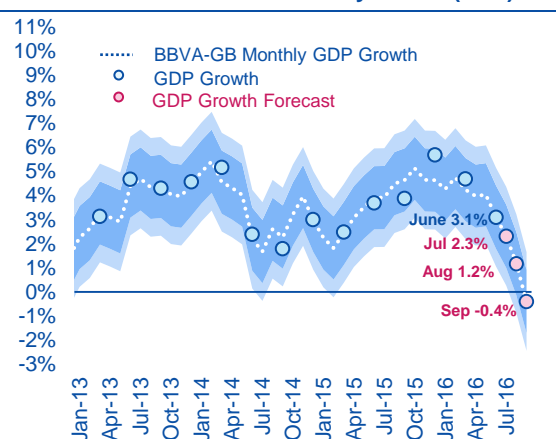
As we conclude the quarterly data with September, annual contraction in IP extends to 3.2% in 3Q. In the details, the contraction in September stemmed mainly from the fall in consumer goods production where the non-durable goods took the lead. Considering the quarterly data, the worsening was across-the-board in all sub-sectors especially in domestic demand oriented ones, while exporting sectors also suffered but to a limited extent. Looking further into 4Q, high frequency indicators suggest only a modest recovery. Currently, we observe a pick-up in consumer loans thanks to strengthened policy stimulus. In contrast, weaknesses in both consumer and real sector confidence and still below threshold (50) manufacturing PMI signal that the pick-up in 4Q still remains weak.

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

	2015												2016																																				
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep																												
Industrial Production	3.8	7.5	4.0	5.5	5.6	4.5	4.1	2.9	0.1	-1.4	-3.2	3.8	7.5	4.0	5.5	5.6	4.5	4.1	2.9	0.1	-1.4	-3.2																											
Non-metal Mineral	15	5.4	2.0	6.5	5.6	6.0	13	0.4	-3.3	-15	-3.0	15	5.4	2.0	6.5	5.6	6.0	13	0.4	-3.3	-15	-3.0																											
Electricity Production	4.0	6.5	5.4	6.1	4.7	4.2	4.1	6.5	5.9	5.8	18	4.0	6.5	5.4	6.1	4.7	4.2	4.1	6.5	5.9	5.8	18																											
Auto Sales	3.9	3.5	3.9	0.9	-6.0	-6.8	-0.3	2.5	-4.6	-6.3	-6.2	3.9	3.5	3.9	0.9	-6.0	-6.8	-0.3	2.5	-4.6	-6.3	-6.2																											
Tourist Arrivals	0.9	-3.9	-4.5	-8.0	-0.3	-8.7	-27.6	-35.6	-37.4	-38.3	-36.0	0.9	-3.9	-4.5	-8.0	-0.3	-8.7	-27.6	-35.6	-37.4	-38.3	-36.0																											
Number of Employed	3.8	3.1	3.1	3.1	3.2	3.3	3.2	2.5	19	3.8	3.1	3.1	3.1	3.2	3.3	3.2	2.5	19																															
Number of Unemployed	3.9	18	12	10	0.1	0.0	13	4.4	7.9	3.9	18	12	10	0.1	0.0	13	4.4	7.9																															
Auto Imports	6.4	5.6	5.7	2.8	0.2	-2.0	0.8	2.6	-3.5	-9.7	-0.2	6.4	5.6	5.7	2.8	0.2	-2.0	0.8	2.6	-3.5	-9.7	-0.2																											
Auto Exports	7.3	23.1	5.0	7.3	6.6	13.9	22.4	21.6	24.3	14.7	12.2	7.3	23.1	5.0	7.3	6.6	13.9	22.4	21.6	24.3	14.7	12.2																											
Financial Conditions	76.0	80.5	79.1	79.3	84.8	87.0	85.3	86.7	91.2	88.4	88.6	76.0	80.5	79.1	79.3	84.8	87.0	85.3	86.7	91.2	88.4	88.6																											
Credit Growth-13Week	20.4	10.2	6.2	9.6	9.4	11.1	11.3	13.5	8.8	9.1	6.0	20.4	10.2	6.2	9.6	9.4	11.1	11.3	13.5	8.8	9.1	6.0																											
PMI Manufacturing	51.5	52.2	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3	51.5	52.2	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3																											
Real Sector Confidence	107.4	108.8	105.9	105.2	104.1	105.7	105.7	104.3	106.3	103.0	107.1	107.4	108.8	105.9	105.2	104.1	105.7	105.7	104.3	106.3	103.0	107.1																											
MICA Forecast		5.7%												4.7%												3.1%												-0.4%											

* 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)

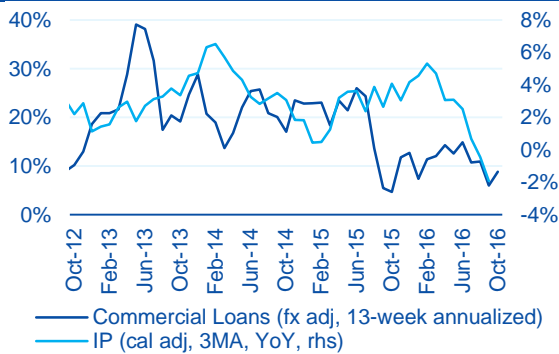


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We are more confident with our 2.7% growth estimate for 2016

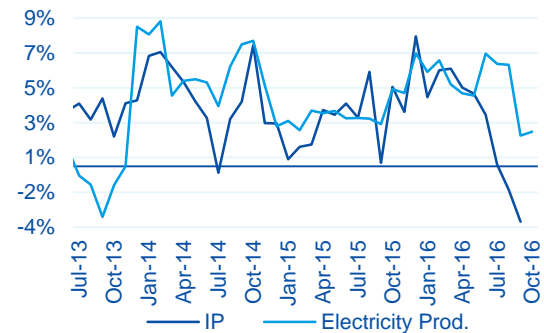
Our monthly GDP indicator points at a minus 0.4% YoY growth in 3Q, sharply down from 2Q's 3.1%. Going in to the 4Q, early indicators suggest some modest recovery in consumption and production is underway, mostly on the back of intensified monetary and fiscal stimulus efforts by the government. Although the recovery is still weak, we expect economic activity to gain momentum at the end of the year. **We keep our below consensus 2016 growth forecast at 2.7% and consider that balance of risks are neutral.**

Figure 3
Loan Growth and IP



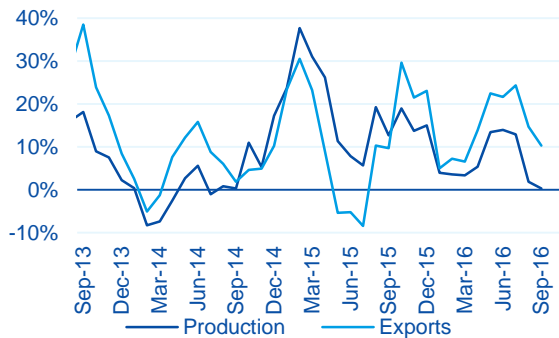
Source: Garanti Research, Turkstat, CBT, BRSA

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



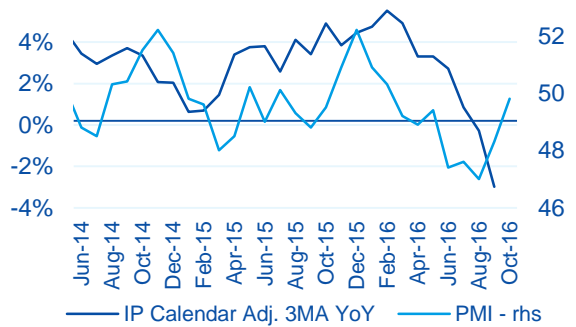
Source: Garanti Research, Turkstat, TETC

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



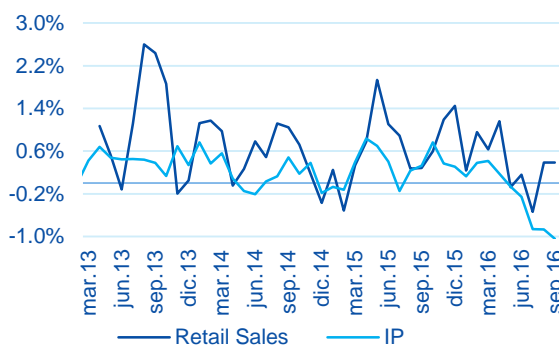
Source: Garanti Research, Turkstat, CBT, AMA

Figure 6
Manufacturing PMI & Calendar Adj. IP



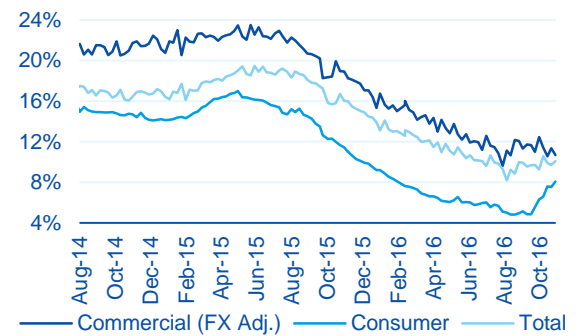
Source: Garanti Research, Turkstat, Markit Economics

Figure 7
IP & Retail Sales (SA, 3MA, MoM)



Source: Garanti Research, Turkstat

Figure 8
Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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