

ECONOMIC ACTIVITY PULSE

Turkey: 3Q GDP falls sharply

Uğur N. Küçük / Seda Guler / Asuman Kemiksiz / Gizem Onen

Turkish 3Q GDP contracted sharply by -1.8%, clearly below the market median call of a +0.5% contraction and our own expectations of -0.6%. However, GDP data contains major revisions after revision to ESA-2010 with 2009 as the new base-year. The new GDP portrays healthier growth dynamics. The data shows that the 1998-2015 average growth was 5.1% rather than 3.9% and nominal GDP is now higher by some 20%. Thus potential output could be higher and external vulnerability lower (the current account deficit at the end of 3Q16 is now 3.8% of GDP rather than 4.6% of GDP) than previously envisaged. Investments now constitute 10% higher share in GDP (30%), while total consumption' share declined to 74% from 85%. The first half growth rate of 2016 was revised up to 4.5% from the previous 3.9% but we think that the risks to our below consensus 2.3% GDP growth are on the downside.

Private consumption contacted for the first time since 3Q 2009

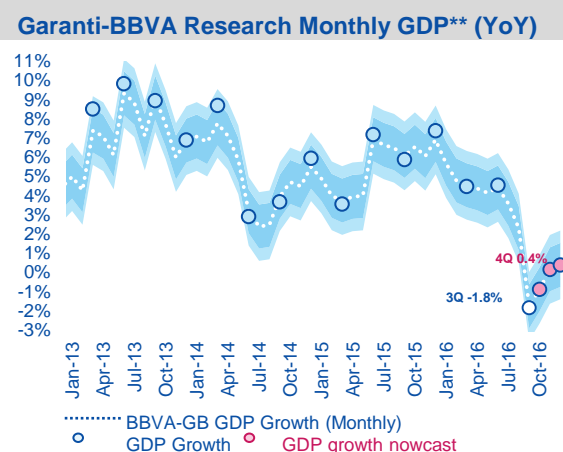
Private consumption contracted by 3.2% yoy in 3Q after growing by 2.0% in the first half of the year. In contrast, government consumption accelerated by 23.8% yoy in 3Q following a growth of 12.5% in the first half. In the new series, investment expenditures are released in aggregate terms with a larger share. In this context, total investments contracted by only 0.6% in 3Q. The negative contribution from net exports is now much higher in 2016 with 7% yoy contraction in exports and 4% yoy growth in imports in 3Q. In sectorial detail, the contraction in the industry was 1.4%, lower than the monthly industrial production figures. Construction sector grew by 1.4%. The revision led the agricultural sector to contract year-to-date in 2016 with a 7.7% decline in 3Q. Services sector including trade, transportation, accommodation and food services contracted by 8.4% after almost no growth in the first half of the year.

Figure 1

Activity Indicators* (3MA, YoY, SA)		2015		2016				
Mean	Dec	Jun	Jul	Aug	Sen	Oct	Nov	
Industrial Production	3.7	7.5	2.9	0.1	-1.4	-3.2	-0.4	
Non-metal Mineral	1.5	5.4	0.4	-3.3	-1.5	-3.0	2.3	
Electricity Production	4.1	6.5	6.9	6.4	6.8	3.1	3.3	
Auto Sales	3.9	3.5	2.5	-4.6	-13.3	-15.2	4.5	
Tourist Arrivals	0.4	-3.9	-35.6	-37.4	-38.3	-36.0	-33.1	
Number of Employed	3.8	3.1	2.4	1.7	1.3			
Number of Unemployed	4.0	1.8	4.5	8.0	11.2			
Auto Imports	6.5	5.7	2.6	-3.5	-9.7	-10.2	8.9	
Auto Exports	7.3	23.1	21.6	24.3	14.7	12.2	9.9	
Financial Conditions	76.0	80.5	86.7	91.2	88.4	88.6	92.6	
Credit Growth-13Week	20.5	10.2	13.5	8.8	9.1	6.0	10.0	
PMI Manufacturing	51.5	52.2	47.4	47.6	47.0	48.3	49.8	
Real Sector Confidence	107.4	108.8	104.3	106.3	103.0	107.1	103.8	
MICA Forecast		7.4%	4.5%			-1.8%	-0.9%	
GDP YoY						4.5%	0.2%	

* 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

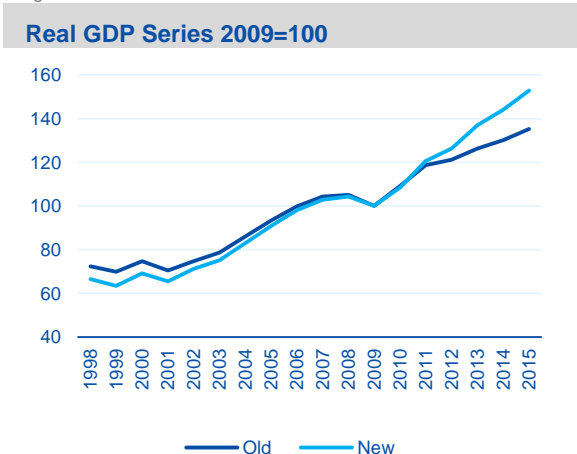


Series are non-calendar adjusted. **Garanti- BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation was made in Turkey Economic Outlook 3Q2015. Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Downside risks to our below consensus 2.3% growth estimate for 2016

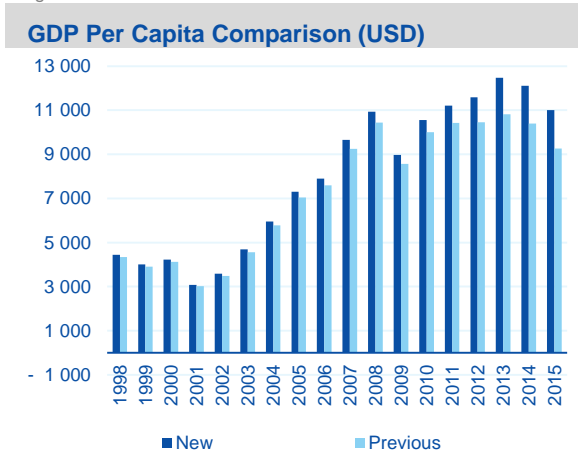
We maintain our 2.3% GDP forecast for 2016. Our high frequency model points out a 4Q growth estimate of +0.4 YoY (equivalent to a 1.9% GDP growth for the whole 2016). We expect the recovery to continue but the risks to our below consensus forecasts in 2016 are on the downside.

Figure 3



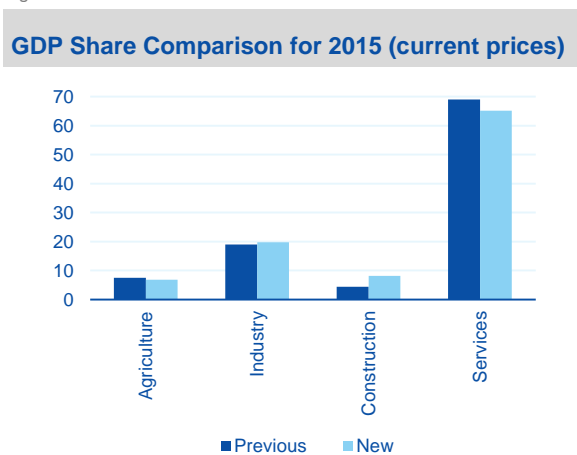
Source: Garanti Research, Turkstat, * Note that "Final consumption expenditure of resident households" was replaced with "Resident households and non-profit institutions serving households"

Figure 4



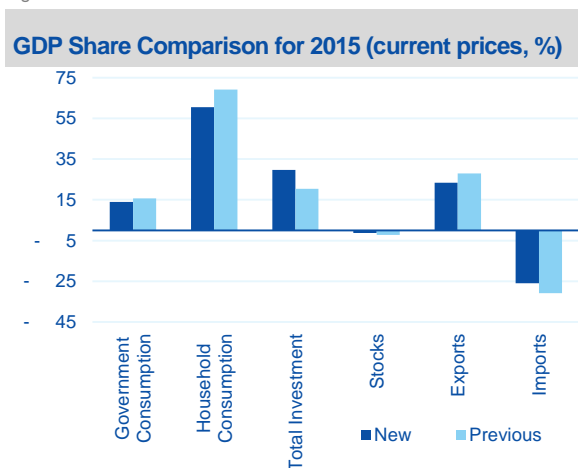
Source: Garanti Research, Turkstat

Figure 5



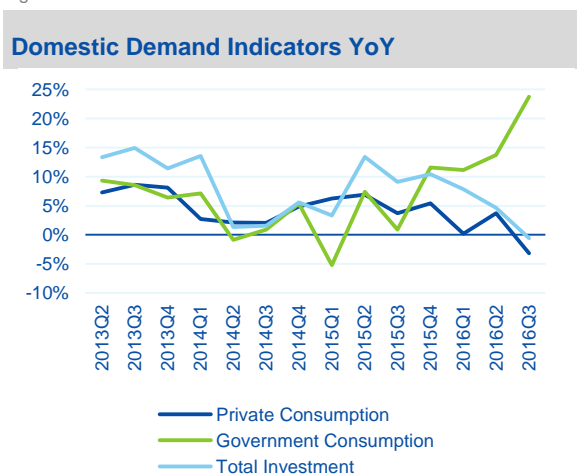
Source: Garanti Research, Turkstat

Figure 6



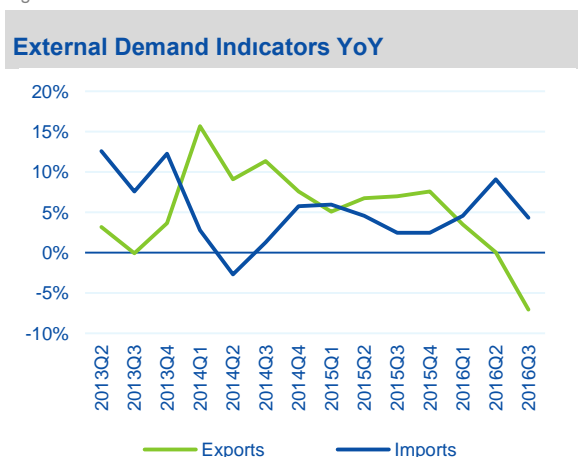
Source: Garanti Research, Turkstat

Figure 7



Source: Garanti Research, Turkstat

Figure 8



Source: Garanti Research, Turkstat, CBT, BRSA

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.