

ECONOMIC ACTIVITY PULSE

# Turkey: IP signals private demand recovery

Ugur Kucuk / Seda Guler / Asuman Kemiksiz / Gizem Onen

8 June 2017

April industrial production (IP) data signals that the economic activity is gaining momentum in 2Q17. Our monthly GDP indicator confirms this with a growth rate close to 4% YoY by April, marginally higher than our 1Q17 growth expectation of 3.2% (official data to be released next Monday). IP in April grew by 6.7% (calendar adjusted, YoY), sizably higher than the market consensus of 3% and the 1Q17 realization of 2%. Although robust reading partially hints the impact of the low base of the last year, improvement in retail sales also supports the recovering pace in the economic activity. Looking ahead, solid growth in exports, pick-up in imports particularly on intermediate goods, progress in confidence surveys new orders and expected lagged impact of the recent rapid credit growth all imply a recovery in private demand in 2Q17. All in all, we maintain our 2017 growth estimate at 3% with risks on the upside.

## Positive news from the strong pick-up in IP

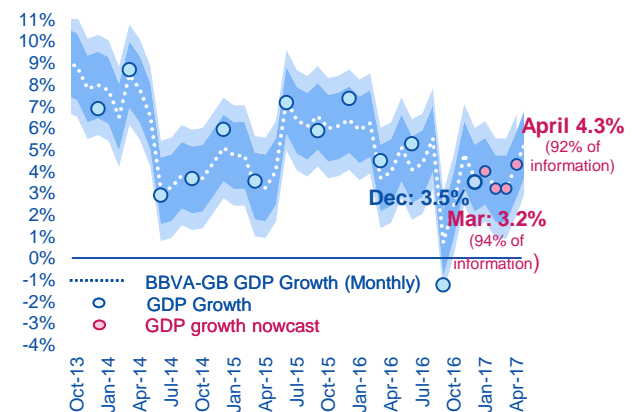
We read details of IP as signaling a relatively better composition, which is very positive for the growth outlook. Compared to 1Q17, when the sole positive contributor was the automotive sector, intermediate goods production now contributes positively and capital goods production accelerates with certain sectors such as other transportation goods (shipping, aerospace, railways), electrical equipment and manufacture of computer and other electronic products. Consumption goods production is still weak to modest, but durable goods (especially furniture) production is climbing mostly thanks to the tax incentives by the Government. Accordingly, the higher contribution from the exporting sectors in 1Q17 has replaced by the domestic demand oriented sectors in April, which will probably promote both private consumption and investment.

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

Mean	2016				2017				
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	12	1.7	2.3
Non-metal Mineral	12	-3.0	2.3	17	-10	-4.2	-6.9	-2.0	-0.4
Electricity Production	4.4	3.5	3.7	3.4	5.3	5.7	5.6	5.7	4.8
Auto Sales	3.7	-15.2	3.4	24.1	10.2	6.4	-8.8	-7.5	-11.7
Tourist Arrivals	-0.7	-36.0	-33.1	-28.2	-21.3	-14.8	-9.2	-6.4	3.7
Number of Employed	3.6	13	14	15	13	13	14		
Number of Unemployed	5.2	13.2	14.6	16.1	16.6	20.3	21.0		
Auto Imports	6.2	-10.2	9.0	31.7	16.4	11.1	-8.1	-12.7	-17.0
Auto Exports	7.8	12.2	-16.5	-10.6	-17	33.5	30.2	33.5	22.6
Financial Conditions	74.1	88.6	92.6	80.1	73.6	59.0	42.6	38.3	34.4
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3	15.6
Retail Sales	3.9	-0.8	0.3	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5	106.3
MICA Forecast									
GDP YoY		-1.3%		3.5%		4.0%	3.2%	3.2%	4.3%
		Contraction		Slow-down		Growth		Boom	

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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



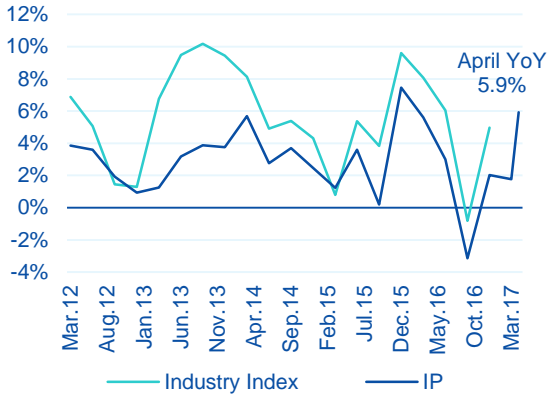
Source: \*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat \*Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

## Economic recovery may gain momentum in 2Q17, base effects will also be supportive in 2H17

IP is likely to find support via improving orders, intermediate goods imports, solid exports growth on both recovering EU demand and recent reconciliation with Russia, lagged effects of strong credit growth thanks to the Credit Guarantee Fund, extended tax cuts on durable goods and fiscal expansion. After posing a relatively moderate growth rate in 1H17, we forecast the recovery to gain momentum in 2H17 with favorable base effects and pre-mentioned lagged impacts. Signs of strengthening private demand is positive as it would give the Government a breathing space to scale back its fiscal expansion. We maintain our 2017 growth estimate at 3%, but we believe that the risks are on the upside.

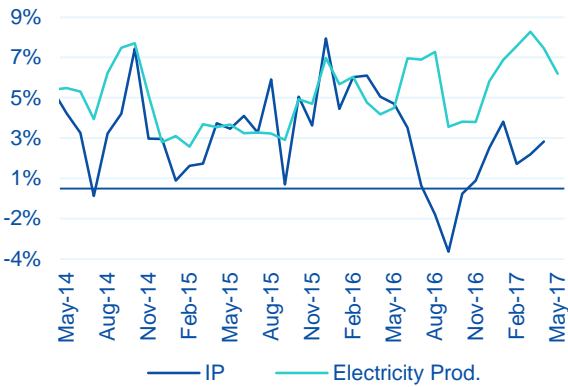
**ECONOMIC ACTIVITY PULSE**

**Figure 3** IP vs Industry component in GDP (3MA, YoY)



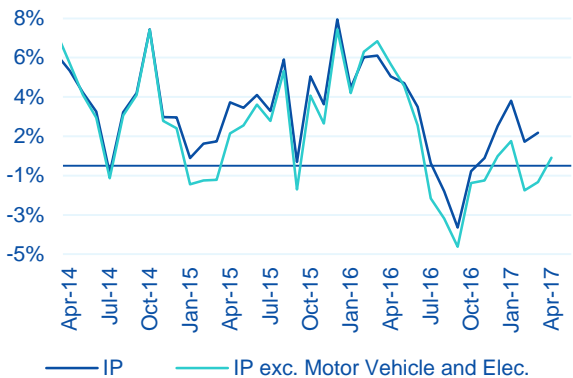
Source: Garanti Research, Turkstat

**Figure 5** IP & Electricity Production (3MA, YoY)



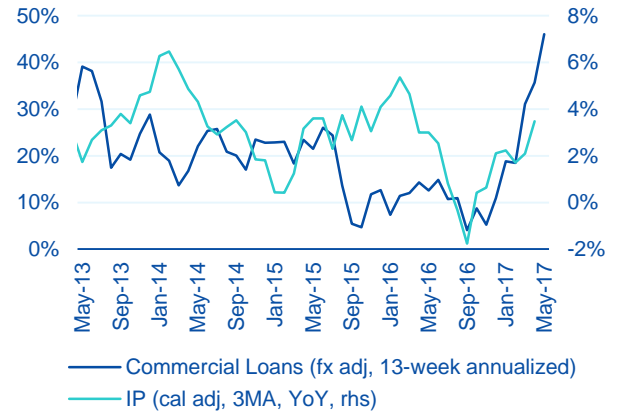
Source: Garanti Research, Turkstat, TETC

**Figure 7** IP Excluding Motor and Electricity Production (3MA, YoY)



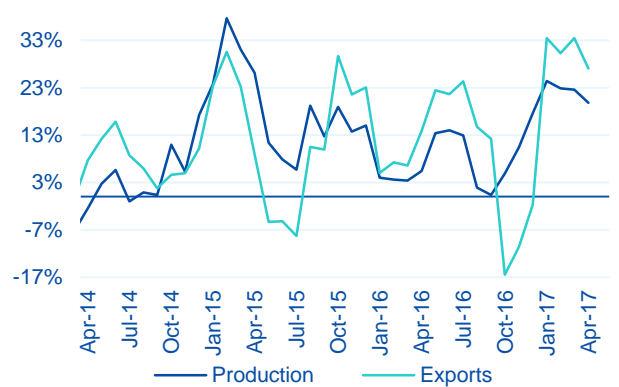
Source: Garanti Research & Turkstat

**Figure 4** Loan Growth and IP



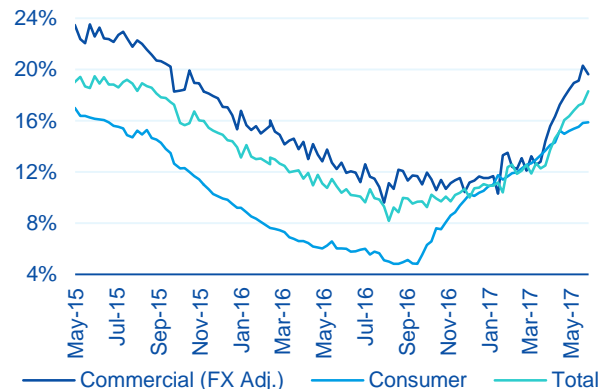
Source: Garanti Research, Turkstat, CBT, BRSA

**Figure 6** Automotive Prod. & Exports (3MA, YoY)



Source: Garanti Research, Turkstat, CBT, AMA

**Figure 8** Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

## ECONOMIC ACTIVITY PULSE

### 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.