

ECONOMIC ACTIVITY PULSE

Turkey: May IP hints a more balanced outlook

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Industrial production (IP) grew by 3.5% in May (calendar adjusted, YoY), signaling that economic activity maintains its momentum in 2Q17. Our monthly GDP indicator (GBTRGDY index at Bloomberg) also confirms this with a growth rate close to 5% YoY by June (with 26% information so far). Looking ahead, unfavorable calendar effect due to the shift of Ramadan holiday this year will somewhat bring down June IP figure; however, it might be even stronger in 2Q as IP has already risen by 5%, yoy in April-May period. Increasing share of intermediary products in total production (as also signaled in June imports), still solid exports growth, improving new orders expectations, potential lagged impact of the rapid credit growth and ongoing fiscal stimulus will continue to support the activity in 3Q, in addition to the favorable base impact of last year. Although we expect some deceleration in 4Q on top of dying out effects of the recent policy stimulus, we anticipate that our forecast revision will place the 2017 GDP growth near 5%.

IP growth spread to the most of the sub-sectors

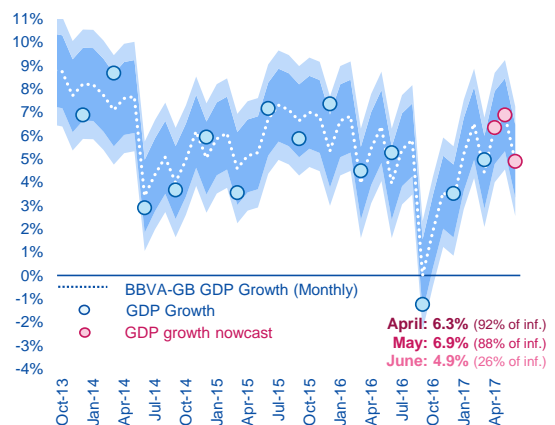
The recovery in the IP continued for another month and overall improvement is observable in most of the sectors. In the first two months of the 2Q, the calendar adjusted IP growth accelerated to 5%, from 1Q's 2.1% and composition changed completely in the positive side. In 1Q, the IP growth was mostly supported via auto and electricity production and the core (IP excluding these two items) had contracted by 0.4%. In April-May period, core IP growth was 3.8%, proving that the growth is spread out to the other sectors. The higher contribution from intermediary goods and a more balanced outlook among the other main subitems (with still muted but durable goods backed consumer goods production) signal a healthier and improving outlook for the IP in the next months. The data with strong activity in both exports and domestic oriented sectors simply tell us that the 2Q GDP growth might be supported by both consumption and investment, which would also be in line with the recovering confidence indicators.

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

	2016			2017					
	Mean	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Industrial Production	3.6	0.4	2.0	3.3	12	17	2.3	4.2	
Non-metal Mineral	12	17	-10	-4.2	-6.9	-2.0	-0.4	2.7	
Electricity Production	4.1	2.6	5.1	6.4	7.1	8.2	7.3	6.6	3.4
Auto Sales	3.5	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3	
Tourist Arrivals	-0.6	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	11.1	
Number of Employed	3.5	15	13	13	14	17			
Number of Unemployed	5.4	16.1	18.6	20.3	21.0	20.9			
Auto Imports	6.0	31.7	16.4	11.1	-8.1	+2.7	-14.7	-13.9	
Auto Exports	8.2	-10.6	-17	33.5	30.2	33.5	27.1	32.4	
Financial Conditions	73.6	80.1	73.6	59.0	42.6	38.3	34.4	30.6	35.6
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	15.6	16.3
Retail Sales	3.9	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7		
Real Sector Confidence	107.2	108.2	103.9	100.6	106.2	106.5	106.3	104.8	
MICA Forecast							6.3%	6.9%	4.9%
GDP YoY			3.5%		5.0%				
			Contraction	Slow-down	Growth	Boom			

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (3MA, YoY)*



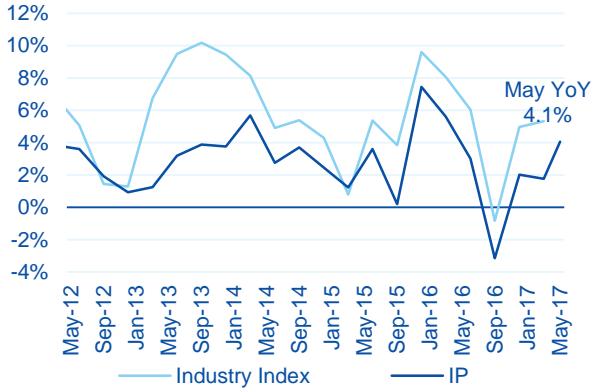
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

High momentum maintained in 2Q, improving orders look supportive for 3Q GDP

The more balanced outlook in IP production hints that private demand recovers in a healthier way, which would help the Government bring back its fiscal expansion in the short term. Improving orders and intermediate goods imports, solid exports growth on both recovering EU and Russian demand (on both goods and services), receding but still strong credit growth thanks to the Credit Guarantee Fund (roughly 40% of TL 250bn limit is still available) and other expected procyclical measures are likely to maintain the growth rate close to the potential. All in all, we anticipate a revision of our 2017 GDP forecast to a growth near 5% (clearly above our current 3% estimate).

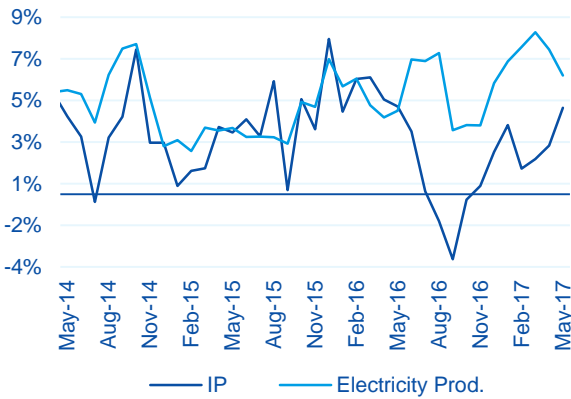
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



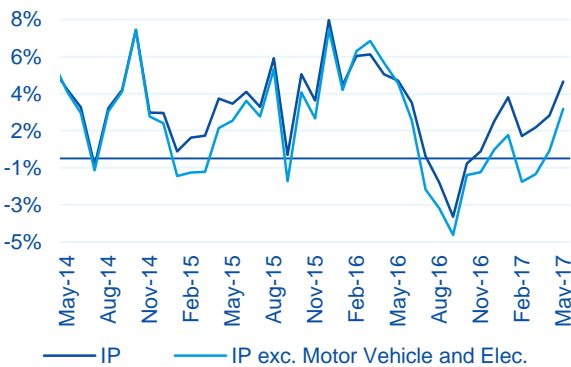
Source: Garanti Research, Turkstat

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



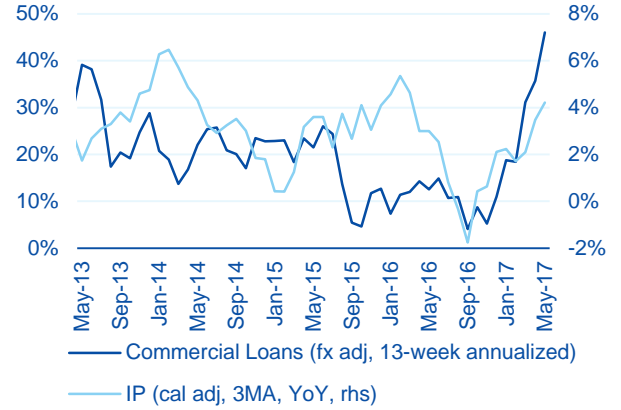
Source: Garanti Research, Turkstat, TETC

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



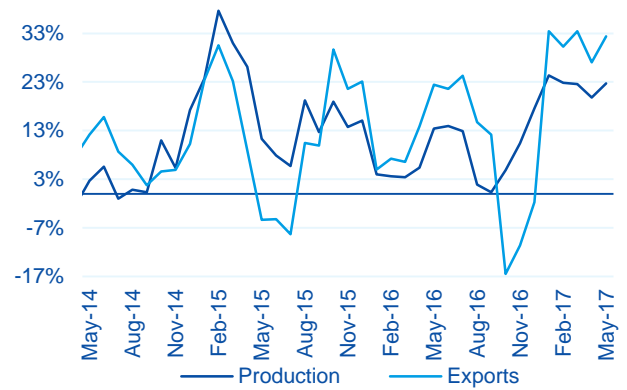
Source: Garanti Research & Turkstat

Figure 4 Loan Growth and IP



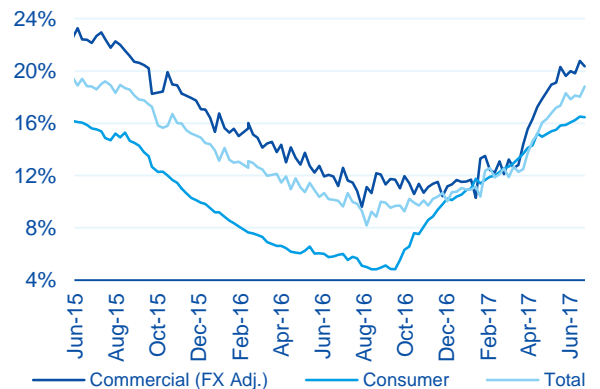
Source: Garanti Research, Turkstat, CBT, BRSA

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

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