

ECONOMIC ACTIVITY PULSE

Turkey: Activity accelerates further

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Industrial production (IP) in July grew remarkably by 14.5% yoy (cal.adj.), well above market expectations. Adding to previous year's sharp decline, the strength of the IP growth also proved to be valid for many sectors suggesting an activity boom in both more robust and faster pace as it accelerated much higher in contrast to 2Q's 4.6% and 1Q's 2.1% growth. Our monthly GDP indicator (GBTRGDPY index at Bloomberg) nowcasts 5.1% GDP growth for 2Q (to be published on Monday) and hints even higher performance for 3Q. In August, manufacturing PMI had its highest level for more than 6 years and foreign trade data also shows the signals of increasing import demand. Electricity production in August continued to be strong as well. Although most of the information for the rest of 3Q are so far soft-data, it will not be a surprise when also confirmed by hard-data. Having in mind our 2Q GDP nowcast and considering an acceleration in 3Q with both base impact and enhanced activity, we believe that the risks on our 5% GDP growth expectation for 2017 are clearly on the upside, even with our expectation for some deceleration in 4Q.

Broad-based activity gains

In July on calendar adjusted basis, IP growth was supported by most of the sub-sectors, mostly via intermediate and capital goods production with contributions of 5.2pp and 3.9pp, respectively. What we had in 2Q was acceleration in consumption goods production via mostly durable goods but still weak non-durable goods. In July, even excluding the base impact, non-durable goods production also gained pace (clothing& textile taking the lead), which is a worthy start for 3Q. Intermediate goods production being stronger in July hints an indication for future production and investment. What we observe is; not only the base impact was responsible for the very high growth in July, but also the economic activity overall has gained momentum in 3Q, as we initially suggested. As we foresee better consumption, investment and exports dynamics, we believe that policy stimulus could continue to take a backseat gradually to relax budget conditions. Our monthly GDP indicator signals 6.4% (26% of info) growth in August 3MA.

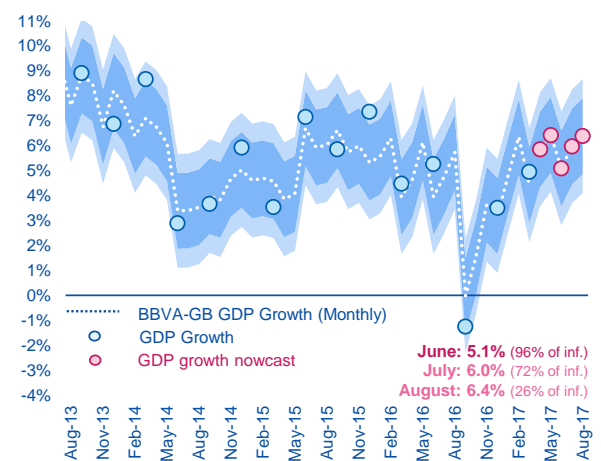
Figure 1 Activity Indicators (3MA, YoY, SA)

Mean	2016		2017								
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
Industrial Production	3.6	0.4	2.0	3.3	12	17	2.3	4.2	2.1	7.7	
Non-metal Mineral	1.3	1.7	-1.0	-4.2	-6.9	-2.0	-0.4	2.7	0.9	8.2	
Electricity Production	4.3	2.6	5.1	6.4	7.1	8.2	7.3	6.6	4.5	8.5	
Auto Sales	3.3	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3	-9.7	2.4	
Tourist Arrivals	0.3	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	11.1	26.5	36.5	
Number of Employed	3.5	15	13	13	14	17	19	2.0			
Number of Unemployed	5.7	16.1	18.6	20.3	21.0	20.9	19.4	16.2			
Auto Imports	5.5	31.7	16.4	11.1	-8.1	-12.7	-14.7	-13.9	-14.4	-6.7	
Auto Exports	8.7	-10.6	-1.7	33.5	30.2	33.5	27.1	32.4	24.0	23.2	
Financial Conditions	72.9	80.1	73.6	59.0	42.6	38.3	34.4	30.6	35.6	40.5	35.3
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	15.6	16.3	17.0	16.2
Retail Sales	3.8	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7	0.2	0.5		
Real Sector Confidence	106.7	108.2	103.9	100.6	106.2	106.5	106.3	104.8	108.8	107.7	102.2
MICA Forecast											
GDP YoY			3.5%		5.0%		5.9%	6.4%	5.1%	6.0%	6.4%

Contraction Slow-down Growth Boom

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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



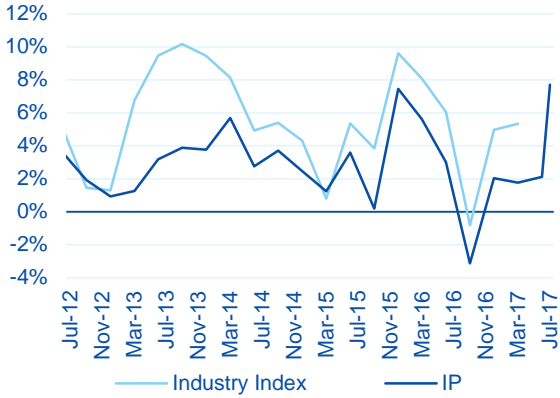
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat
*Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

Activity over performs in 3Q

The good signals of activity indicators in 2Q will be reinforced in 3Q supported by the very low statistical base effect and the stimulus from fiscal and macroprudential policies. The outperformance of the economic activity thus poses clear risks on the upside to our 5% growth expectation for 2017. Next Monday (11th of September), the 2Q GDP figure will be published and a result higher than 5.1% will lead us to change our overall 2017 forecast.

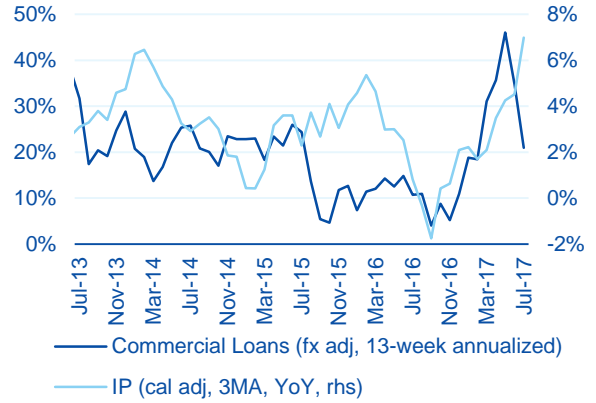
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



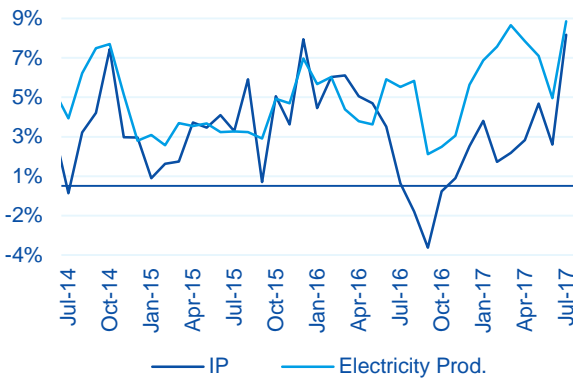
Source: Garanti Research, Turkstat

Figure 4 Loan Growth and IP



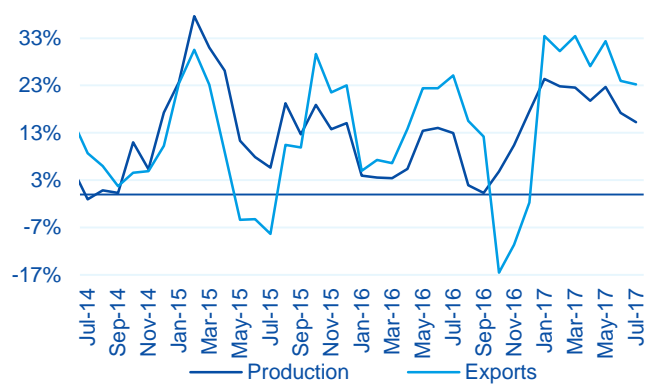
Source: Garanti Research, Turkstat, CBT, BRSA

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



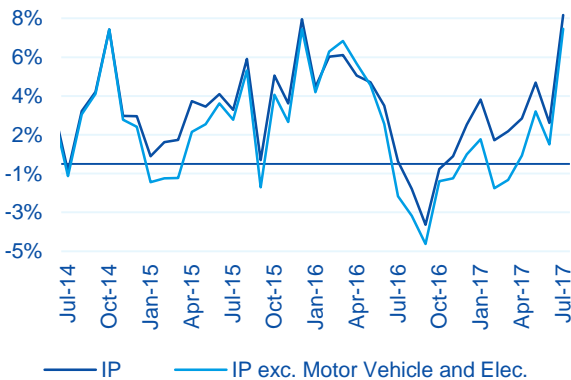
Source: Garanti Research, Turkstat, TETC

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



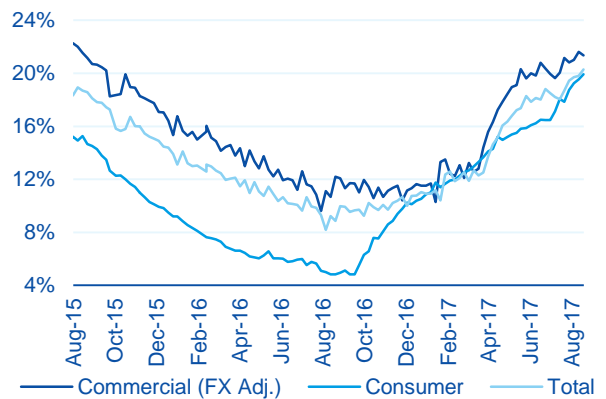
Source: Garanti Research, Turkstat, CBT, AMA

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



Source: Garanti Research & Turkstat

Figure 8 Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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