

ECONOMIC ACTIVITY PULSE

Turkey: IP Confirms Robust Activity in 3Q

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Industrial production (IP) growth was 10.4% yoy in September (cal. adj.) higher than both market consensus and our expectation. This took the 3Q IP growth up to 10%, from 2Q's 4.6%. Meanwhile, retail sales fell by 1.2% yoy in September having 3Q growth 1.3% against 2Q's 0.7%. Adding up to the previous year's contraction and considering the new IP realization, our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts 7.9% yoy (with 94% info) growth for 3Q. The beginning of the 4Q is also promising as October's electricity production maintained a strong growth path and manufacturing PMI posted its above-50 level for the 8th month in a row with a rise in new orders. In contrast, there is some moderation on sentiment indicators. In sum, our nowcasting models suggest strong growth pattern in both 3Q and the beginning of 4Q. This is in line with our 6% GDP growth forecast for 2017, but with risks that could be on the upside.

IP growth hints a desirable composition in economic activity

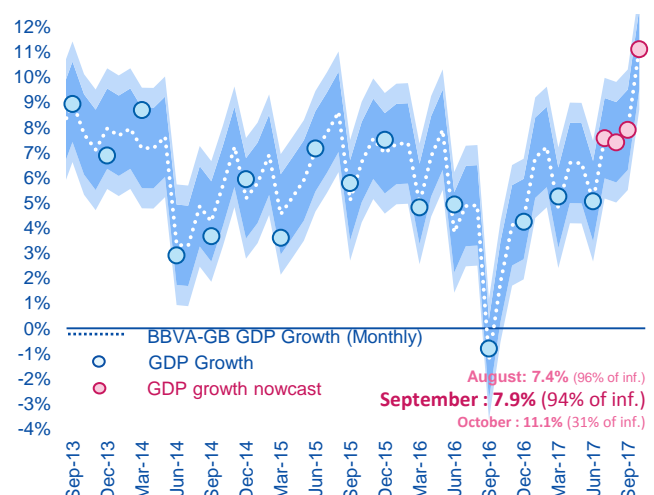
Calendar adjusted IP growth in 3Q (yoy) was supported by most of its sub-sectors. Acceleration in both intermediate goods and capital goods production (with 3.1pp and 2.3pp contributions) demonstrates a healthier outlook in growth composition as it hints further production and investment. Consumption goods production was also supportive (with 2.9pp contribution), as durable consumption goods production skyrocketed by 24.1% in 3Q, while non-durable consumption goods production continued to strengthen (from 0.8% decline of 2Q to 6.9% growth in 3Q). Exports-oriented sectors production growth rate accelerated to 11% in 3Q from 2Q's 5%. Domestic demand oriented sectors' production also accelerated from 4.2% to 9.3%. As IP growth was supported via most of its sub-sectors and core IP (IP exc. auto and electricity) gained momentum as well, mirroring a more desired composition from expenditure side of GDP as it converges more to investment rather than depending solely on consumption. Meanwhile, imports recently picking up on higher domestic demand will limit the contribution from net exports in the second half of the year even though exports remain solid.

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

Mean	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	3.8	17	2.3	4.2	2.1	7.7	7.7	13.7
Non-metal Mineral	1.6	-2.0	-0.4	2.7	0.9	8.2	8.4	14.1
Electricity Production	4.4	8.2	7.3	6.6	4.5	8.4	8.5	12.2
Auto Sales	3.5	-7.5	-10.9	-10.3	-9.7	2.4	7.1	14.6
Tourist Arrivals	1.5	-6.4	3.7	11.1	26.5	36.5	45.5	45.3
Number of Employed	3.5	17	19	2.0	2.6	3.4		
Number of Unemployed	5.8	20.9	19.4	16.2	10.4	6.1		
Auto Imports	5.4	-12.7	-14.7	-13.9	-14.4	-6.7	-3.4	3.1
Auto Exports	8.6	33.5	27.1	32.4	24.0	23.2	9.8	6.4
Financial Conditions	77.1	38.3	34.4	30.6	35.6	40.5	35.4	38.9
Credit Growth-13Week	13.7	15.3	15.6	15.6	16.3	17.0	16.2	16.6
Retail Sales	3.7	-2.3	-1.7	0.2	0.5	1.7	2.1	1.5
Real Sector Confidence	106.0	106.5	106.3	104.8	108.8	107.7	110.2	111.2
MICA Forecast						7.6%	7.4%	7.9%
GDP YoY		5.2%			5.1%			

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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



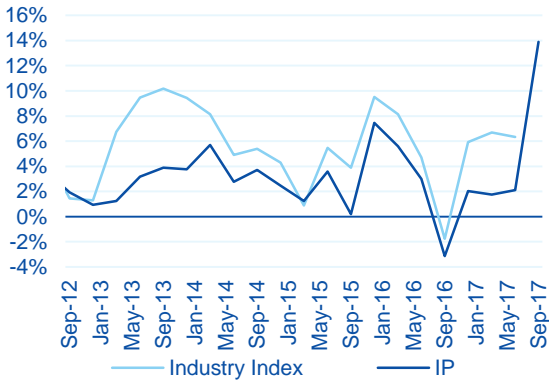
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

We maintain our top of consensus 6% GDP forecast for 2017

Although we expect some moderation in economic activity in 4Q on the back of softer credit growth and easing countercyclical measures of the Government, our models suggest a higher than initially expected growth rate. However, we maintain our top of consensus GDP growth forecast of 6% for 2017 before the 3Q GDP release on the 11th of December.

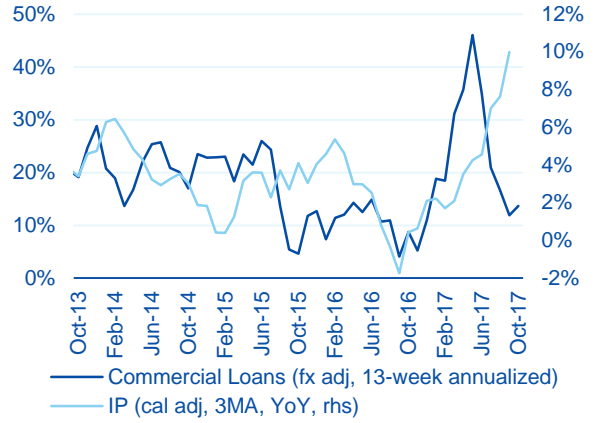
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



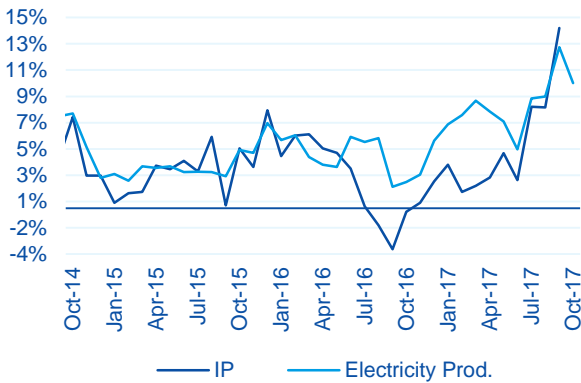
Source: Garanti Research, Turkstat

Figure 4 Loan Growth and IP



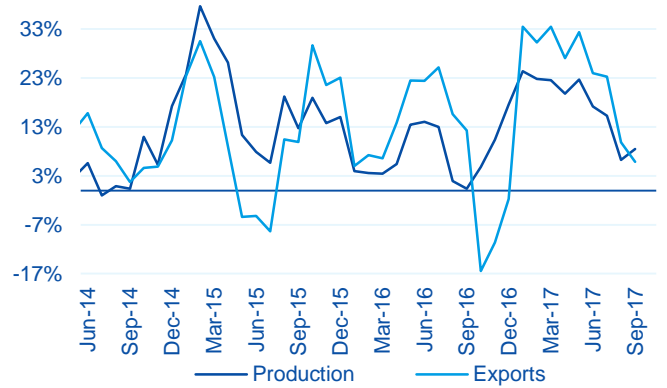
Source: Garanti Research, Turkstat, CBT, BRSA

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



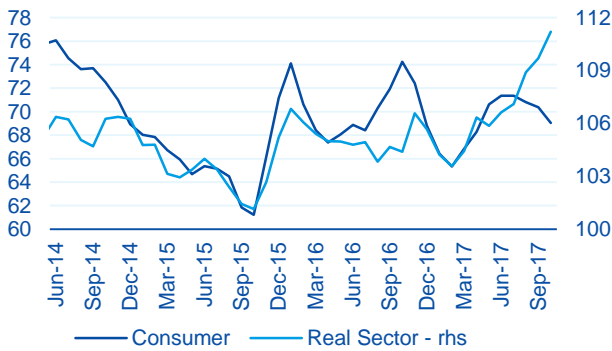
Source: Garanti Research, Turkstat, TETC

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



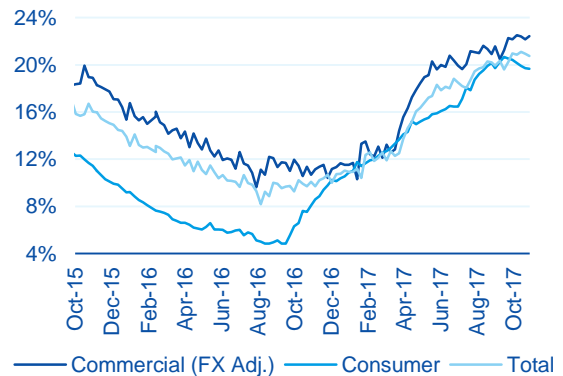
Source: Garanti Research, Turkstat, CBT, AMA

Figure 7 Consumer and Real Sector Confidence (3MA)



Source: Garanti Research, CBT & Turkstat

Figure 8 Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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