

Economic Activity Pulse

# Turkey: Economic Activity Moderates

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The Industrial production (IP) grew by 7.6% yoy in calendar adjusted terms (Consensus: 7.2% vs. BBVA Research: 6.5%) in March. The average IP growth rate reached 9.8% in 1Q, moderating from 10.7% in 4Q17. Our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts 6.4% yoy growth in 1Q (96% of information). We expect the moderation of economic activity to become clearer in the second half of this year as the statistical base effect will be less favorable and the tightening financial conditions will soften domestic demand. Our GDP demand components also nowcast moderation in both consumption and investment (charts 6&7) with a less negative contribution from domestic demand. We maintain our 2018 GDP growth estimate at 4%.

## Economic activity losing momentum

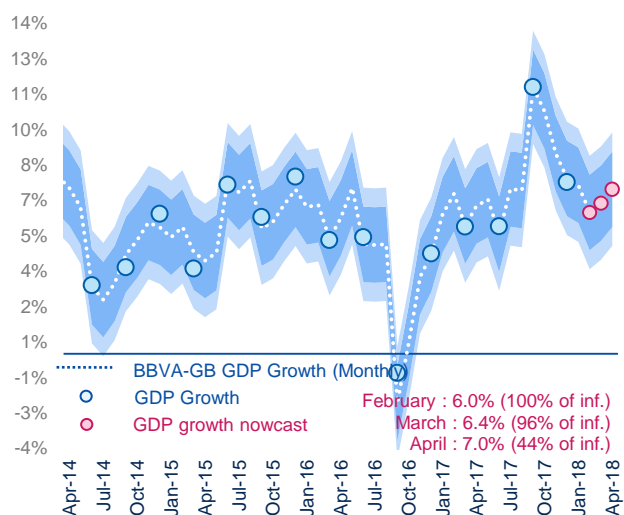
The April IP data supports our forecast of moderation with higher intensity in intermediate and capital goods production, while consumer goods improved on non-durable goods. The trend of intermediate goods could be signaling further moderation is on the way. Besides, the transitory growth slowdown in Europe is overcoming the positive currency depreciation impact on exports. In sectorial detail, other non-metallic mineral goods (cement) and basic metal (important ingredients of construction sector) are leading the way in moderation the manufacturing sector. Our nowcasting indicators for demand components (GBTRGDPC, GBTRGDPI, GBTRGDPX and GBTRGDPM indices at Bloomberg, see graphs 6-8) confirm the normalization in domestic demand together with a lower but negative contribution from the external demand (due to the deceleration in exports and but at the same time easing imports). Looking ahead, despite the temporary increase in April (44% of information mostly including soft data), we expect the moderation trend to continue with some risks on the upside (i.e. recently announced fiscal measures) and on the downside given the potential impact of market volatility on domestic demand.

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

Mean	2017				2018			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	2.6	12.5	10.7	11.0	11.3	12.1	11.7	9.8
Non-metal Mineral Production	2.5	14.5	12.3	12.6	17.1	22.5	23.0	16.2
Electricity Production	4.2	12.2	9.5	9.7	6.5	5.2	3.4	3.0
Auto Sales	4.9	14.6	6.2	-2.2	-4.2	-7.8	-18	3.3
Tourist Arrivals	7.0	45.3	38.2	31.0	24.4	29.8	33.4	34.9
Number of Employed	3.6	4.5	4.8	4.9	5.4	5.3	5.1	
Number of Unemployed	1.8	-0.8	-5.2	-8.3	-12.1	-13.6	-14.3	
Auto Imports	2.9	3.1	-0.8	-8.4	-9.3	-12.5	-5.7	-10
Auto Exports	9.4	6.4	18	2.9	-16	-7.0	-4.7	-3.1
Avg. Loan Interest Rate	13.2	15.7	15.6	15.6	16.2	16.5	16.9	16.7
Manufacturing PMI	50.9	53.5	52.8	52.9	54.9	55.7	55.6	51.8
Total Loans growth 13-week	17.6	14.5	14.5	12.0	13.4	14.0	13.2	13.1
Real Sector Confidence	106.2	111.2	112.2	109.8	109.2	110.9	110.8	109.5
MICA Forecast					6.0%			
GDP YoY	11.3%				7.3%			
	Contraction		Slow-down		Growth		Boom	

Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 2 BBVA Research Turkey Monthly GDP (3MA, YoY)\*

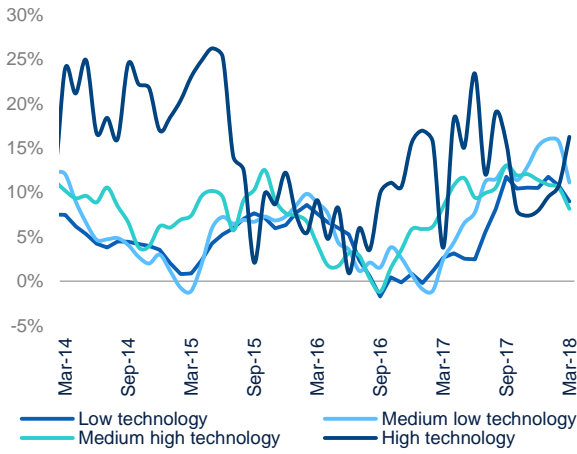


SOURCE: \*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

## Growth will normalize this year

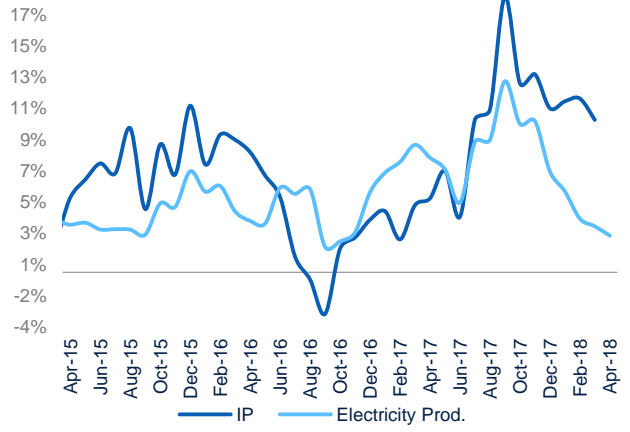
While the current strength in economic activity, the recovery in tourism and the recently announced fiscal policy impulses could support economic activity, we foresee that the moderation trend will continue on much less favorable statistical base effects, the tightening of both internal and external financial conditions and uncertainty on market volatility. We maintain our 2018 GDP growth forecast at 4.0% with a normalization from last year.

Chart 3 IP Growth- Technology Groups (3MA, YoY)



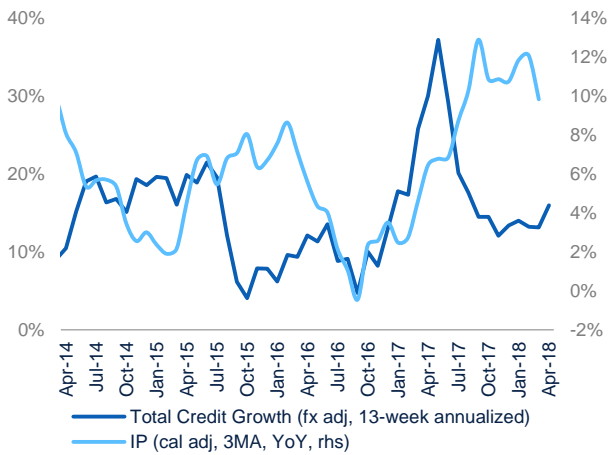
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 4 IP & Electricity Production (3MA, YoY)



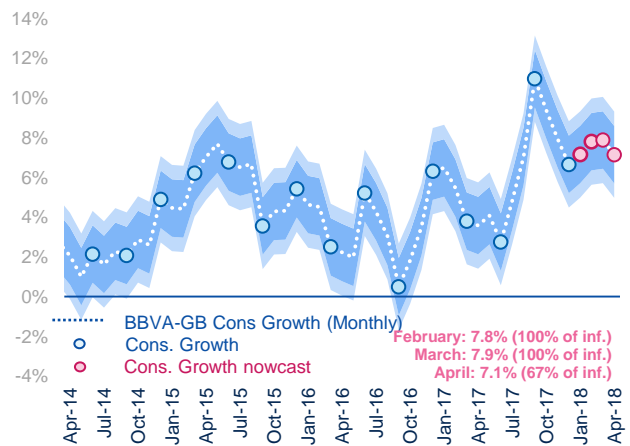
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 IP & Credit Growth (3MA, YoY)



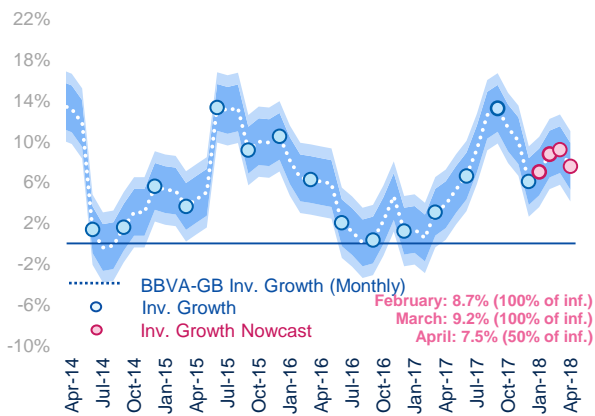
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



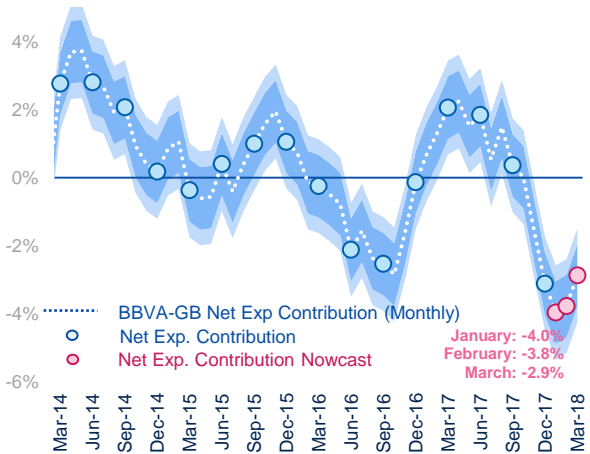
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual contribution)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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