

ECONOMIC ACTIVITY PULSE

# Turkey: Still solid activity in April...to decelerate

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The Industrial production (IP) grew by 6.2% yoy in calendar adjusted terms, slightly above the market consensus of 5.65% in April. After growing by 9.9% in 1Q, April figure still remains solid mainly on the back of intermediate goods production. As May preliminary hard data already started to signal lagged effects of tighter financial conditions, we expect the cool-down in economic activity to become much clearer in the second half of this year when base effects will also be unfavorable. Our monthly GDP indicator (GBTRGDY Index at Bloomberg) still nowcasts slightly below 6% yoy growth for 2Q18 as of May (with 44% of information). Considering the current magnitude of overheating in the 1Q and the cumulative 500bps tightening by the CBRT in the last two months, we forecast a more rapid adjustment and expect GDP growth to be near 3.5% this year. According to our nowcast, consumption and investment are already moderating.

## IP mainly supported by intermediate goods production

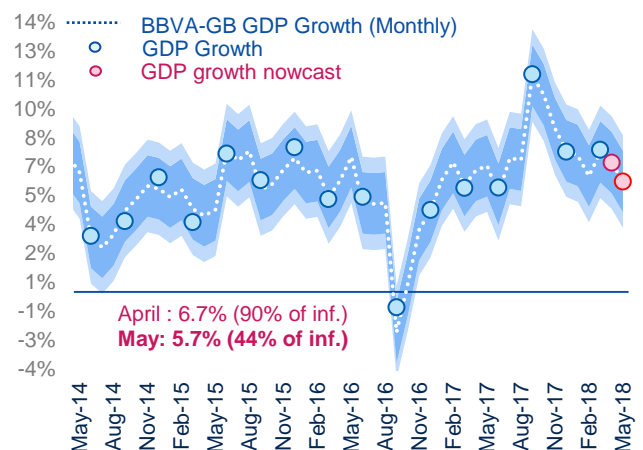
The monthly increase by 0.9% on seasonal adjusted terms, supported by all main subsectors confirms the robust performance in April IP figure. Though, intermediate goods production took the lead, which is clearly positive for further production capacity and likely to be supported by exporting sectors in the short term. On the other hand, in yearly terms and sectorial detail, the highest contributions came from food, clothing, other non-metallic mineral and textile, which still signals a promising performance from domestic demand. However, as the moderation is now on the way, the more rapid adjustment from domestic demand oriented sectors than the exporting ones should be welcomed since this will help growth outlook to be more healthier. Looking ahead, our nowcasting for demand subcomponents (see graphs 6-8) already highlight a moderation, with a more deceleration in the investment side. As May preliminary indicators such as the manufacturing PMI (46.4 signalling contraction, being below 50 threshold), imports (growing 5.5% after 21.5% rise on average in the first 4 months of the year) and automotive data (both contracting production and sales) signal, we expect adjustment of the economy to become more obvious from now onwards.

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

Mean	2017			2018				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	7.9	10.7	11.0	11.3	12.1	11.8	9.7	7.9
Non-metal Mineral Production	8.1	12.3	12.6	17.1	22.5	22.9	16.3	11.0
Electricity Production	5.1	9.5	9.7	6.5	5.2	3.4	3.0	2.4
Auto Sales	9.2	6.2	-2.2	-4.2	-7.8	-1.8	-3.3	0.4
Tourist Arrivals	4.6	38.2	31.0	24.4	29.8	33.4	34.9	31.2
Number of Employed	4.0	4.8	4.9	5.4	5.3	5.1		
Number of Unemployed	2.0	-5.2	-8.3	-12.1	-13.6	-14.3		
Auto Imports	11.8	-0.8	-8.4	-9.3	-12.5	-5.7	-1.0	-3.1
Auto Exports	9.6	1.8	2.9	-1.6	-7.0	-4.7	-3.1	-0.7
Avg. Loan Interest Rate	12.6	15.6	15.6	16.2	16.5	16.9	16.8	16.6
Manufacturing PMI	50.8	52.8	52.9	54.9	55.7	55.6	51.8	48.9
Total Loans growth 13-week	19.8	14.5	12.0	13.4	14.0	13.2	13.1	15.9
Real Sector Confidence	106.9	112.2	109.8	109.2	110.9	110.8	109.5	106.8
MICA Forecast							6.7%	5.7%
GDP YoY				7.3%		7.4%		

Source: BBVA Research Turkey Monthly GDP Model, Turkstat \*Mean from 2010 now onwards

Figure 2 BBVA Research Turkey Monthly GDP (YoY)\*



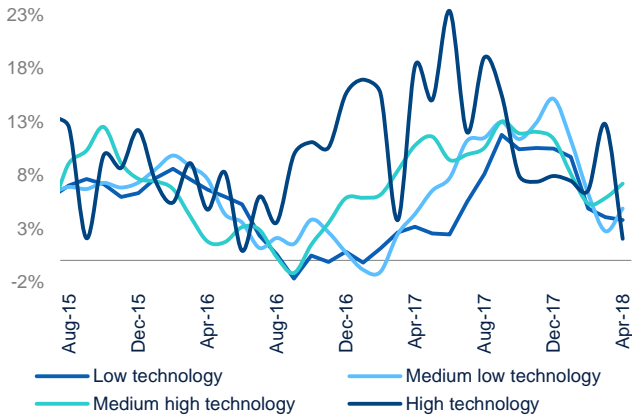
Source: \*BBVA Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Our indicator is available on Bloomberg with the ticker GBTRGDY Index

## Economic growth to adjust in the second half of the year on tighter financial conditions

Given the magnitude of overheating in the economy in 1Q, both tighter external and domestic financial conditions and strong negative base effects in the second half of the year, we forecast that the adjustment of the economy will start soon. We estimate GDP growth to be near 3.5% this year with somehow more rapid adjustment than we initially envisaged on tightening financial conditions.

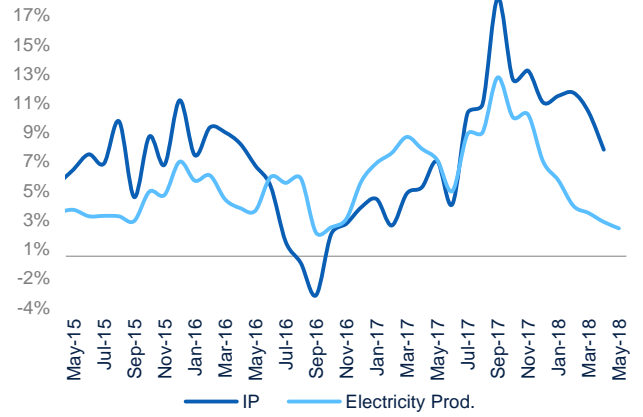
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**Figure 3 IP Growth- Technology Groups (3MA, YoY)**



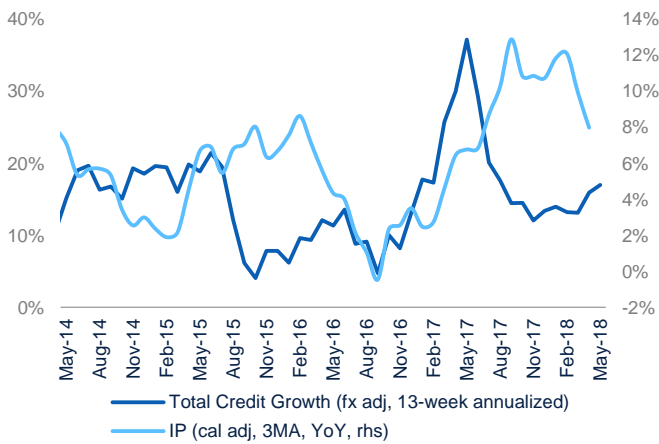
Source: BBVA Research Turkey, Turkstat

**Figure 4 IP & Electricity Production (3MA, YoY)**



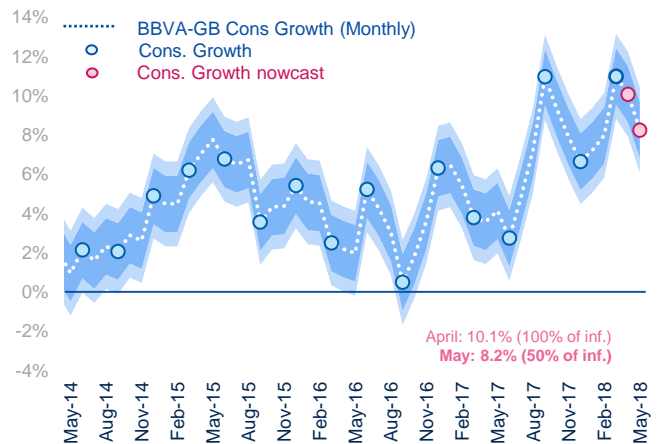
Source: BBVA Research Turkey, Turkstat

**Figure 5 IP & Credit Growth**



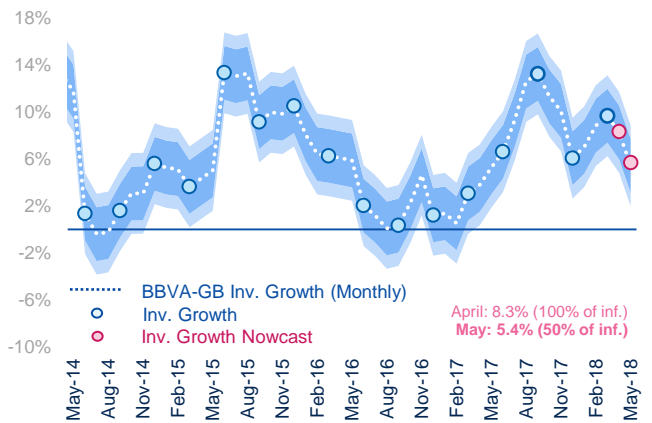
Source: BBVA Research Turkey, Turkstat

**Figure 6 Consumption Nowcasting (YoY)\***



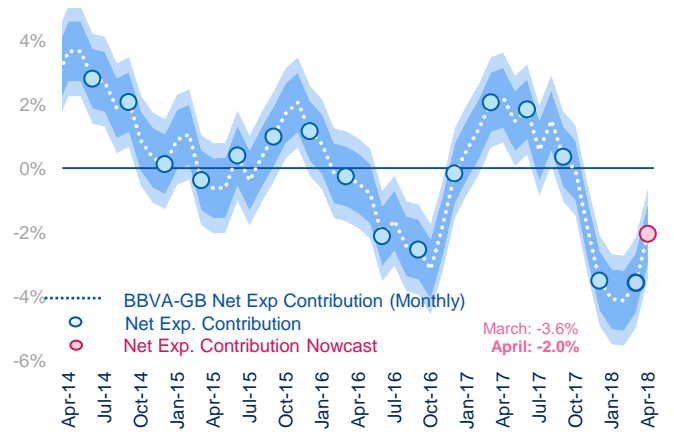
Source: BBVA Research Turkey, Turkstat  
\*Bloomberg ticker GBTRGDPC Index

**Figure 7 Investment Nowcasting (YoY)\***



Source: BBVA Research Turkey, Turkstat  
\*Bloomberg ticker GBTRGDPI Index

**Figure 8 Net Exports Nowcasting (Annual contribution)\***



Source: BBVA Research Turkey, Turkstat  
\*Bloomberg ticker for exports GBTRGDPE Index; for imports GBTRGDPM Index

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