

ECONOMIC ACTIVITY PULSE

Turkey: Still supportive data but losing pace

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The Industrial Production (IP) grew by 6.4% yoy in calendar adjusted terms in May, above the market consensus of 5.5%. Despite the still positive trend, the highest monthly deterioration of 1.6% since September 2016 signals the increasing likelihood of a more rapid adjustment than expected. As April unemployment figures (covering March-May period) also highlighted yesterday, the cool-down in economic activity could become much clearer from now onwards given the sizably tighter financial conditions and market uncertainty. Including today's data, our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts near 5% yoy growth for 2Q18 (with 44% of information). Though, lagged effects of tightening and high base impact of last year will weigh more in the second half of the year. The level and the duration of adjustment in the economy will depend on the policy reactions in the short term, which should engineer a soft landing. We expect GDP growth to come down to 3.8% in 2018.

May Industrial Production implies the deceleration is underway

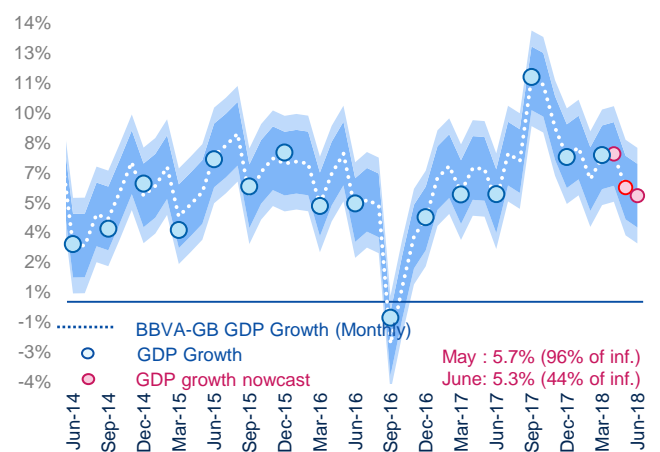
The monthly deterioration in IP was broad-based as capital goods production took the lead (0.7 negative contribution to overall decline) and followed by nondurable consumer goods (-0.5 pp cont.) and intermediate goods production (-0.3 pp cont.), respectively. Accordingly, annual IP growth in the first two months of the 2Q18 decelerated to 6.1% compared to 10% yoy in 1Q18. Hence, May data is still mirroring a positive outlook for growth but signaling a loss in pace. In the sectorial details, both domestic demand and export oriented sectors registered a slow-down but the higher adjustment in exporting ones implies a gloomy outlook for exporters. As seen in our nowcasting for demand subcomponents (see graphs 6-8), rebalancing in growth could stem mostly from investment but also consumption; while net exports could play a stabilizer role on the back of the likely sizable correction in imports. Looking ahead, still lower than the threshold (50) manufacturing PMI with around 46 levels, relatively low growth in electricity production, strong fall in imports on top of slower domestic demand and continued tightening in financial conditions signal the adjustment in growth will be intensifying in the coming months.

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

Mean	2017					2018			
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Industrial Production	7.9	11.1	11.3	12.1	11.7	9.6	7.9	6.8	
Non-metal Mineral Production	8.1	12.5	17.0	22.4	22.9	16.2	11.0	7.0	
Electricity Production	5.1	9.7	6.5	5.2	3.4	3.0	2.4	19	
Auto Sales	8.9	-2.2	-4.2	-7.8	-1.8	3.3	0.4	-5.1	
Tourist Arrivals	4.9	31.0	24.4	29.8	33.4	34.9	31.2	29.4	
Number of Employed	4.0	4.9	5.4	5.3	5.0	4.3	3.7		
Number of Unemployed	1.7	-8.3	-12.0	-10.5	-14.2	-10.2	-10.6		
Auto Imports	115	-8.4	-9.3	-12.5	-5.7	-10	-3.1	-8.1	
Auto Exports	9.5	2.9	-1.6	-7.0	-4.7	-3.1	-0.7	-4.1	
Avg. Loan Interest Rate	12.7	15.6	16.2	16.5	16.9	16.8	16.6	17.2	
Manufacturing PMI	50.7	52.9	54.9	55.7	55.6	51.8	48.9	46.4	
Total Loans growth 13-week	19.8	12.0	13.4	14.0	13.2	13.1	15.9	17.0	
Real Sector Confidence	106.8	109.8	109.2	110.9	110.8	109.5	106.8	106.7	
MICA Forecast							5.7%	5.3%	
GDP YoY								7.4%	

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

Figure 2 BBVA Research Turkey Monthly GDP (YoY)*



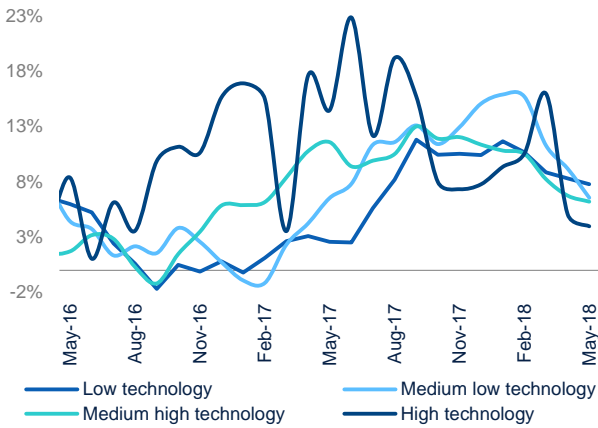
Source: *BBVA Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Our indicator is available on Bloomberg with the ticker GBTRGDY Index

The landing is ongoing...the Policy decisions will determine the pattern

The recent data pose some uncertainties on the degree of the expected soft landing given the rapid deterioration. We expect GDP growth at 3.8% in 2018, given the assumption of a rebalancing in the economy supported by a comprehensive policy mix.

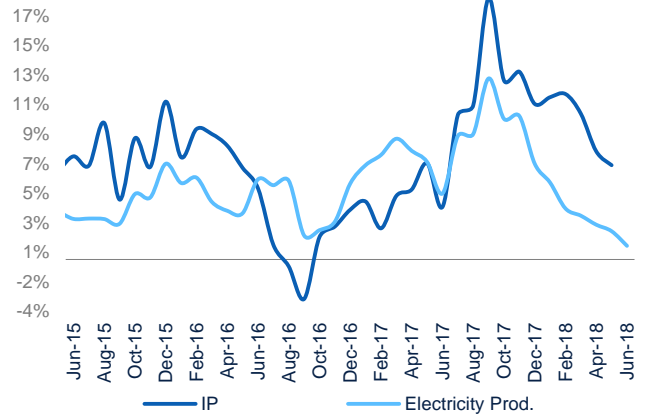
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Figure 3 IP Growth- Technology Groups (3MA, YoY)



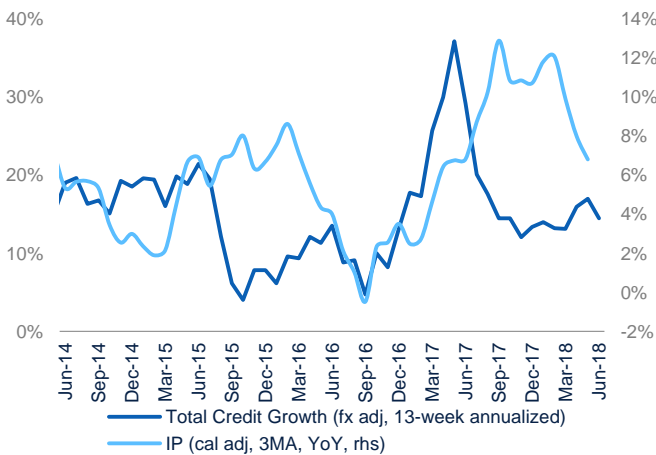
Source: BBVA Research Turkey, Turkstat

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



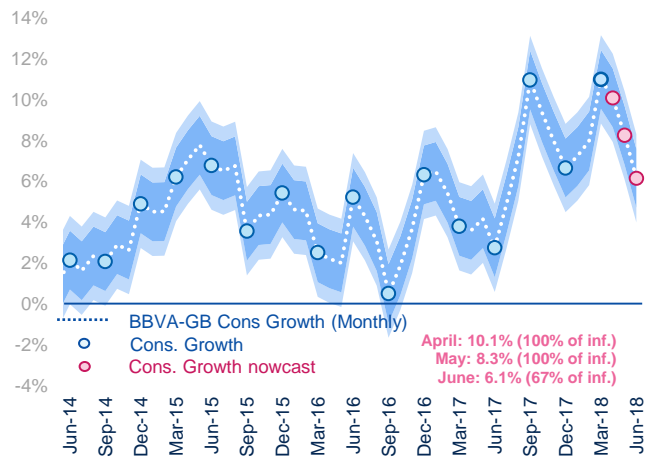
Source: BBVA Research Turkey, Turkstat

Figure 5 IP & Credit Growth



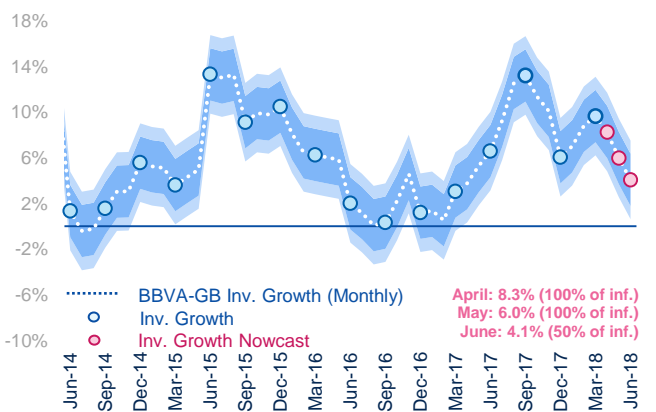
Source: BBVA Research Turkey, Turkstat

Figure 6 Consumption Nowcasting (YoY)*



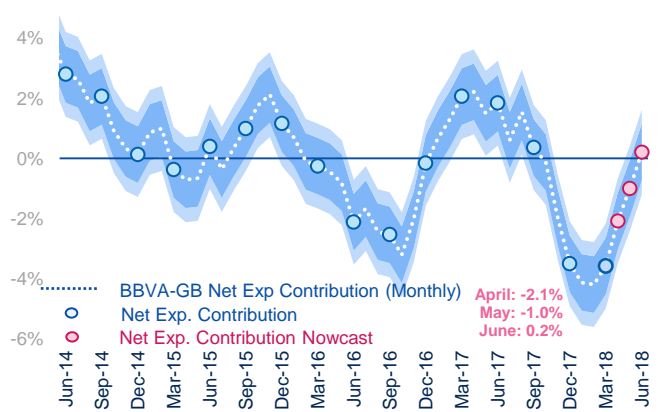
Source: BBVA Research Turkey, Turkstat
*Bloomberg ticker GBTRGDPC Index

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 GBTRGDPIX Index; for imports GBTRGDPM Index

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