

Economic Activity Pulse

Turkey: 2Q growth signals the adjustment is underway

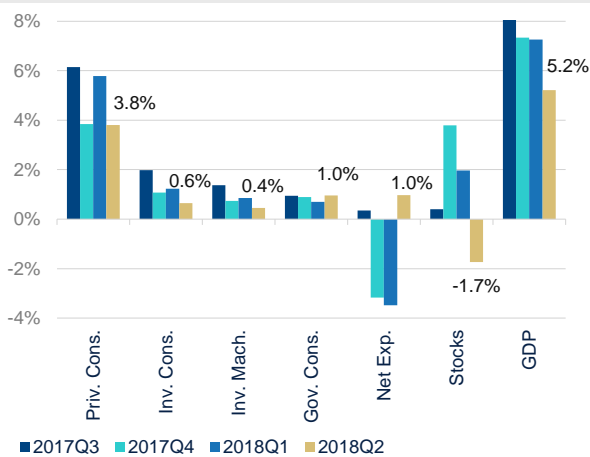
Ali Batuhan Barlas / Seda Guler Mert / Adem Ileri / Serkan Kocabas / Alvaro Ortiz

Turkish economy grew by 5.2% (YoY) in 2Q18 (5.3% Consensus vs. 5.5% BBVA Research). As expected, the seasonally and calendar adjusted quarterly growth rate decelerated from 1.5% in 1Q18 to 0.9% in 2Q, which means that the adjustment is underway. Since the external and internal financial conditions became significantly tighter, we expect activity to moderate more rapidly in the second half of the year. The first set of high frequency indicators released for July and August (electricity production, exports, imports, auto sales, credit growth and sentiment indices) already show a faster adjustment and we think that high statistical base impact of last year, unfavorable calendar day effect in August and negative effects of the financial shock since May will start to affect economic activity deeply from now onwards. We expect GDP to grow 3% in 2018 slightly lower than CBRT survey expectation of 3.4% released today.

Domestic demand decelerates rapidly while external demand recovers

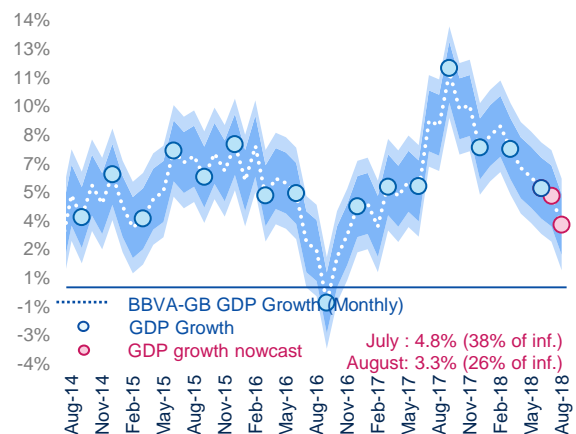
The slow-down in the economy in 2Q hints the expected rebalancing with a much lower domestic demand contribution supported by a positive contribution from net exports. Private consumption grew by 6.3% yoy in 2Q, down from 9.3% in 1Q, led by services and durable goods consumption. Investment expenditures also decelerated by growing 3.9% yoy in 2Q, down from 7.9% in 1Q, on top of a broad-based worsening in subcomponents. On the other hand, Government consumption accelerated by growing 7.2% yoy in 2Q, up from 4.9% in 1Q. In sum, domestic demand gave 4.2pp contribution to growth, including the negative contribution of stocks by 1.7pp; while external demand contribution turned into positive with 1pp after near 3.5pp negative contribution in the previous two quarters. On the supply side, services sector still remained robust with 4.3% growth, while the deceleration in industry and construction was noteworthy with 4.3% and 0.8% growth rates, respectively (down from 8.1% and 6.6%). Agricultural sector, on the other hand, contracted by 1.5%, a negative signal for 3Q when its share is the highest seasonally. Looking ahead, despite the rapid adjustment in domestic demand, sharp currency depreciation and still robust foreign demand on our exports could be supportive for GDP growth in the next quarters.

Chart 1 Annual contributions to GDP



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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

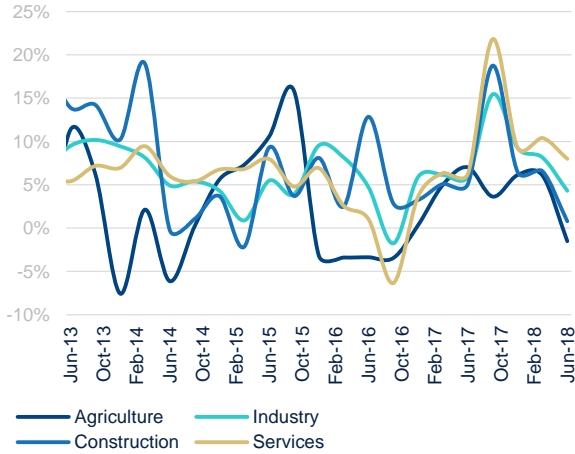


Source: *BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

A faster economic adjustment in the second half of the year

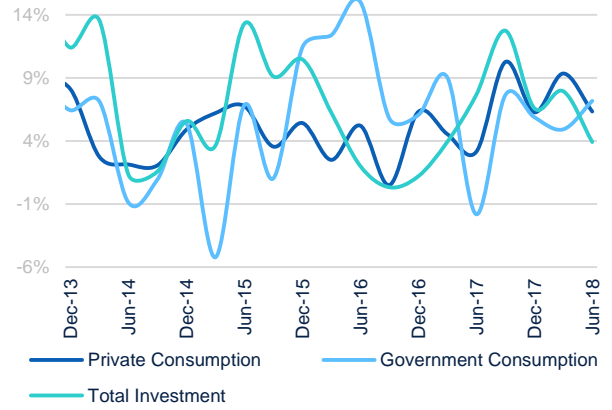
Given the worsening high frequency indicators, the high statistical base impact of last year and the expected negative effects of the recent financial shocks, we expect the economic activity to decelerate faster in the second half of the year. We forecast GDP growth to be 3% in 2018.

Chart 3 Sectorial Growth (YoY)



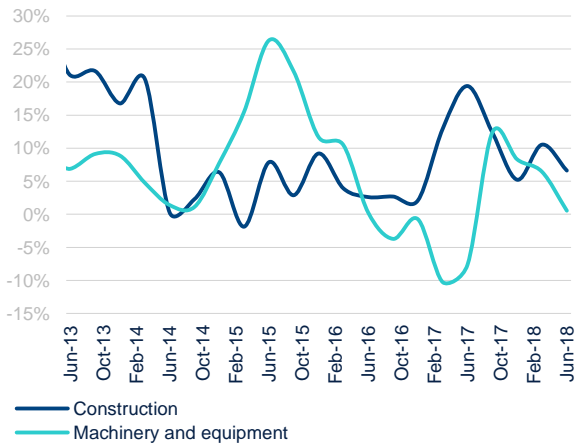
Source: BBVA Research Turkey, Turkstat

Chart 4 Domestic Demand Growth (YoY)



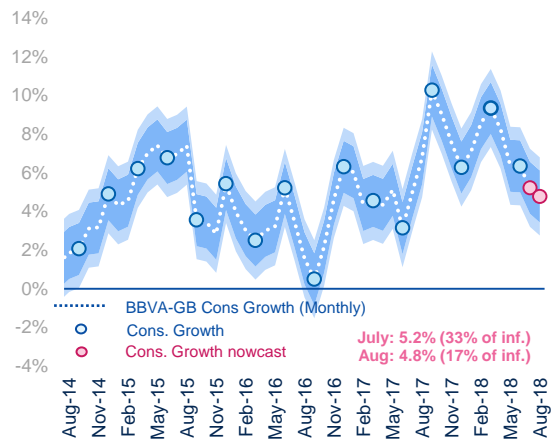
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 Gross Fixed Capital Formation (YoY)



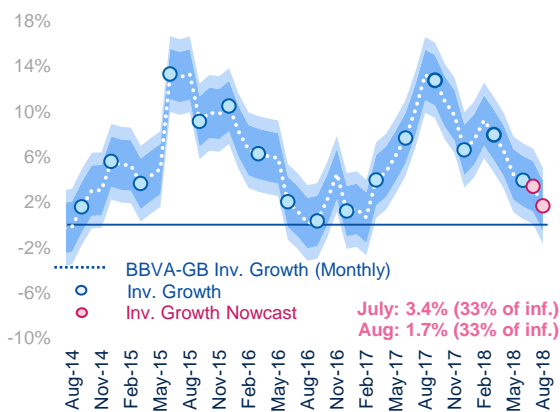
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



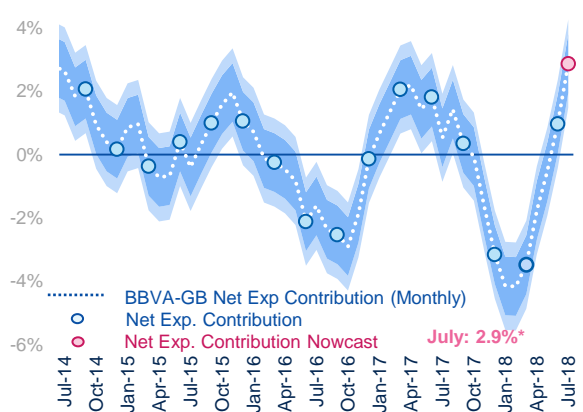
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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