

Economic Activity Pulse

Turkey: Some slow-down signals, more to come

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The Industrial Production (IP) grew by 1.7% yoy in calendar adjusted terms in August, beating the expectations (1.2% consensus vs. -0.5% BBVA Research). The lowest annual growth since the end of 2016 confirms the rapid adjustment in the economy after the upside surprise in July (5.6%) as the companies anticipated production before the long holiday in August. The sharp decline in the unadjusted IP (-11%), which is in line with our expectations (BBVA -11.5%), also implies a yearly contraction in industrial production in 3Q18 which will weigh on GDP growth. With 40% of information, our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts a 2% yoy growth in September and we expect it to continue to decelerate. The tightening in monetary policy (625 bps in September and 1125bps year-to-date) and increasing external financial conditions will affect the real economy with a lag and this will become more obvious from 4Q18 onwards. As preliminary indicators on both soft and hard data also underline this trend, we expect GDP growth to come down to 3% in 2018.

IP confirms the GDP slow-down... with still uncertainty on the magnitude

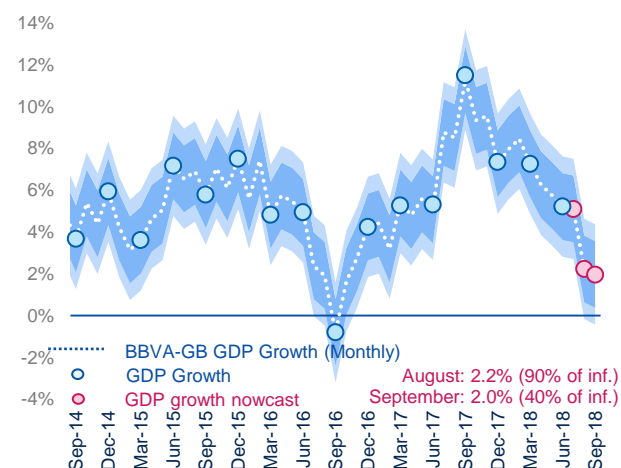
IP decreased by 1.1% mom in August compared to the promising July figure which grew 3.5% mom. The monthly deterioration stems from non-durable consumer goods and intermediate goods production, where each 0.7pp negatively contributed. Thus, annual IP growth turned into negative (-1.6%) in the first two months of 3Q18 compared to 5% in 2Q18. August data reveals much clearer picture on the economic slow-down but the magnitude of the slow-down is still uncertain. In sectorial details, there is a broad based deterioration; although the positive performance of food and other transportation (shipping, railways etc.) sectors supports the overall figure (around 2.5pp). As observed in our nowcasting demand subcomponents (see graphs 6-8), the effect of both tighter internal and external financial conditions on consumption and investment are now sizeable (both contracting); while net exports will continue to play as a stabilizer in the near future due to the slump in imports and supportive exports outlook. Looking ahead, the decline in manufacturing PMI to 42 (the lowest level since 2009), worsening in capacity utilization and electricity production, the sizable deceleration in credit growth and ongoing strong fall in intermediate goods imports all signal a much more rapid slow-down.

Chart 1 Activity Indicators (3MA, YoY)*

Mean	2018								
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Industrial Production	7.9	11.2	9.9	7.3	6.4	5.0	5.9	-0.3	
Non-metal Mineral Production	7.9	24.6	16.7	10.3	6.0	3.1	2.8	-4.8	
Electricity Production	5.0	3.4	3.0	2.4	1.9	0.9	0.9	-0.4	0.2
Auto Sales	7.0	-1.8	2.2	0.4	-4.1	-13.1	-24.0	-36.7	-51.2
Tourist Arrivals	5.5	33.4	34.9	31.2	29.4	28.3	21.0	17.7	14.0
Number of Employed	3.9	5.2	4.4	3.7	3.0	2.5	2.1		
Number of Unemployed	1.6	-14.5	-13.5	-10.9	-7.1	-2.3	0.6		
Auto Imports	9.3	-5.7	-1.0	-3.2	-7.4	-21.2	-35.3	-50.9	-59.3
Auto Exports	7.4	-4.7	-3.1	-1.5	-6.1	-9.8	-19.1	-29.1	-45.7
Retail Sales	6.6	8.9	8.9	7.7	6.7	5.8	4.6		
Manufacturing PMI	51.5	52.7	49.6	51.7	49.5	48.4	49.6	46.4	42.7
Total Loans growth 13-week	19.3	13.2	13.1	15.9	17.0	14.5	10.2	1.7	-2.2
Real Sector Confidence	106.7	110.8	111.9	111.2	109.9	104.6	102.7	96.4	89.6
MICA Forecast								2.2%	2.0%
GDP YoY					5.2%				

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

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

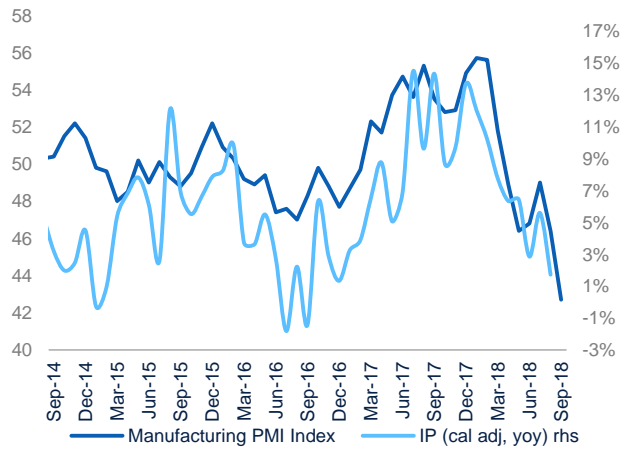


Source: *BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

A faster economic adjustment is now underway

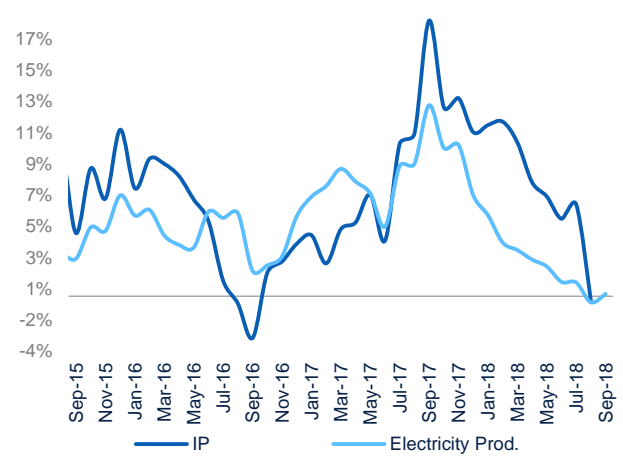
The recent financial shocks, the Government's fiscal consolidation plan and the sharp tightening of monetary policy will start to affect the economic activity more intensively. We expect 2018 GDP growth to be 3% and decelerate further to 1% in 2019.

Chart 3 IP vs Manufacturing PMI (YoY)



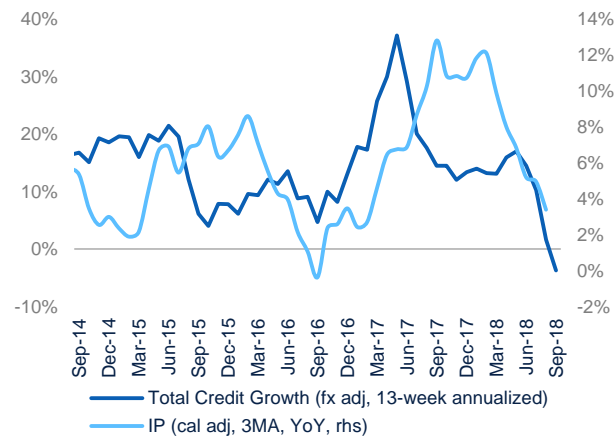
Source: BBVA Research Turkey, Turkstat

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



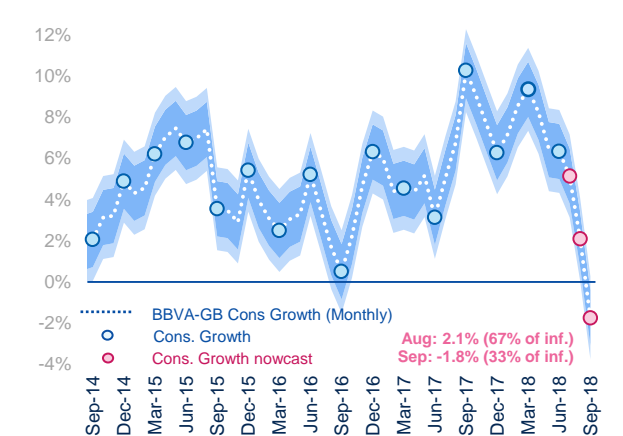
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 IP & Credit Growth



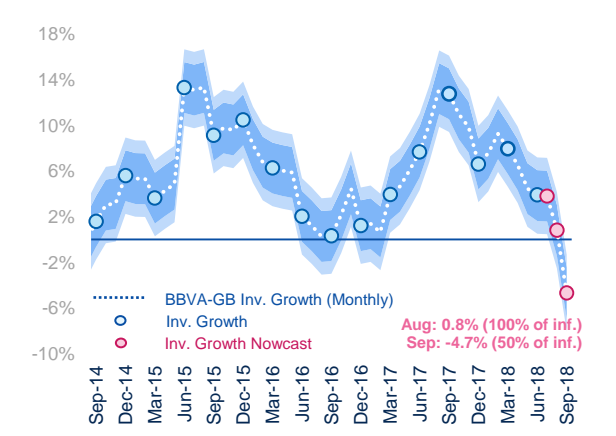
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



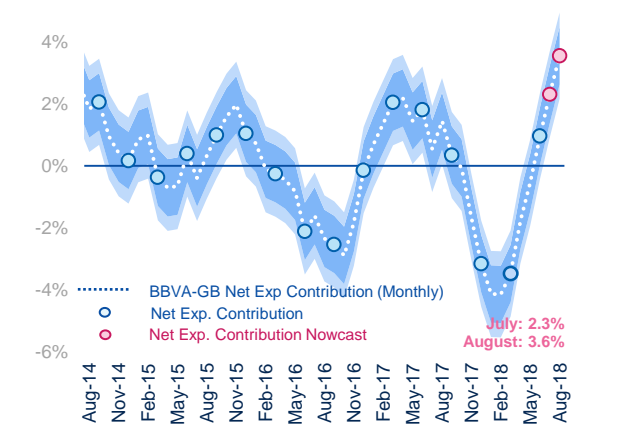
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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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