Economic Watch

Turkey: Adjustment in activity gains momentum

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Industrial Production (IP) decreased by 2.7% yoy in calendar adjusted (ca) terms in September, implying the same direction with what we had estimated with our new nowcasting tool (Retails Sales Big Data Indicator) but relatively lower than the market expectation (-7.5% ours vs. 1.5% Bloomberg). The lowest annual figure since September 2009 confirms the expected rapid adjustment in economic activity. Our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts 2.2% yoy growth in September (with 96% of info including our Retails Sales Big Data Indicator) and we expect it to continue to decelerate further as the model nowcasts 0.6% annual contraction in October (47% of info with our Retails Sales Big Data Indicator). Both tightening external and internal conditions already began to impact loan growth rates sharply, whose lagged effects will continue to affect the real economy negatively and we expect this to become more obvious as of 4Q18. Hence, we expect GDP to grow 3% in 2018, though with cumulating downside risks underpinned by both soft and hard data indicators released so far.

September IP implies further signals on the magnitude of the adjustment

The deterioration in IP (-2.7% mom) was broad-based in September, but the contraction in intermediate and capital goods production weighed more, signaling further decline in output in near future. Thus, in annual terms, IP growth decelerated to 0.5% in 3Q18 compared to 5% in 2Q18, which clearly reveals a rapid slow-down in economic activity (similar to previous contraction episodes in 2016 and 2008). In sectorial details, relatively better performances of other transportation (shipping, motorcycles etc.), other manufacturing and manufacturing of pharmaceutics (3 items contributed positively by 1pp) prevented further deterioration in 3Q annual figure. As observed in our nowcasting demand subcomponents (see graphs 6-8), the tighter financial conditions affect consumption and investment substantially negatively as expected while the outlook of external demand will determine the path for growth as net exports has a sizeable positive contribution due to the sharp decline in imports and continuously supportive exports. Looking ahead, the decline in electricity production and capacity utilization, sizable decrease in loan growth rates on the back of tighter financial conditions, ongoing strong fall in intermediate goods imports and further deterioration in sentiments continue to weigh on the near future growth outlook.
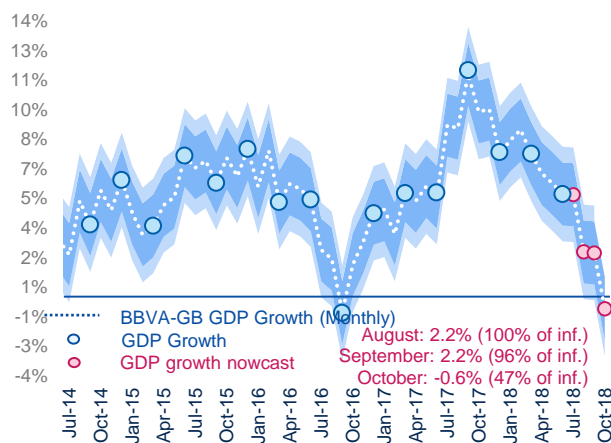
Chart 1 Activity Indicators (3MA, YoY)*

	Mean	2018							
		Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	7.8	9.9	7.3	6.4	5.0	6.0	-0.2	0.5	
Non-metal Mineral Production	7.8	16.7	10.3	6.0	3.1	2.8	-4.8	-4.0	
Electricity Production	4.9	3.0	2.4	1.9	0.9	0.9	-0.4	0.2	-1.2
Auto Sales	6.9	2.2	-0.4	-5.8	-20.0	-29.6	-42.1	-51.5	-66.5
Tourist Arrivals	5.5	34.9	31.2	29.4	28.3	21.0	17.7	14.0	
Number of Employed	3.9	4.4	3.7	3.0	2.5	2.1	1.9		
Number of Unemployed	1.6	-13.5	-10.9	-7.1	-2.3	0.6	4.1		
Auto Imports	8.6	-1.0	-3.2	-7.4	-21.2	-35.3	-50.9	-59.3	-69.9
Auto Exports	9.2	-3.1	9.6	18.7	37.3	24.3	9.5	5.3	4.8
Retail Sales	6.4	8.9	7.7	6.7	5.8	4.4	1.5		
Manufacturing PMI	51.4	49.6	51.7	49.5	48.4	49.6	46.4	42.7	44.3
Total Loans growth 13-week	19.0	13.1	15.9	17.0	14.5	10.2	1.8	-3.9	-9.1
Real Sector Confidence	106.5	111.9	111.2	109.9	104.6	102.7	96.4	89.6	87.6
MICA Forecast								2.2%	-0.6%
GDP YoY					5.2%				

Contraction	Slow-down	Growth	Boom

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

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

BBVA-GB GDP Growth (Monthly)
○ GDP Growth
○ GDP growth nowcast

August: 2.2% (100% of inf.)
September: 2.2% (96% of inf.)
October: -0.6% (47% of inf.)

*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

Our GDP nowcasting foresees a contraction as of October…

Recent tax cuts on furniture, white goods, housing and auto might provide some relief in those sectors in the short-run. However, taking into account expected fiscal tightening and already tightened monetary policy together with higher external cost of funding will weigh more intensively on growth outlook in the near future. Therefore, we expect GDP growth to be 3% in 2018 with some downside risks and fall further to 1% in 2019.
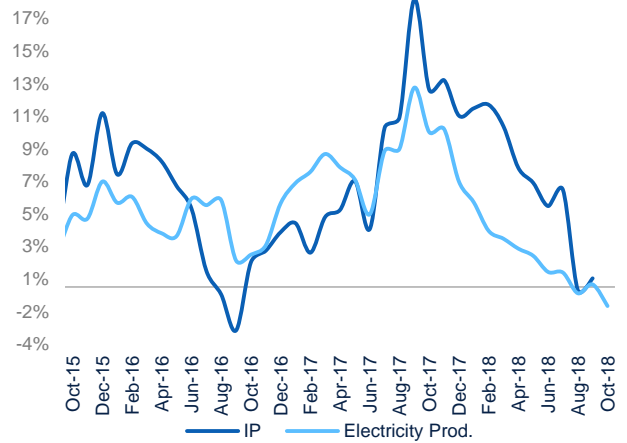
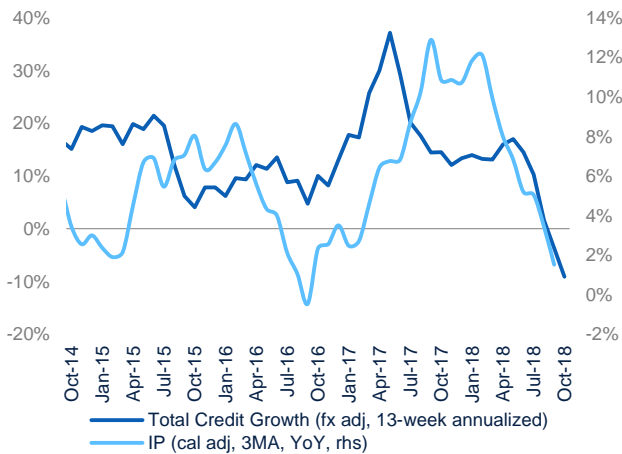## Creating Opportunities

Chart 3 IP vs Manufacturing PMI (YoY)

Legend: Manufacturing PMI Index — IP (cal adj, yoy) rhs
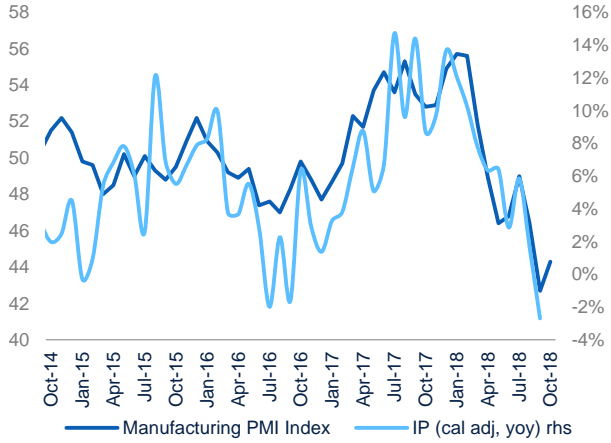
Source: BBVA Research Turkey , Turkstat

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

Legend: IP — Electricity Prod.

Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 IP & Credit Growth

Legend: Total Credit Growth (fx adj, 13-week annualized) — IP (cal adj, 3MA, YoY, rhs)

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

Chart 6 Monthly Consumption Nowcast (3MA)

Legend:
.... BBVA-GB Cons Growth (Monthly)
○ Cons. Growth
○ Cons. Growth nowcast

Aug: 2.1% (100% of inf.)
Sep: -0.8% (83% of inf.)
Oct: -5.5% (33% of inf.)
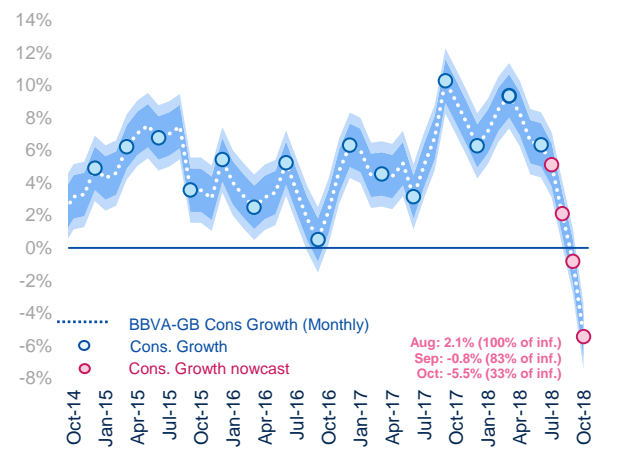
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)

Legend:
.... BBVA-GB Inv. Growth (Monthly)
○ Inv. Growth
○ Inv. Growth Nowcast

Aug: 1.1% (100% of inf.)
Sep: -1.7% (100% of inf.)
Oct: -2.6% (50% of inf.)
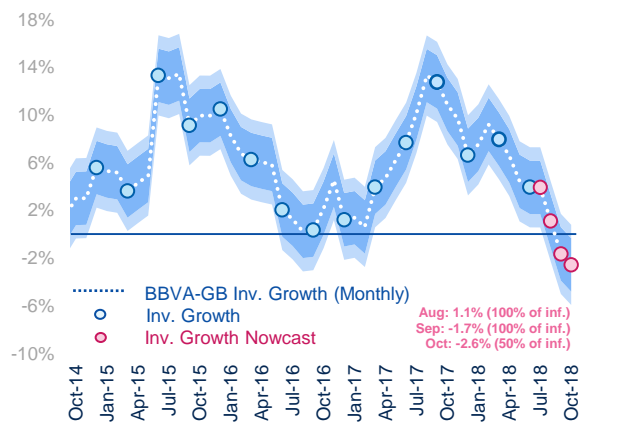
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual cont.)

Legend:
.... BBVA-GB Net Exp Contribution (Monthly)
○ Net Exp. Contribution
○ Net Exp. Contribution Nowcast

July: 2.2%
August: 3.2%
September: 5.4%
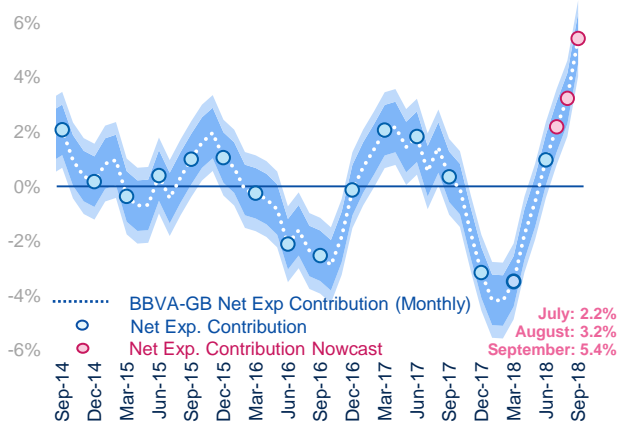
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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