

Economic Watch

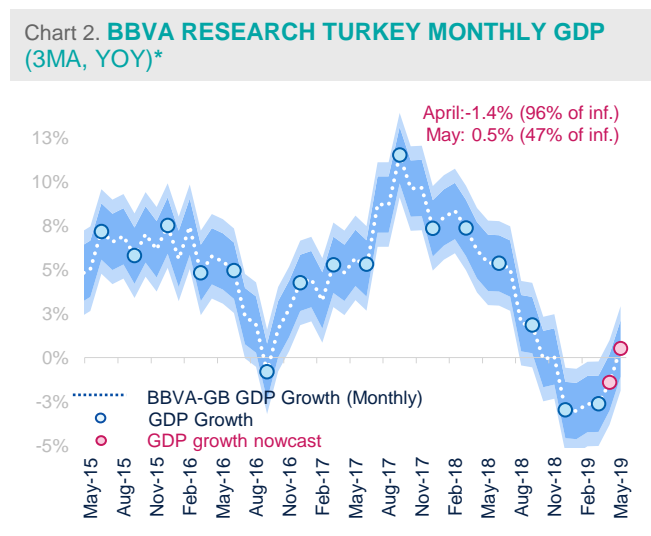
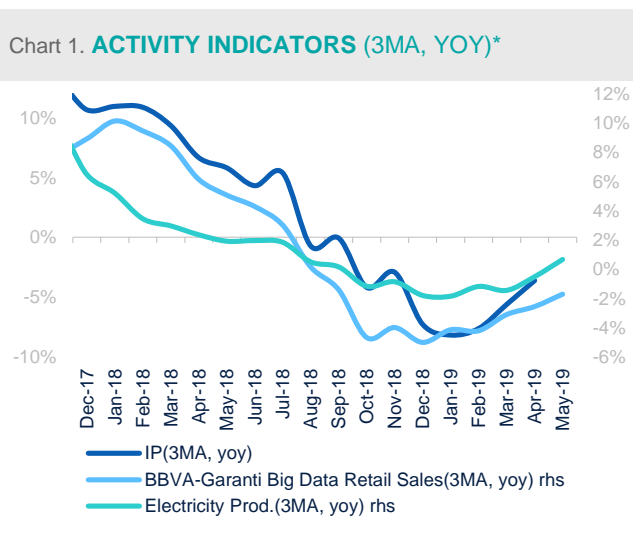
Turkey: Some negative signals from April IP

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Industrial Production (IP) contracted by 4% yoy in calendar adjusted terms in April, worse than market expectation (-2.5%). In trend terms, the deceleration in the yearly contraction still continues but loses some steam as IP also declined by 1% mom in calendar and seasonal adjusted terms after its positive growth rates in the last 3 months. Our monthly GDP indicator shows further recovery in unadjusted terms for 2Q19 and nowcasts a contraction of 1.4% yoy in April (96% of info) and a growth rate of 0.5% yoy in May (47% of info). Favorable calendar day effects for both April and May (+2days in total) seem to provide a promising recovery, which will slightly be reversed in June when the long Bayram holiday has weighed (near -4days). Recently increased uncertainties could decelerate the recovery path as the high frequency indicators already started to give some mixed signals. Though, strong base effects of the second half of the year could still produce a positive whole year growth rate if a prudent and comprehensive set of economic policies is guaranteed. In absence of new shocks, we maintain our GDP growth forecast at 0.3% for 2019.

IP joins the HF indicators signaling some deterioration in the recovery pace

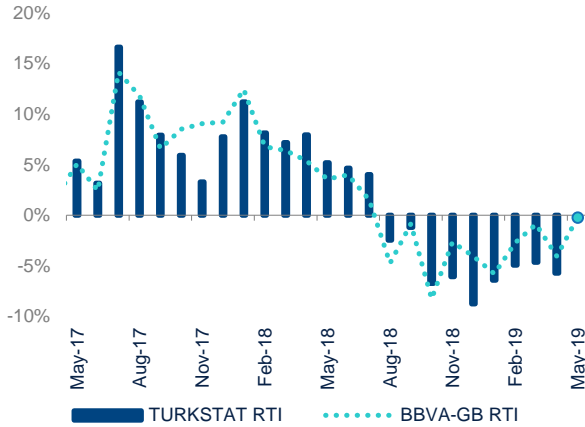
The monthly decline in IP especially stemmed from the contractions in intermediate and capital goods production (flash indicators for future production), which confirms the loss of pace in the recovery pattern. Though, the deceleration in the yearly IP contraction still continues as 4.7% contraction of IP in 1Q19 slows down to 4% in April. The deceleration is much higher in the unadjusted terms thanks to the positive calendar day impact, which brings the yearly IP contraction of 5.6% in 1Q19 to 1.4%. Preliminary indicators carry this trend also in May, so our monthly GDP indicator shows a rapid recovery for May, which will slightly be reversed in June because of the long Ramadan holiday. This is also confirmed by our nowcasting demand subcomponents (see graphs 6-8), where the recovery in private consumption continues and the investment seems to bottom out. Related to HF indicators, in one hand our Big Data Retail Sales Indicator implies the positive impact of Ramadan shifted to May this year and electricity production still remains promising. On the other hand, deceleration in credit growth, reacceleration in the contraction of imports especially on the intermediate goods, deteriorating confidence and PMI indices all signal some loss of steam in the recovery pattern. Though, supported by the current momentum and the positive base effects of the second half of the year, in absence of new shocks we still maintain our view that a limited positive growth rate is still likely for 2019.



A comprehensive policy mix will be key to maintain the recovery

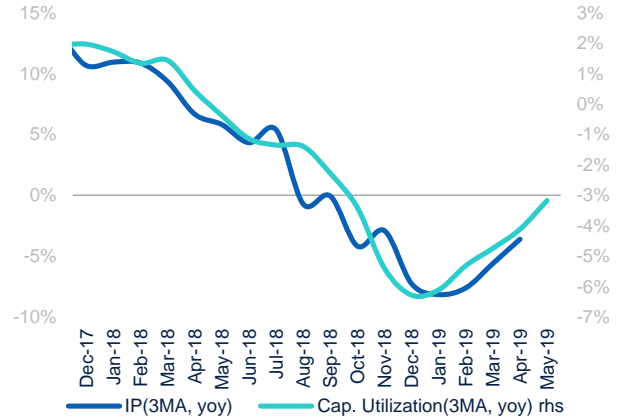
Although April IP signaled some loss of pace for the activity led by the recently increased uncertainties, lagged effects of the likely credit impulses (two new credit packages) and the current momentum which will also be pushed by base effects from now onwards could still be the supporting factors. In absence of new shocks, we maintain our GDP growth forecast at 0.3% for 2019.

Chart 3. **BBVA-GARANTI BIGDATA RETAIL SALES INDEX (YOY)**



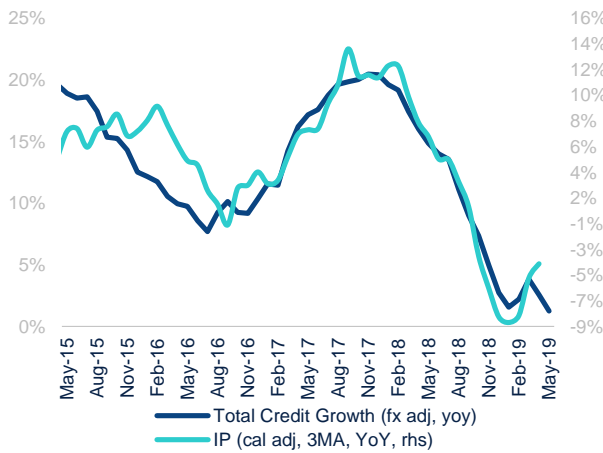
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **IP & Capacity Utilization (3MA, YoY)**



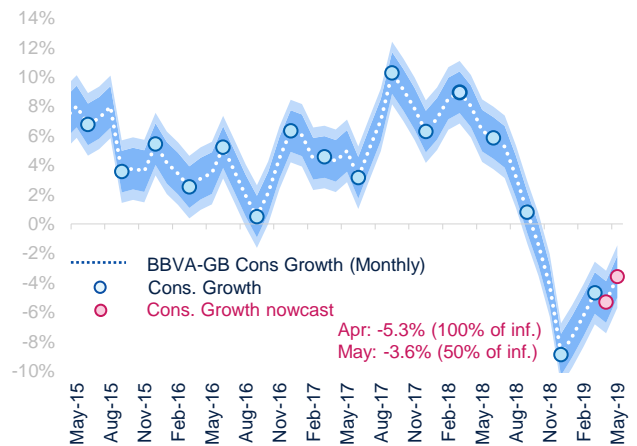
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **IP & CREDIT GROWTH (3MA, YOY)**



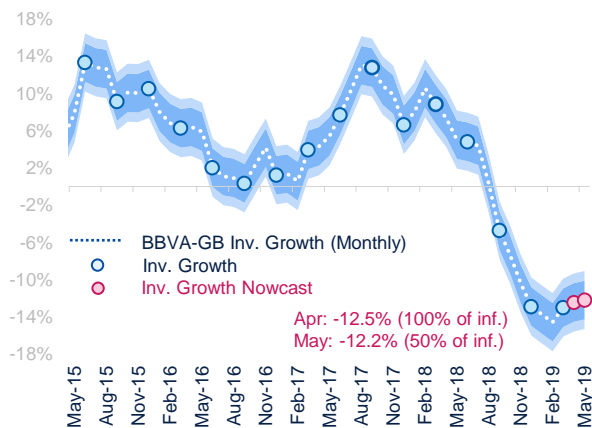
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6. **MONTHLY CONSUMPTION NOWCAST (3MA)**



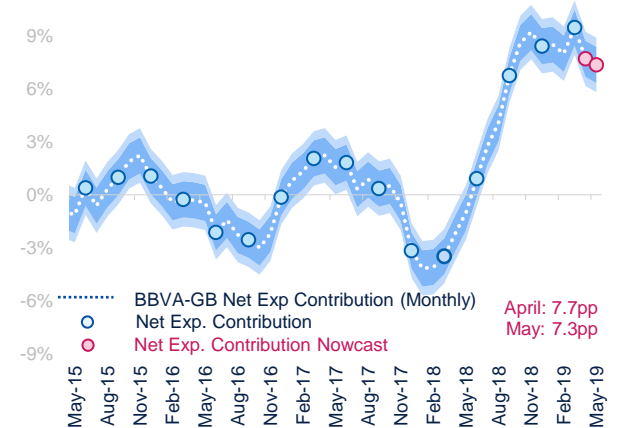
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

Chart 7. **MONTHLY INVESTMENT NOWCAST (3MA)**



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8. **MONTHLY NET EXPORTS NOWCAST (ANNUAL CONTRIBUTION)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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