Turkey: Promising signal from May IP

Ali Batuhan Barlas / Adem Ileri / Seda Guler Mert / Alvaro Ortiz
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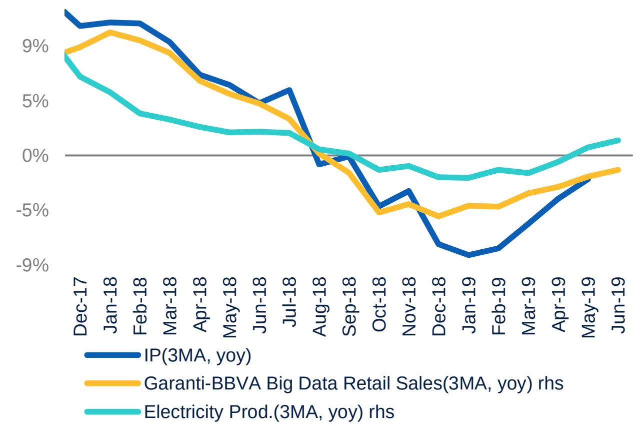
Industrial Production (IP) declined by 1.3% yoy in calendar adjusted terms in May, slightly better than market expectation (-2%). Hence, the annual contraction in IP (c.a.) decelerated further from -4.7% in 1Q19 to -2.6% in the first two months of 2Q19. Besides, May IP increased by 1.3% mom in calendar and seasonal adjusted terms, signaling that the moderation observed in April could be temporary. Our monthly GDP indicator confirms this trend as it nowcasts a growth rate of 0.4% yoy in May (91% of info) and 1.2% yoy in June (32% of info). Despite the downside risk on the back of long Bayram holiday in June (-4 working days in supply side indicators), high frequency indicators began to reconfirm the recovery trend as of June and reducing the likelihood of a "W" pattern . On top of that, strong base effects of the second half of the year and expected easing in both external and internal financial conditions would support the economic activity in the coming period. However, the complacency should be ruled out with prudent and comprehensive policies to enhance confidence as the geopolitical and policy uncertainties still remain. In absence of new shocks, we maintain our GDP growth forecast at 0.3% for 2019.

IP confirmed the gradual recovery is on the right track

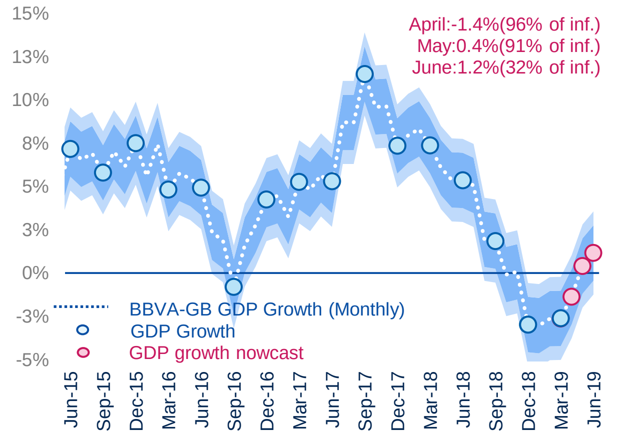
The monthly improvement in IP supported by all main sub-indices except consumption good production, is a good signal for the near future production. On the sectorial side, though the recovery realized in most of the sectors, some certain sectors, especially other transportation manufacturing (2 pp contr. to IP in May) continued to outperform. Nevertheless, the annual contraction in 3 month moving average of IP(c.a) retreated further from 4.7% in 1Q19 to 2.4% in May, which was much better in unadjusted figure thanks to the favorable calendar effect. Our monthly GDP indicator supports this recovery trend for May but could slightly be reversed in June on less working days due to the long Ramadan holiday. Our nowcasting demand subcomponents (see graphs 6-8) also enhanced the promising realization as the investment expenditures began to accompany the already improving private consumption and the still high positive contribution of net export despite some stabilization. Looking ahead, the improvement in HF indicators in June, our Big Data Retail Sales Indicator, electricity production, capacity utilization and PMI, signal the gradual recovery is well alive despite the further deceleration in credit growth and some deterioration in intermediate goods import. Taking into account the positive base effects in the second half of the year and better expectation on external and internal financial conditions in the coming period, we think positive growth is highly likely for 2019 under the assumption of no additional shocks.

Chart 1. **Activity Indicators** (3MA, YOY)*



Source: BBVA Research Turkey, Turkstat

Chart 2. **BBVA Research monthly GDP** (3ma, yoy)*

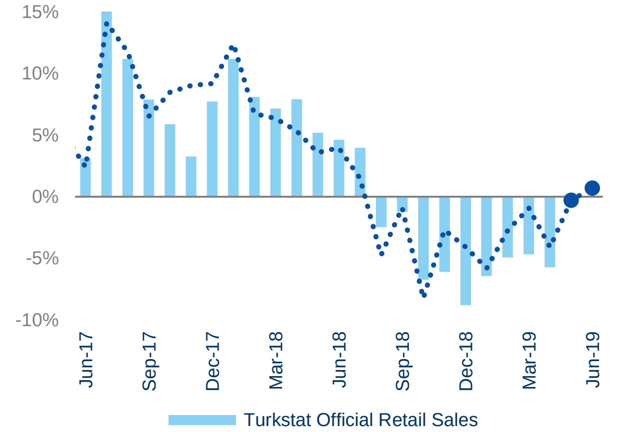


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

The complacency should be ruled out by a prudent and comprehensive policy mix

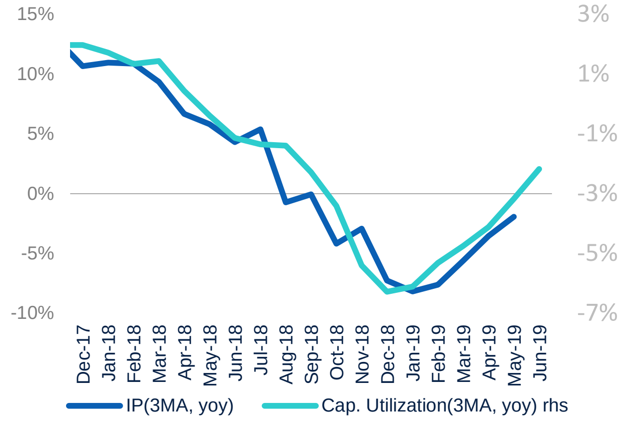
Despite the limited downside risks stemmed from geopolitical and policy uncertainties on activity, the current positive momentum, expected easing in financial conditions and favorable base effects from now onwards could weigh more. Hence, under the assumption of no additional shock, we expect 0.3% GDP growth for 2019.

Chart 3. **BBVA-GB Big Data Retail Sales index** (yoy)



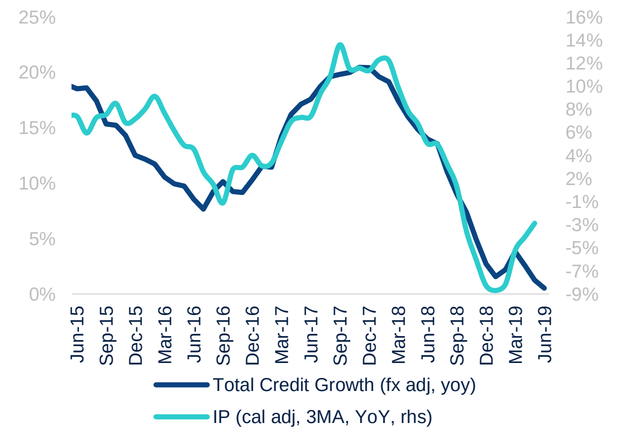
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

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



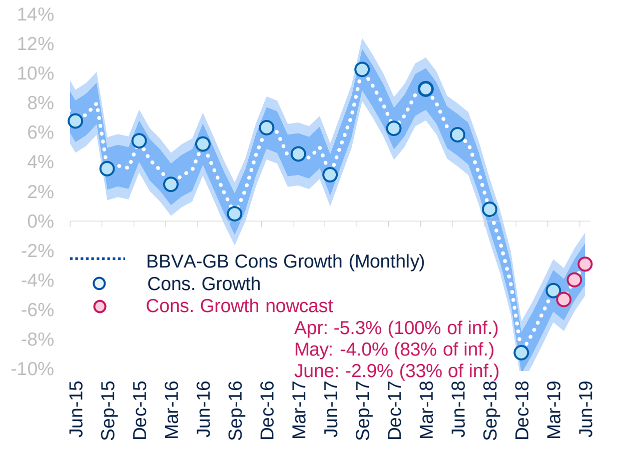
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Ind.Production & Credit** (3mav & fxadj yoy)



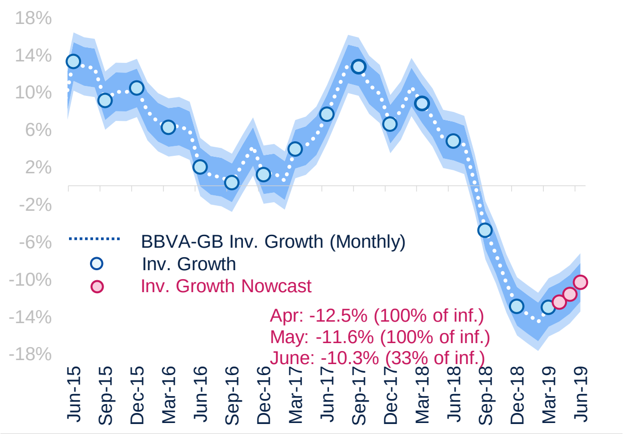
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6. **BBVA Monthly Consumption Nowcast**(3m yoy)



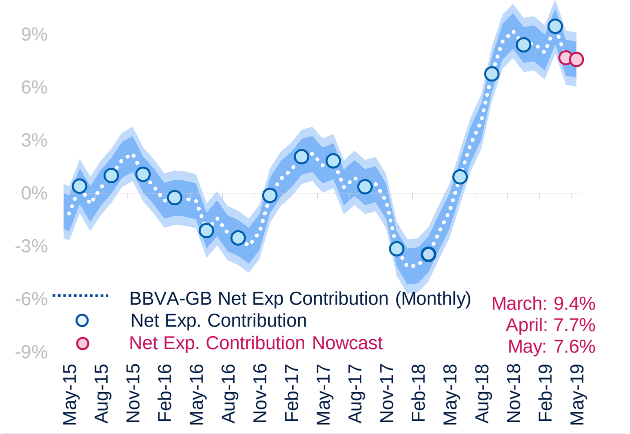
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

Chart 7. **BBVA Monthly Investment Nowcast** (3ma yoy)



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8. **BBVA Monthly Net External sector** (contrib.)



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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ENQUIRIES TO:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com