

Turkey: Still not a clear deceleration in activity

Ali Batuhan Barlas / Adem Ileri / Berk Orkun Isa / Seda Guler Mert / Yesim Ugurlu Solaz
11 June 2021

Industrial Production (IP) grew by 66% yoy in calendar adjusted terms in April, implying 65% yoy growth in unadjusted series, which were boosted by base effects. The month-on-month figure showed a contraction (-0.9%) for the first time since April20 but the adjustment still remained limited. Retail sales also indicated some deceleration with a 6.3% monthly decline (still 42% yoy rise). April figures implied some correction due to the lock-down measures at that time but once the economy reopened in mid-May, the slow-down still isn't clear in 2Q as our high frequency indicators have confirmed. Our monthly GDP indicator nowcasts a yearly growth rate of near 24% as of early June (33% info), reflecting still a moderate positive qoq growth for 2Q. Uncertainties on tighter financial conditions and potential indirect effects from the employment once the temporary ban on firings will be finalized could still result in an adjustment in the second half of the year. Even with that, strong momentum so far and recent upward revisions in global growth clearly reinforce risks on the upside for our prudent 2021 GDP growth forecast of 5%.

Relatively stronger manufacturing sector limited further adjustment in IP

Seasonal and calendar adjusted IP contracted by 0.9% mom in April, being led by intermediate (-2%) and consumption goods (-1.6%) while capital (+2.1%) and energy (+0.4%) goods production remained supportive. On the sectorial side, the production of the main subsectors all shrank (mining -4.1% mom, manufacturing -0.7%, and electricity -1.3%) but relatively limited decline in manufacturing sector prevented further deterioration. The deceleration in manufacturing sector was an uneven as food (-4.9% mom) and motor vehicles production (-3.8% mom) were the main downside factors whereas computer and electronics (26.6% mom) and basic metal production (2.3% mom) were balancing sectors. Taking into account the extended lockdown measures till mid-May and the decline in leading indicators (May PMI 49.3, capacity utilization rate declining to 75.2% and recent monthly contraction in electricity production), IP (sca) could decline further in May (Figure 3). However, the faster correction after the reopening as confirmed by our Big Data indicators, the activity could still recover slightly in June. As a result, our monthly GDP indicator confirms a continuation of robust activity in 2Q by nowcasting 24.3% yoy GDP growth in June with 33% of information. Our demand subcomponents also revealed that domestic demand remains strong on the back of both consumption and investment, while the contribution of net exports increased further.

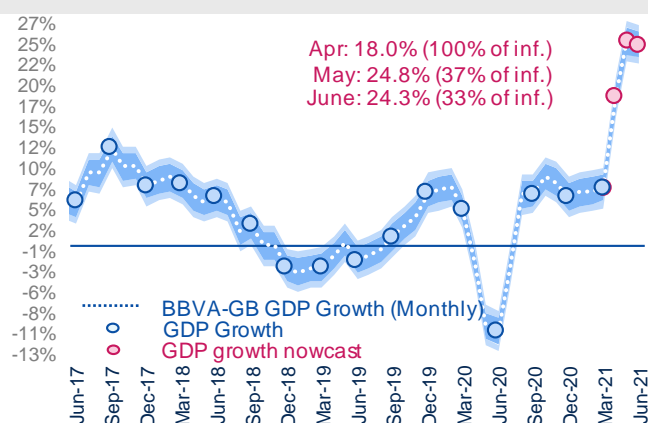
Figure 1. Activity Indicators (%yoy, 3M Moving Avg.)

Mean	2020			2021						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Industrial Production	6.5	12.1	9.8	10.2	9.6	8.7	11.2	26.5		
Non-metal Mineral Production	4.7	25.4	22.1	23.0	24.0	23.8	22.3	32.3		
Electricity Production	4.2	6.0	7.4	7.0	5.9	3.8	7.0	16.7	24.9	
Auto Sales	2.8	11.4	7.7	10.0	30.7	26.2	60.5	76.7		
Auto Imports	4.1	16.0	13.3	26.9	23.2	23.6	59.9	64.9		
Auto Exports	7.7	-14.1	-12.1	-11.3	-12.0	-13.0	-6.5	32.6		
Number of Employed	3.2	-3.1	-3.9	-4.7	-3.3	-1.4	2.6	6.3		
Number of Unemployed	4.8	12.3	10.0	7.7	6.7	3.3	2.1	8.1		
Real Sector Confidence	105.6	108.1	103.9	106.8	107.0	109.3	110.8	111.0	110.3	
Manufacturing PMI	50.9	53.9	51.4	50.8	54.4	51.7	52.6	50.4	49.3	
Total Loans growth 13-week	17.4	7.6	8.1	5.3	3.0	3.0	9.3	12.2	6.1	7.3
Garanti BBVA BigData Cons.	4.0	7.2	5.7	2.6	-1.6	-3.5	3.7	10.7	20.2	30.4
Garanti BBVA BigData Invest.	2.8	9.1	8.2	11.5	11.9	11.4	14.3	20.2	23.4	26.8
GDP Nowcasting Results YoY							18.0%	24.8%	24.3%	
GDP YoY							5.9%	7.0%		

Contraction Slow-down Growth Boom

Source: Garanti BBVA Research, Turkstat

Figure 2. BBVA Research Monthly GDP (%yoy, 3M Avg)

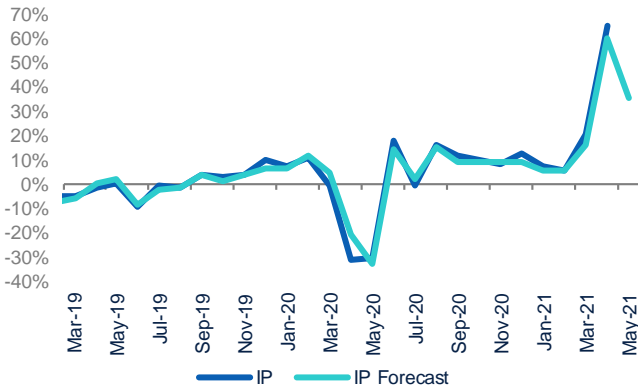


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPI Index in BBG)

Strong activity in 1H21 increased upside risks on our 2021 GDP forecast

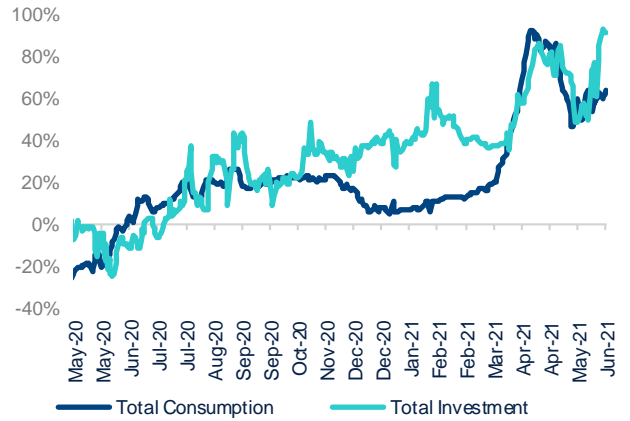
Despite tighter financial conditions, partially continuing lockdown measures and downside risks on tourism revenues, yearly GDP growth might reach near 15% in 1H21 due to still strong domestic demand and some recovery in external demand. Sizable carry-over impact fed by the current solid momentum and expected further pick-up in global economic activity put clear upside risks on our prudent GDP forecast of 5% for 2021.

Figure 3. **IP & IP Forecasts (one month ahead forc.,yoy)**



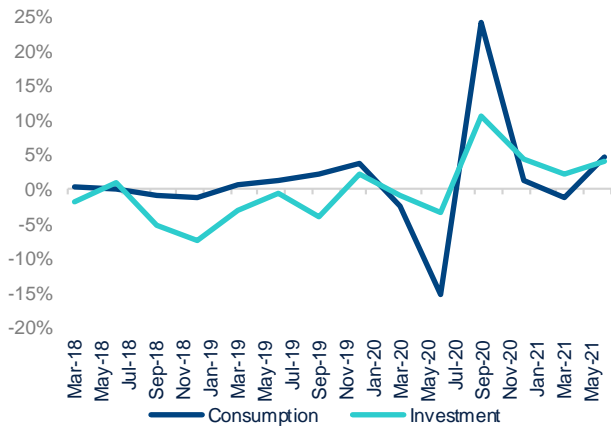
Source: Garanti BBVA Research MIDAS&MFBVAR Models, Turkstat

Figure 4. **BBVA Big Data Demand Indicators (28-day sum, nominal, YoY)**



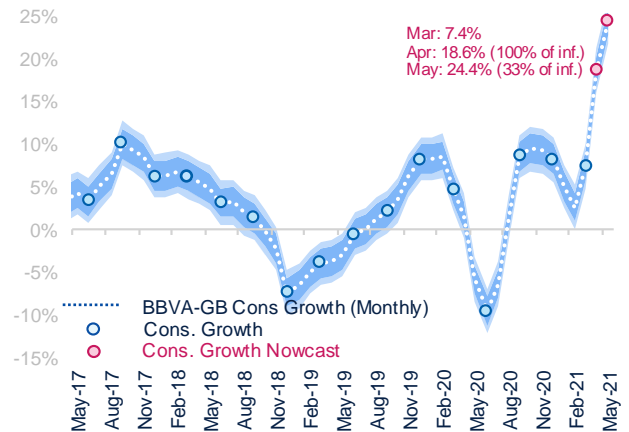
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Demand Indicators (QoQ, in real terms)**



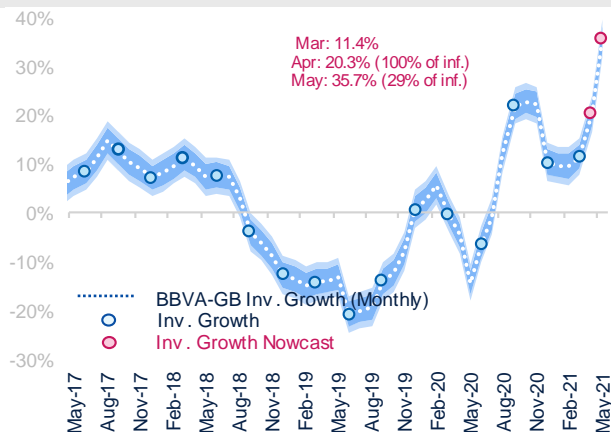
Source: Garanti BBVA Research

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



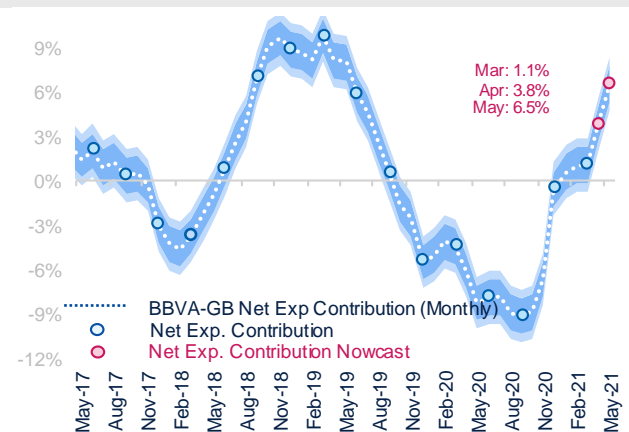
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Figure 7. **BBVA Monthly Investment Nowcast (3m yoy)**



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Figure 8. **BBVA Monthly Net Exports Now cast (cont. pp)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:

Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
bbvaresearch@bbva.com www.bbvaresearch.com

