

Turkey: Solid activity in Q2 despite deceleration

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Industrial Production (IP) grew by 24% yoy in both calendar adjusted and unadjusted terms in June, implying above 40% yoy growth in Q2. The month-on-month figure showed some acceleration with 2.3% (vs. 1.5% mom growth in May), being backed by the continuation of the reopening in the economy. Retail sales confirmed this pattern by picking-up 14.4% mom after its two consecutive months' contraction during the lock-down measures in April and May. Our Big Data proxies and other high frequency indicators have shown a fast recovery following the reopening, reflecting still a moderate positive quarterly growth rate in Q2 as our monthly GDP indicator nowcasts a yearly growth rate of 26% in June (100% info), which is followed by a moderation of 18% in July (46% info) and 13% (15% info) in early August. We expect domestic demand to weaken in the rest of the year on tighter financial conditions and potential indirect effects from the expiration of ban on firings. Though, external demand could still support activity and help the rebalancing in the economy. Already being boosted by the carry-over impact of the 1H and recent upward revisions in global growth, we expect 2021 GDP growth to be 9%, with risks still on the upside.

IP indicated slow-down in quarterly terms, despite acceleration in monthly growth

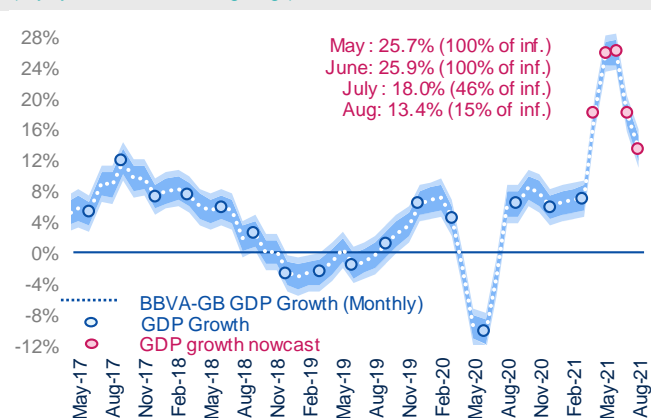
Seasonal and calendar adjusted IP grew by 2.3% mom, which accelerated from 1.5% in May with the reopening effect in June. The main contributors on monthly growth were consumer goods production of 4.4% (durable & non-durable goods, respectively 4.9% and 4.3%) and capital goods production (3.6%). Though, intermediate goods production was weaker (0.9% mom) and energy goods production contracted (-0.5% mom). In sectorial details, other transport equipment, textile, rubber & plastic and food products were the main supporters in June. In annual terms, IP grew by 40% in 2Q led by the support of strong base effects, which was 11.3% in 1Q. However, the quarterly (qoq) growth rate implied some loss of momentum with 1.6% in 2Q (vs. 2.7% in 1Q) despite the acceleration with the reopening impact in May and June. Exporting sectors production weakened in 2Q (stronger external demand could be compensated by inventories), while domestic demand oriented sectors maintained a similar contribution compared to 1Q. Manufacturing PMI accelerating to 54 and manufacturing capacity utilization rate (s.a) increasing slightly to 76.4% in July, and continuing pick-up in electricity production in July and August have all indicated still solid production levels in early 3Q. On the demand side, as our big data indicators show (Figure 3-5), consumption starts to stabilize at strong levels and investment maintains an adjustment since June.

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

Mean	2021								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
Industrial Production	9.6	8.7	11.3	26.6	38.9	40.3			
Non-metal Mineral Production	24.0	23.8	22.3	32.5	43.1	43.1			
Electricity Production	5.9	3.8	7.0	16.7	26.2	26.8	18.9	17.5	
Auto Sales	30.7	26.2	60.5	76.8	98.1	54.0			
Auto Imports	23.2	23.6	58.5	64.9	88.7	57.9			
Auto Exports	-12.0	-13.0	-5.5	32.8	62.5	59.3			
Number of Employed	-3.3	-1.4	2.6	6.3	9.2	9.8			
Number of Unemployed	-6.7	-3.3	2.1	8.1	8.9	0.6			
Real Sector Confidence	105.6	107.0	109.3	110.8	111.0	110.3	113.0	114.8	
Manufacturing PMI	50.9	54.4	51.7	52.6	50.4	49.3	51.3	54.0	
Total Loans growth 13-week	17.4	3.0	3.0	9.3	12.2	6.8	6.5	7.8	
Garanti BBVA BigData Cons.	4.0	-1.6	-3.5	3.7	19.7	29.2	31.1	26.4	17.9
Garanti BBVA BigData Invest.	3.0	10.5	10.7	14.3	20.2	28.4	28.3	19.2	7.7
GDP Nowcasting Results YoY					18%	25.7%	25.9%	18.0%	13.4%
GDP YoY					7.0%				

Source: Garanti BBVA Research, Turkstat

Figure 2. **Garanti BBVA Research Monthly GDP Indicator**
(%yoy, 3-month moving avg.)

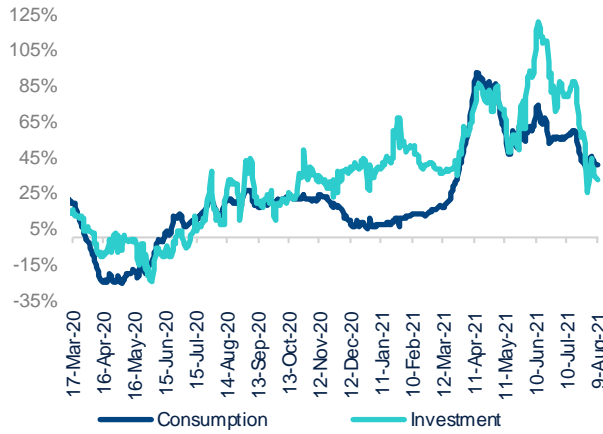


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPI Index in BGG)

Carry-over impact of the first half of the year will boost 2021 GDP growth

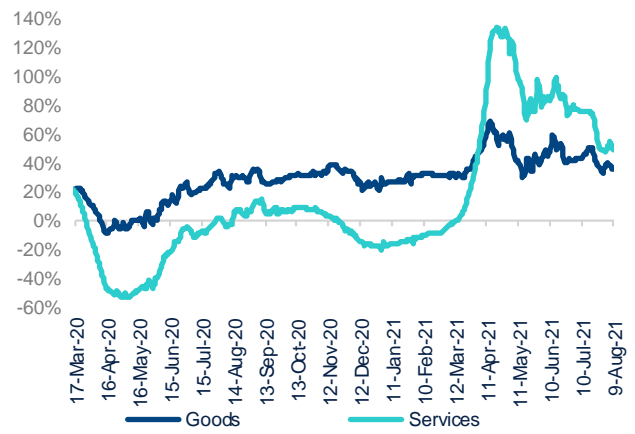
2Q GDP data will be released on September 1. As our nowcast indicates, yearly GDP growth might reach above 15% in 1H21 on still growing domestic demand and strengthening net exports. We expect 2021 GDP growth to be 9%, being supported by the pick-up in global economic activity and recovering tourism revenues.

Figure 3. **BBVA Big Data Domestic Demand Indicators**
(28-day sum, nominal, YoY)



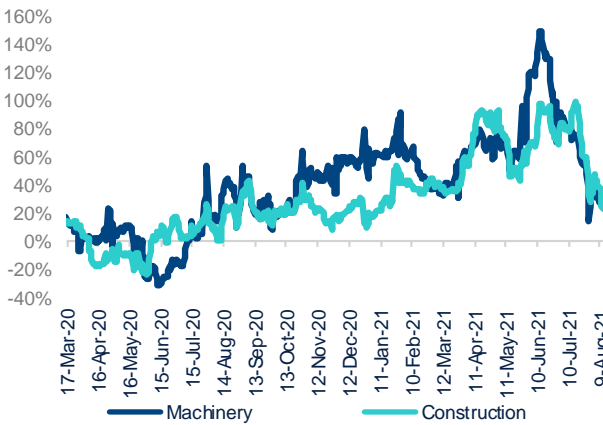
Source: Garanti BBVA Research, Turkstat

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



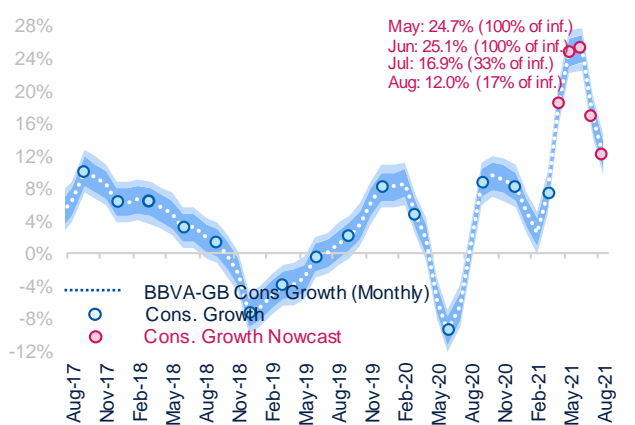
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Investment Indicators**
(28-day sum, nominal, YoY)



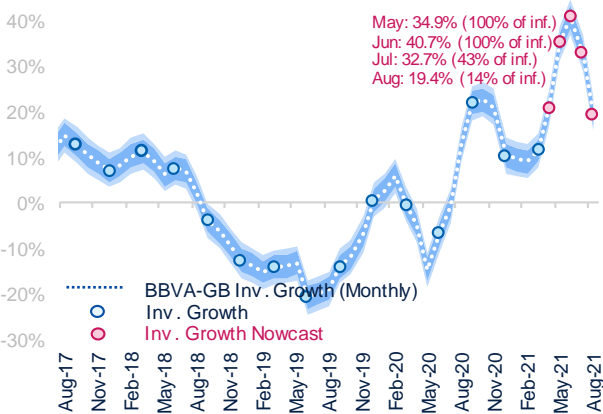
Source: Garanti BBVA Research, Turkstat

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



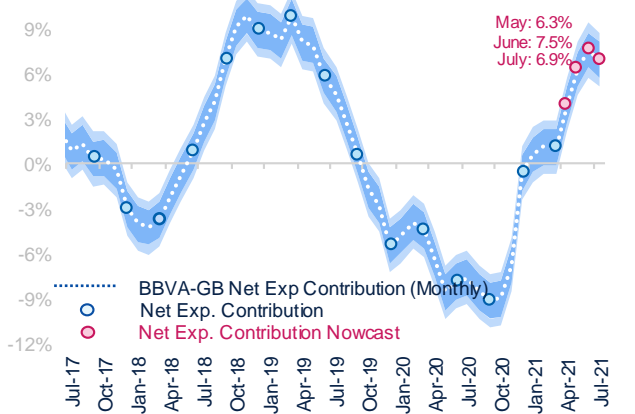
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Figure 7. **BBVA Monthly Investment Now cast** (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

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