Turkey: Negative surprise in July industrial production

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

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Industrial Production (IP) grew remarkably lower than expectations by 8.7% yoy in calendar adjusted terms (vs. 15.2% consensus) in July, whereas it contracted by 2.3% yoy in raw series. The month-on-month figure also implied a large negative contraction of 4.2%, showing weaknesses across-the-board but especially in capital goods production. Our Big Data demand proxies and other high frequency indicators have maintained a recovery in recent months, being contrary to today's IP figure, which signals further depletion of inventories in certain sectors especially in need of intermediary goods. August data might shed light on the continuation of this trend but domestic demand remains on track and exports keep improving, which is confirmed by our monthly GDP indicator nowcasting a mild positive quarterly growth rate for 3Q. Although positive base effects fade away 3Q onwards and today's data surprised on the downside, we keep our 2021 GDP growth forecast at 9%, given the strong momentum so far and still recovering global growth.

IP recorded the strongest monthly contraction since the start of pandemic

IP contracted by 4.2% mom in July and surprised on the downside after growing by +2.2% mom the month before. The worsening was broad-based, led by all main subsectors except for the energy goods production (+2.7% mom). Consumer goods (durable & non-durable -7.2% & -1.2% mom, respectively), capital goods (-11.6% mom) and intermediate goods production (-3.5% mom) all contracted. In sectoral detail, most of the sectors subtracted from the overall growth, where other transport equipment (-37.2%), rubber & plastic (-10.4%), motor vehicles (-7.2%), electrical equipment (-10.1%) and textile production (-5.2%) were the pioneers in negative contribution. Contrary to the previous months when weakening exporting sectors production was compensated by still strong domestic demand oriented sectors, this month both displayed deteriorations. Therefore, despite the continuation of strong demand from both domestically and abroad, negative July IP surprise might have signaled further stock depletion as we already observed in the previous quarters. Our big data indicators, manufacturing PMI (Aug: 54.1), capacity utilization rate rising to 76.8% in August and still solid electricity production all indicate the maintenance of the recovery pattern. Though, July IP's downward surprise leads us to be cautious on the upcoming August IP figure, where the compensation of the other sectors will also be critical to understand the overall momentum in 3Q.

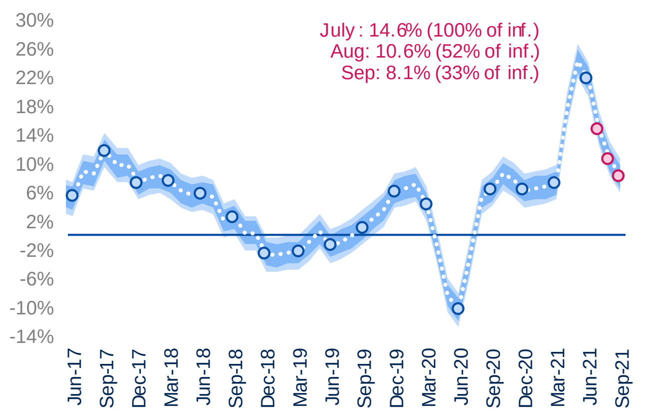
Figure 1. **Activity Indicators**
(%yoy, 3M Moving Avg.)

		2021								
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Industrial Production	6.5	9.6	8.7	11.3	26.6	38.9	40.4	18.2		
Non-metal Mineral Production	4.7	24.0	23.8	22.3	32.5	43.1	43.1	22.4		
Electricity Production	4.2	5.9	3.8	7.0	16.7	26.2	26.8	18.9	16.5	13.7
Auto Sales	2.8	30.7	26.2	60.5	76.8	98.1	54.0	-2.6	-14.3	
Auto Imports	4.1	23.2	23.6	58.5	64.9	88.7	57.9	3.9	-11.0	
Auto Exports	7.7	-12.0	-13.0	-5.5	32.8	62.5	59.3	-10.5	6.2	
Number of Employed	3.2	-3.3	-1.4	2.6	6.3	9.2	9.8	8.7		
Number of Unemployed	4.8	-6.7	-3.3	2.1	8.1	8.9	0.6	-8.0		
Real Sector Confidence	105.6	107.0	109.3	110.8	111.0	110.3	113.0	114.8	113.9	
Manufacturing PMI	50.9	54.4	51.7	52.6	50.4	49.3	51.3	54.0	54.1	
Total Loans growth 13-week	17.4	3.0	3.0	9.3	12.2	6.8	6.5	7.8	12.3	11.5
Garanti BBVA BigData Cons.	4.0	-1.6	-3.5	3.7	19.7	29.0	30.3	21.4	19.1	17.7
Garanti BBVA BigData Invest.	3.0	10.5	10.7	14.3	20.2	28.4	28.3	19.2	8.1	4.1
GDP Nowcasting Results YoY								14.6%	10.6%	8.1%
GDP YoY				7.2%			21.7%			

Contraction	Slow-down	Growth	Boom

Source: Garanti BBVA Research, Turkstat

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

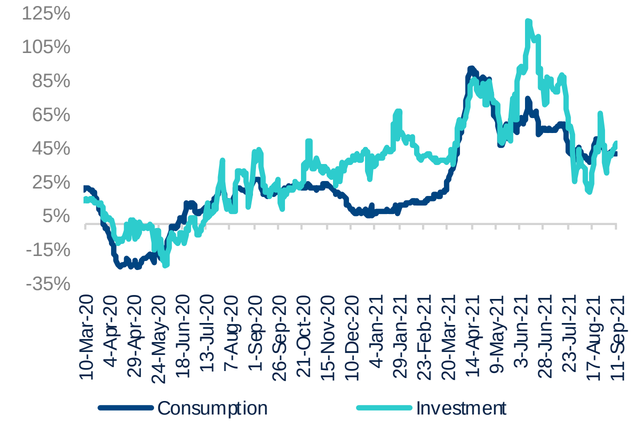


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

Downside surprise of July IP might be temporary, given the strong demand

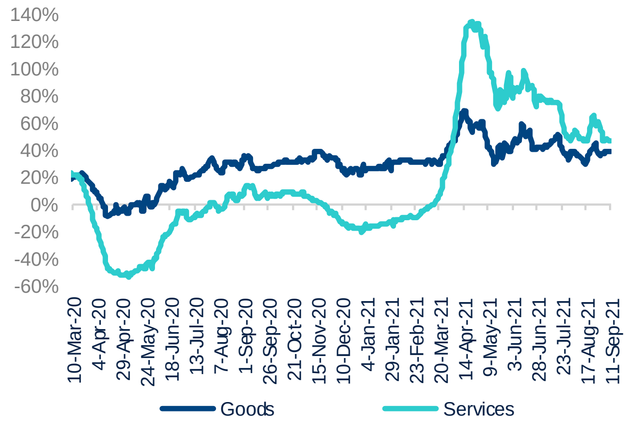
July's weaker than expected IP could have stemmed from supply shortages, deepening cost-push factors and side effects of the long religious holiday. As our nowcast indicates, still growing domestic demand and strong exports might result in a mild positive quarterly growth rate in 3Q. We expect 2021 GDP growth to be 9%, with risks still on the upside; though today's data might partially eliminate those risks, which will be clearer with August data.

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



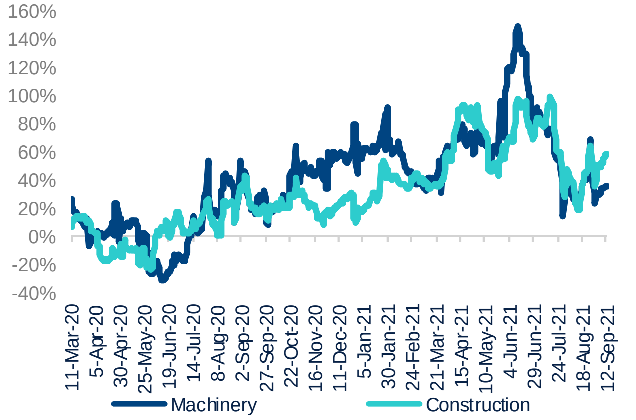
Source: Garanti BBVA Research, Turkstat

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



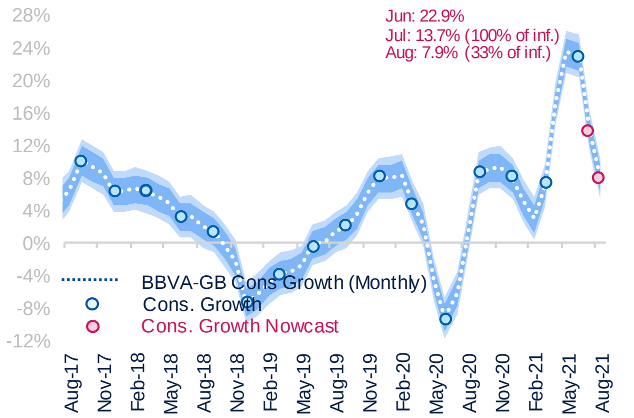
Source: Garanti BBVA Research, Turkstat

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



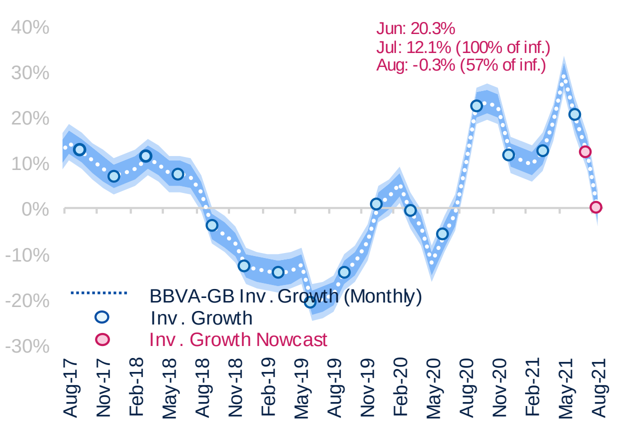
Source: Garanti BBVA Research, Turkstat

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



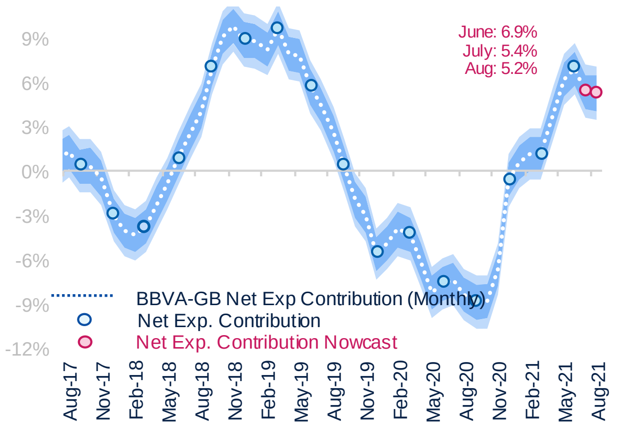
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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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