

Turkey-Industrial Production

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June 2021 – IP mom growth accelerates

In June, calendar-adjusted industrial production (IP) rose by 23.9% yoy, in line with the consensus 21.7%. On a 3-month average basis, the 38.1% yoy rise of May climbed to 41.1% in June. Thus, IP, which contracted by 16.7% yoy in 2Q20, rose in 2Q21 even more than the base effect. On a mom basis, IP data also supported the momentum gain. IP increased by 2.3% on a mom basis, also rising on a qoq basis.

In June, the trend across IP ran in parallel to the previous month. While there was an acceleration in the non-durable consumption and capital goods groups among the main groups, there was a loss of momentum in the energy group. Production in durable consumption and intermediate goods groups was slightly weaker compared to other main groups. Compared to the previous month, there was an acceleration in the production trends of food, textiles, other minerals (glass, cement, etc.), and furniture. While the production trend in the automotive sector remained weak relative to the manufacturing industry, the trend in the textile, other minerals, basic metals, transportation excluding motor vehicles and furniture sectors was stronger.

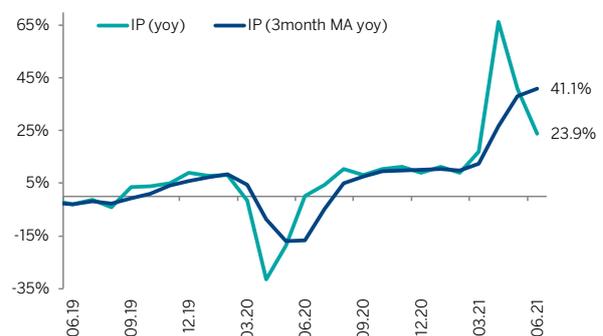
2Q21 GDP growth data will be released on September 1. Preliminary data points to 2Q21 yoy growth in the range of 20-25%. Accordingly, in the first half of the year, with the contribution of the low base effect, yoy growth was quite high, at around 15%.

Even though Covid-19 related risks have increased in recent weeks compared to the previous month, a significant slowdown in the global growth trend is not expected. Accordingly, we expect export support to remain strong. On the other hand, we expect the recovery in tourism, especially starting from July, to support the contribution of foreign demand to growth. We anticipate risks to external demand weakening while domestic demand loses momentum in the second half of the year. We expect private consumption to decelerate due to both monetary tightening and weakening demand in certain sectors such as durable goods and automotive. Despite our expectation of a slowdown, our GDP growth forecast for 2021 points to a rather high trend of 9.0%, due to activity which significantly exceeded expectations in the first half of the year.

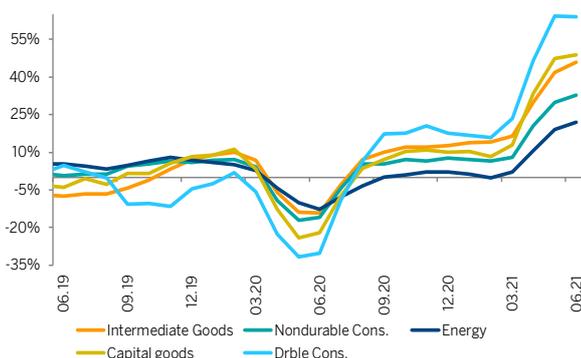
Industrial Production (calendar adjusted)

yoy change (calendar adj.)	Jun 21	3Q20	4Q20	1Q21	2Q21
Total Industry	23.9%	7.7%	10.2%	12.5%	41.1%
Intermediate Goods	28.3%	10.0%	12.6%	16.6%	45.8%
Durable Consumer Goods	30.9%	17.2%	17.5%	23.4%	64.0%
Non-Durable Consumer Goods	18.1%	5.3%	7.7%	8.0%	32.7%
Energy	16.8%	0.2%	2.1%	2.1%	21.9%
Capital Goods	25.0%	7.1%	10.1%	12.8%	48.9%

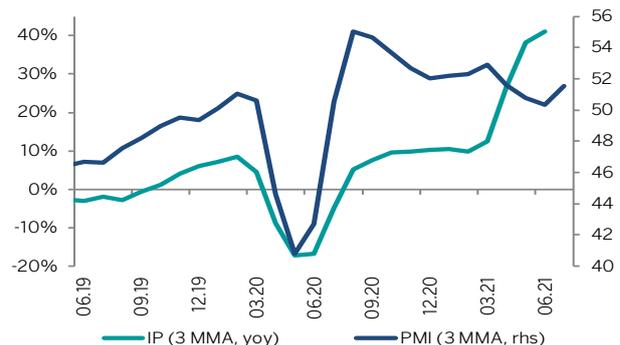
Industrial Production (calendar adjusted)



Main Groups (CA, 3month MA yoy change)



Growth Indicators (3MMA, yoy)

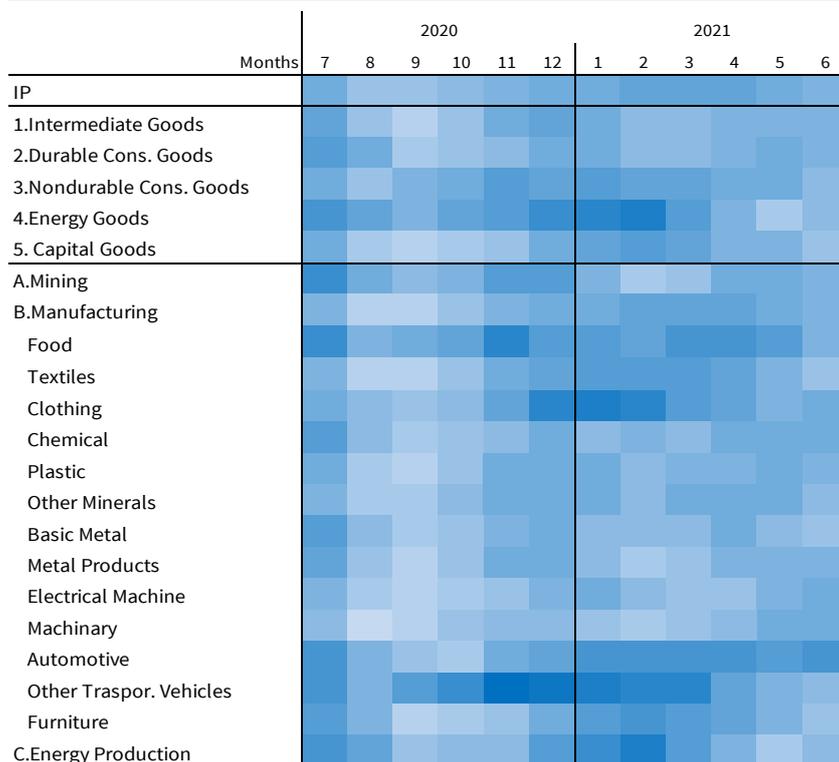


Source: Turkstat, Markit, Garanti BBVA Securities

According to leading indicators, activity remained strong in July

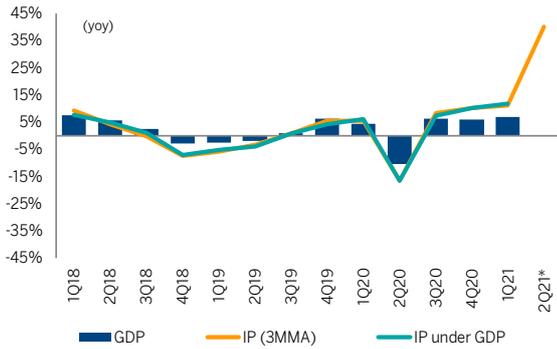
- The global number of Covid-19 cases has been on the rise again since mid-June. Vaccination rates and the effectiveness of vaccines make a difference in the effect of the rise in the number of cases across countries. Thus, despite the increased number of cases, it is estimated that the impact on economies will be more limited than in previous waves. Accordingly, a global lockdown is not expected going forward. In Turkey, there has been an increase in the number of cases in recent weeks with a similar trend to the world. In Turkey, c. 52% of the population has received the first dose and 38% the second dose
- According to PMI indices, while the growth trend weakened in the US and China in July, it continued to strengthen in Europe. And although the global PMI index fell to its lowest level of the past four months in July, the growth trend was still strong. The trend was strong in the US and Europe, but a relatively weak pace in Asia has continued.
- In Turkey, manufacturing industry PMI rose mom by 12 points to 51.5 on a 3-month basis in July. The lockdowns after the rise in the number of Covid-19 cases had created uncertainty for the manufacturing industry trend in Turkey in the previous 3 months. Yet, as restrictions were lifted, the recovery trend became clear once again in July.
- Even though yoy export growth on a 3-month basis slowed down to 37% in July due to a weakening base effect, it remained strong. The rise in imports was at 35%, which was very close to that of exports. Thus, due to high commodity prices, the yoy contraction trend in the foreign trade deficit ended after five months, returning to a widening. The trend in the number of tourists in July will be important in terms of tourism performance as travel restrictions are eased. The recovery of exports of goods and services in the upcoming period will be crucial for sustainable and balanced growth.
- Interest rates decreased slightly in commercial loans compared to the previous month. While the loan growth trend slowed down in commercial, it accelerated in the consumer component. According to 13-week averages, the loan growth trend was at 12.0% for consumer loans and 2.5% for commercial loans at end-July.
- In July, the trend in confidence indices improved excepting the consumer side. The trend in the automobile and light commercial vehicle market turned to contraction in July. The housing market was also weak.
- Regarding the investment trend, the leading capacity utilization rate and capital goods production have been strong. This is favorable for the medium-to-long term growth outlook.

Sectoral Production Evolution*



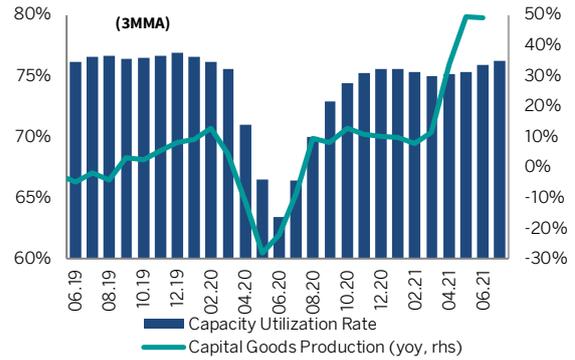
Source: Turkstat, Garanti BBVA Securities* Darker colors point to the worsening in the tendency

IP growth yoy was 40% in 2Q21



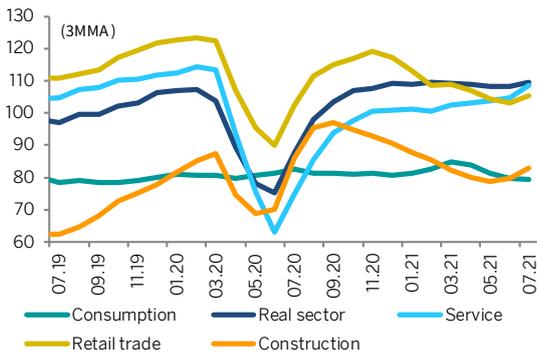
Source: Turkstat, Garanti BBVA Securities *past 3 months

Investment trend remained strong



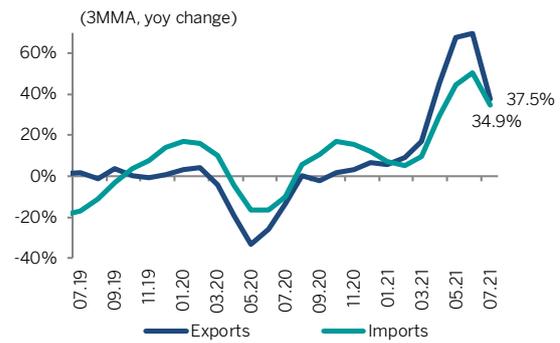
Source: CBRT, Turkstat, Garanti BBVA Securities

Confidence improved excepting consumption



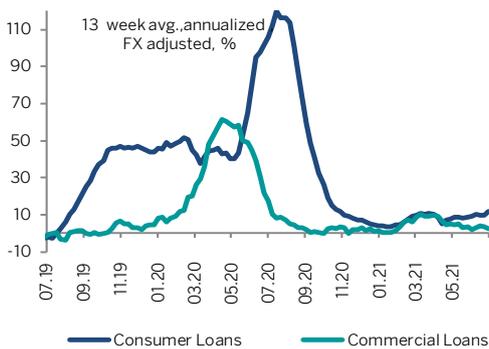
Source: Turkstat, Garanti BBVA Securities

High foreign trade volume growth continues



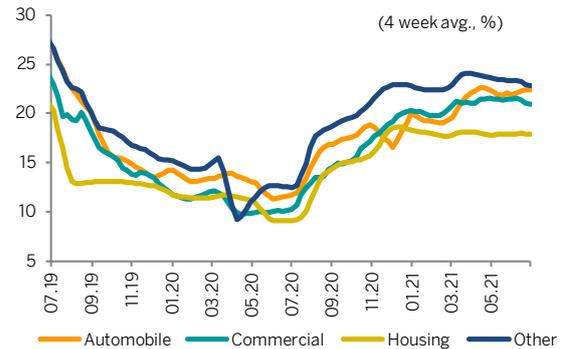
Source: Turkstat, Garanti BBVA Securities

Consumer loan growth rate accelerated slightly



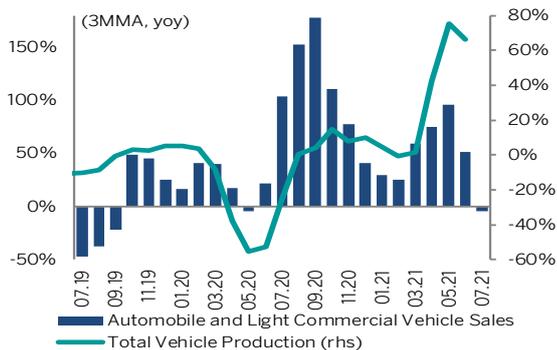
Source: BRSA, Garanti Securities

Commercial loan rates fell slightly



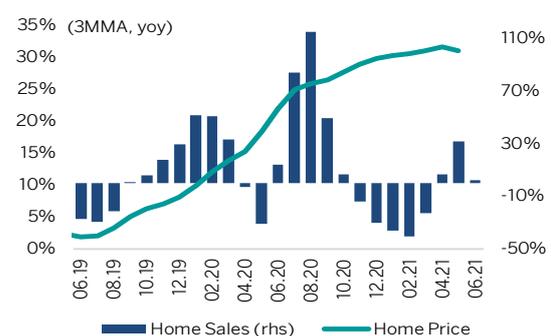
Source: CBRT, Garanti Securities

Auto sales decreased yoy



Source: ODD, OSD, Garanti BBVA Securities

High rise in house prices



Source: CBRT, Turkstat, Garanti BBVA Securities

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