Economic Watch

Turkey: Economic activity "bottoming out" signals broaden

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Turkish Industrial Production (IP) increased by 1% mom in seasonal and calendar adjustment terms in January after five months in a row of monthly negative contractions. Industrial Production contracted by 7.3% in year growth rates in line with our expectations but lower than consensus (-8% Consensus vs. -7.1% BBVA Research). Including this data, our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts a contraction of 2.2% yoy growth in February (with 37% info) signaling a bottoming-out after December and January (both at -3.0). The stabilizing IP trend, the limited recovery in confidence indicators, the already positive annual growth rates in credit growth and the deceleration in the contraction of intermediate goods imports all signal that the economy has already reached the trough of the business cycle during the last quarter of 2018. We maintain our GDP growth forecast at 1% for 2019 on the basis of the bottoming out and the positive statistical base in the second half of the year.

January Industrial Production join bottoming-out signals…

The monthly increase of 1% in IP was supported by all the sub-sectors but mainly the intermediate goods products, which is a good signal for further recovery in the coming months. In this respect, IP's stabilizing trend stems from the intermediate goods, which is followed by the consumer goods production. In sectorial details, the recovery is still not broad-based while the manufacturing sector backs the recent limited pick-up. The production of other transportation (mostly defense items) and other manufacturing sector gave the main positive contributions (almost 1pp in total), while the deceleration in the contractions of fabricated metal, food and electrical equipment were the other prominent supportive factors. Our nowcasting demand subcomponents (see graphs 6-8) show that the contraction in domestic demand started to curve after the slight recovery in consumption and somehow stabilization in investment. Despite some downside risks on poorer than expected 4Q18 data and uncertainties and still uncertainty of the real effects of the recent pick up in credit growth, we maintain our forecasts of the bottoming out during the first of this year and positive growth rates in the second half thanks to the impulses and a positive base effect.
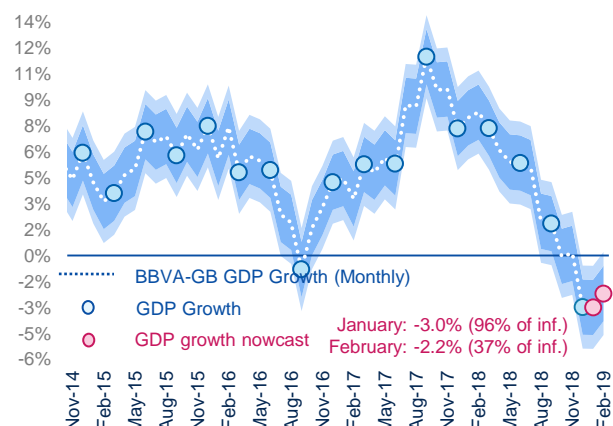
Chart 1 Activity Indicators (3MA, YoY)*

	Mean	2018						2019	
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial Production	7.3	5.4	-0.7	-0.1	-4.2	-2.9	-7.3	-8.1	
Non-metal Mineral Production	6.8	2.5	-5.2	-4.6	-11.3	-11.8	-19.7	-22.9	
Electricity Production	4.7	1.8	0.5	0.2	-1.2	-0.9	-1.8	-1.8	-1.2
Auto Sales	5.2	-29.6	-42.1	-51.5	-66.5	-61.2	-52.4	-45.3	
Tourist Arrivals	6.0	21.0	17.7	14.7	18.8	20.5	20.8	13.2	
Number of Employed	3.8	2.1	1.9	1.5	1.1	0.3			
Number of Unemployed	1.9	0.6	4.1	6.7	10.9	15.4			
Auto Imports	6.8	-35.3	-50.9	-59.3	-69.9	-61.0	-53.0	-45.3	
Auto Exports	9.1	24.3	9.5	5.3	4.8	10.9	1.9	-0.7	
Retail Sales	5.9	4.5	1.8	0.0	-3.5	-4.6	-7.4	-7.8	-7.0
Manufacturing PMI	51.2	49.6	46.4	42.7	44.3	44.7	44.2	44.2	46.4
Total Loans growth 13-week	18.1	8.9	1.2	-4.3	-8.8	-9.6	-9.7	-3.1	1.7
Real Sector Confidence	106.0	102.7	96.4	89.6	87.6	92.8	91.5	93.0	97.2
MICA Forecast GDP YoY							-3.0%	-3.0%	-2.2%

Contraction	Slow-down	Growth	Boom

Source: BBVA Research Turkey Monthly GDP Model, Turkstat *Mean from 2010 now onwards

Chart 2 BBVA Research Turkey Monthly GDP (3MA, YoY)*

BBVA-GB GDP Growth (Monthly)
○ GDP Growth
◉ GDP growth nowcast

January: -3.0% (96% of inf.)
February: -2.2% (37% of inf.)

*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, Turkstat

We maintain our 2019 growth estimate at 1%

Today's data is another signal that we have already reached the trough of the business cycle but it is still early to draw a clear picture since there could be risks on both directions. The duration of the recovery will depend on the policies in the near future and external financial factors. Though, we maintain our 1% growth estimate for 2019 as the recent impulses and strong favorable base effects could balance the downside risks coming from corporates balance sheets and global and geopolitical uncertainties.

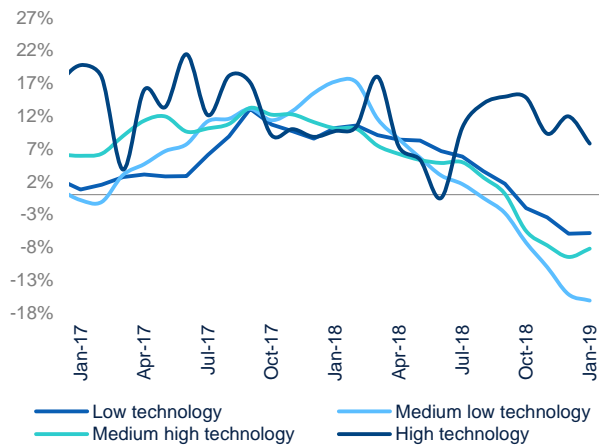## Chart 3 IP Growth- Technology Groups (3MA, YoY)

- Low technology
- Medium low technology
- Medium high technology
- High technology

Source: BBVA Research Turkey , Turkstat

Chart 4 IP & Electricity Production (3MA, YoY)

- IP
- Electricity Prod.

Source: BBVA-Research Turkey, Turkstat, TETC
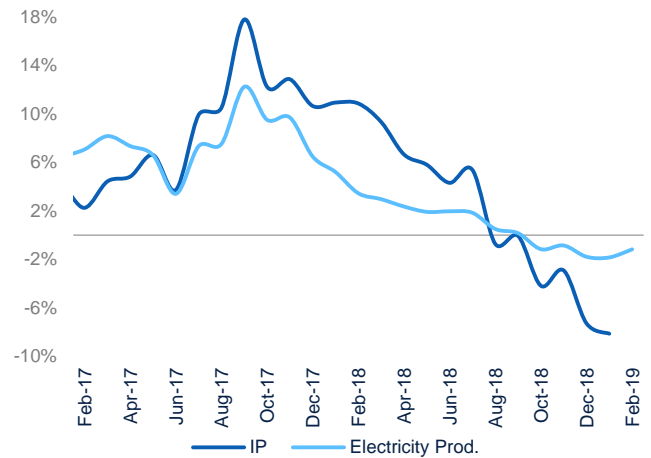
Chart 5 IP & Credit Growth (3MA, YoY)

- Total Credit Growth (fx adj, yoy)
- IP (cal adj, 3MA, YoY, rhs)

Source: BBVA-Research Turkey, Turkstat, CBT, AMA
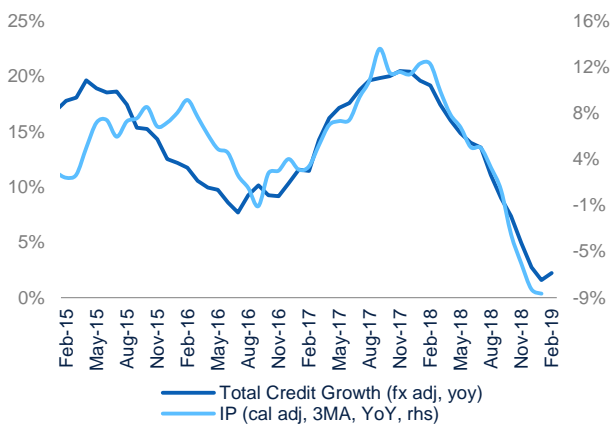
Chart 6 Monthly Consumption Nowcast (3MA)

- BBVA-GB Cons Growth (Monthly)
- Cons. Growth
- Cons. Growth nowcast

Jan: -7.3% (50% of inf.)
Feb: -6.3% (33% of inf.)

Source: BBVA Research Turkey Monthly GDP Model, Turkstat
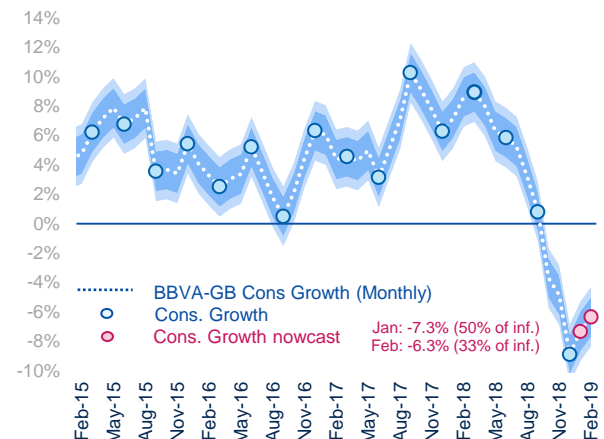
Chart 7 Monthly Investment Nowcast (3MA)

- BBVA-GB Inv. Growth (Monthly)
- Inv. Growth
- Inv. Growth Nowcast

Jan: -13.5 (83% of inf.)
Feb: -14.0 (33% of inf.)

Source: BBVA Research Turkey Monthly GDP Model, Turkstat
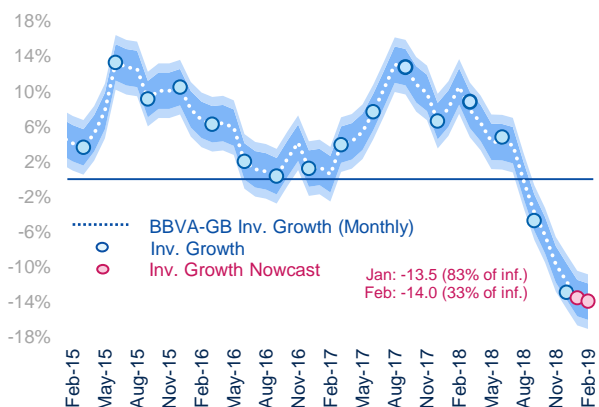
Chart 8 Monthly Net Exports Nowcast (Annual cont.)

- BBVA-GB Net Exp Contribution (Monthly)
- Net Exp. Contribution
- Net Exp. Contribution Nowcast

January: 8.1%
February: 7.4%

Source: BBVA Research Turkey Monthly GDP Model, Turkstat
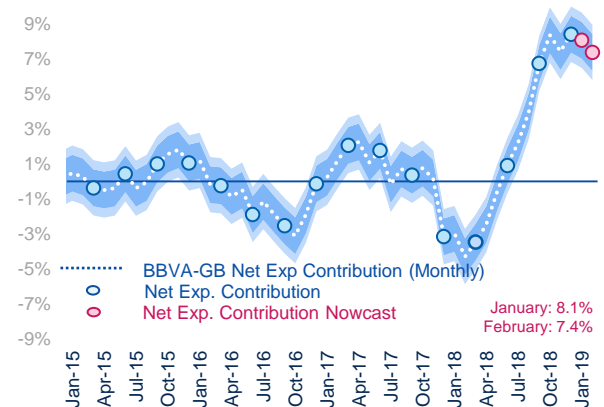
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