

ECONOMIC ACTIVITY PULSE

Turkey: IP implies strong growth in 4Q

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Industrial production (IP) grew by 7.0% yoy in November (cal. adj.) in line with expectations. Thus, after growing 10% in 3Q, yearly IP growth rate in October-November period moderated to 7.2%. Our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts 6.8% yoy in December, but only with 24% information so uncertainty is still high. If this nowcast materializes, 2017 GDP growth rate would be slightly above 7%. As expected, lagged effects of the high credit growth and end of favorable base and calendar impact of 3Q result in a moderation in GDP in 4Q but still a limited one. We expect 2018 GDP growth to normalize at 4.5%. Though, risks could be on the upside depending on policy impulses and investment performance.

Higher moderation in IP from domestic demand oriented sectors

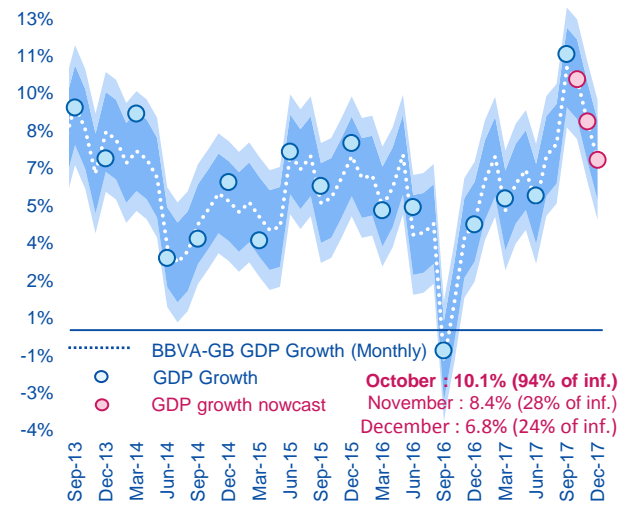
Despite the moderation in October-November period, the higher contributions from intermediate and capital goods production (with 2.7pp and 2.0pp contributions) remain supportive for favorable growth outlook for further production. Consumer goods production was also supportive (with 1.5pp contribution) thanks to non-durable consumer goods production, while durable consumer goods production continued to weaken after the tax incentives till September. Considering the sectors in detail, higher moderation seems to stem from domestic demand oriented sectors instead of exporting ones, implying positive implications from the recovering global demand, particularly Europe. The strongest manufacturing PMI in December since August and still strong electricity production in December continue to be supporting factors. On the contrary, moderation in credit growth and mix signals on the forward-looking sub-indices of real sector confidence could be potentially dragging. In sum, GDP growth will moderate this year but still keep the growth rate near 4.5%.

Figure 1 Activity Indicators (3MA, YoY, SA)

	Mean	2017							
		May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial Production	3.9	4.2	2.2	7.7	7.7	13.8	8.6	9.6	
Non-metal Mineral	1.7	2.7	0.9	8.2	8.4	14.2	7.7	8.7	
Electricity Production	4.5	6.6	4.5	8.4	8.5	12.2	9.5	9.7	6.5
Auto Sales	3.5	-10.3	-9.7	2.4	7.1	14.6	7.3	-1.4	
Tourist Arrivals	2.3	11.1	26.5	36.5	45.5	45.3	38.2	31.0	
Number of Employed	3.5	2.0	2.6	3.4	4.3	4.5			
Number of Unemployed	5.7	16.2	10.4	6.1	1.5	-0.7			
Auto Imports	5.1	-13.9	-14.4	-6.7	-3.4	3.1	-0.9	-8.4	
Auto Exports	9.2	32.4	24.0	23.2	9.8	5.9	33.3	28.9	
Financial Conditions	76.2	30.6	35.6	40.5	35.4	38.9	38.7	38.0	37.7
Commercial Int. Rate	13.7	15.6	16.3	17.0	16.2	16.6	16.5	16.5	17.1
Retail Sales	3.7	0.2	0.5	1.7	2.1	1.5	1.3		
Real Sector Confidence	106.1	104.8	108.8	107.7	110.2	111.2	112.2	109.8	109.2
MICA Forecast							10%	8.4%	6.8%
GDP YoY			5.4%			11.1%			

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (3MA, YoY)*



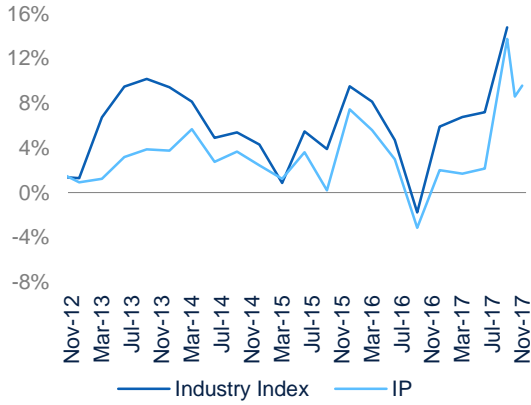
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

We forecast 7.0% GDP growth for 2017 and some moderation in 2018

As our monthly GDP indicator indicated, growth rate in 4Q could be 6.8%, implying a whole year growth rate slightly above 7% in 2017. Although 2017 demonstrates a strong base, remaining utilizations from Credit Guarantee Fund (CGF) and revolving of the matured ones could compensate this base impact. We maintain our 7.0% GDP forecast for 2017 growth, which will be followed by some moderation but remain around 4.5% in 2018.

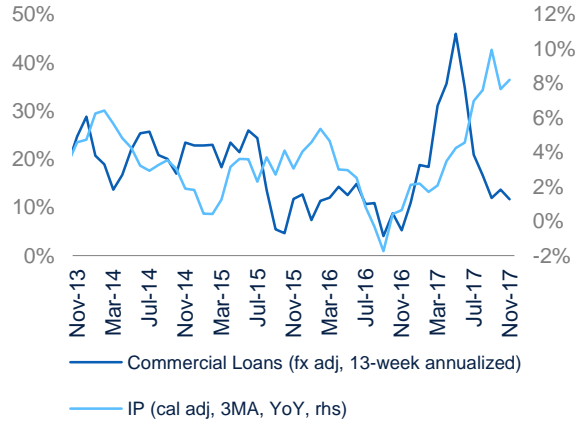
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



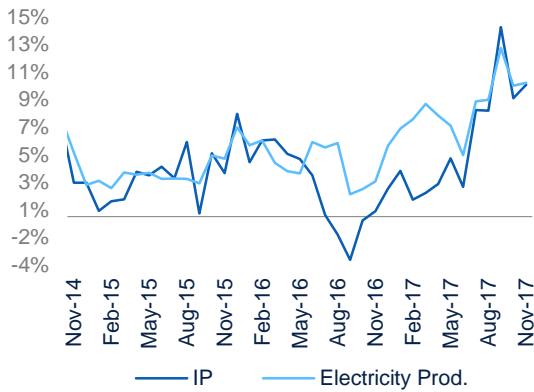
Source: Garanti Research, Turkstat

Figure 4 Loan Growth and IP



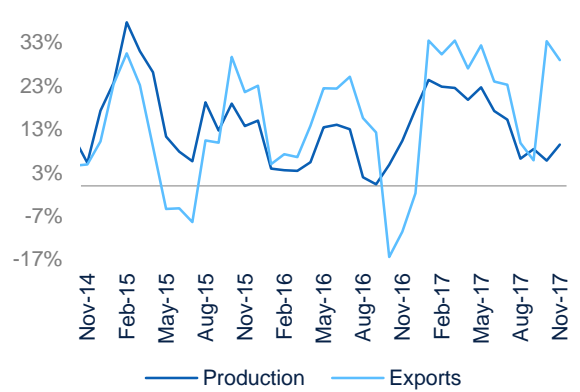
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 5 IP & Electricity Production (3MA, YoY)



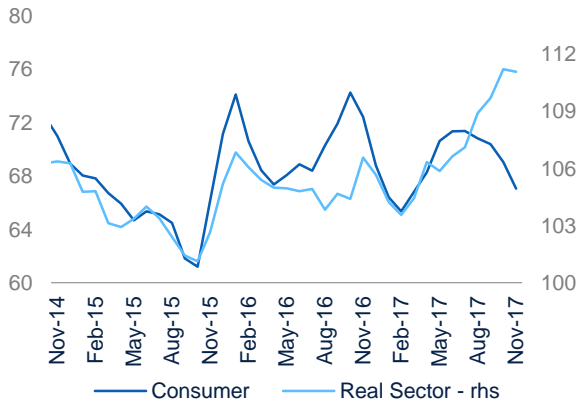
Source: Garanti Research, Turkstat, TETC

Figure 6 Automotive Prod. & Exports (3MA, YoY)



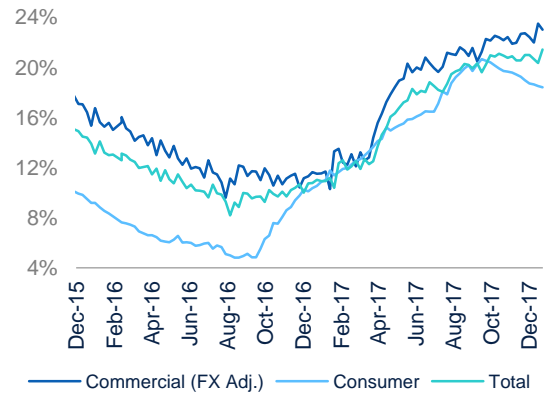
Source: Garanti Research, Turkstat, CBT, AMA

Figure 7 Consumer and Real Sector Confidence (3MA)



Source: Garanti Research, CBT & Turkstat

Figure 8 Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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