Industrial production (IP) grew by 9.9% yoy (cal. adj.) in February, keeping the high momentum as the overall increase almost stayed the same at 10.9% yoy in the first two months of the year (vs. 10.7% in 4Q). In seasonal and calendar adjusted terms, monthly decline continued in February but to a marginal extent compared to January, signaling only a limited cool-down in economic activity. Our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts 5.7% yoy growth for 1Q (with 44% info), with March data showing a much more clearer moderation. More rapidly than expected tightening financial conditions could be a downside factor on our growth forecast of 4.5% for 2018. Though, strong 1Q data and policy impulses could play a compensating role.

Solid industrial production in February

Ongoing higher contributions from intermediate and capital goods on production demonstrates further support towards a balanced growth in medium to long term as current productive capacity could be boosted more after recent investment incentives. Despite the decline in durable consumer goods production, still strong non-durable consumer goods production maintained a high contribution from consumer goods. According to our calculations, exporting sectors continued to grow above 10% yoy on currency depreciation and upgoing solid global demand (especially EU), while the moderation mainly stemmed from domestic demand oriented sectors. Our nowcasting indicators for demand components (GBTRGDPC, GBTRGDI, GBTRGDPX and GBTRGDPM indices at Bloomberg, see graphs 6-8) confirm this trend; however, as strong domestic demand continues to push imports, resulting in a higher negative contribution from net exports. All in all, recent slow-down in manufacturing PMI in April (still above 50, signalling expansion), deceleration in electricity production, moderation in economic sentiment and normalization in credit growth are the signals that the economic activity is losing pace; while still robust global growth could remain supportive, though with uncertainties on recent protectionism measures and geopolitical risks.

We expect a normalization in growth this year

Current high momentum, still solid exports, expected recovery in tourism revenues and continuing policy impulses may remain supportive on activity, while more rapidly than expected tightening financial conditions could drag down growth with a stimulating impact coming from negative base effects in the second half of the year. We maintain our growth forecast at 4.5% this year, though with uncertainties which could weigh on the downside.
Chart 3: IP Growth - Technology Groups (3MA, YoY)

Source: BBVA Research Turkey, Monthly GDP Model, Turkstat

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

Source: BBVA Research Turkey, Turkstat, TETC

Chart 5: IP & Credit Growth (3MA, YoY)

Source: BBVA Research Turkey, Monthly GDP Model, Turkstat

Chart 6: Monthly Consumption Nowcast (3MA)

Source: BBVA Research Turkey, Monthly GDP Model, Turkstat

Chart 7: Monthly Investment Nowcast (3MA)

Source: BBVA Research Turkey, Monthly GDP Model, Turkstat

Chart 8: Monthly Net Exports Nowcast (Annual contribution)

Source: BBVA Research Turkey, Monthly GDP Model, Turkstat
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