

Economic Watch

Turkey: Sharp contraction in Industrial Production (IP)

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Industrial Production (IP) fell by 6.5% yoy in calendar adjusted terms in November, disappointing the expectations (BBVA: -5.8%, Consensus: -5.4%). Thus, IP contracted by 6.1% during October-November period after its 1.6% growth in 3Q. The continuation of the sharp worsening especially in the intermediate goods seems to weigh on production in the coming months but the maintenance of recent tax incentives for certain sectors and some stabilization in the credit contraction could provide some buffer as the recent path for IP also reflect some loss of steam in the deterioration. Though, the worsening performance of the exporting sectors could be a risk factor, given the continuation of the sizable fall in intermediate goods imports. Our monthly GDP indicator nowcasts a contraction of 1.6% yoy growth in December (with 32% info, including our Retails Sales Nowcast produced by Big Data), which is still consistent with our 3% 2018 GDP growth estimate but with some downside risks. We maintain our 2019 GDP growth forecast at 1%.

November IP reveals a faster adjustment for 4Q

IP continued to decline by 0.3% mom, led by all main sub-sectors except for durable consumer goods supported by recent tax incentives, and energy on the back of lower oil prices and stabilization in the currency. On the other hand, ongoing negative performance of intermediate and capital goods production signals murky outlook on the economic activity. In sectorial details, despite the broad based deterioration, other transportation (mainly defense equipment), furniture and energy production remained on the supportive side to prevent further decline in IP. Our nowcasting demand subcomponents (see charts 6-8) revealed the sizeable contraction in investment and consumption in the last quarter due to the tighter financial conditions, confirming the further expected shrinkage of domestic demand. The contribution of net exports seems to decline as the exports performance gets poorer as seen in December preliminary trade figures despite the ongoing contraction in imports. Looking ahead, still deteriorating electricity production, weaker PMI and confidence indices in December and continuous retreatment in intermediate goods imports all signal the fast adjustment in economic activity while the recent supportive policies and some stabilization in loans contraction could provide buffers against further deterioration.

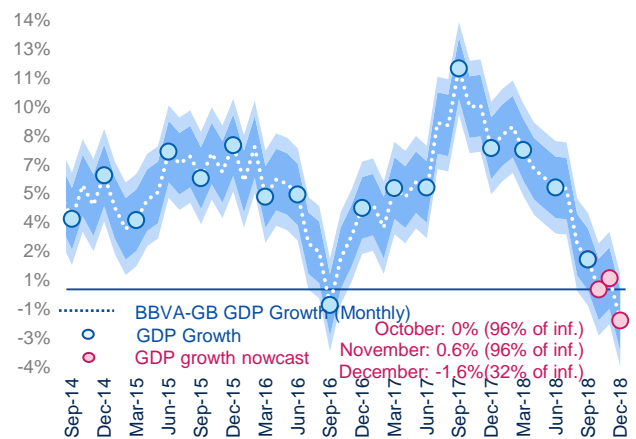
Chart 1 Activity Indicators (3MA, YoY)*

	2018								
	Mean	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial Production	7.6	6.4	5.0	6.0	-0.2	0.6	-3.5	-2.2	
Non-metal Mineral Production	7.4	6.0	3.1	2.8	-4.8	-4.0	-10.7	-11.4	
Electricity Production	4.8	19	0.9	0.9	-0.4	0.2	-12	-0.9	-19
Auto Sales	6.2	-5.8	-20.0	-29.6	-42.1	-51.5	-66.5	-61.2	
Tourist Arrivals	5.8	29.4	28.3	21.0	17.7	14.7	18.8	20.5	
Number of Employed	3.9	3.0	2.5	2.1	1.9	1.5			
Number of Unemployed	1.7	-7.1	-2.3	0.6	4.1	6.7			
Auto Imports	7.9	-7.4	-21.2	-35.3	-50.9	-59.3	-69.9	-61.0	
Auto Exports	9.2	13.7	17.3	24.3	9.5	5.3	4.8	10.9	
Retail Sales	6.1	6.7	5.8	4.5	1.8	0.0	-3.5	-3.3	-7.4
Manufacturing PMI	51.3	49.5	48.4	49.6	46.4	42.7	44.3	44.7	44.2
Total Loans growth 13-week	13.5	16.7	14.2	9.3	1.9	-3.5	-8.1	-9.1	-9.5
Real Sector Confidence	106.2	109.9	104.6	102.7	96.4	89.6	87.6	92.8	91.5
MICA Forecast GDP YoY							0.0%	0.6%	-1.6%

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)*

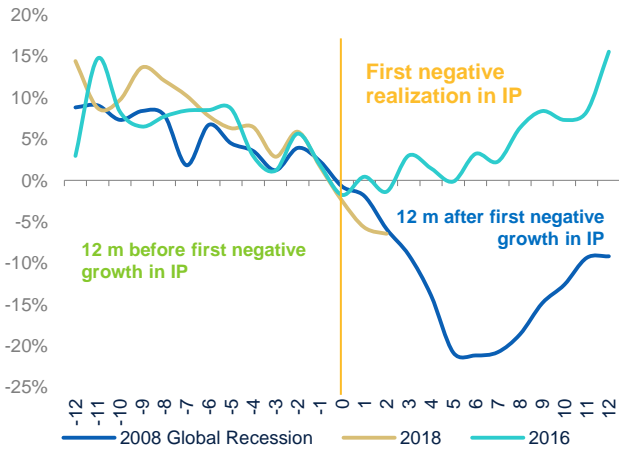


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP.
 Source: BBVA-Garanti Monthly GDP Model, Turkstat

Recent incentives could provide some buffer in the short term...

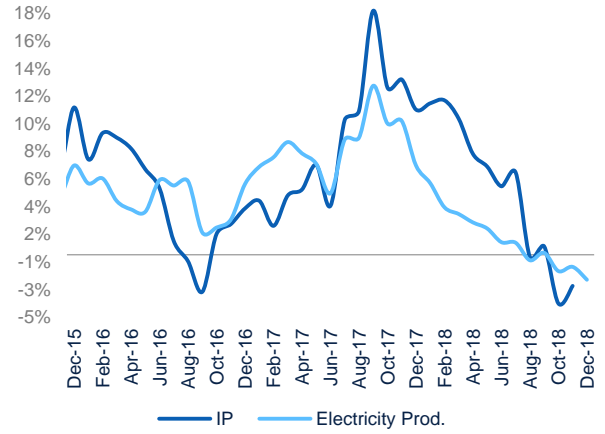
Despite some loss of steam in the deterioration (Chart 3), the maintenance of sharp contraction in IP and the poorer performance of exporting sectors could be the downside risks on growth. On the other hand, the continuation of tax incentives, recent supportive loan restructuring facilities and some stabilization in the credit correction could provide some buffer in the short term. We expect GDP growth to be 3% in 2018 with some downside risks and fall further to 1% in 2019, assuming a more positive outlook in terms of external capital flows.

Chart 3 IP (CA) Growth Paths in Different Shocks



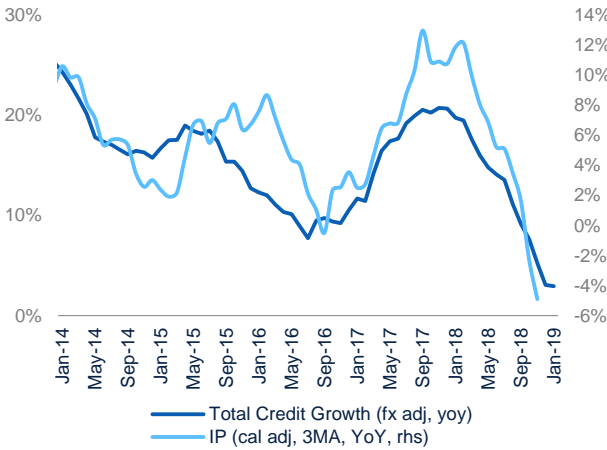
Source: BBVA Research Turkey, Turkstat

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



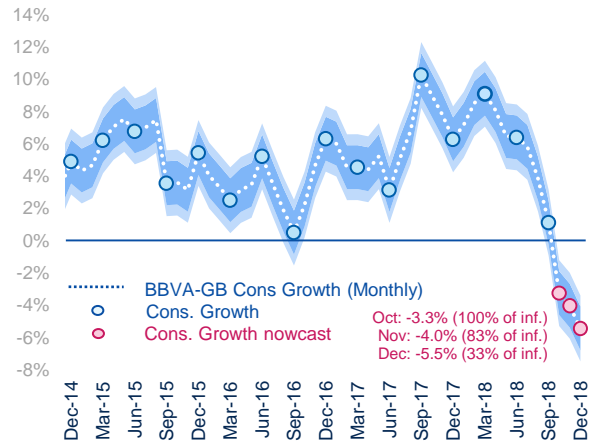
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 IP & Credit Growth



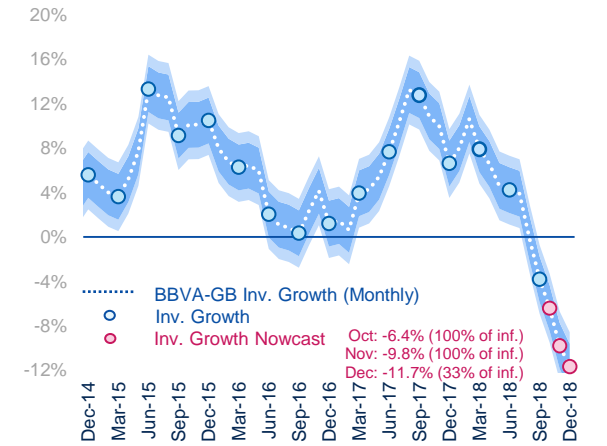
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



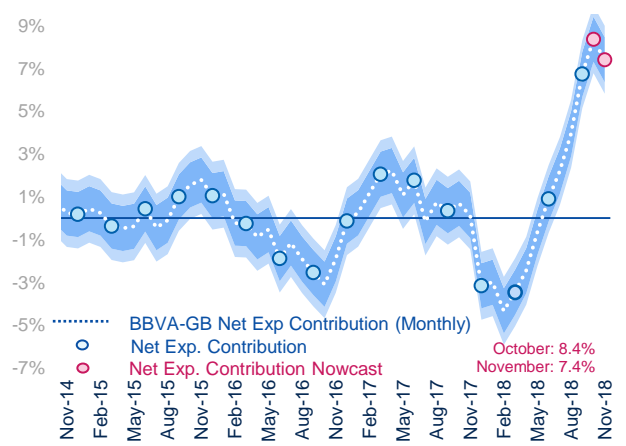
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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