

Economic Watch

# Turkey: IP consolidates the “bottoming-out” signals

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Industrial Production (IP) contracted by 5.1% yoy in calendar adjusted terms in February (-6.2% Consensus & -6.7% BBVA Research). In calendar and seasonal adjusted terms, the IP increased by 1.3% mom for the second month in a row, signaling a recovery of 0.7% in the first 2 months of the year compared to the last quarter of 2018. Our monthly GDP indicator (GBTRGPY Index in Bloomberg) confirms this trend and our GDP nowcasts a yearly contraction of 2.6% in February and 1.2% yoy in March (with 47% info). Thus, it gives a bottoming-out pattern and it is highly likely to observe a positive quarterly GDP growth rate in 1Q19 after two consecutive quarters of contraction. A wider set of hard and soft data activity indicators as confidence indices, real imports, credit growth and our Big Data Retail Sales Indicator (GBTRRTIY Index in Bloomberg) confirm that this pattern continues in March and the technical recession is over. However, the complacency is out of question as the new round of financial volatility poses some risks for the rest of the year. A prudent economic policy stance is key to maintain the path of recovery in the coming quarters.

## IP joins the broad-based signals of a positive quarterly GDP growth in 1Q19

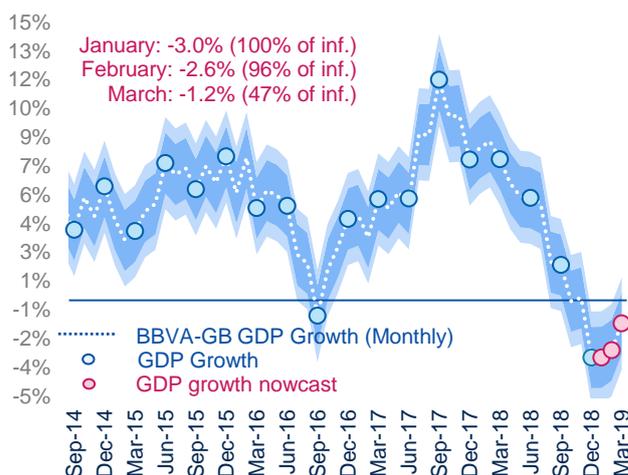
The monthly increase of 1.3% in IP was broad-based in sectorial basis in February, which supports the recovery pattern in the coming months. Base effects were also helping in annual terms with the key supporting activities being the intermediate and energy goods production in the first 2 months of the year. The moderation in the yearly contractions was observed across-the-board, while the increase in the production of fuel, other transportation (mainly defense items), pharmaceuticals and other manufacturing goods provided the main positive contribution (around 2pp) to IP. Indicators released for March as confidence indices, auto production, credit and consumption proxies from our BBVA Research Big Data Retail Sales Indicator (see graph 3, which tracks card transactions of Garanti Bank clients) nowcast that the economic activity will improve further in March. In terms of demand, our nowcasting subcomponents (see graphs 6-8) show that the contraction in domestic demand will diminish mainly on top of the private consumption, while the contribution of net exports also loses some steam reflecting the slight recovery in the contraction of imports.

Chart 1 Activity Indicators (3MA, YoY)\*

Mean	2018					2019		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Industrial Production	7.2	-0.7	-0.1	-4.2	-2.9	-7.3	-8.2	-7.6
Non-metal Mineral Production	6.5	-5.2	-4.6	-11.3	-11.8	-19.7	-22.8	-22.5
Electricity Production	4.6	-0.4	0.2	-1.2	-0.9	-1.8	-1.8	-1.5
Auto Sales	4.3	-42.1	-51.5	-66.5	-61.2	-52.4	-45.3	-44.9
Tourist Arrivals	6.0	17.7	14.7	18.8	20.5	20.8	13.2	10.0
Number of Employed	3.7	1.9	1.5	1.1	0.3	-0.7	-2.0	
Number of Unemployed	2.3	4.1	6.7	10.9	15.4	22.5	29.8	
Auto Imports	6.3	-47.5	-59.3	-69.9	-61.0	-53.0	-45.3	-48.4
Auto Exports	8.8	9.5	5.3	4.8	10.9	1.9	-0.7	-7.6
Retail Sales	5.8	1.9	0.1	-3.5	-4.7	-7.3	-7.2	-6.9
Manufacturing PMI	51.1	46.4	42.7	44.3	44.7	44.2	46.4	47.2
Total Loans growth 13-week	18.2	1.2	-4.3	-8.8	-9.6	-9.7	-3.1	2.6
Real Sector Confidence	106.0	96.4	89.6	87.6	92.8	91.5	93.0	97.2
MICA Forecast GDP YoY								
						-3.0%	-2.6%	-1.2%

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

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

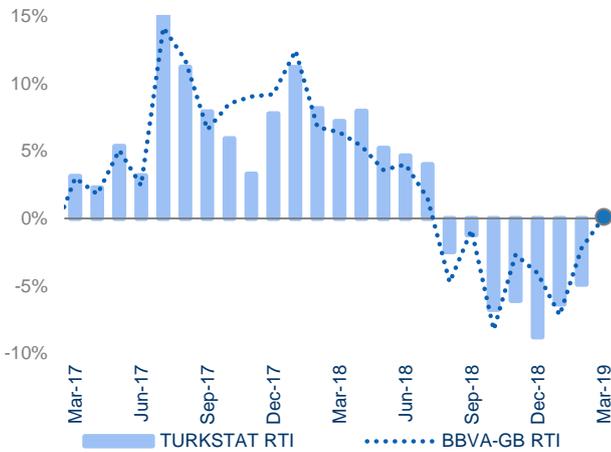


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGPY Index in BBG

## Bottoming-out signals consolidate but complacency is out of question

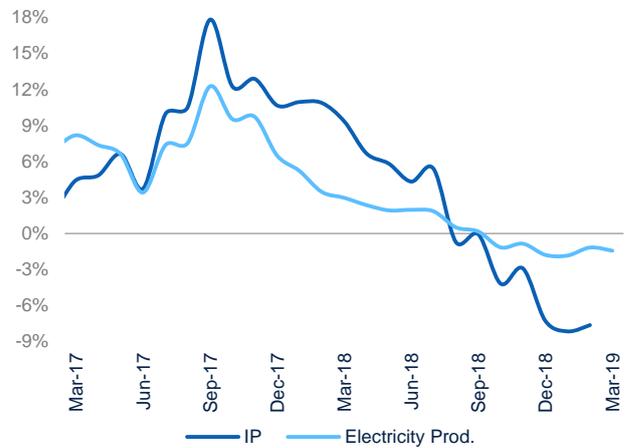
The recovery in activity continued in February and preliminary indicators signaled a further improvement in March. Given our nowcasting estimates, we expect a positive quarterly GDP growth in 1Q19. However, complacency is out of question. A prudent economic policy mix is key to maintain the path of recovery in the coming quarters.

Chart 3 BBVA-Garanti BigData Retail Sales Index (YoY)



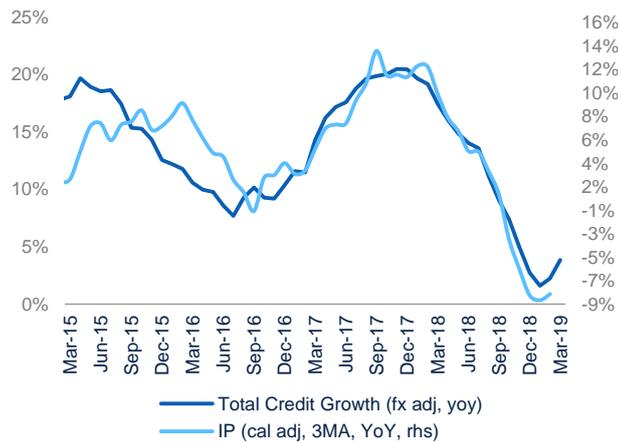
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

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



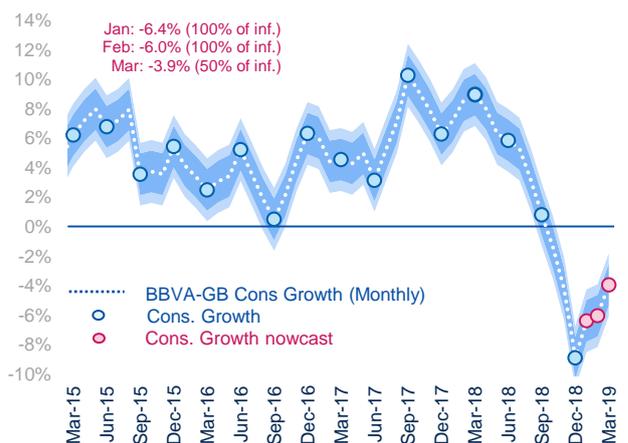
Source: BBVA-Research Turkey, Turkstat, TETC

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



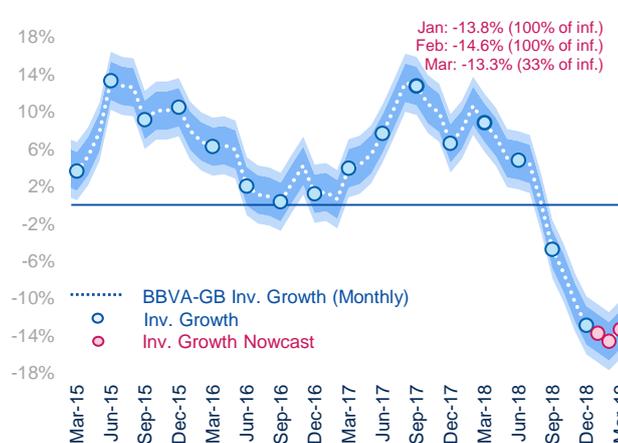
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



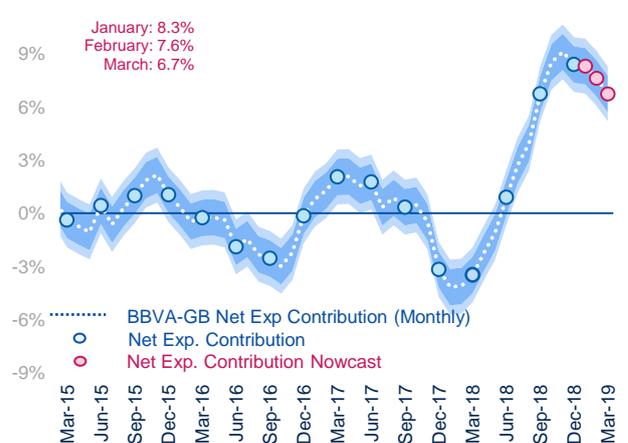
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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