

Economic Watch

# Turkey: “Technical recession” is over but risks are alive

Ali Batuhan Barlas / Adem Ileri / Serkan Kocabas / Seda Guler Mert / Alvaro Ortiz

14 May 2019

Industrial Production (IP) contracted by 2.2% yoy in calendar adjusted terms in March, beating market expectations (-4.4% Consensus & -4.6% BBVA Research). The monthly IP growth rate (seasonally & calendar adjusted) accelerated to 2.1% resulting in a quarterly growth rate of 1.7% in 1Q19. Our monthly GDP indicator (GBTRGPY Index in Bloomberg) confirms this trend and nowcasts a yearly contraction of 1.7% in March (96% info) and 1.6% in April (47% info) after recording -3.0% growth in 4Q18. This supports our view that “technical recession” is over as the quarterly GDP growth will be positive (near 2% QoQ). However, complacency should completely be ruled out as the recent volatility in financial markets is already softening the path of recovery and can truncate the upward trend despite the strong statistical base effects in the second half of the year. Avoiding policy mistakes and sticking to prudent economic policies only could guarantee a positive growth rate this year. We expect GDP growth to be 0.3% in 2019.

## March IP reinforces recovery but leading indicators signal to stay prudent

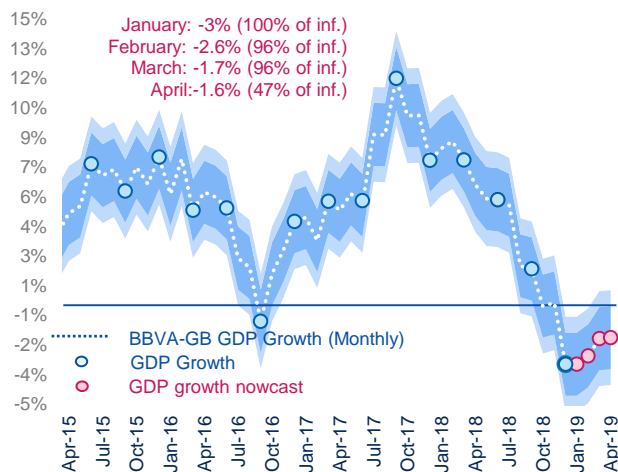
The broad based recovery in IP was maintained in March especially on the back of intermediate and capital goods production, which could be a good indicator for future production. Besides, the slow-down in the annual contraction of IP in 1Q19 (to 5.7% from 7.3% in 4Q18) has been supported by the recovery in all main subgroups, led by both base effects and some stimulation measures especially loan and tax incentives. In sectorial detail, the high positive contribution of fuel, other transportation (mainly defense items), and pharmaceuticals (a total of 1.5 pp) led the recovery in 1Q19. Looking ahead, there is some softening in consumption as appreciated in our Big Data Retail Sales Indicator (see graph 3) and mixed signals coming from some high frequency indices. The contribution from net exports is moderating (graph 8), while our nowcasting for investment looks bottoming out (chart 7). On the supply side, electricity production continues to improve, though auto production remains disappointing.

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

Mean	2018					2019			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Industrial Production	7.0	-0.1	-4.2	-2.9	-7.3	-8.2	-7.6	-5.7	
Non-metal Mineral Production	6.3	-4.6	-11.3	-11.8	-19.7	-22.9	-22.6	-19.4	
Electricity Production	4.6	0.2	-1.2	-0.9	-1.8	-1.8	-1.5	-0.5	
Auto Sales	3.8	-5.15	-66.5	-61.2	-52.4	-45.3	-46.9	-44.9	
Tourist Arrivals	6.0	14.7	18.8	20.5	20.8	13.2	10.0		
Number of Employed	3.7	15	11	0.3	-0.7	-2.0			
Number of Unemployed	2.3	6.7	10.9	15.4	22.5	29.8			
Auto Imports	5.7	-59.3	-69.9	-61.0	-53.0	-45.3	-48.4	-49.9	
Auto Exports	8.6	5.3	4.8	10.9	19	-0.7	-7.6	-7.1	
Retail Sales	5.7	0.1	-3.5	-4.7	-7.3	-7.2	-6.9	-3.6	
Manufacturing PMI	51.1	42.7	44.3	44.7	44.2	44.2	46.4	47.2	
Total Loans growth 13-week	18.2	-4.3	-8.8	-9.6	-9.7	-3.1	2.6	18.1	
Real Sector Confidence	106.0	89.6	87.6	92.8	91.5	93.0	97.2	102.1	
MICA Forecast GDP YoY						-3.0%	-2.6%	-1.7%	
								-1.6%	

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

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

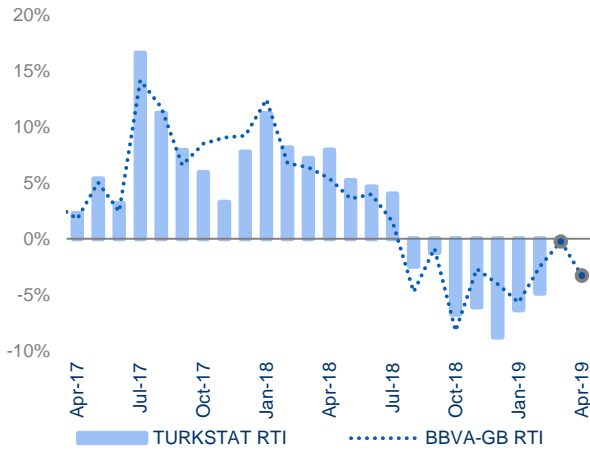


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGPY Index in BBG

## Sound economic policies will be key to maintain the recovery trend

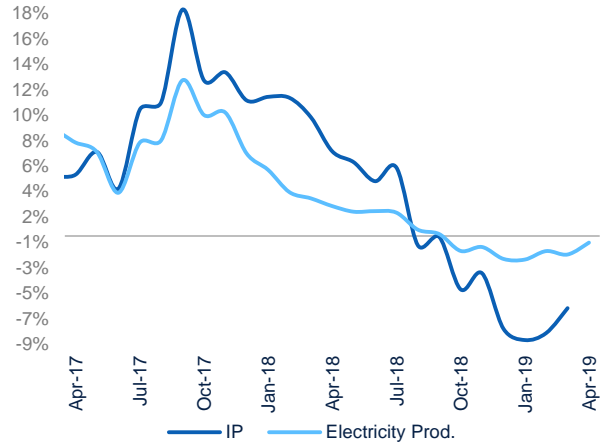
The upside surprise of industrial production in March reinforced the bottoming-out signals for 1Q19. In normal circumstances, 1Q19 performance should have been the worst. The inertia of the recovery momentum and supporting base effects in the second half of the year should easily result in a positive growth rate in 2019. However, the renewed high volatility in financial markets, and political and geopolitical uncertainties can truncate the recovery path. A prudent policy mix remains key to maintain this trend alive and avoid a “W” pattern.

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



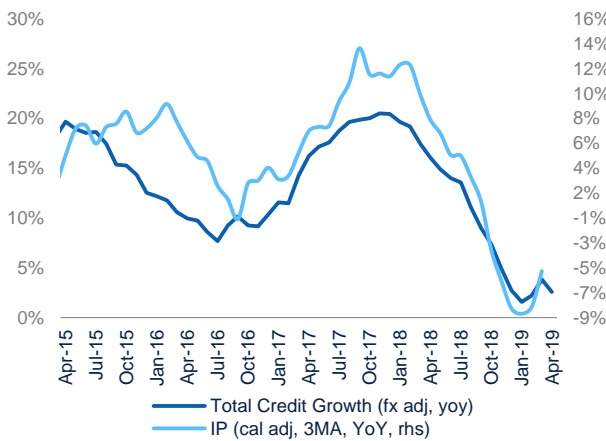
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

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



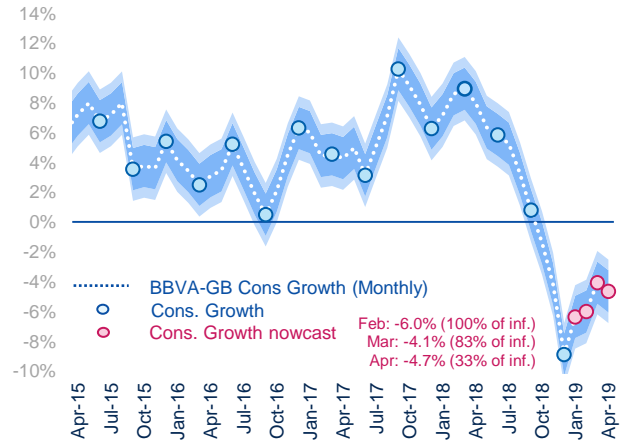
Source: BBVA-Research Turkey, Turkstat, TETC

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



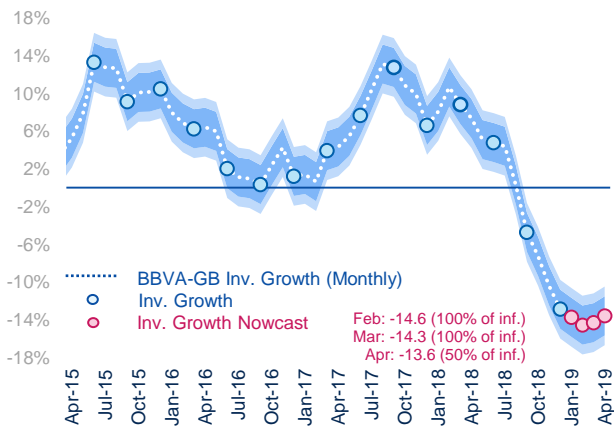
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



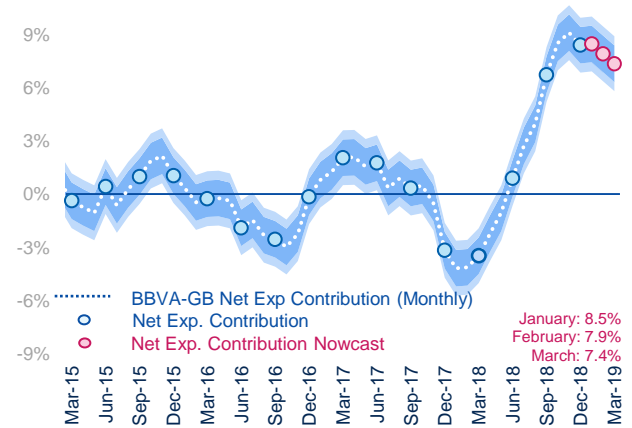
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

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

## DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain  
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25  
bbvaresearch@bbva.com www.bbvaresearch.com

