

Turkey: The Economic Recovery Accelerates

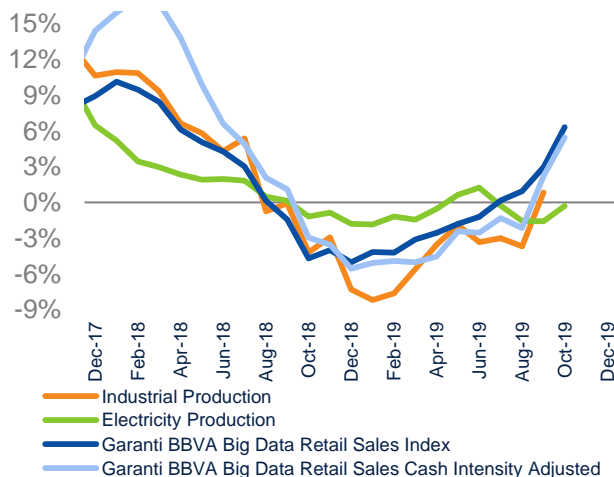
Ali Batuhan Barlas / Adem Ileri / Alvaro Ortiz
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The Industrial Production (IP) increased by 3.4% yoy in calendar adjusted terms in September, slightly higher than median market expectation. The IP also increased in monthly and s.a. basis (3.2%) after the unexpected sharp decline in August. IP increased by 0.8% yoy in 3Q19, signaling positive annual GDP growth in 3Q. The evolution of the quarterly growth of IP and the path of our high frequency and BigData indicators pose upside risks on our GDP nowcasting for 4Q. Our monthly GDP indicator (GBTRGDY Index in Bloomberg) nowcasts a growth rate of 1.6% yoy for the 3Q (96% of info) and 3.6% yoy in October (47% of info.) However, we expect the acceleration to continue on substantial base effect, the policy impulses and the pick-up in credit growth. We maintain our GDP growth forecast at 0.3% for now, but the pace of acceleration puts strong upside risks on our expectation around 1%. Our forecast for 2020 remains neutral at 3%.

Leading indicators confirmed further recovery as of October

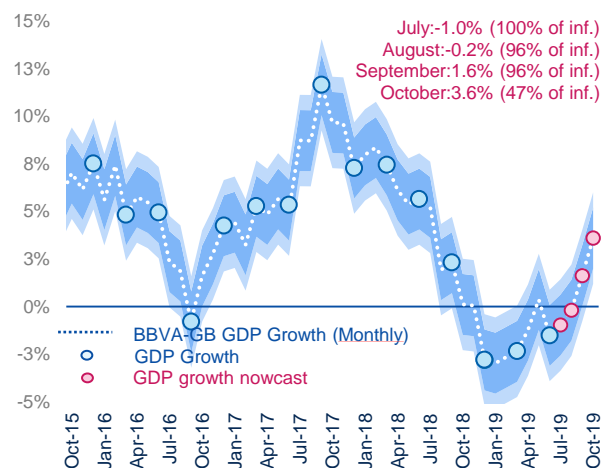
The monthly increase in IP was broad based as all main sub-indices, except energy sector, have improved and supported the idea of temporary setback seen in August due to working day effects. On the sectorial side, while all sectors increased in annual terms, manufacturing sector grew by 4.3% yoy, first positive figure for last 14 months, promising for the activity. The annual contraction in three month moving average of IP since August 2018 has also turned into expansion of 0.8% yoy in September and could accelerate further stemming from substantial favorable base effect and supportive financial conditions. The base effect and the lagged impact of financial conditions have started to kick in as high frequency indicators such as capacity utilization and confidence indices, our Big Data Retail Sales Indicator (GBTRRTIY Index in Bloomberg), intermediate goods imports, electricity and auto productions have recovered faster. Our monthly GDP indicator confirmed this expectation as it exhibited 3.6% yoy GDP growth as of October with 47% of information. Our demand subcomponents nowcasts (see charts 6-8) also signal the acceleration in domestic demand as of September, supported by consumption and finally investment too, with declining contribution of net exports. The lagged impact of the recovery will support the stabilization of the labor market, estimated by our unemployment nowcasting model (chart 5).

Chart 1. **BigData and HF indicators (%yoy, 3MM Avg.)**



Source: BBVA Research Turkey, Turkstat

Chart 2. **BBVA Research monthly GDP (3ma, yoy)***

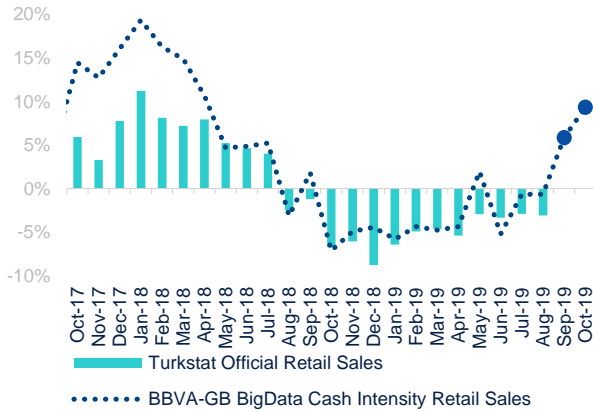


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDY Index in BBG

The acceleration puts upside risk to our 2019 GDP forecast

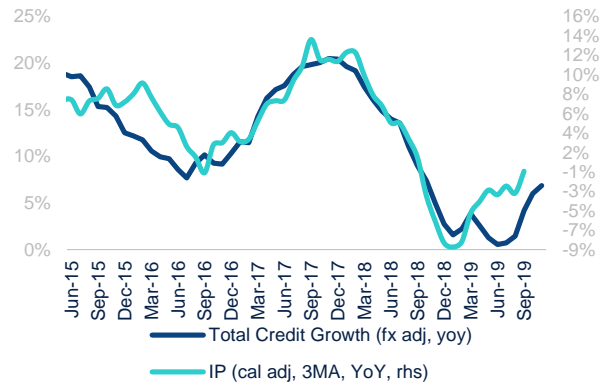
The favorable base effect, the sizeable ease in monetary policy (1000 bp) and the pick-up in credit growth will prompt the economic activity to recover faster in coming quarters. However, complacency should be ruled out as geopolitical and global economic risks remain well alive. We maintain our GDP forecast at 0.3% growth for 2019 but we are now closer to upgrade to 1% and maintain our 3% for 2020.

Chart 3. **BBVA-GB Big Data Retail Sales index (yoy)**



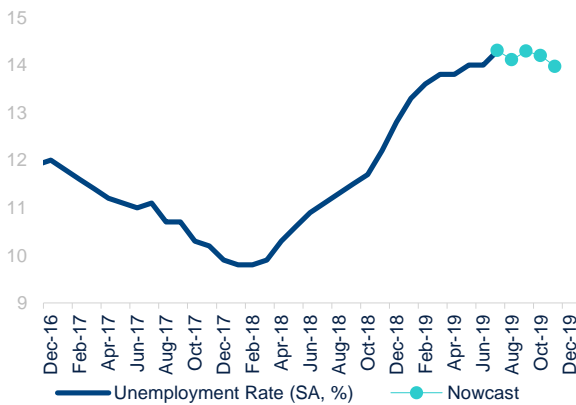
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **Ind. Production & Credit (3ma & fx-adj yoy)**



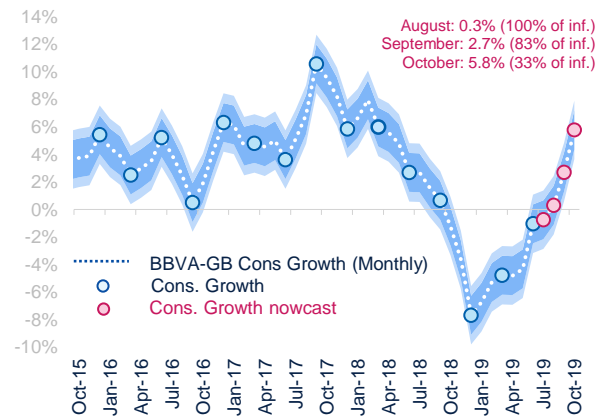
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Unemployment Nowcast Google Big Data (%)**



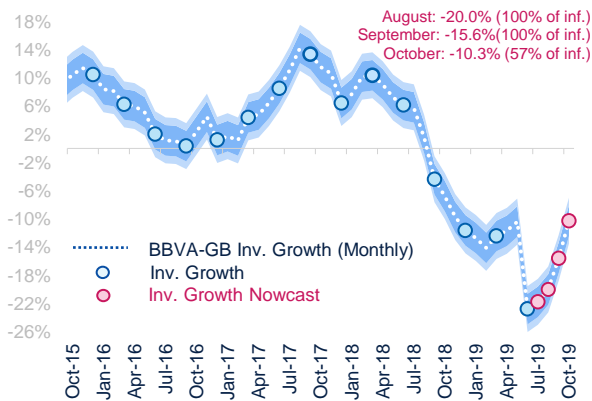
Source: BBVA Research Turkey,

Chart 6. **BBVA Monthly Consumption Nowcast(3m yoy)**



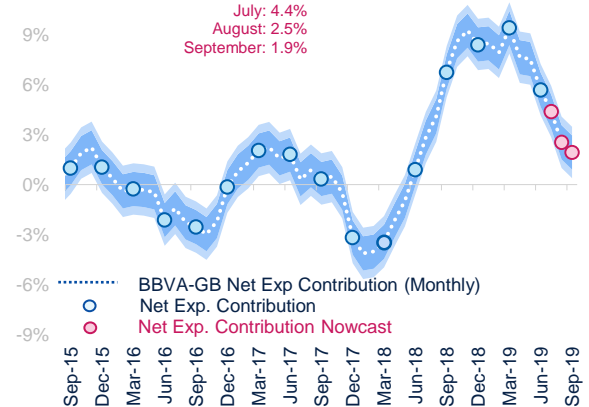
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Chart 7. **BBVA Monthly Investment Nowcast (3m yoy)**



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net Exports (contribution, %)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

