Turkey: Activity still displays a strong momentum

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Industrial Production (IP) grew by 8.1% yoy in calendar adjusted terms (+11.2% yoy in unadjusted series) in September, resulting in an increase of 8% in 3Q after the sharp contraction of 17% in 2Q. The month-on-month rise remained promising at 1.7%, which led to a quarterly growth rate of 30.3% (September level reached 4% higher than the February peak). Besides, retail sales also kept its high momentum, by increasing 2.8% mom, which corresponds to a yearly growth of 7.8% in September (9% in 3Q vs. -12% in 2Q). Therefore, both series confirmed the strong recovery pattern since mid-May as our Big Data proxies and other high frequency indicators have already signaled. Our monthly GDP indicator nowcasts a yearly GDP growth rate of near 7% for 3Q as of September with almost full information, which has still been followed by a high momentum at the start of 4Q. All in all, October and November high frequency data confirm the continuation of strong activity as a result of still ongoing pent-up demand, which we expect to lose some pace at the start of 2021. 2020 GDP growth rate will likely above our current forecast of 0%, which could facilitate an explicit rate hike decision of the Central Bank (CBRT) next week. We maintain our 2021 GDP growth estimate at 5.5% with some downside risks due to monetary tightening which could be balanced with lower risk premium.

Stronger domestic demand and still supportive export-oriented sectors boost IP

The strong rise in IP was supported by all main sub-sectors in 3Q, where intermediate goods production took the lead and was followed by capital goods, non-durable consumer goods and durable consumer goods production. In further detail, most of the sectors kept recovering but the manufacturing sector gave the highest contribution of 6.8pp in 3Q IP growth, especially on the back of non-metallic minerals (input for the construction sector such as cement), metals, machinery, textile & clothing and plastics production, confirming an acceleration of domestic demand in addition to still supportive export-oriented sectors. Looking ahead, some of the high frequency indicators (manufacturing PMI, other sectorial confidence indices, commercial credits etc.) already started to show early sings of deceleration but some others (such as electricity production, capacity utilization rate, consumer credits, automotive sales etc.) have still kept the momentum high for economic activity by early 4Q. Accordingly, our monthly GDP indicators (as also seen in demand subcomponents, Charts 5-7) also confirm this trend, led by both consumption and investment, which still show very robust domestic demand as of the start of November and keep the negative contribution of net exports at almost the same high negative level (Chart 8). All in all, given the strong 3Q data, 2020 GDP growth rate will be above our current forecast of 0% and the downward impact of the recent financial tightening will likely materialize at the start of 2021 but still keep the full year growth rate close to the potential, boosted by the low base of this year.

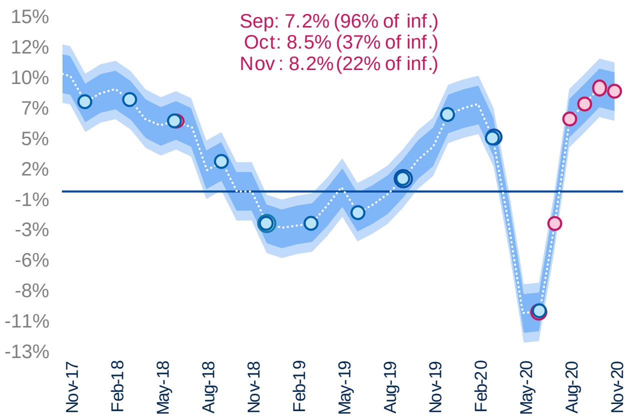
Chart 1. **Activity Indicators** (%yoy, 3M Moving Avg.)

		2019	2020										
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Industrial Production	6.5	5.6	7.2	9.7	5.7	-7.7	-21.0	-16.7	-4.1	14.1	8.3		
Non-metal Mineral Production	4.7	-1.0	3.4	6.4	6.3	-2.5	-12.4	-4.9	6.3	24.5	23.0		
Electricity Production	4.2	-0.4	0.5	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.2
Auto Sales	3.6	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	65.2	172.8	159.8		
Garanti BBVA Investment	-0.2	-4.1	-5.6	-6.4	-16.2	-20.3	-30.5	-18.4	-11.8	0.2	-6.8	-4.3	
Number of Employed	3.1	-0.8	0.0	-0.6	-2.6	-5.8	-7.9	-8.2	-6.6	-4.9			
Number of Unemployed	4.5	8.5	0.9	-5.2	-9.9	-11.1	-10.3	-7.2	-6.6	-7.2			
Auto Imports	4.8	18.9	7.4	31.9	48.0	29.0	7.4	24.6	103.6	156.9	176.2		
Auto Exports	7.4	-2.2	-0.5	-0.2	-13.6	-40.8	-58.9	-60.0	-40.7	-28.6	-23.3		
Garanti BBVA T. Consumption	4.7	9.0	9.2	9.7	4.5	-7.3	-20.7	-17.7	-6.5	5.0	7.6	6.8	
Manufacturing PMI	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9	56.9	54.3	52.8	53.9	
Total Loans growth 13-week	17.4	9.8	14.2	14.5	22.2	43.5	45.9	46.5	31.6	25.2	14.0	7.6	8.1
Real Sector Confidence	105.6	103.6	104.1	106.9	99.7	66.8	76.9	92.6	100.7	106.2	105.3	108.1	
MICA Forecast									-2.7%	6.0%	7.2%	8.5%	8.2%
GDP YoY		6.4%			4.4%			-9.9%					

Contraction | Slow-down | Growth | Boom

Source: BBVA Research Turkey, Turkstat

Chart 2. **BBVA Research Monthly GDP** (%yoy, 3M Avg)*

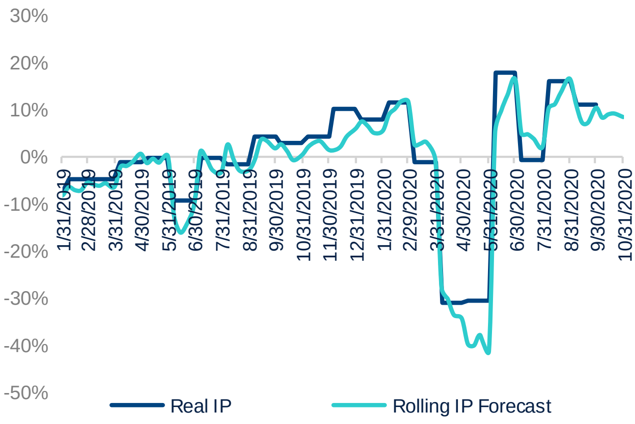


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

2020 GDP growth will likely be positive on the latest strong data

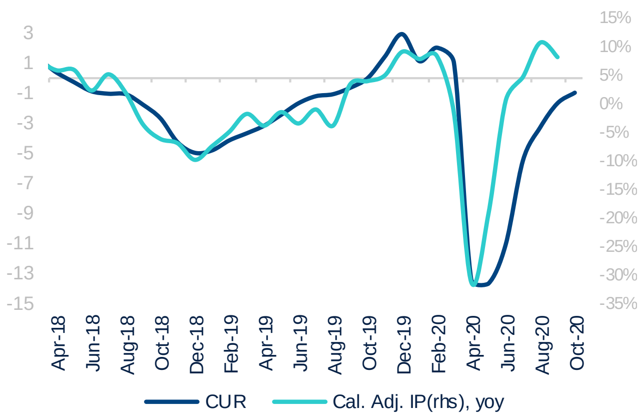
2020 GDP growth rate will likely above our current forecast of 0%, which could provide room for an explicit rate hike of the Central Bank (CBRT) next week as the markets already priced in. The recent and most probably prolonged financial tightening, rapid credit deceleration and uncertainties attached to financial stability weigh as the downside factors on our 2021 GDP forecast. Though, as 2020 GDP will still provide a very low base, 2021 GDP growth forecast could still be close to the potential.

Chart 3. **IP & Rolling IP Forecasts** (yoy)



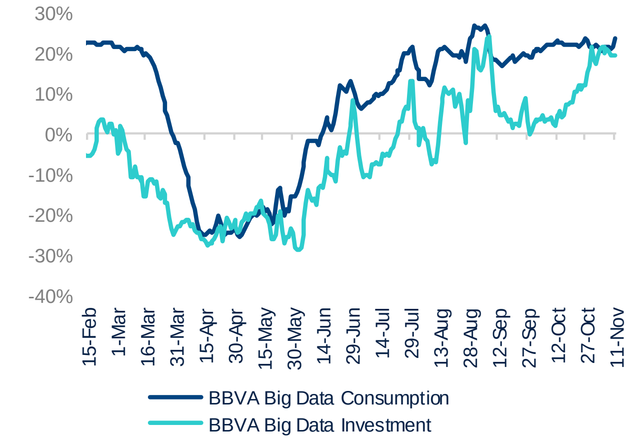
Source: BBVA Research Turkey, Turkstat,

Chart 4. **IP (cal. adj.) & Capacity Utilization Rate (CUR)** (YoY in IP & diff in CUR)



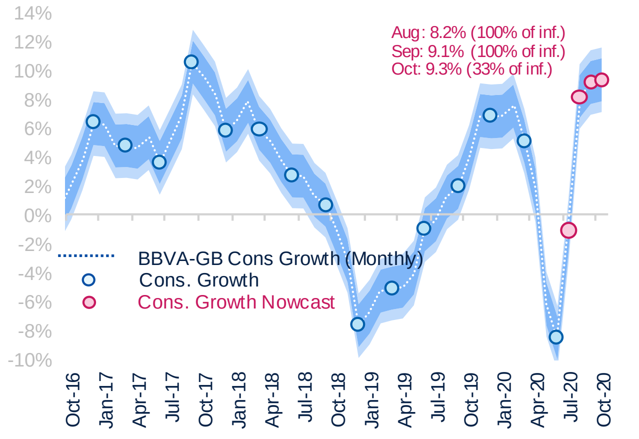
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **BBVA Big Data Private Demand Proxies** (28-day moving average, nominal, YoY)



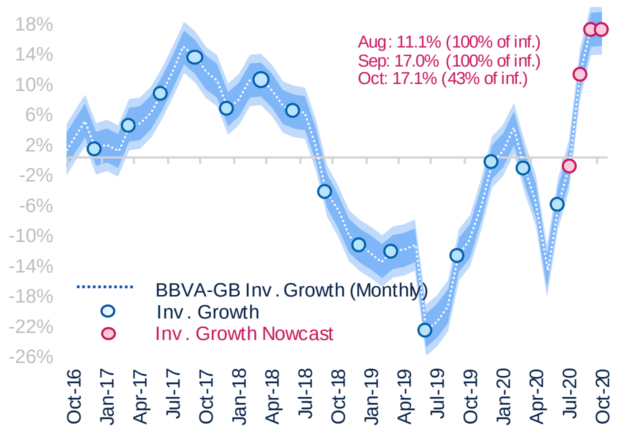
Source: BBVA Research Turkey

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



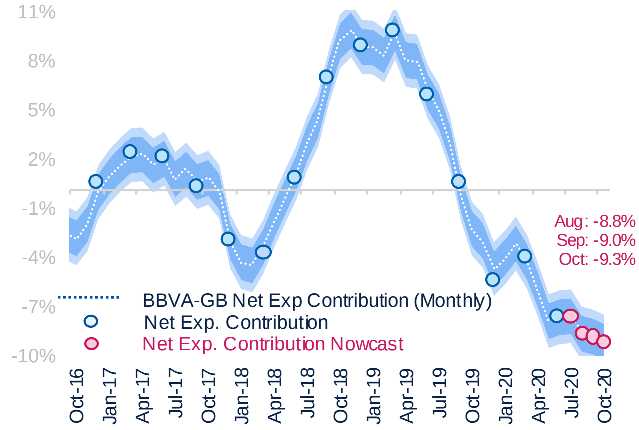
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net Exports Nowcast** (cont. pp)



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in

Bloomberg

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