Turkey: Still strong activity at the start of 4Q

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Industrial Production (IP) grew by 10.2% yoy in calendar adjusted terms (9.4% yoy in unadjusted series) in October, confirming the continuation of strong growth at the start of 4Q even after the sharp rebound of 8% in 3Q. The month-on-month increase of 1.1% signaled some loss of momentum, but remained limited so far. Retail sales also kept its strong pace, by increasing 4.2% mom, which corresponds to a yearly growth of 12% in October (vs. 9% in 3Q). Our Big Data proxies and other high frequency indicators remained strong till the third week of November, but started to reverse thereafter especially when the new round of confinement measures have been introduced. Our monthly GDP indicator nowcasts a yearly GDP growth rate of near 7% as of November with 52% information, which has been followed by a rapid deceleration of 3.3% growth in December (33% information). All in all, following the robust growth rates of October and November, December high frequency data signals a slow-down backed by the fast correction in consumption. Even with this deceleration, 2020 GDP growth might be near 1%. The carry-over impact and the expected decline in risk premium in terms of the recent signals of a "change" in policy framework will serve as important buffers against the impact of the recent financial tightening and uncertainties on the second wave of the pandemic. Therefore, assuming no sizable negative shock, we expect GDP growth to materialize near 5% in 2021.

October IP supported mainly by manufacturing sector

Seasonal and calendar adjusted IP increased by 1.1% mom in October and maintained an ongoing recovery since May despite the deceleration in momentum. However, this time only consumer (2.4% mom) and intermediate goods production (1.7% mom) supported IP, whereas the energy and capital goods production contracted by 1.5% and 1.3%, respectively. On the sectorial side, the recovery was not broad-based as the uneven rise in manufacturing sector (1.4% mom), especially on the back of motor vehicles, electrical equipment, pharmacy, and textile production, underpinned IP (export-oriented sectors remained relatively strong), while electricity and mining production contracted by 2.6% and -0.6% mom, respectively. Looking ahead, leading indicators (our big data proxies, electricity consumption, soft data on confidence indicators) displayed only a slight deceleration in activity in November which has been followed by a strong momentum loss in December stemming from lock-down measures and lagged impact of the financial tightening. Our monthly GDP indicator also shows a sharp adjustment in December (Chart 2) on top of our IP forecasts on weekly basis (Chart 3). Our Big Data proxies (Charts 4-5) also confirm this trend, led by consumption and investment, which supported a very robust domestic demand till December but started to reverse thereafter (especially services consumption, construction). All in all, although the strong recovery momentum in 3Q seemed to die out faster than expected, 2020 GDP growth will likely get close to 1%, above our current forecast of 0%. 2021 GDP growth could still be supported by the carry-over impact and the expected decline in risk premium, assuming no sizable negative shock.

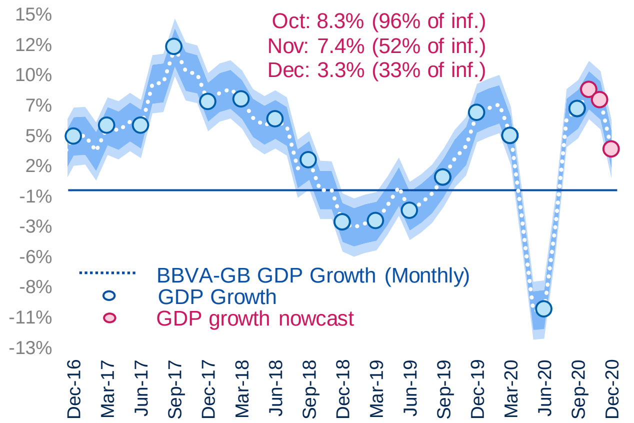
Chart 1. **Activity Indicators** (%yoy, 3M Moving Avg.)

		2019	2020											
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial Production	6.5	5.6	7.2	9.7	5.7	-7.7	-21.0	-16.7	-4.1	14.1	11.0	11.9		
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	25.4		
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	7.4	4.6
Auto Sales	2.8	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	65.2	172.8	159.8	95.9	86.8	
Auto Imports	4.1	18.9	7.4	31.9	48.0	29.0	7.4	24.6	103.6	156.9	176.2	90.0	52.9	
Auto Exports	7.7	-2.2	-0.5	-0.2	-13.6	-40.8	-58.9	-60.0	-40.7	-28.6	-23.3	-14.1	-12.1	
Number of Employed	3.2	-0.8	0.0	-0.6	-2.6	-5.8	-7.9	-8.2	-6.6	-4.9	-3.5			
Number of Unemployed	4.8	8.5	0.9	-5.2	-9.9	-11.1	-10.3	-7.2	-6.6	-7.2	-10.0			
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	103.9	
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	51.4	
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	6.9
Garanti BBVA BigData Consumption	4.5	9.0	9.2	9.7	4.5	-7.3	-20.3	-16.2	-5.0	6.0	7.5	6.9	5.8	-0.2
Garanti BBVA BigData Investment	0.2	-4.1	-5.6	-6.4	-16.2	-20.3	-30.5	-18.4	-11.8	0.2	-6.8	-5.7	-2.5	-2.3
GDP Nowcasting Results YoY												8.3%	7.4%	3.3%
GDP YoY		6.4%			4.5%			-9.9%			6.7%			

Contraction | Slow-down | Growth | Boom

Source: BBVA Research Turkey, Turkstat

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

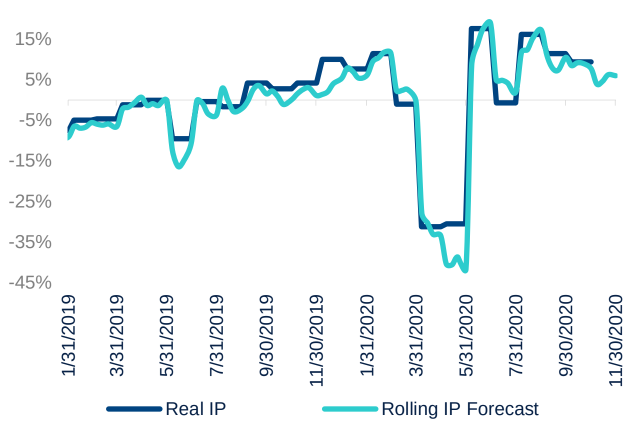


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

2020 GDP growth will likely be near 1%, a correction is already on the way

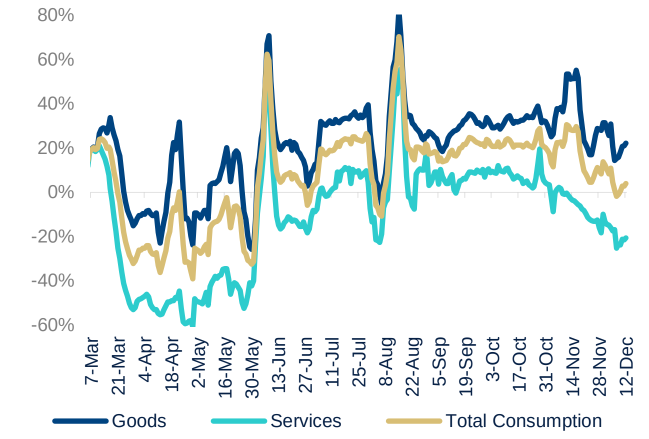
2020 GDP growth will likely get close to 1%. Despite the recent and most probably prolonged financial tightening, rapid credit deceleration and current correction signals on top of consumption, we still expect 2021 GDP growth to materialize near 5% since 2021 could still be a rebalancing year backed by the expected decline in risk premium and favorable base effects.

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



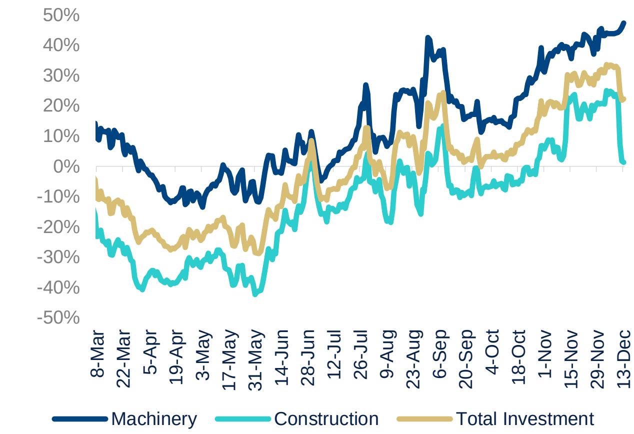
Source: BBVA Research Turkey, Turkstat,

Chart 4. **BBVA Big Data Consumption Indices** (7-day moving average, nominal, YoY)



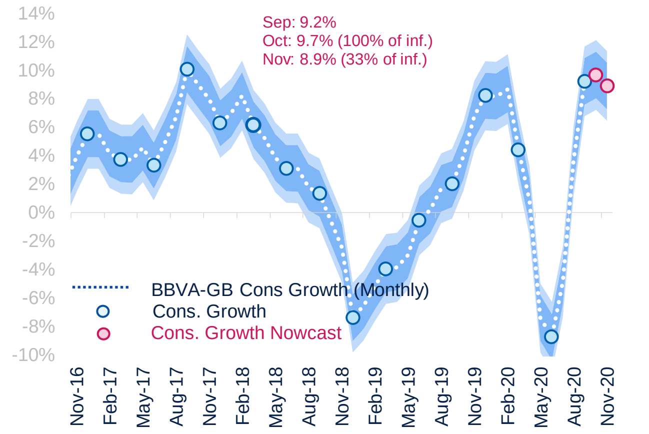
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **BBVA Big Data Investment Indices** (28-day moving average, nominal, YoY)



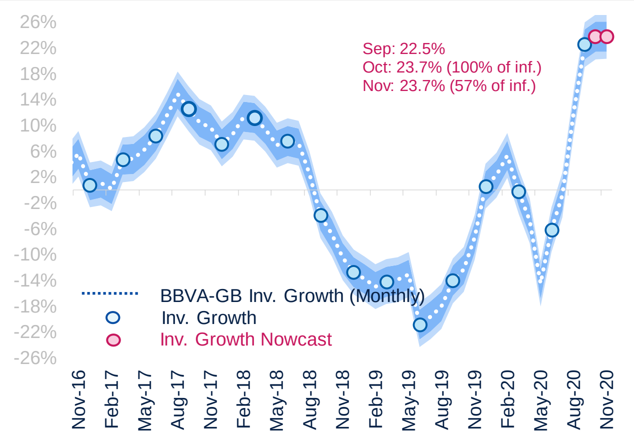
Source: BBVA Research Turkey

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



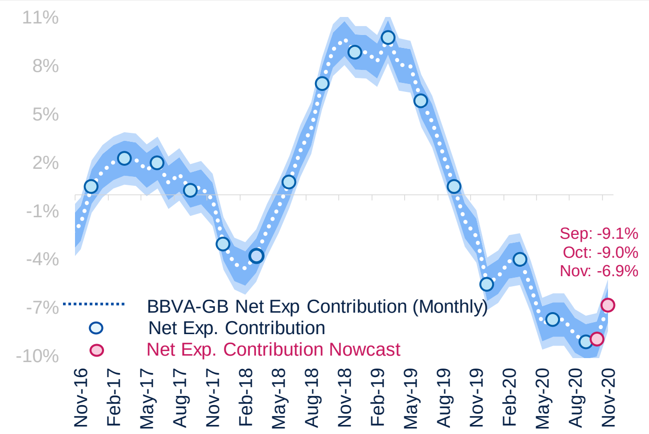
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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