

Turkey: Still solid activity in 4Q20

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Industrial Production (IP) grew by 11% yoy in calendar adjusted terms (8.7% yoy in unadjusted series) in November, confirming a growth level in the first 2 months of 4Q20 (9%) similar to the strong 3Q20 performance (8.5%). Seasonal and calendar adjusted series maintained its growing trend with 1.3% mom, resulting in a new peak (6% above its previous peak in February 2020). Retail sales also remained solid, by increasing 11% yoy in October-November period (vs. 9% in 3Q). Our Big Data proxies and other high frequency indicators had started to show some deceleration when the new round of confinement measures have been introduced at the end of November but since mid-December activity regained somewhat momentum and maintain this trend in early January. Our monthly GDP indicator nowcasts a yearly GDP growth rate of near 6% as of December for 4Q20 (37% information), which will imply a full year growth rate of 1.5-2% in 2020. Favorable base effects and expected decline in risk premium in terms of the recent changes in the policy framework will serve as important buffers against the impact of the recent financial tightening and uncertainties on the second round effects of the pandemic. Therefore, assuming no sizable negative shock, we expect GDP growth to materialize near 5% in 2021, benefiting from a sizable contribution from external demand.

IP growth showed a similar pace in 4Q20 compared to 3Q20

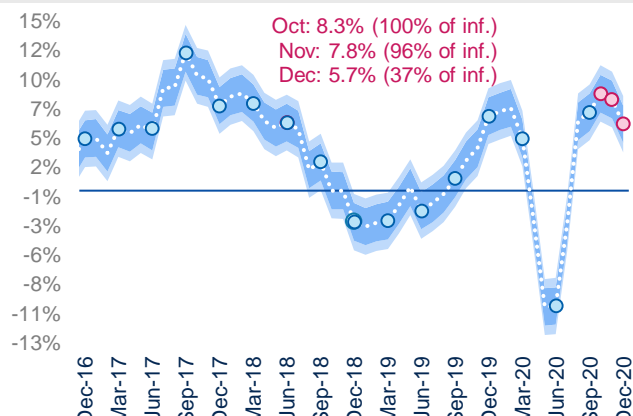
Seasonal and calendar adjusted IP was supported by all main subsectors except for non-durable goods (-0.1% mom). The main contributors were the capital goods (3.6% mom) and intermediate goods production (1.2% mom), indicating a positive outlook for near term growth. On the sectoral side, IP continued to be supported by mainly manufacturing sector (1.4% mom) especially on the back of other transport equipment (28% mom) and computer, electronic and optical products (15% mom) production. Mining production increased by 0.3% mom, while electricity production contracted by 2.5%. Leading indicators such as PMI (Dec, 50.8), capacity utilization (Dec, 75.6%), electricity production (Dec, 7.6% yoy) and our big data indicators signaled a yearly growth rate of 9% in industrial production in December (Chart 3), leading to 9% annual increase in industrial output in 4Q20 (vs 8.5% in 3Q20). This strong performance was also confirmed by our monthly GDP indicator as it nowcasts 5.7% growth for 4Q20 with 37% of info. According to our GDP demand subcomponents, consumption and investment (Chart 6-7) continued to display significant positive contributions, while the negative contribution from net exports eased to 5pp (from -9pp in 3Q20) on the recovery in exports. Looking ahead, our Big Data indicators still show a strong momentum (Chart 4-5), backed by the goods consumption and still supportive investment demand on both machinery and construction. The new round of confinement measures certainly effect services consumption, but this time to a much lower extent compared to the first wave of the pandemic. All in all, the impact of the financial tightening seems to be pending, which could also be linked to decelerating but still continuing loan growth rates.

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

	2019												2020																										
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Mean	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	-24.0	-16.7	-4.1	14.1	11.0	12.4	9.7	6.5	5.6	7.2	9.7	5.7	-7.7	-24.0	-16.7	-4.1	14.1	11.0	12.4	9.7	6.5	5.6	7.2	9.7	5.7	-7.7	-24.0	-16.7	-4.1	14.1	11.0	12.4	9.7
Non-metal Mineral Production	4.7	-1.0	3.4	6.4	0.3	-2.5	-12.4	-4.9	6.3	24.9	22.0	25.4	22.9	4.7	-1.0	3.4	6.4	0.3	-2.5	-12.4	-4.9	6.3	24.9	22.0	25.4	22.9	4.7	-1.0	3.4	6.4	0.3	-2.5	-12.4	-4.9	6.3	24.9	22.0	25.4	22.9
Electricity Production	4.2	-0.4	0.6	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.4	4.2	-0.4	0.6	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.4	4.2	-0.4	0.6	2.9	2.7	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.4
Auto Sales	2.8	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	66.2	172.8	189.8	95.9	88.8	2.8	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	66.2	172.8	189.8	95.9	88.8	2.8	25.3	17.0	41.2	41.6	18.1	-3.9	21.2	66.2	172.8	189.8	95.9	88.8
Auto Imports	4.1	18.9	7.4	31.9	46.9	29.0	7.4	24.6	103.8	186.3	176.2	80.0	82.3	4.1	18.9	7.4	31.9	46.9	29.0	7.4	24.6	103.8	186.3	176.2	80.0	82.3	4.1	18.9	7.4	31.9	46.9	29.0	7.4	24.6	103.8	186.3	176.2	80.0	82.3
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	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	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	-3.1		3.2	-0.8	0.0	-0.6	-2.6	-5.8	-7.9	-8.2	-6.6	-4.9	-3.5	-3.1		3.2	-0.8	0.0	-0.6	-2.6	-5.8	-7.9	-8.2	-6.6	-4.9	-3.5	-3.1	
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	-10.3		4.8	8.5	0.9	-5.2	-9.9	-11.1	-10.3	-7.2	-6.6	-7.2	-10.0	-10.3		4.8	8.5	0.9	-5.2	-9.9	-11.1	-10.3	-7.2	-6.6	-7.2	-10.0	-10.3	
Real Sector Confidence	105.6	103.6	104.1	106.8	99.7	86.8	76.9	92.6	100.7	106.2	105.3	108.1	103.9	105.6	103.6	104.1	106.8	99.7	86.8	76.9	92.6	100.7	106.2	105.3	108.1	103.9	105.6	103.6	104.1	106.8	99.7	86.8	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	58.3	54.3	52.8	53.9	51.4	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9	58.3	54.3	52.8	53.9	51.4	50.9	49.5	51.3	52.4	48.1	33.4	40.9	53.9	58.3	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	31.8	25.2	14.0	7.6	8.1	17.4	9.8	14.2	14.5	22.2	43.5	45.9	46.5	31.8	25.2	14.0	7.6	8.1	17.4	9.8	14.2	14.5	22.2	43.5	45.9	46.5	31.8	25.2	14.0	7.6	8.1
Garanti BBVA BigData Consumption	4.5	9.0	9.2	9.3	4.4	-7.4	-21.1	-17.2	-6.1	5.0	6.4	5.9	4.7	4.5	9.0	9.2	9.3	4.4	-7.4	-21.1	-17.2	-6.1	5.0	6.4	5.9	4.7	4.5	9.0	9.2	9.3	4.4	-7.4	-21.1	-17.2	-6.1	5.0	6.4	5.9	4.7
Garanti BBVA BigData Investment	0.2	-4.1	-5.8	-6.7	-16.6	-20.8	-30.7	-18.4	-11.9	0.1	-6.9	-6.8	-2.7	0.2	-4.1	-5.8	-6.7	-16.6	-20.8	-30.7	-18.4	-11.9	0.1	-6.9	-6.8	-2.7	0.2	-4.1	-5.8	-6.7	-16.6	-20.8	-30.7	-18.4	-11.9	0.1	-6.9	-6.8	-2.7
GDP Nowcasting Results YoY																																							
GDP YoY		6.4%				4.5%																																	

Source: BBVA Research Turkey, Turkstat

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

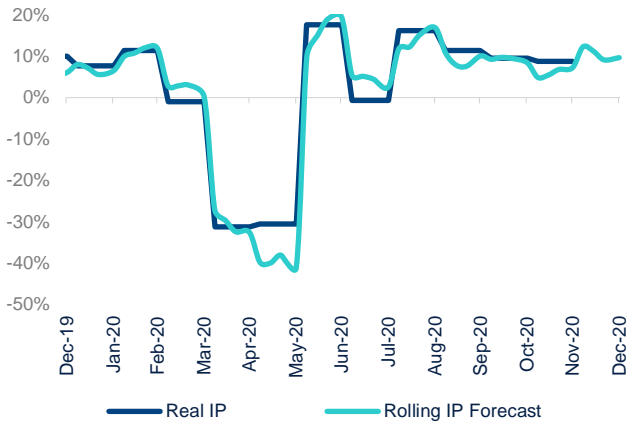


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

GDP growth could materialize 1.5-2% in 2020, still strong carry over for 2021

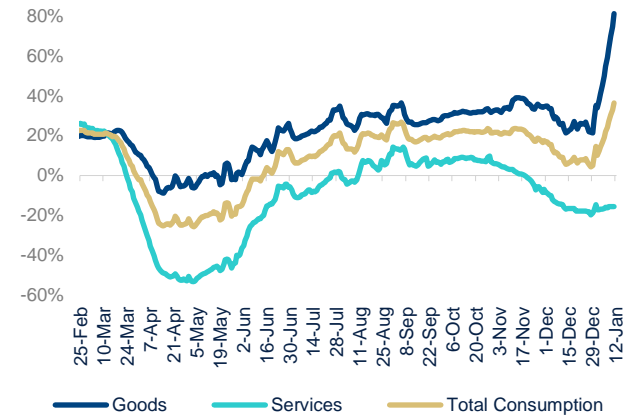
Early indicators indicate that 2020 GDP growth will likely get close to 1.5-2%. We maintain our 2021 GDP forecast at 5% on the back of earlier than expected inoculation in main economies, favorable base effects, ongoing stabilization in financial assets, supportive capital inflows to emerging markets and expected recovery in global economy although the pending effects of the recent and most probably prolonged financial tightening are expected to weigh down on economic activity.

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



Source: BBVA Research Turkey, Turkstat,

Chart 4. **BBVA Big Data Consumption Indices (28-day moving average, nominal, YoY)**



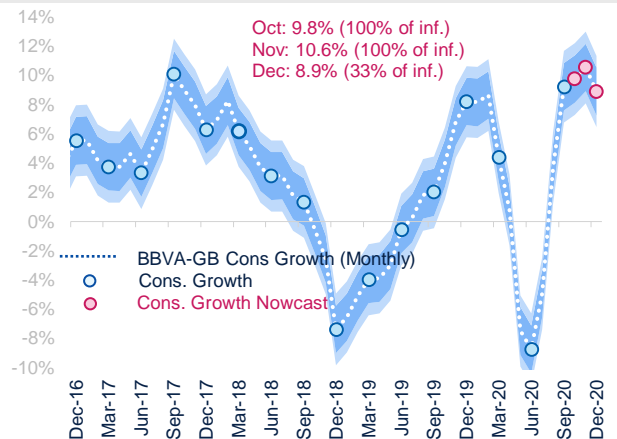
Source: BBVA-Research Turkey, Turkstat, TETC

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



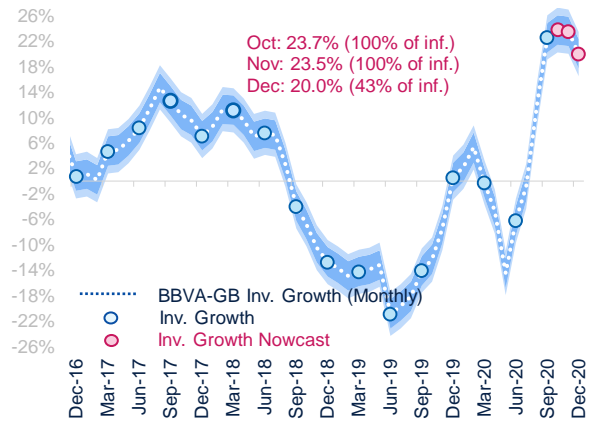
Source: BBVA Research Turkey

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



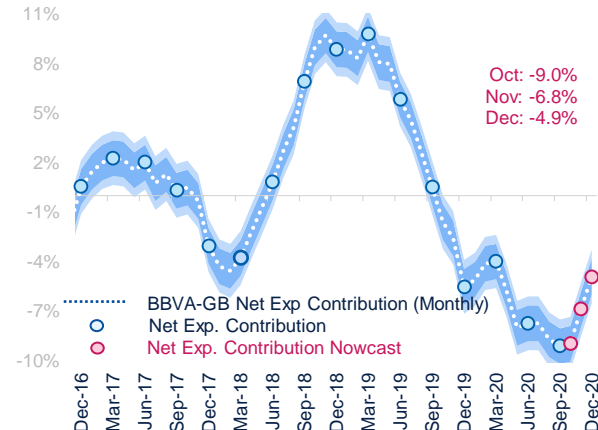
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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