

Turkey: Accelerated industrial production in 4Q20

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Industrial Production (IP) grew by 12.1% yoy in unadjusted terms in December (9% yoy if calendar adjusted), resulting in a higher yearly growth rate in 4Q (10.2%) than its 3Q performance (8.5%). Seasonal and calendar adjusted IP (sca) also rose by 1.3% mom, still maintaining a strong momentum by increasing continuously in the last eight months. Hence, despite the downside factors linked to the pandemic, the full year IP growth rate materialized as 2.2% in 2020. On the other hand, retail sales contracted sharply by 4.2% mom in December due to the recent curfew measures as we already observed in our Big Data Consumption indicator. Our monthly GDP indicator nowcasts a yearly GDP growth rate of 7.8% for 4Q20 (96% info), implying a full year growth of near 2.5% in 2020 and only a slight slow-down to 5.3% growth at the start of February (33% of info). Given the current high momentum, the expected deceleration on tighter financial conditions could be delayed in the last period of 1Q and mostly in 2Q. However, ongoing supportive policy measures on global side, favorable base effects and the decline in risk premium could provide buffers. Therefore, assuming no sizable negative shock, we maintain our GDP growth forecast at 5% for 2021 with some upside risks taking into account the current information for 1Q21.

A broad-based strong performance of the sectorial activity in 4Q

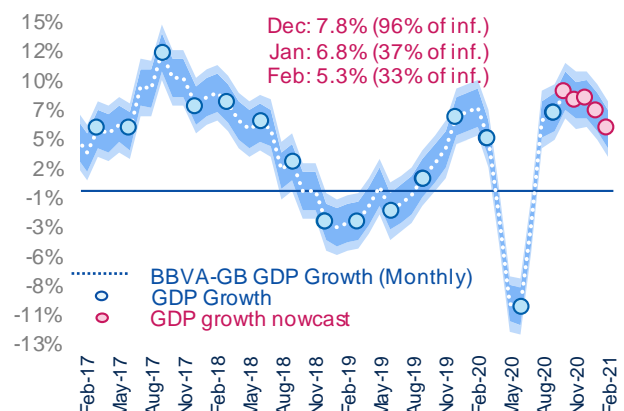
IP (sca) was supported by capital goods and intermediate goods production (1.9% mom for both), indicating a continuing positive outlook, while energy and durable goods production dragged down from growth (-1.3% and -0.8% mom, respectively). In annual terms, IP grew by 10.1% in calendar adjusted terms in 4Q20 and the acceleration was backed by all main sub-sectors (intermediate goods 12.6%, capital goods 10%, consumer goods 9%, energy 2.1%). In sectorial detail, non-metallic products, automotive, metals, machinery, electrical equipment, textile, plastics and chemical products were the leading items in the strong growth, showing spill-overs from both solid domestic demand and recovering external demand. Despite slow-down in credits and lockdown measures, PMI (Jan, 54.4), capacity utilization rate (Jan, 75.4%), electricity production and our big data indicators signaled still robust activity in January, which was also confirmed by our IP forecast of near 6% (Chart 3) and our nowcast of a yearly GDP growth rate of 6.8% for January. On the other hand, our most recent Big Data indicators started to signal the early signs of the expected deceleration and we have a GDP nowcast of 5.3% in early February (still pending data to clarify the bias from services). According to our GDP demand subcomponents (Chart 6-8), consumption displays the negative impact of the financial tightening and the second wave of pandemic, while investment stays relatively strong. Lastly, the negative contribution from net exports eased further on the recovery in exports and some normalization in imports. All in all, the impact of the financial tightening seems to be pending, which could also be linked to the changing composition of loan growth rates in the sector.

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

Mean	2020												2021	
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Jan	Feb	
Industrial Production	6.5	-7.7	-21.0	-16.6	-6.1	10.2	8.5	12.1	9.9	10.2				
Non-metal Mineral Production	4.7	-2.5	-2.4	-4.9	6.3	23.5	23.0	25.4	22.5	23.7				
Electricity Production	4.2	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.4	7.0	5.9	3.2		
Auto Sales	2.8	8.1	-3.9	21.2	63.0	63.2	176.9	111.4	79.7	82.0				
Auto Imports	4.1	29.0	7.4	24.5	67.8	65.7	176.2	81.0	67.9	26.9				
Auto Exports	7.7	-40.8	-58.9	-60.0	-40.7	-28.6	-23.3	-11.1	-12.1	-11.3				
Number of Employed	3.2	-5.8	-7.9	-8.2	-6.6	-4.9	-3.5	-3.1	-3.2					
Number of Unemployed	4.8	11.1	13.5	7.2	-6.6	-7.2	5.0	10.3	9.4					
Real Sector Confidence	105.6	86.9	76.9	92.6	100.7	106.2	105.3	108.1	103.9	106.9	107.0			
Manufacturing PMI	50.9	33.4	40.9	53.9	50.8	54.3	52.9	53.9	51.4	50.8	54.4			
Total Loans growth 13-week	17.4	14.5	15.9	16.5	11.0	25.2	11.0	7.6	8.1	5.3	2.6	2.7		
Garanti BBVA BigData Cons.	4.5	-7.9	-21.1	-17.2	-6.1	5.0	6.4	5.9	3.9	0.1	-4.8	-6.6		
Garanti BBVA BigData Invest.	0.2	-20.6	-30.7	-18.4	-11.9	0.1	-6.9	-5.8	-2.6	0.5	0.6	-4.5		
GDP Nowcasting Results YoY							8.6%	7.7%	7.8%	6.8%	5.3%			
GDP YoY				-9.9%			6.7%							

Source: BBVA Research Turkey, Turkstat

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



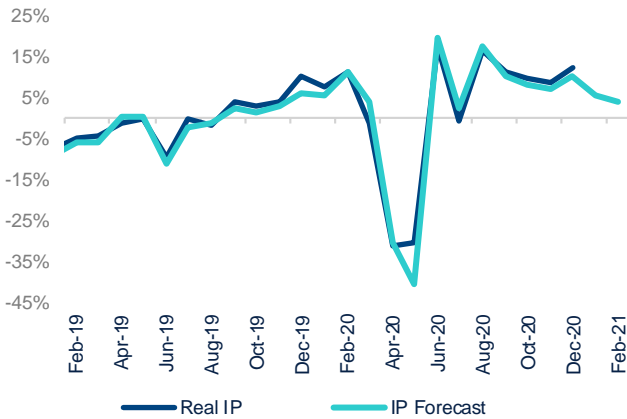
*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPI Index in BBG)

Current strong momentum in activity will likely support 2021 GDP growth

GDP growth will likely get near 2.5% in 2020, which will be officially released on March 1. Still pending deceleration impact from the monetary tightening can be observed in late 1Q and 2Q. However, ongoing expansionary policy measures abroad, attempts to accelerate the inoculation, favorable base effects and stabilization in financial assets will be the supportive factors throughout the year. Therefore, we maintain our 2021 GDP forecast at 5% with some upside risks given the current momentum in 1Q.

Chart 3. **IP & IP Forecasts**

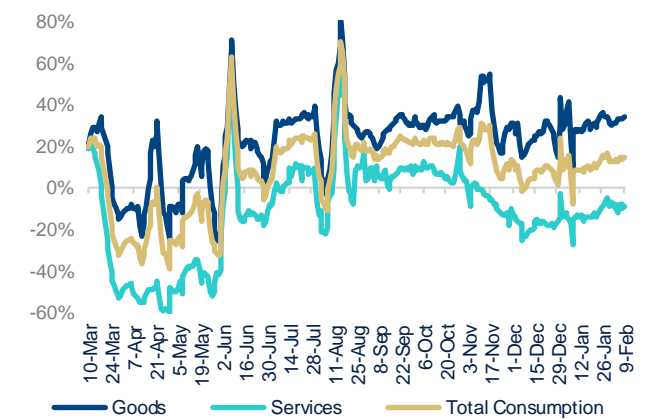
(yoy, one month ahead forc.)



Source: BBVA Research Turkey MIDAS & MFBVAR IP Forecast Models, Turkstat,

Chart 4. **Garanti BBVA Big Data Consumption Indices**

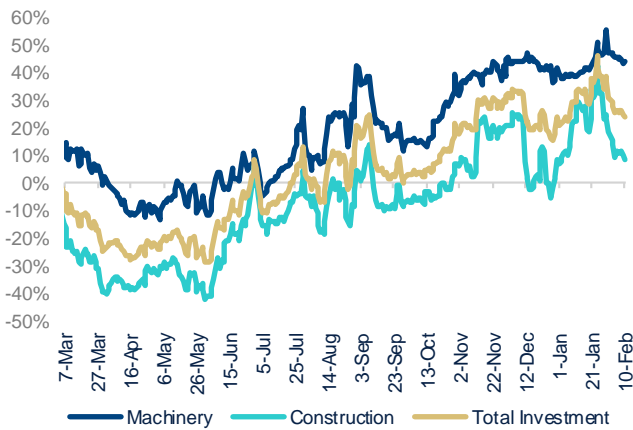
(7-day moving average, nominal, YoY)



Source: BBVA-Research Turkey, Turkstat, TETC

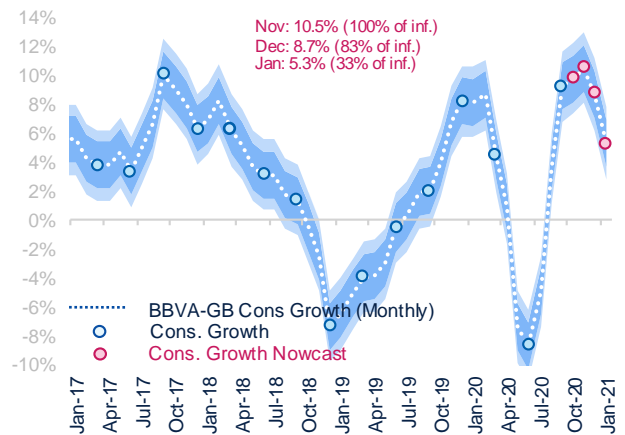
Chart 5. **Garanti BBVA Big Data Investment Indices**

(28-day moving average, nominal, YoY)



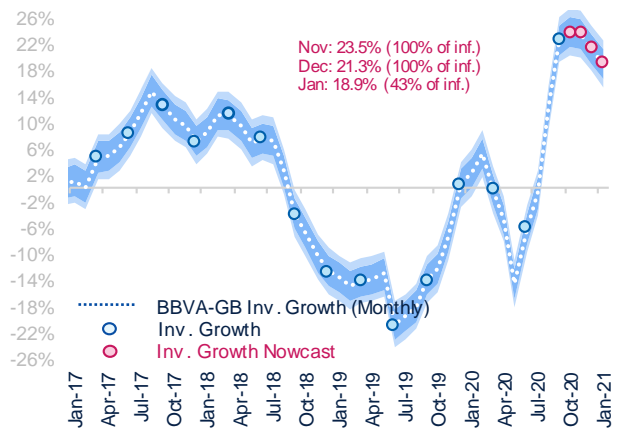
Source: BBVA Research Turkey

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



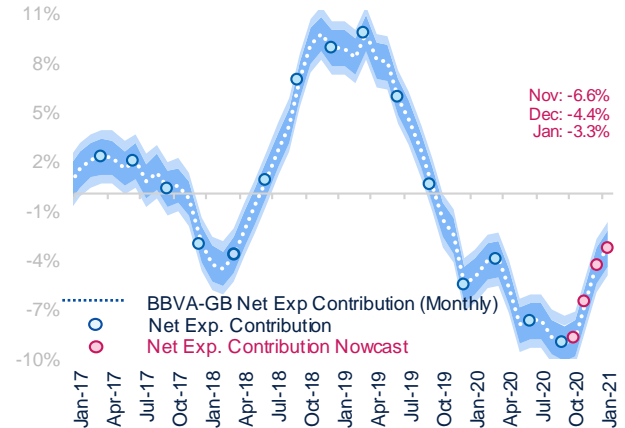
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Chart 7. **BBVA Monthly Investment Now cast (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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