

Turkey: Continuation of solid activity in early 2021

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Industrial Production (IP) grew by 11.4% yoy in calendar adjusted terms (7.5% yoy in unadjusted series) in January confirming still strong economic activity at the start of the year (vs. its 10% growth in 4Q). Seasonal and calendar adjusted series maintained a growing trend in the 9th consecutive month with 1% mom. On the other hand, retail sales signaled a weakening outlook, by increasing only 2% yoy in January (vs. 8.4% in 4Q). Our Big Data proxies and other high frequency indicators started to show somewhat a clearer deceleration in late February, but in year-on-year terms the indicators will start to jump, being backed by both the base effects and the reopening of the economy as of March. Our monthly GDP indicator nowcasts a yearly GDP growth rate of still above 6% as of February, in which the composition of growth changes in favor of net exports. The potential of additional monetary tightening or at least staying tight for a long period of time could be the factors to curb domestic demand further. Though, given the current strong momentum and the positively updated global forecasts, we plan to revise our GDP growth forecast above 6% for 2021 in contrast to our previous 5% forecast.

Strong January IP growth backed by mining and manufacturing sector

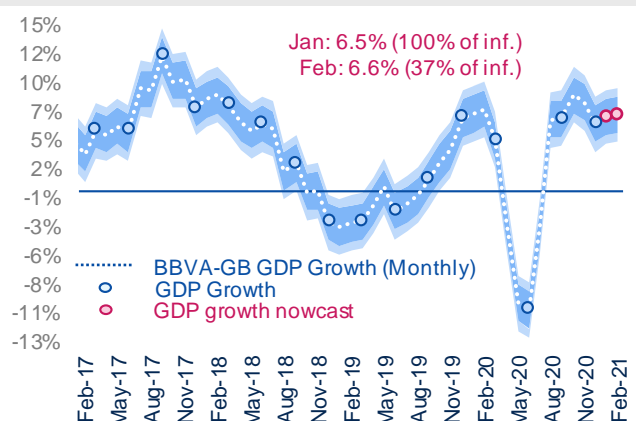
Seasonal and calendar adjusted IP grew by 1% mom growth in January confirming the continuation of solid economic activity in the 9th consecutive month since April 2020. The main contributors were durable (+6.5% mom) and intermediate goods production (+3.3% mom), while energy and capital goods production dragged down from growth (-3.7% and -2.9% mom, respectively). On the sectorial side, the main trigger continued to be the manufacturing sector by growing 1.1% mom, in which wearing apparel, machinery and electrical equipment, basic metals and chemical products took the lead, showing the support from both external and domestic demand. Looking ahead, leading indicators such as manufacturing PMI (Jan-Feb avg, 53 vs. 52 in 4Q20), capacity utilization rate (Jan-Feb, 75.6% vs. 75.2% in 4Q20), electricity production (Jan-Feb avg, 1.9% yoy vs. 7% in 4Q20) and our big data proxies started to show some but still limited deceleration in February after stronger January realizations. This is also seen in our IP forecast, which we foresee a slow-down to 5-6% growth in February (Chart 3). Our big data indicators also confirm this trend as seen in our demand subcomponents nowcasts (Chart 5-7). Private consumption shows a clearer deceleration as of February whereas investment demand remains relatively strong, which is positive in terms of increasing the productive capacity of the economy. Also, the change in the composition of growth in favor of net exports confirm the rebalancing in the economy, which would also reduce the external financial needs in the coming period.

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

	Mean	2020										2021	
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	6.5	-7.7	-21.0	-16.6	-6.1	10.2	8.5	12.1	9.8	10.2	9.6		
Non-metal Mineral Production	4.7	-2.5	-12.4	-4.9	6.3	24.5	23.0	25.4	22.6	23.4	24.4		
Electricity Production	4.2	-3.6	-11.4	-12.5	-7.0	0.0	3.8	6.0	7.4	7.0	5.9	3.8	
Auto Sales	2.8	18.2	-3.8	21.2	103.0	153.2	178.9	111.4	78.7	42.8	30.7		
Auto Imports	4.1	23.0	7.4	24.6	103.6	159.3	178.2	93.0	52.9	26.9	23.2		
Auto Exports	7.7	-40.8	-58.9	-60.0	-40.7	-28.6	-23.3	-14.1	-12.1	-11.3	-12.0		
Number of Employed	3.2	-9.1	-8.4	-7.0	-4.8	-3.9	-3.1	-3.9	-4.7	-3.3	-2.0		
Number of Unemployed	4.9	-11.9	-9.0	-6.1	-7.5	-10.2	-9.3	-10.0	-7.7	-6.7	-6.2		
Real Sector Confidence	105.6	66.8	76.9	92.6	100.7	106.2	105.3	108.1	103.9	106.8	107.0	109.3	
Manufacturing PMI	50.9	33.4	40.9	53.9	56.9	54.3	52.8	53.9	51.4	50.8	54.4	51.7	
Total Loans growth 13-week	17.4	43.5	45.9	46.5	31.6	25.2	14.0	7.6	8.1	5.3	3.0	1.8	
Garanti BBVA BigData Cons.	4.5	-7.9	-21.1	-17.2	-6.1	5.0	6.4	5.9	3.9	-0.1	-5.2	-7.1	
Garanti BBVA BigData Invest.	0.2	-20.3	-30.5	-18.4	-11.8	0.2	-6.8	-5.7	-2.6	0.5	0.6	-4.5	
GDP Nowcasting Results YoY											6.5%	6.6%	
GDP YoY				-10.3%			6.3%						

Source: Garanti BBVA Research, Turkstat

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

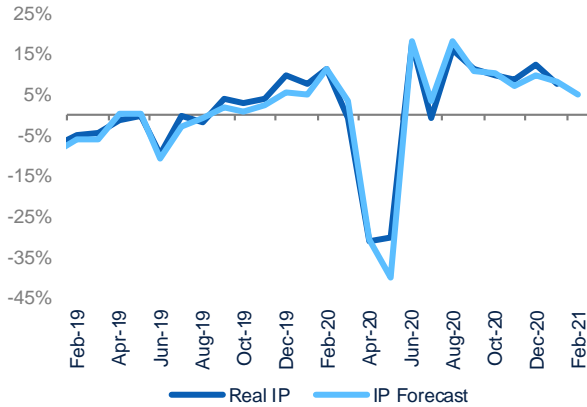


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDY Index in BBG)

Still strong activity and upwardly revised global forecasts boost 2021 GDP outlook

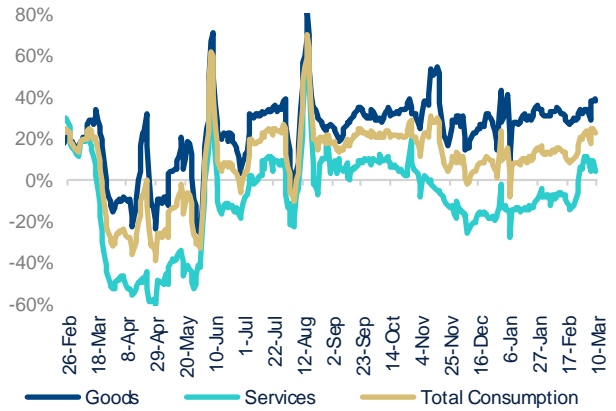
January IP data confirmed the still robust activity on the production side, which we expect to cool down with February incoming data but still keep the 1Q GDP growth rate at near 5%. So, the solid performance so far, strong positive base effects March onwards, accelerating inoculation process and global forecasts revised upside attached to still accommodative policies will lead us to revise our GDP growth forecast above 6% for 2021 from the previous forecast of 5%, although we also figure out additional monetary tightening or at least staying tight for a long period of time on the monetary policy front.

Chart 3. **IP & IP Forecasts** (one month ahead forc.,yoy)



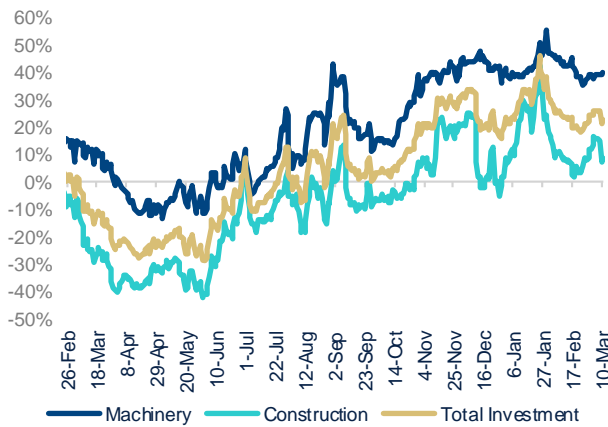
Source: Garanti BBVA Research MIDAS&MFBVAR Models, Turkstat

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



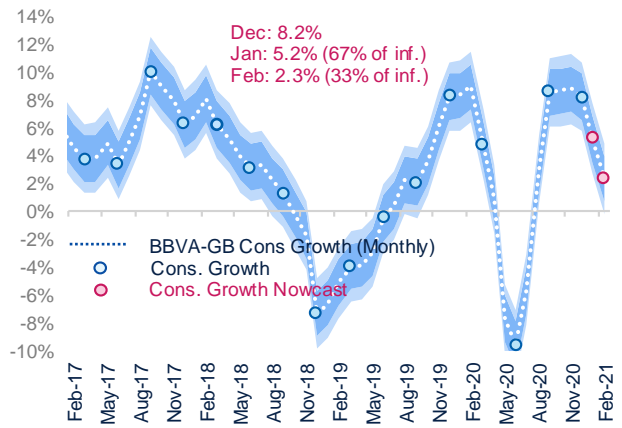
Source: Garanti BBVA Research, Turkstat

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



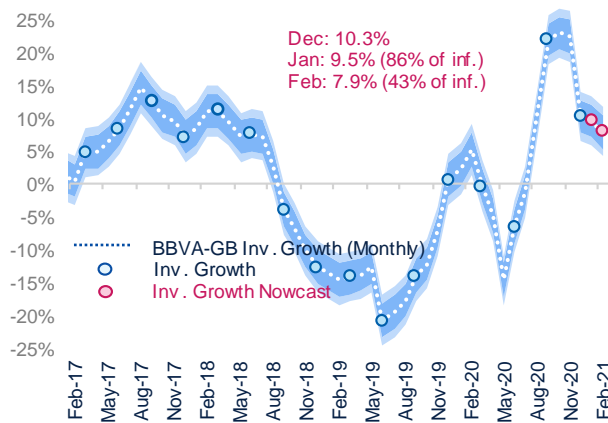
Source: Garanti BBVA Research

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



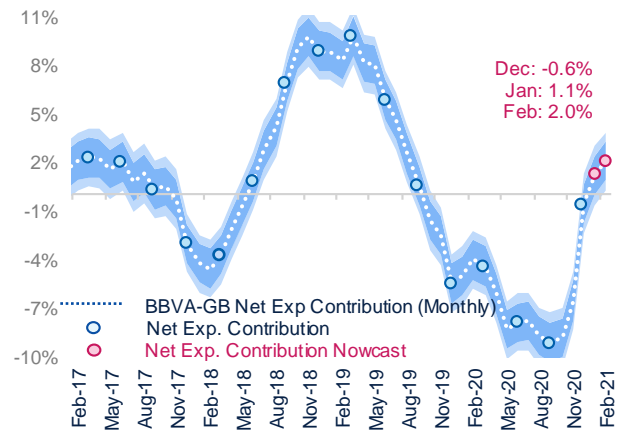
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

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



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

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