

Turkey: Stronger than expected 1Q activity data

Ali Batuhan Barlas / Adem Ileri / Berk Orkun Isa / Seda Guler Mert / Yesim Ugurlu Solaz

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Industrial Production (IP) grew by 16.6% yoy in calendar adjusted terms in March, implying 19.9% yoy growth in unadjusted series (11.2% yoy in 1Q21 vs. 10.2% growth in 4Q20). The month-on-month figure still remained positive (0.7%), maintaining a continuous growth pattern since April20. Besides, retail sales were strong by growing 21% yoy in March (8.7% in 1Q21 vs. 8.5% in 4Q20). All in all, our monthly GDP indicator nowcasts a yearly GDP growth rate of 6.5% in March, implying almost no moderation with 1.5-2% qoq growth for 1Q21. Our Big Data proxies and other high frequency indicators started to jump on base effects and our GDP nowcast shows a yearly growth rate of 23% as of early May despite a mild contraction in qoq terms. The strong momentum so far, favorable base effects and recent upward revisions in the global growth outlook reinforces upside risks on our current 2021 GDP growth forecast of 5%. Though, given the uncertainties on tighter financial conditions, new lock-down measures and downside risks on tourism revenues, we remain prudent for now but will reevaluate risks once we have more information about 2Q.

Robust activity on manufacturing in 1Q but high uncertainty in the near future

Seasonal and calendar adjusted IP grew by 0.7% mom in March, led by energy production with 6.2% mom increase (capital goods -1.7%, non-durable goods 0.1%, durable goods -1% and intermediate goods 1.3%). In annual terms, IP grew by 11.1% in 1Q21 which was 10.2% yoy in 4Q20, confirming still robust economic activity in 1Q21. In sectorial detail, exporting sectors continued to mainly back the recovery, whereas domestic demand oriented sectors remained solid. Though, IP also indicated somewhat loss of momentum by growing 2.6% qoq (vs. 4.7% in 4Q20), which would deepen further given tighter financial conditions and stricter lock-down measures since April. Our IP forecast (Figure 3) confirms this trend for April on top of leading indicators such as PMI (50.4 vs 52.6 in March), electricity production (-1.7% mom in April) and our big data indicators. However, annual figures will remain high with supportive base effects till June, in which we may observe some correction due to the reversal of base effects. All in all, our monthly GDP indicator nowcasts a yearly GDP growth of 6.5% in 1Q21 (implying 1.5-2% qoq) and 23% as of May (31% of info). Regarding the subcomponents, private consumption slightly moderated in 1Q21, whereas investment demand still showed an acceleration; which has still continued in April (Figures 4-7). On the other hand, the contribution from net exports is increasing on the positive side, led by the contraction in goods trade deficit on top of exports (Figure 8), though the developments on tourism will be critical to keep this trend.

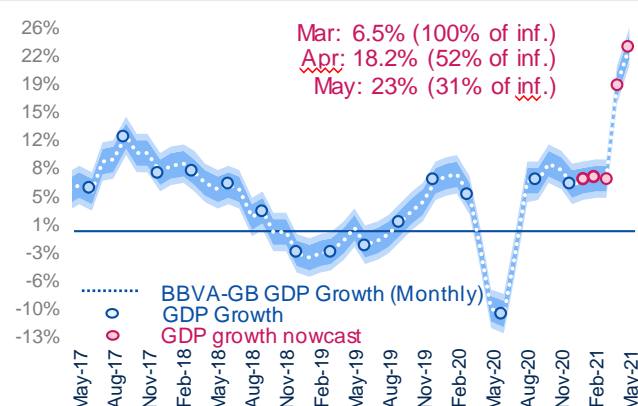
Figure 1. Activity Indicators (%yoy, 3M Moving Avg.)

	Mean	2020					2021				
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	6.5	10.2	8.5	12.1	9.8	10.2	9.6	8.7	11.1		
Non-metal Mineral Production	4.7	24.8	27.0	25.4	22.1	23.0	24.0	23.8	22.2		
Electricity Production	4.2	0.0	3.8	6.0	7.4	7.0	5.9	3.8	7.0	16.7	25.8
Auto Sales	2.8	153.2	178.9	111.4	78.7	42.0	30.7	26.2	60.5	76.7	
Auto Imports	4.1	156.9	176.2	90.0	52.9	26.9	23.2	23.6	58.6	64.9	
Auto Exports	7.7	-28.6	-23.3	-14.1	-12.1	-11.3	-12.0	-13.0	-5.5	32.8	
Number of Employed	3.2	-4.8	-3.9	-3.1	-3.9	-4.7	-3.3	-1.4	2.6		
Number of Unemployed	4.8	-7.5	-10.2	-12.3	-10.0	-7.7	-6.7	-3.3	2.1		
Real Sector Confidence	105.6	106.2	105.3	108.1	103.9	108.8	107.0	109.3	110.8	111.0	
Manufacturing PMI	50.9	54.3	52.8	53.9	51.4	50.8	54.4	51.7	52.6	50.4	
Total Loans growth 13-week	17.4	25.2	14.0	7.6	8.1	5.3	3.0	3.0	9.3	12.2	
Garanti BBVA BigData Cons.	4.0	6.7	7.8	7.2	5.7	2.6	-1.6	-3.5	3.7	19.8	31.3
Garanti BBVA BigData Invest.	0.2	0.1	-6.9	-6.8	-2.6	0.5	0.6	-3.1	3.0	12.3	14.7
GDP Nowcasting Results YoY											
GDP YoY							6.4%	6.6%	6.5%	18.2%	23.0%

Contraction Slow-down Growth Boom

Source: Garanti BBVA Research, Turkstat

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

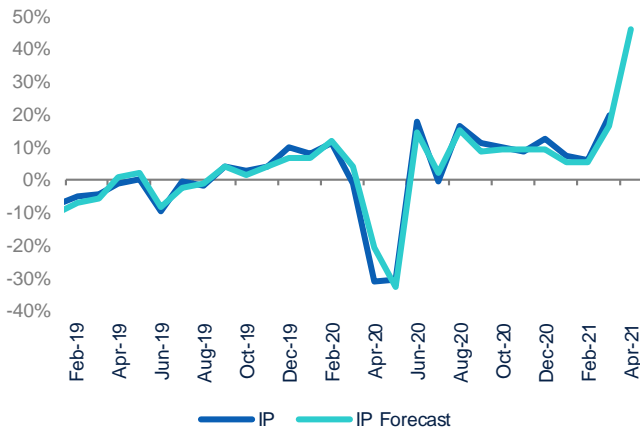


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high frequency indicators to proxy monthly GDP (GBTRGPY Index in BGG)

Stronger 1Q21 results reinforce upside risks on our GDP forecast

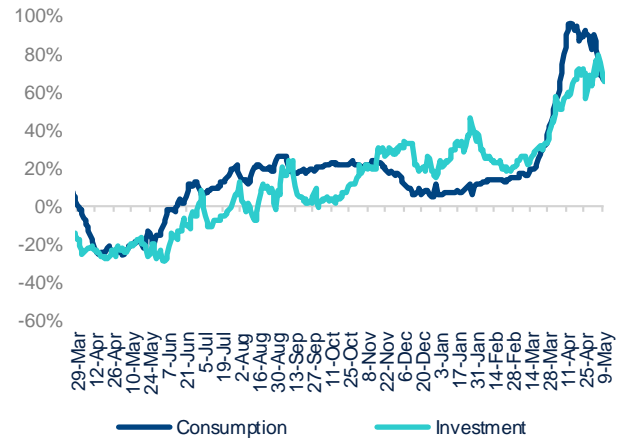
1Q21 GDP will be released on May 31. Stronger than expected March activity indicators implied almost no moderation in 1Q21. Yet, tighter financial conditions, stricter lock-down measures since April, moderately growing credits, finalization of the temporary ban on lay-offs and short term working allowances by the end of June all raise the uncertainty on the near term growth outlook. We maintain our prudent 5% 2021 GDP growth forecast for now.

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



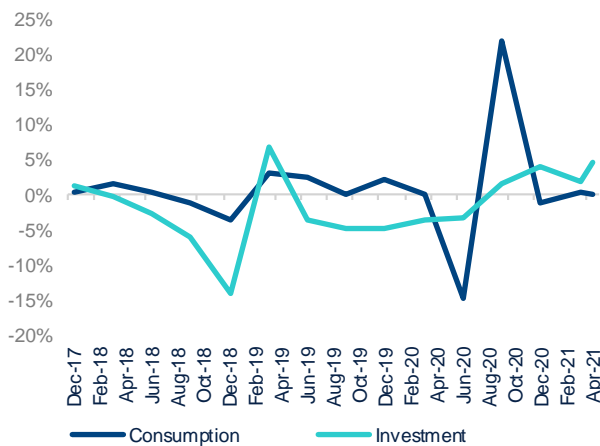
Source: Garanti BBVA Research MIDAS&MFBVAR Models, Turkstat

Figure 4. **BBVA Big Data Demand Indicators** (28-day sum, nominal, YoY)



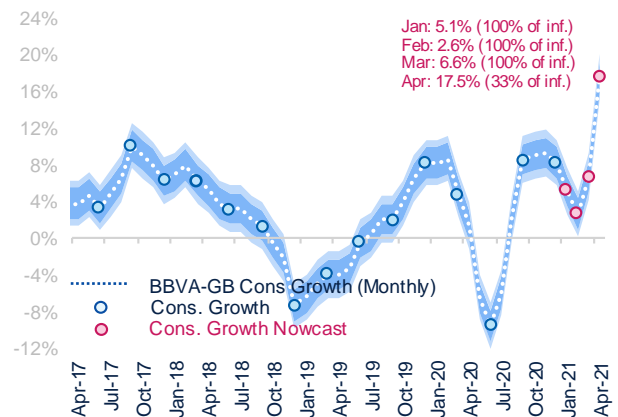
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Demand Indicators** (QoQ, in real terms)



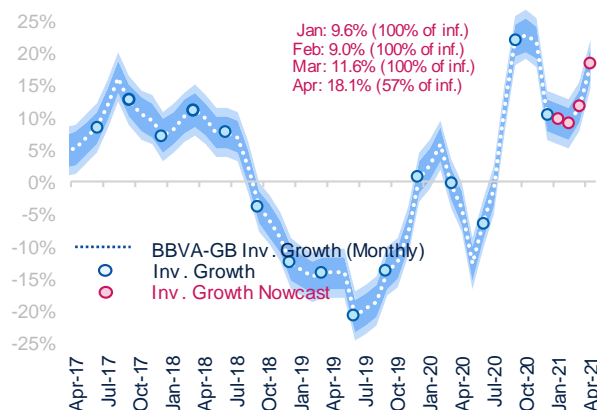
Source: Garanti BBVA Research

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



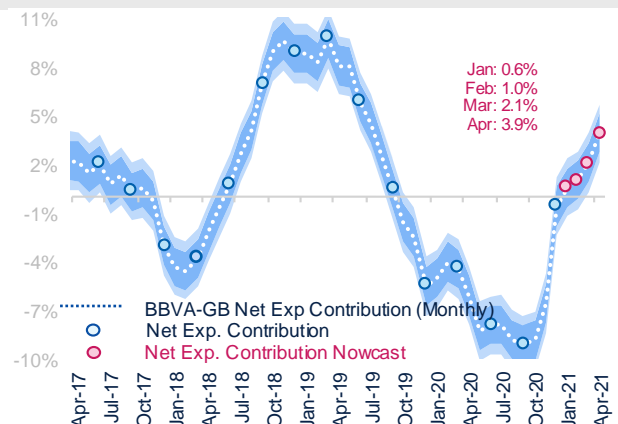
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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ENQUIRIES TO:

Garanti BANKASI A.Ş. Nispetiye Mah. Aydar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
bbvaresearch@bbva.com www.bbvaresearch.com