

ECONOMIC ACTIVITY PULSE

# Turkey: Export Driven IP Growth

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The industrial production (IP) grew by 2.7% (WDA YoY) in November, slightly below the market median call (3.6%). Positive IP growth in October-November period confirms our expectations of a modest recovery in 4Q. At a negative tone, retail sales (ex-auto) contracted by 2% YoY in November, signalling the continuum of weak domestic demand, despite brought-forward auto and house demand thanks to policy stimulus. Going forward, our high frequency hard-data indicators suggest a slowdown in December. However, we still maintain our below consensus 2.3% GDP growth estimate for 2016 with the risks on the downside.

## Fragile outlook in sectorial detail

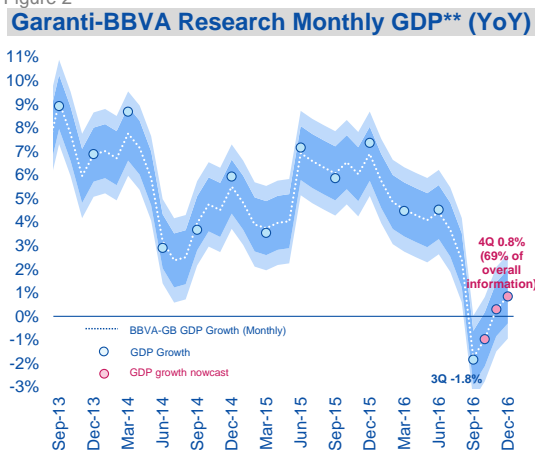
In unadjusted terms, annual contraction by 3.3% in 3Q16 IP turned out to be a moderate pick-up by 2.4% in October-November. The recovery in energy and capital goods took the lead with a total 2.0pp contribution, while consumer goods contributed slightly by 0.4pp on top of non-durables and intermediate goods continued to be weak. If only November is considered, 4.6% yoy non-adjusted IP growth was limited in certain sectors such as computer&electronics (2.2pp cont.), automobiles (1.0pp cont.) and energy (1.0pp cont.), suggesting an export related recovery. Meanwhile, domestic demand oriented sectors continued to be weak confirming the contracting retail sales in November. Going forward, positive export demand will be supportive for December IP. However, the power cuts due to harsh weather conditions will be a major limiting factor for December and January.

Figure 1

Activity Indicators* (3MA, YoY, SA)		2015			2016				
		Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mean									
Industrial Production	3.7	7.5	2.9	0.1	-1.4	-3.2	-0.3	0.4	
Non-metal Mineral	15	5.4	0.4	-3.3	-15	-3.0	2.3	17	
Electricity Production	4.1	6.5	6.9	6.4	6.8	3.1	3.3	3.3	5.7
Auto Sales	4.2	3.5	2.5	-4.6	-3.3	-15.2	4.5	26.2	
Tourist Arrivals	-0.1	-3.9	-35.6	-37.4	-38.3	-36.0	-33.1	-28.2	
Number of Employed	3.7	3.1	2.4	17	13	14			
Number of Unemployed	4.2	18	4.4	8.0	11.2	12.8			
Auto Imports	6.8	5.9	2.6	-3.5	-9.7	-10.2	8.9	31.3	
Auto Exports	7.4	23.1	21.6	24.3	14.7	12.2	9.9	12.4	
Financial Conditions	76.0	80.5	86.7	91.2	88.4	88.6	92.6	80.1	73.6
Credit Growth-13Week	20.2	10.2	13.5	8.8	9.1	6.0	10.0	8.2	14.6
PMI Manufacturing	51.4	52.2	47.4	47.6	47.0	48.3	49.8	48.8	47.7
Real Sector Confidence	107.4	108.8	104.3	106.3	103.0	107.1	103.8	107.6	103.6
MICA Forecast									
GDP YoY		7.4%	4.5%		-1.8%	-1.0%	0.3%	0.8%	

\* Series are non-calendar adjusted. \*\*Garanti- BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation was made in Turkey Economic Outlook 3Q2015. Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2

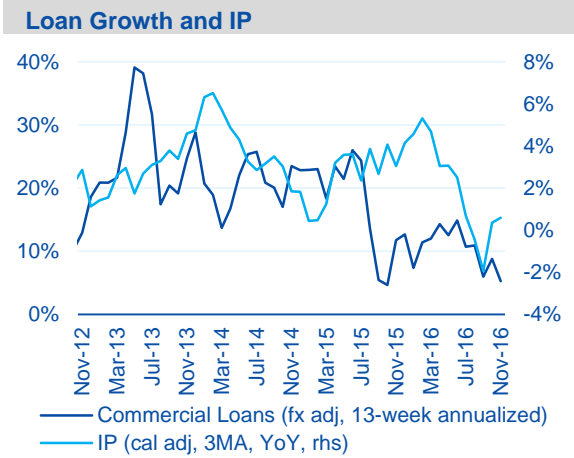


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## Downside risks on our below consensus 2.3% growth estimate for 2016

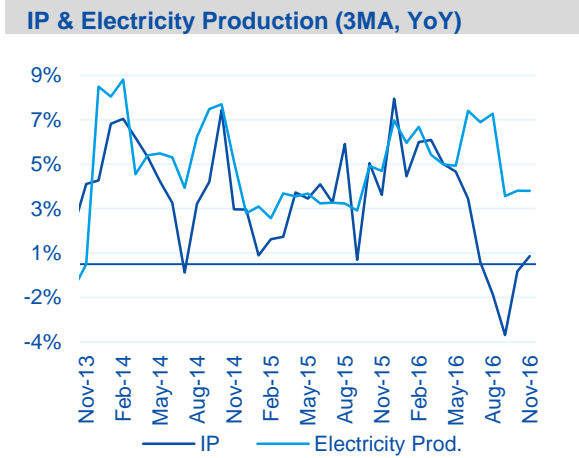
Confirming our view on growth outlook, the recovery in domestic demand continued to be only modest, mostly reflecting the brought-forward demand on the back of policy stimulus. Although ongoing recovery in exports to the EU would provide some support, our high frequency hard-data indicators suggest a slowdown in December. All in all, we still maintain our below consensus 2.3% GDP growth estimate for 2016 with the risks on the downside.

Figure 3



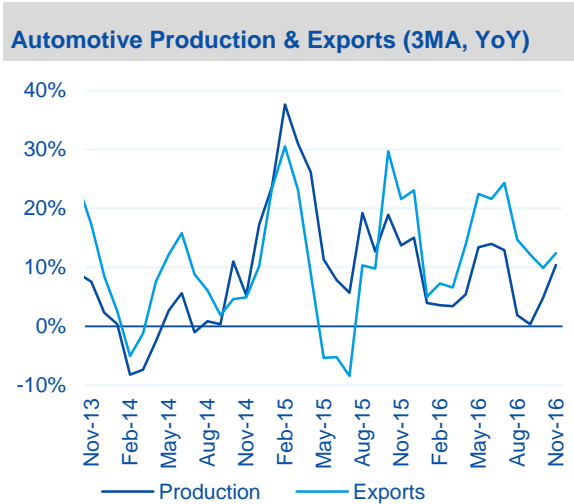
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 4



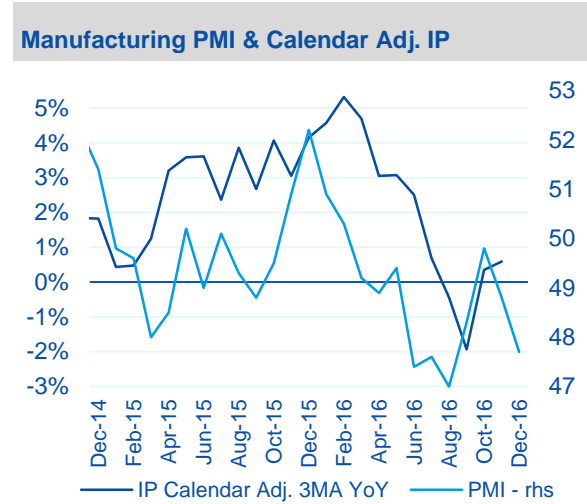
Source: Garanti Research, Turkstat, TETC

Figure 5



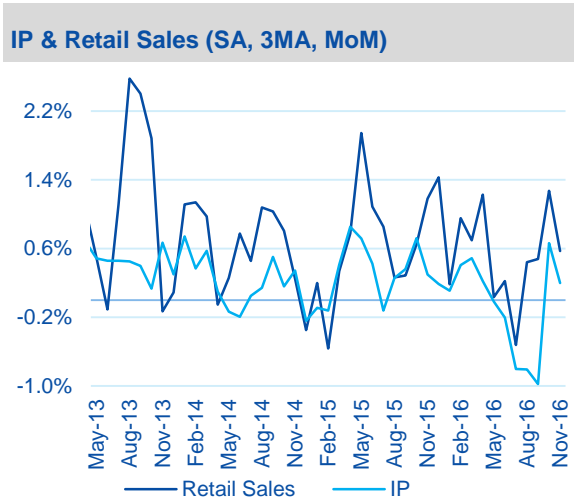
Source: Garanti Research, Turkstat, CBT, AMA

Figure 6



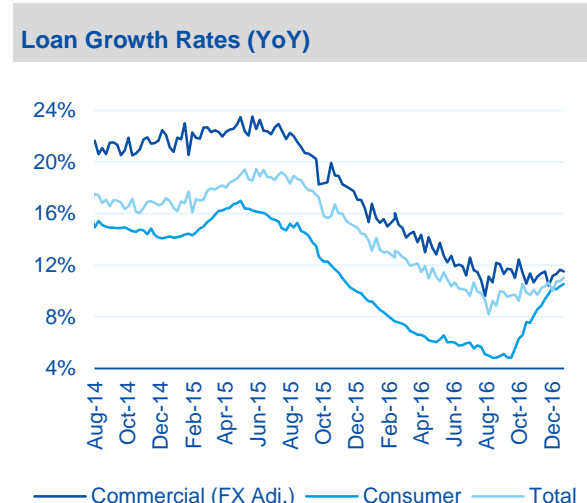
Source: Garanti Research, Turkstat, Markit Economics

Figure 7



Source: Garanti Research, Turkstat

Figure 8



Source: Garanti Research, Turkstat, CBT, BRSA

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