

ECONOMIC ACTIVITY PULSE

Turkey: A Modest and Uneven Growth in IP

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The economic recovery continues to be modest with the recent data leading our monthly GDP indicator to grow at 1.9% YoY in 4Q16. Industrial production (IP) grew by 1.3% YoY in December in calendar adjusted terms, lower than the consensus of 2.3%. The details of the release are less optimistic, signalling the continuum of the weakness in domestic demand. This is also confirmed by the 2.7% contraction in retail sales (ex-auto) during the same month. Overall, we observe an export and policy stimulus driven gradual pick-up in 4Q16 concentrated in a few sectors. Our 2016 growth forecast of 2.3% has risks on the downside.

Recovery is concentrated only in certain sectors

In unadjusted terms, IP grew by 1.2% YoY in December, resulting in a quarterly growth rate of 2.0% in 4Q16 after contracting 3.1% in 3Q16. The main sub-items with positive growth were consumer goods in non-durables, capital and energy goods; while intermediary goods pulled down the growth rate, signaling persistent weaknesses for the near future. In sectorial detail, the transportation equipment gave a total contribution of 1.9pp, followed by the pharmaceutical products (1.2pp), electricity (0.6pp) and food production (0.4pp) as the main positive contributors in December. The rest of the sectors barely made a contribution or contracted. On a quarterly basis for 4Q16 a similar argument is valid, implying an uneven gradual recovery on the back of exports. Going forward, solid export demand in January, mainly the automotive sector, will be the supporting factor for IP.

Figure 1

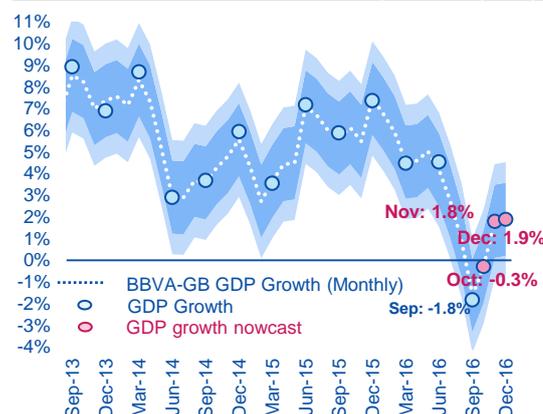
Activity Indicators* (3MA, YoY, SA)

Mean	2016								2017			
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan				
Industrial Production	3.7	3.0	0.1	-1.3	-3.1	-0.3	0.4	2.0				
Non-metal Mineral	1.5	0.4	-3.3	-1.5	-3.0	2.3	1.7	-0.9				
Electricity Production	4.1	6.9	6.4	6.8	3.1	3.3	3.3	5.3	6.4			
Auto Sales	4.2	2.5	-4.6	-13.4	-5.2	3.4	24.1	10.2	0.0			
Tourist Arrivals	-0.4	-35.6	-37.4	-38.3	-36.0	-33.1	-28.2	-21.3				
Number of Employed	3.7	2.7	1.8	1.2	1.3	1.4						
Number of Unemployed	4.3	4.2	8.2	11.6	13.2	14.6						
Auto Imports	7.0	2.6	-3.5	-9.7	-10.2	8.9	31.3	16.2				
Auto Exports	7.6	2.6	24.3	4.7	12.2	9.9	12.4	21.1				
Financial Conditions	76.0	86.7	91.2	88.4	88.6	92.5	80.1	73.6	56.3			
Credit Growth-13Week	12.5	5.3	5.2	4.7	4.5	4.8	4.0	4.3	4.0			
PMI Manufacturing	51.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7	48.7			
Real Sector Confidence	107.4	104.3	106.3	103.0	107.1	103.8	107.6	103.6	100.5			
MICA Forecast												
GDP YoY	4.5%				-1.8%		-0.3%		1.8%		1.9%	
	Contraction		Slow-down		Growth		Boom					

* 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

Garanti-BBVA Research Monthly GDP** (YoY)



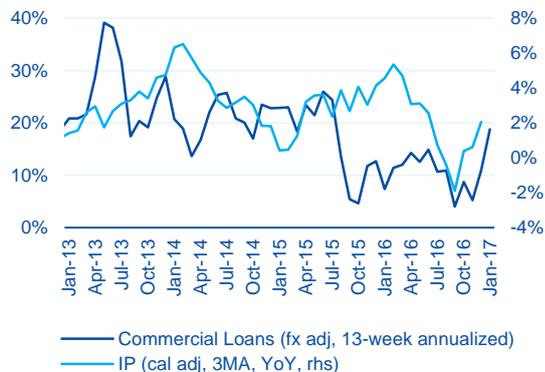
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Gradual activity recovery to continue in 1Q17

Domestic demand lacked a significant recovery in the final quarter of the last year. The recently announced tax cuts to boost durable goods demand and the employment campaign may provide some momentum in domestic consumption. However, ongoing financial tightening, political and geopolitical uncertainties will prevent a more solid pick-up. We forecast continuum of gradual recovery in the first half of the year activity to regain momentum in 2H with the favorable base effects. We forecast 2.5% GDP growth for the full year in 2017.

Figure 3

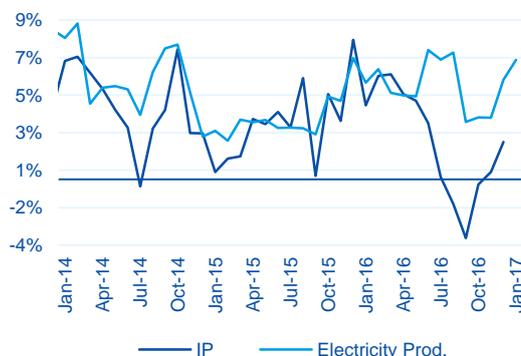
Loan Growth and IP



Source: Garanti Research, Turkstat, CBT, BRSA

Figure 4

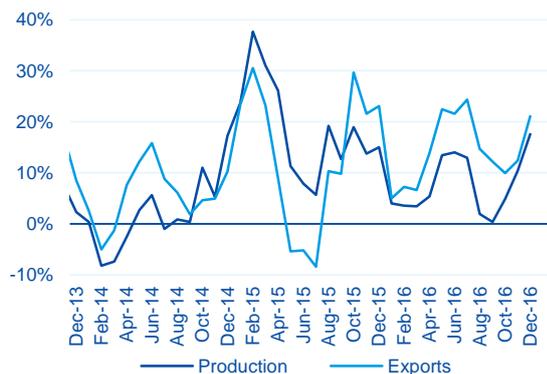
IP & Electricity Production (3MA, YoY)



Source: Garanti Research, Turkstat, TETC

Figure 5

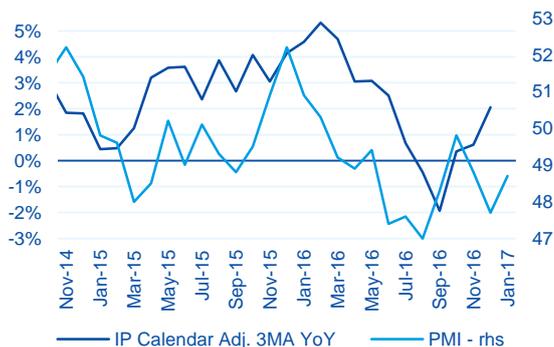
Automotive Production & Exports (3MA, YoY)



Source: Garanti Research, Turkstat, CBT, AMA

Figure 6

Manufacturing PMI & Calendar Adj. IP



Source: Garanti Research, Turkstat, Markit Economics

Figure 7

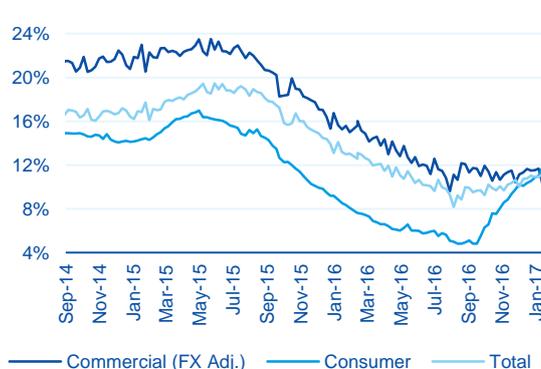
IP & Retail Sales (SA, 3MA, MoM)



Source: Garanti Research, Turkstat

Figure 8

Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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