

ECONOMIC ACTIVITY PULSE

# Turkey: Ongoing Economic Activity Recovery

Uğur N. Küçük / Seda Guler / Asuman Kemiksiz / Gizem Onen

Our monthly GDP indicator shows that economic activity continued to recover gradually in January (of 96% information). According to the soft data survey indicators the economic activity is gaining momentum in February (33% of info and still to be checked by hard data). Industrial production (IP) grew by 2.6% YoY in January in calendar adjusted terms, in line with our call but slightly higher than the consensus of 1.8%. Only certain sectors backed the IP growth, while a broad based recovery is still missing. Elsewhere, retail sales (ex-auto) contracted (1.9% YoY), signaling continuing weakness in consumption. Improving external demand supports exporting sectors, while domestic demand follows only a gradual pick-up.

## Industrial production shows that a broad based recovery is still missing

In unadjusted terms, IP grew by 4.2% YoY in January following a growth rate of 2% in 4Q16. Capital goods (mainly auto) and energy production continued to be the main contributors. Consumer goods production, mainly driven by the non-durables, remained only modest, while intermediary goods production continued to contract but with a lesser extent. In the sectorial detail, auto, computer & electronics and electricity production (2.1pp, 1.0pp, 0.9pp contributions) almost matched the overall IP growth rate. Looking ahead, February IP is growth is likely to be higher and thus confirming our monthly GDP acceleration. February manufacturing PMI increased to 49.7, the highest in 4 months, approaching to the 50 stabilization threshold level. Although domestic sales were weak, auto exports remained solid in February. Ongoing pick-up in commercial loans thanks to the Credit Guarantee Fund and other policy stimulus such as tax cuts on durable and white goods will remain supportive for the IP growth.

Figure 1

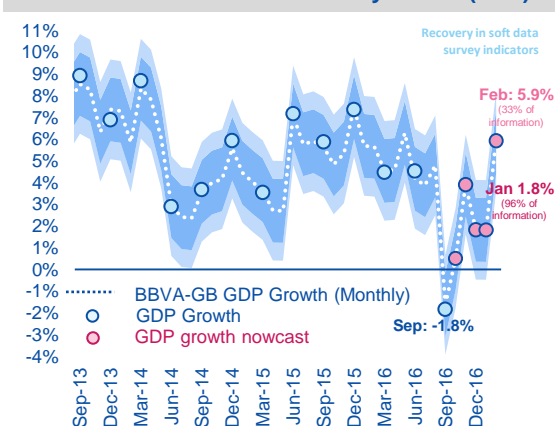
### Activity Indicators\* (3MA, YoY, SA)

Mean	2016								2017	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	3.6	3.0	0.1	-1.3	-3.1	-0.3	0.4	2.0	3.3	
Non-metal Mineral	14	0.4	-3.3	-1.5	-3.0	2.3	1.7	-1.0	-4.2	
Electricity Production	4.2	0.9	6.4	6.8	3.1	3.3	3.3	5.3	6.4	
Auto Sales	4.2	2.5	-4.6	-10.4	-6.2	3.4	24.1	10.2	6.4	
Tourist Arrivals	3.1	-36.2	-38.4	-38.8	-36.5	-32.9	-28.3	-22.8	-17.8	
Number of Employed	3.7	2.7	1.8	1.2	1.3	1.4	1.5			
Number of Unemployed	4.5	4.2	8.2	11.6	13.2	14.6	16.1			
Auto Imports	7.0	2.6	-3.5	-9.7	-10.2	8.9	7.3	16.2	10.9	
Auto Exports	6.9	2.16	24.3	14.7	12.2	-16.5	-10.6	-1.7	33.5	
Financial Conditions	75.4	86.7	91.2	88.4	88.6	92.5	80.1	73.6	59.0	
Credit Growth-13Week	12.5	15.3	16.2	14.7	14.5	14.8	14.0	14.3	14.0	
PMI Manufacturing	51.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7	49.7	
Real Sector Confidence	107.3	104.3	106.3	103.0	107.1	103.8	107.6	103.6	100.5	
MICA Forecast	4.5%		1.8%		0.5%		3.9%		1.8%	
GDP YoY	4.5%		1.8%		0.5%		3.9%		1.8%	

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2

### Garanti-BBVA Research Monthly GDP\*\* (YoY)



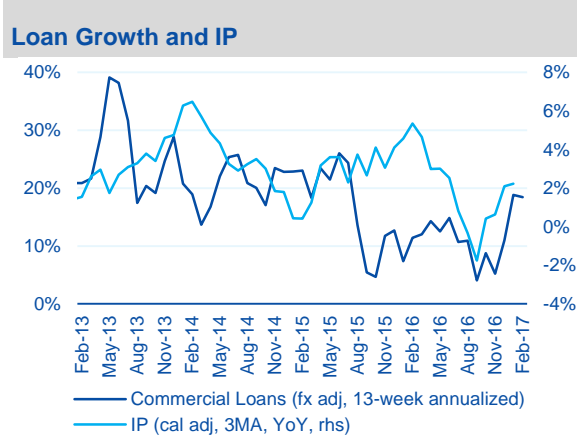
Series are non-calendar adjusted. \*\*Garanti-BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation was made in Turkey Economic Outlook 3Q2015.

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

## Gradual recovery to continue in 1H17, upside risks to our yearend forecast

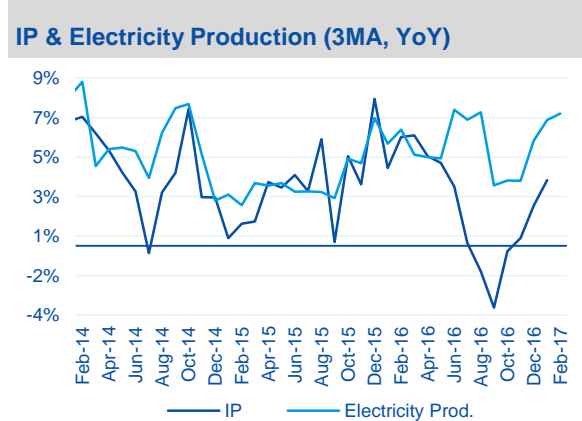
In January, economic activity continued to grow gradually but still concentrated in certain sectors, mostly thanks to fiscal stimulus and improving demand from the EU economy. **We expect gradual recovery to continue throughout 1H17 before gaining momentum in 2H17 considering the favorable base effect. We forecast 2017 growth rate at 2.5% but the risks to our forecast are now on the upside.**

Figure 3



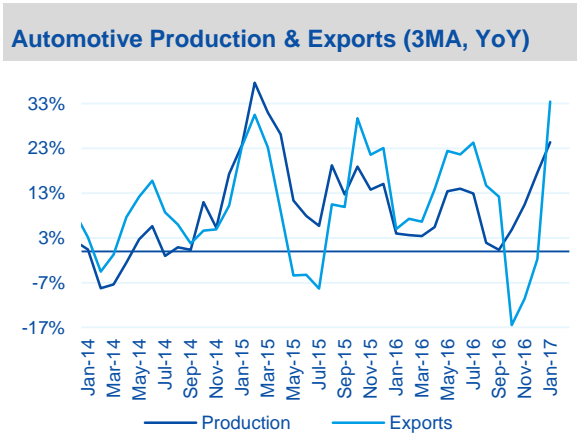
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 4



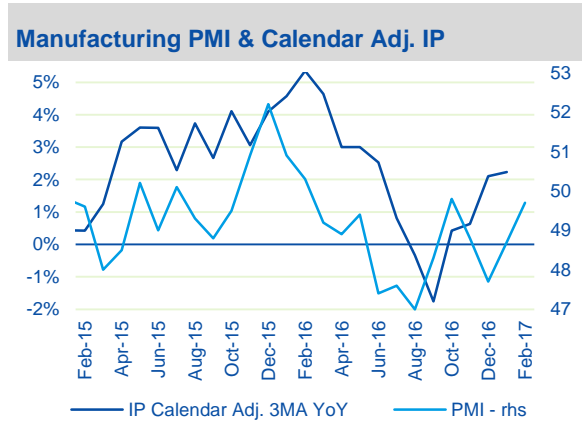
Source: Garanti Research, Turkstat, TETC

Figure 5



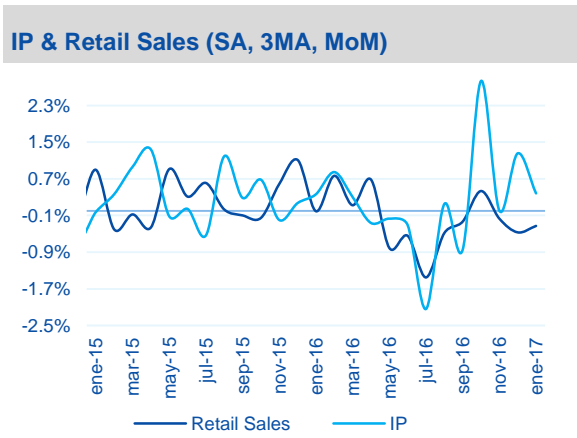
Source: Garanti Research, Turkstat, CBT, AMA

Figure 6



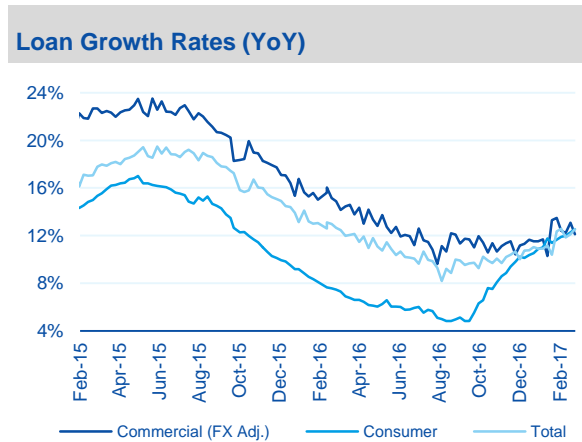
Source: Garanti Research, Turkstat, Markit Economics

Figure 7



Source: Garanti Research, Turkstat

Figure 8



Source: Garanti Research, Turkstat, CBT, BRSA

## DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.