

ECONOMIC ACTIVITY PULSE

Turkey: Hard Data Signals A Gradual Recovery

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Lower than expected growth in February industrial production (IP) has not confirmed the robust recovery in soft indicators so far in 2017 but still shows that the economy is gradually recovering toward its potential growth. The calendar adjusted IP grew by 1% YoY (consensus of 3% and BBVA-GB 4%). Elsewhere, retail sales continued its weak trend by contracting 4.4% in February. However, the monthly IP and retail sales tend to fall short of their respective items under new GDP series. Thus, despite weaker than expected hard data releases, we expect to see the continuum of economic recovery on the back of increased fiscal expansion and rapidly recovering credits. Our monthly GDP model (now in Bloomberg with the ticker GBTRGDY Index) signals a 4.5% YoY growth in 1Q17 (with 31% of information), posing upside risks on our 2.5% growth estimate for 2017.

Hard data recovery falls short of confidence indicators

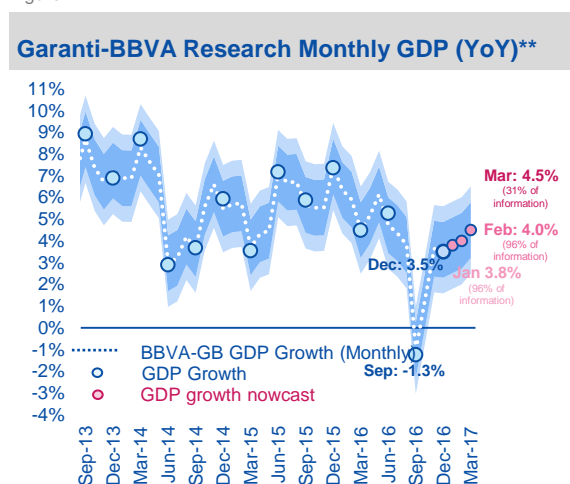
The moderation of IP comes basically from the capital goods and to a smaller extent nondurable goods. Energy and capital goods continued to give positive contributions by 1.2pp and 0.9pp, respectively; while consumer goods did not give contribution at all and intermediate goods kept contracting. In sectorial detail, the slow-down in food and auto production took the lead behind the deterioration in the manufacturing sector. If the auto production is excluded, IP contracted for the first time since September in calendar adjusted annual terms, which signals the uneven composition of the current economic recovery continues. Looking ahead, we expect IP growth to gain some pace in March as indicated by higher PMI and credit growth figures. Manufacturing PMI increased to above the stabilization threshold level and auto exports remained robust despite the ongoing contraction in domestic sales in March. The IP is likely to find support from the strong momentum in commercial loans due to the Treasury guaranteed Credit Guarantee Fund, the extended tax cuts on durable white goods and continuum of fiscal expansion.

Figure 1

Activity Indicators (3MA, YoY, SA)									
Mean	2016					2017			
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Industrial Production	3.6	-13	-3.1	-0.3	0.4	2.0	3.3	1.2	
Non-metal Mineral	13	-15	-3.0	2.3	1.7	-1.0	-4.2	-6.9	
Electricity Production	4.2	6.8	3.1	3.3	3.3	5.3	6.4	7.1	7.8
Auto Sales	3.9	-13.4	-6.2	3.4	24.1	10.2	6.4	-8.8	-8.7
Tourist Arrivals	17	-38.8	-36.5	-32.9	-28.3	-34.6	-45.5	-56.8	
Number of Employed	3.6	12	13	14	15	13			
Number of Unemployed	4.7	11.6	13.2	14.6	16.1	18.6			
Auto Imports	6.8	-9.7	-10.2	9.0	3.7	6.4	11.1	-8.1	
Auto Exports	7.2	14.7	12.2	-16.5	-10.6	-1.7	33.5	30.2	
Financial Conditions	75.0	88.4	88.6	92.5	80.1	73.6	59.0	42.8	38.3
Credit Growth-13Week	12.5	14.7	14.5	14.8	14.0	14.3	14.0	14.7	15.3
Retail Sales	4.1	-0.5	-0.8	0.3	-0.5	-1.8	-2.3	-3.2	
Real Sector Confidence	107.3	103.0	107.1	103.8	107.8	103.8	100.5	106.5	106.7
MICA Forecast GDP YoY									
		-1.3%			3.5%	3.8%	4.0%	4.5%	
		Contraction		Slow-down		Growth		Boom	

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2



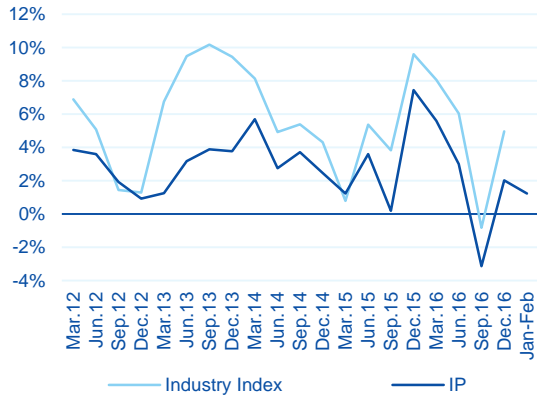
*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat
**Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

Economic recovery is on track despite weaker than expected IP growth

In February, IP somewhat moderated; however, we think the economic recovery is on track as to the lagged effects of policy stimulus and the improving exports demand from the EU are supporting. Our monthly GDP model signals a GDP growth of 4.5% in 1Q17 by March, which together with favorable stastical base effects in the second half of the year, pose upside risks to our 2.5% full year growth rate. We are in the process of revising our 2017 GDP growth on the upside.

Figure 3

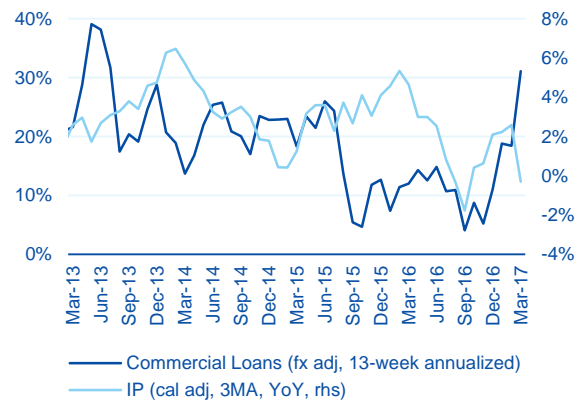
IP vs Industry component inside GDP YoY



Source: Garanti Research, Turkstat

Figure 4

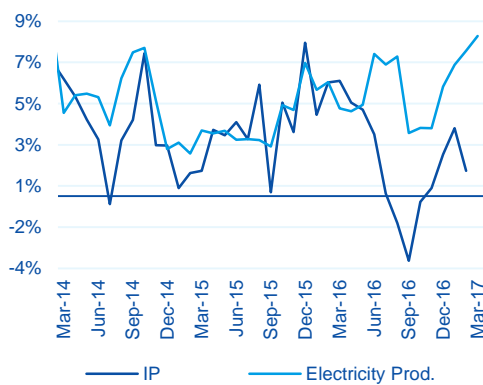
Loan Growth and IP



Source: Garanti Research, Turkstat, CBT, BRSA

Figure 5

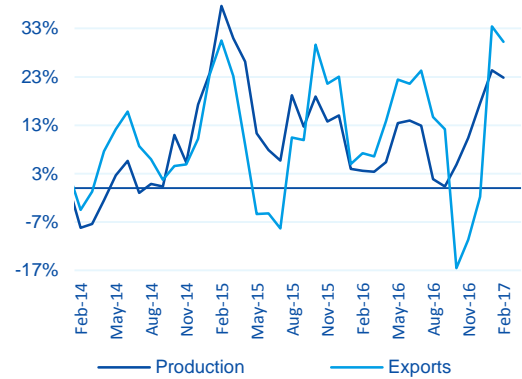
IP & Electricity Production (3MA, YoY)



Source: Garanti Research, Turkstat, TETC

Figure 6

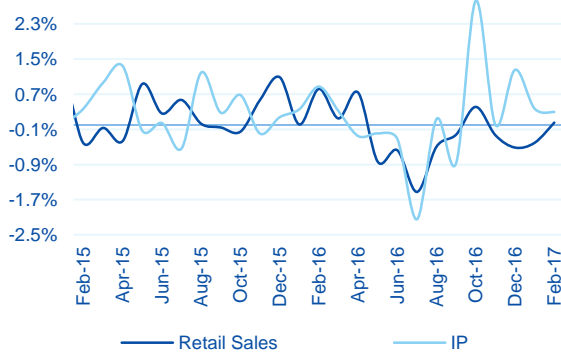
Automotive Prod. & Exports (3MA, YoY)



Source: Garanti Research, Turkstat, CBT, AMA

Figure 7

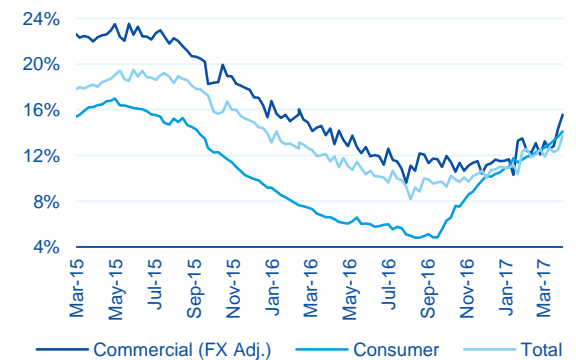
IP & Retail Sales (SA, 3MA, MoM)



Source: Garanti Research, Turkstat

Figure 8

Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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