

ECONOMIC ACTIVITY PULSE

Turkey: Activity beats expectations in 4Q17

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Industrial production (IP) grew by 8.7% yoy (cal. adj.) in December 2017 above the market call of near 7%. Hence, the moderation in IP proved to be limited with 7.8% annual growth in 4Q after 10.2% growth in 3Q. Our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts 7.2% yoy growth for 4Q, implying slightly higher than 7% GDP growth for the whole 2017. The normalization of credit growth and other policy stimulus are behind the growth moderation; though the inertia and preliminary indicators still support strong activity at the start of the year. We maintain our 2017 GDP growth estimate at 7% with risks on the upside while the economy may moderate towards near 4.5% in 2018.

Moderated but still strong growth performance in 4Q17

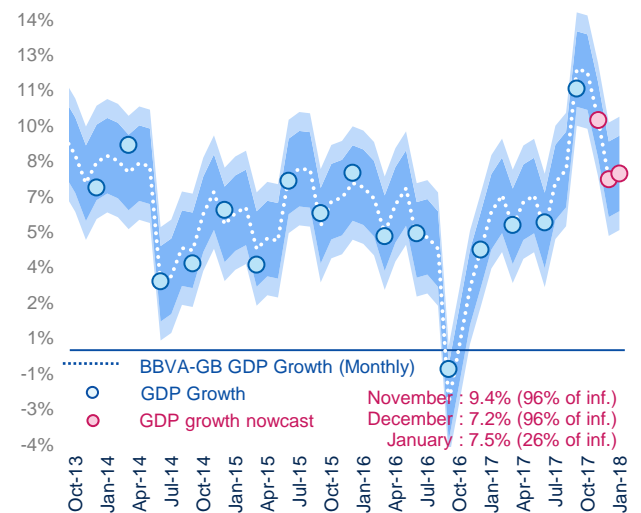
Despite the moderation in 4Q17, the continuation of high contributions from intermediate and capital goods production displayed a balanced growth path and further production prospect in the economy as the productive capacity will likely increase. Although durable consumer goods production weakened after the end of tax incentives, consumer goods production was still supportive as non-durable consumer goods production remained strong. In detail, the whole moderation stemmed from domestic demand oriented sectors, among which furniture production was the leading one, whereas the others only slightly slowed down in general. Exporting sectors kept its growth momentum on top of exchange rate depreciation and strong activity in the global economy, especially the EU. Solid retail sales in December, the strongest manufacturing PMI since March 2011, still high level of electricity production and relatively better economic sentiment indicators in January imply the continuum of strong economic growth. All in all, GDP growth will moderate in 2018 but the economy will still be able to grow close to its potential level.

Figure 1 Activity Indicators (3MA, YoY, SA)

Mean	2017							
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Industrial Production	3.9	2.3	7.8	7.8	13.9	8.7	9.7	7.5
Non-metal Mineral	-0.7	0.8	8.1	8.4	14.2	7.7	8.7	10.9
Electricity Production	3.2	4.5	8.4	8.5	12.2	9.5	9.7	6.5
Auto Sales	0.7	-9.7	2.4	7.1	14.6	6.2	-2.2	-16.2
Tourist Arrivals	6.2	26.5	36.5	45.5	45.3	38.2	31.0	24.4
Number of Employed	3.8	10.5	6.1	1.5	-0.8	-5.1		
Number of Unemployed	2.9	2.7	3.5	4.3	4.5	4.8		
Auto Imports	4.2	-14.4	-6.7	-3.4	3.1	-0.8	-8.4	-18.0
Auto Exports	10.1	24.0	23.2	9.8	6.4	1.8	-2.9	0.5
Financial Conditions	75.7	35.6	40.5	35.4	38.9	38.7	38.0	37.6
Commercial Int. Rate	13.8	16.3	17.0	16.2	16.6	16.5	16.5	17.1
Retail Sales	3.6	0.8	1.8	2.0	1.5	1.3	1.9	4.0
Real Sector Confidence	106.1	108.8	107.7	110.2	111.2	112.2	109.8	109.2
MICA Forecast						9.7%	7.2%	7.5%
GDP YoY		5.4%		11.1%				

Contraction Slow-down Growth Boom

Figure 2 Garanti-BBVA Research Monthly GDP (3MA, YoY)*



Source: *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

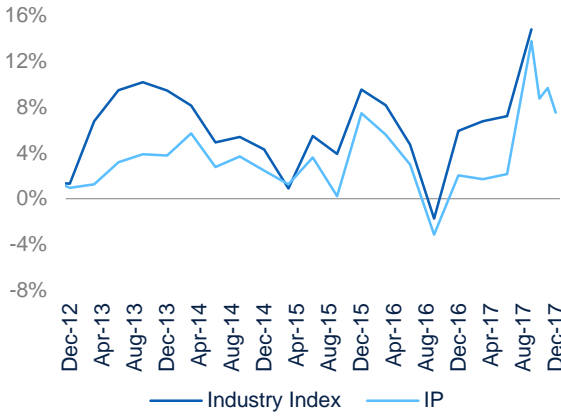
Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

GDP to grow 7.0% in 2017 and normalize towards 4.5% in 2018

Economic activity remained robust at the end of 2017 will probably stay strong at the beginning of this year. Inertia on growth will be high in the first and second quarters, while the negative base impact on the second half of the year might be compensated by the remaining allocations and the partial roll-overs of the Credit Guarantee Fund (CGF), and other policy stimulus. We maintain our 7% GDP growth for 2017 with some upside risks. Economic activity will likely moderate towards 4.5% this year.

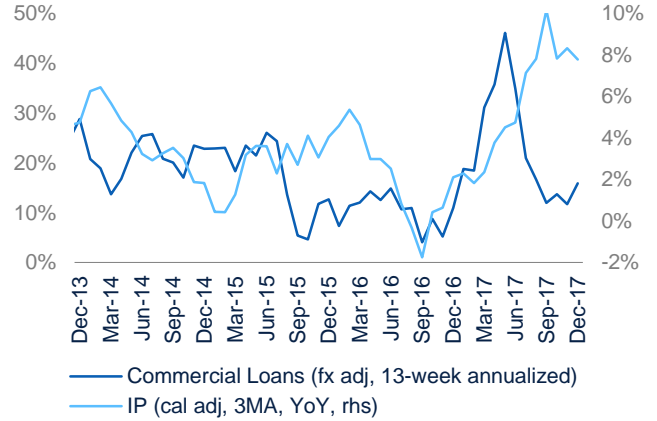
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Figure 3 IP vs Industry component in GDP (3MA, YoY)



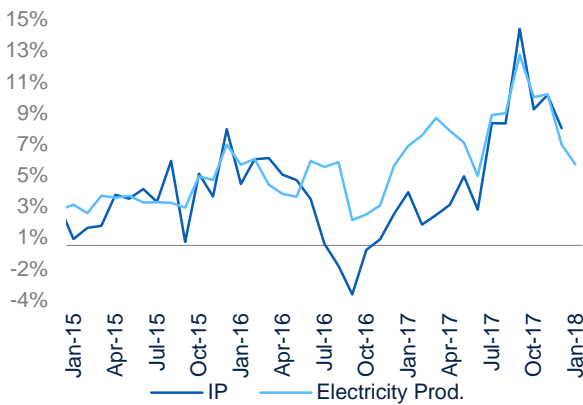
Source: Garanti Research, Turkstat

Figure 4 Loan Growth and IP



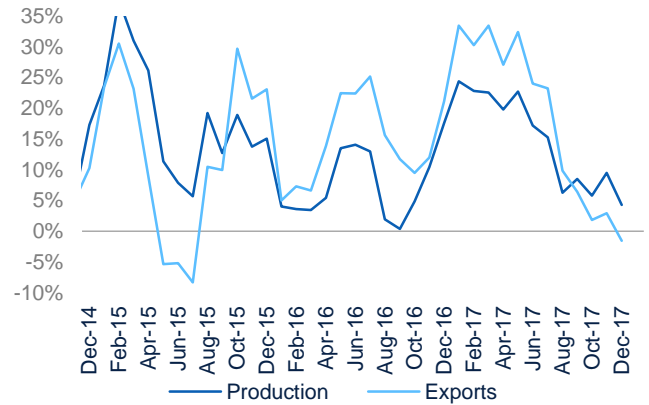
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 5 IP & Electricity Production (3MA, YoY)



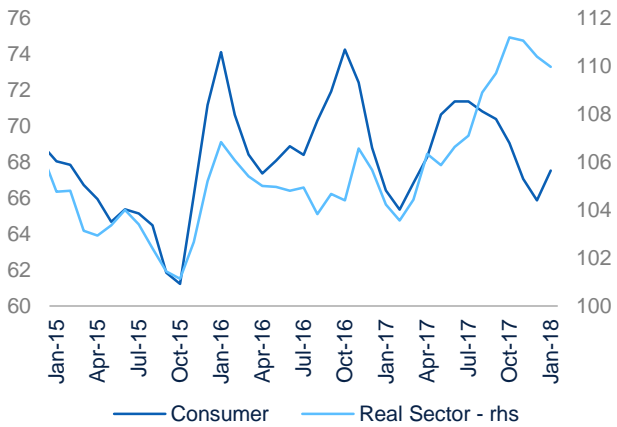
Source: Garanti Research, Turkstat, TETC

Figure 6 Automotive Prod. & Exports (3MA, YoY)



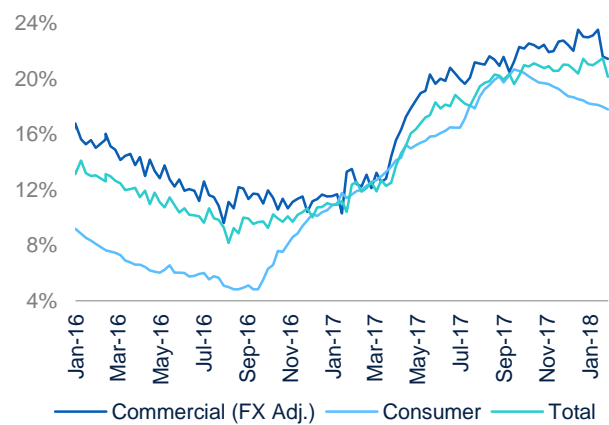
Source: Garanti Research, Turkstat, CBT, AMA

Figure 7 Consumer and Real Sector Confidence (3MA)



Source: Garanti Research, CBT & Turkstat

Figure 8 Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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