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Turkey: Revised IP series better fits GDP

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Industrial production (IP) grew by 12% yoy (cal. adj.) in January (up from 10.7% in 4Q17) above the market cosensus of around 7%. IP data is revised with 2015 as the new base year. The new IP portraits a higher correlation (94%) with the new GDP series revised in 2016 due to the methodological changes and a higher growth performance after 2010 (2.5pp on average). January IP confirms preliminary indicators signalling strong activity at the start of the year (0.9% QoQ in seasonal adjusted terms). Our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts close to 6% yoy growth for 1Q as of February (with 26% info). We maintain our 2018 GDP growth estimate at 4.5%. While actual data and policy impulses put some upside risks, the tightening financial conditions lead us to maintain our current GDP growth forecast.

Limited mooderation in January's Industrial Production

The updated IP series is calculated by the chained Laspeyres method as in the new national accounts, where the sectorial weights will also be revised annually, bringing a dynamic structure to the methodology. The new series based on administrative records rather than surveys and the real value of production instead of volumes are now more consistent with the revised national accounts. The share of the manufacturing increased to 89% from 82% (with a compensation from electricity sector, please see Figure 4). In the details of January IP, the recovery in intermediate goods production signals further production growth in the coming period, while the moderation coming from energy and capital goods production confirms the high inertia in the activity. Looking ahead, decelerating electricity production and normalizing credit growth indicate the expected moderation is now on the way despite the strongest manufacturing PMI levels since March 2011 and relatively better economic sentiment indicators. Continuing impulses from the fiscal policy could be an upside risk factor on growth, but we think that tightening financial conditions both internally and externally might well offset the upward pressures.

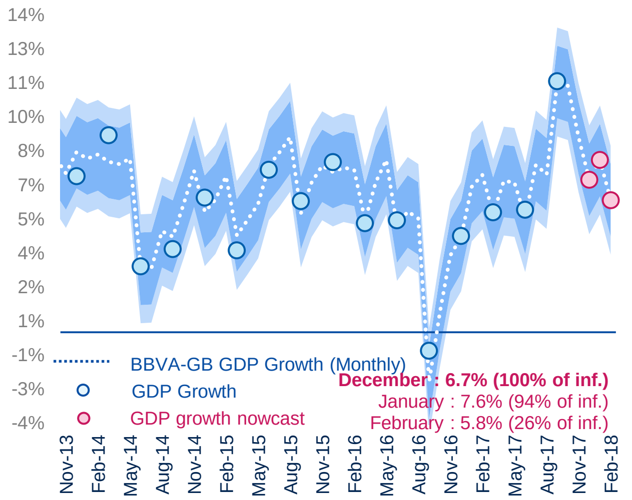
Figure 1 Activity Indicators (3MA, YoY, SA)

		2017						2018	
	Mean	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial Production	5.3	8.5	10.0	12.5	10.8	11.1	11.4	12.1	
Non-metal Mineral	4.9	10.4	12.7	14.5	12.6	12.9	17.8	23.2	
Electricity Production	18	8.4	8.5	12.2	9.5	9.7	6.5	5.2	3.4
Auto Sales	3.4	2.4	7.1	14.6	6.2	-2.2	-4.2	-7.8	
Tourist Arrivals	6.5	36.5	45.5	45.3	38.2	31.0	24.4	29.8	
Number of Employed	6.0	3.5	4.3	4.6	4.8	5.0	5.4		
Number of Unemployed	0.3	6.1	15	-0.8	-5.2	-8.3	-12.1		
Auto Imports	3.2	-6.7	-3.4	3.1	-0.8	-8.4	-9.3	-12.5	
Auto Exports	9.8	23.2	9.8	6.4	18	2.9	-16	-7.0	
Financial Conditions	75.3	40.5	35.4	38.9	38.7	38.0	37.7	37.4	40.8
Commercial Int. Rate	13.8	17.0	16.2	16.6	16.5	16.5	17.1	17.2	17.7
Retail Sales	3.6	1.9	2.1	1.5	1.3	2.1	3.9		
Real Sector Confidence	106.2	107.7	110.2	111.2	112.2	109.8	109.2	110.9	110.8
MICA Forecast							6.7%	7.6%	5.8%
GDP YoY				11.1%					

	Contraction	Slow-down	Growth	Boom

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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 GBTRGDPY Index

We expect GDP to normalize towards 4.5% this year

The GDP growth may remain strong in the first half of the year on current high inertia, while negative base effects in the second half of the year could be offset by some policy impulses including remaining allocations and roll-overs of the Credit Guarantee Fund (CGF). This could be balanced with the negative effects from tighter financial conditions. Thus, we maintain our expectation of 4.5% GDP growth after near 7% growth in 2017.

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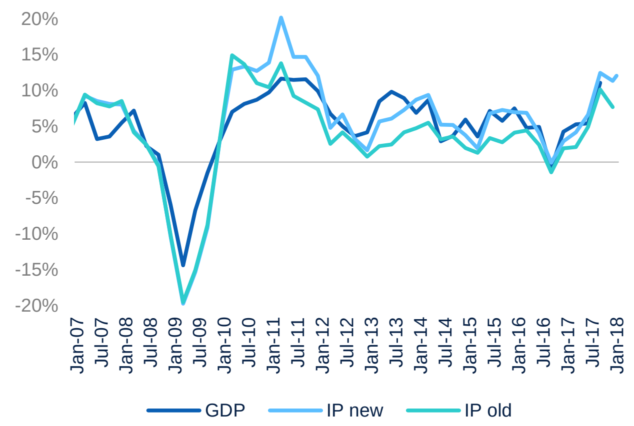
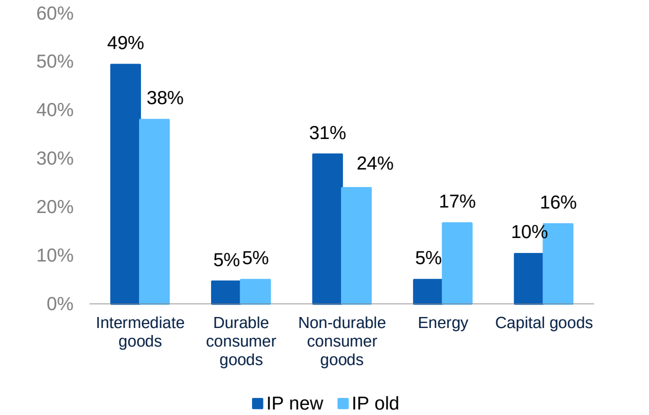
Figure 3 IP new vs IP old and GDP growth (3MA, YoY)



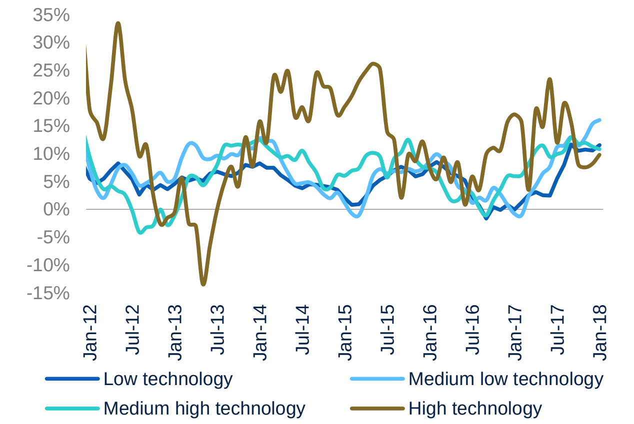
"Source: Garanti Research, Turkstat

Figure 4 Shares of main sub-sectors in IP (new vs old, %)



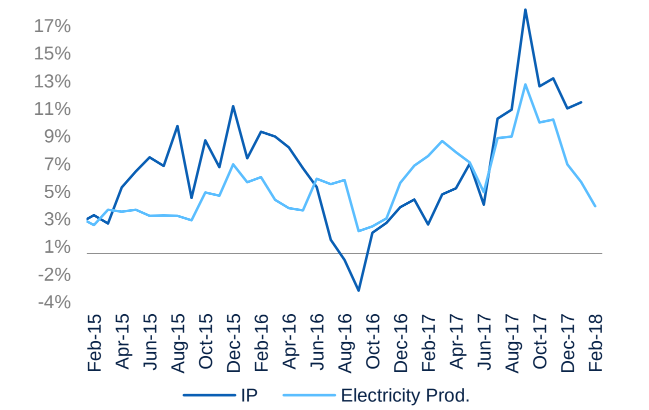
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 5 IP Growth- Technology Groups (3MA, YoY)



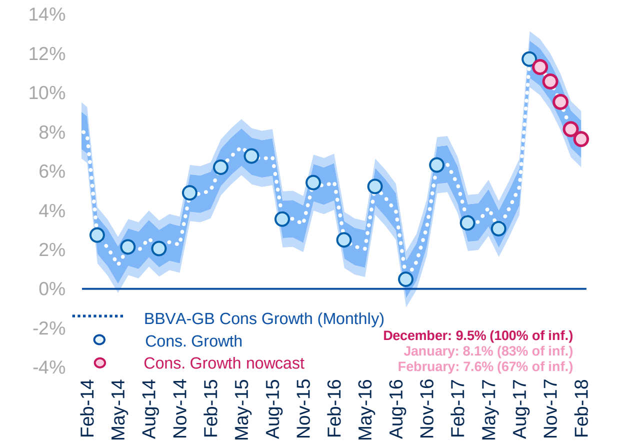
Source: Garanti Research, Turkstat, TETC

Figure 6 IP & Electricity Production (3MA, YoY)



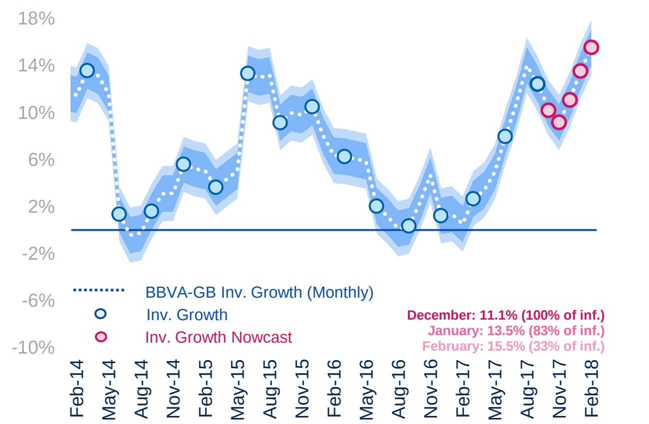
Source: Garanti Research, Turkstat, CBT, AMA

Figure 7 Monthly Consumption Nowcast (3MA)



Source: Garanti Research

Figure 8 Monthly Investment Nowcast (3MA)



Source: Garanti Research

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