

Economic Watch

Turkey: Downside surprise in Industrial Production (IP)

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Industrial Production (IP) surprised on the downside by falling 9.8% yoy in calendar adjusted terms in December (-8.4% BBVA Research vs. -7.5% Consensus). Thus, IP contracted by 7.5% in 4Q18 after its 1.6% growth in 3Q18. With this, our monthly GDP indicator (GBTRGDPY Index at Bloomberg) nowcasts a contraction of 2.1% yoy growth in December (with 96% info), which will bring the whole year GDP growth to slightly below 3% for 2018 (official data to be released on the 11th of March). The analysis of activity indicators show contradictory signals. In one hand, still negative intermediate goods production together with the broad-based worsening (despite the extension of tax incentives) signal further deterioration in the coming months, as confirmed by our nowcasting figures for January. Though, recent slow-down in credit correction and additional impulses could be supportive with a lag; while the loss of steam in exporting sectors could be a risk factor, given the continuation of sizable fall in intermediate goods imports and likely lower demand from Europe. All in all, we maintain our view that the recovery in economic activity could start as of 2Q19 and bring the whole year GDP growth rate to 1% in 2019.

Faster than expected activity adjustment in December

The monthly decline of 1.4% in IP (sca) revealed an additional broad-based worsening. Ongoing sharp fall in intermediate and capital goods production underpinned the concern on near-future production as the contraction accelerated to 11.7% and 7.2% yoy in 4Q18 from 1% and 0.6% yoy in 3Q18, respectively. In sectorial details, sizable worsening in manufacturing sector weighed on the general index, while especially other transportation (mainly defense equipment) production continued to prevent a further reduction in 4Q18. Our nowcasting demand subcomponents (see graphs 6-8) show that domestic demand continues to shrink especially on the investment side, while as of January some stabilization in consumption is observed thanks to the recent impulses. On the other hand, downside risks on the contribution of net exports are increasing as the economic activity in Europe is expected to decelerate further. Still deteriorating electricity production, weak confidence indices, ongoing retreatment in intermediate goods imports and diminishing effect of tax incentives weigh on activity, while recent supportive loan schemes to SMEs, households and retailers could be the buffers against further deterioration.

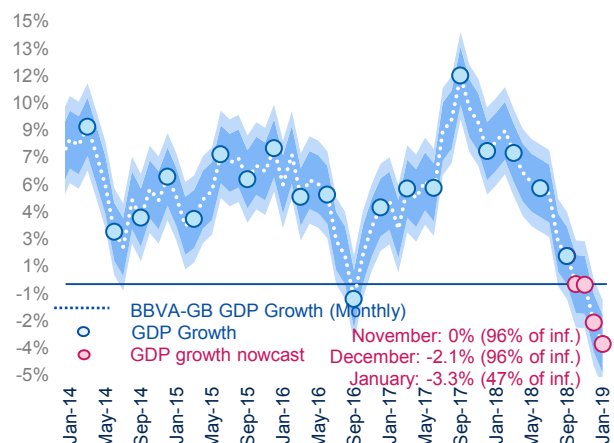
Chart 1 Activity Indicators (3MA, YoY)*

Mean	2018							2019
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Industrial Production	7.5	5.0	6.0	-0.2	0.6	-3.6	-2.3	-7.0
Non-metal Mineral Production	7.1	3.1	2.8	-4.8	-4.0	-10.7	-11.4	-19.5
Electricity Production	4.7	0.9	0.9	-0.4	0.2	-12	-0.9	-18
Auto Sales	5.2	-20.0	-29.6	-42.1	-51.5	-66.5	-61.2	-52.4
Tourist Arrivals	5.9	28.3	21.0	17.7	14.7	13.8	20.5	20.8
Number of Employed	3.9	2.5	2.1	1.9	1.5	1.1		
Number of Unemployed	1.7	-2.3	0.6	4.1	6.7	10.9		
Auto Imports	6.8	-21.2	-35.3	-50.9	-59.3	-69.9	-61.0	-53.0
Auto Exports	9.1	37.3	24.3	9.5	5.3	4.8	10.9	19
Retail Sales	6.0	5.8	4.5	1.8	0.0	-3.5	-4.8	-5.5
Manufacturing PMI	51.2	48.4	49.6	46.4	42.7	44.3	44.7	44.2
Total Loans growth 13-week	13.4	14.1	8.9	12	-4.3	-8.8	-9.6	-9.7
Real Sector Confidence	106.1	104.6	102.7	96.4	89.6	87.6	92.8	915
MICA Forecast GDP YoY							0.0%	-2.1%
								-3.3%

Contraction Slow-down Growth Boom

Source: BBVA Research Turkey Monthly GDP Model, Turkstat *Mean from 2010 now onwards

Chart 2 BBVA Research Turkey Monthly GDP (3MA, YoY)*



*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

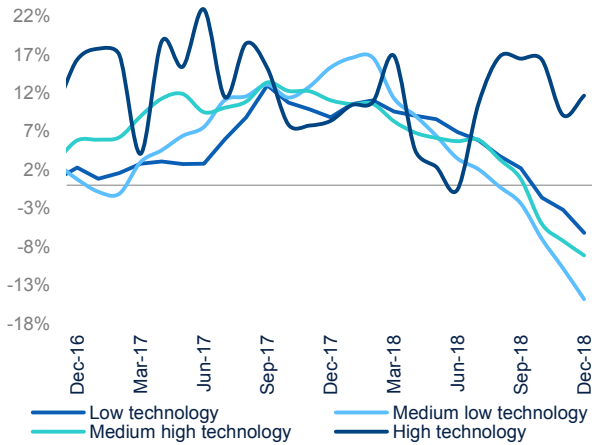
Recent impulses could be supportive in the short term

The maintenance of sharp contraction in IP despite the extension of tax incentives, and poorer performance of exporting sectors could be the downside risks on growth. On the other hand, higher-than-expected minimum wage hike, recent supportive loan restructuring facilities and the slow-down in credit correction could provide some buffer with a lag. We expect GDP growth to decelerate further to 1% in 2019, assuming the recovery could start as of 2Q.

Creating Opportunities

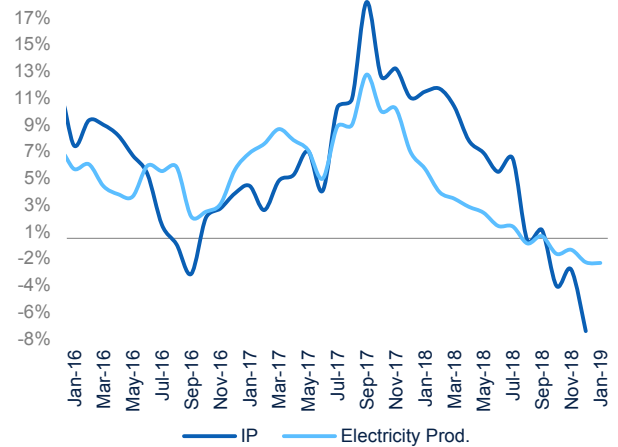
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Chart 3 IP Growth- Technology Groups (3MA, YoY)



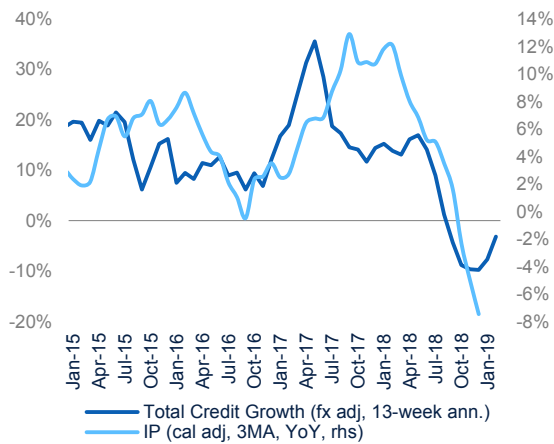
Source: BBVA Research Turkey, Turkstat

Chart 4 IP & Electricity Production (3MA, YoY)



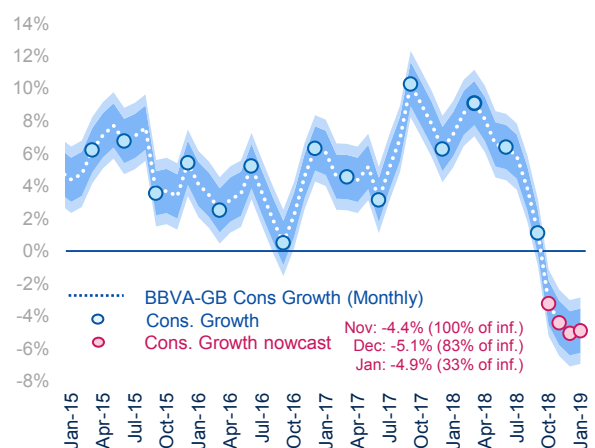
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 IP & Credit Growth (3MA, YoY)



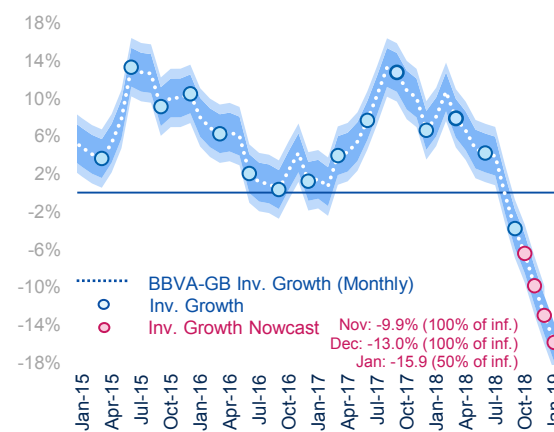
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



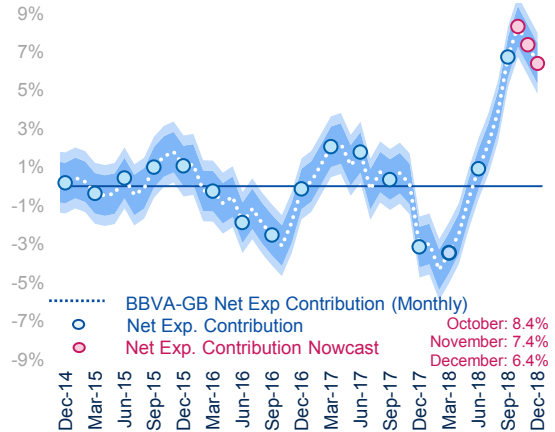
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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