

Turkey: IP confirms the expected recovery in 4Q19

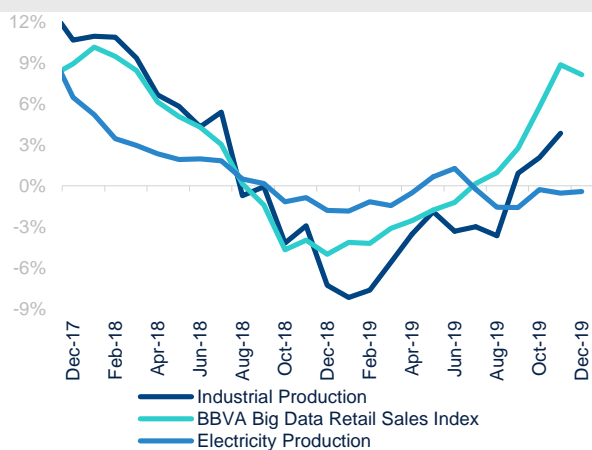
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Industrial Production (IP) increased by 5.1% yoy in calendar adjusted terms, parallel to the market expectation of 5.5% in November. Thus, IP grew by 4.5% yoy in October-November period, signaling an acceleration path for the IP in 4Q19 after its yearly contraction of 0.4% in 3Q19. As several high frequency indicators (both hard and soft data) and our BigData indices already indicated, GDP growth in 4Q19 could converge to its potential, which will also be supported by a sizable base impact. Consumption growth now backs the recent pick-up, while investment expenditures are also stabilizing with a change in growth composition as net exports start to drag down the overall growth. Our monthly GDP indicator (GBTRGDPY Index in Bloomberg) nowcasts a growth rate of 3.6% yoy for the 4Q (47% of info), which we expect to accelerate further with the incoming information for December. We expect GDP growth in 4Q19 at around 5%, implying 0.8% growth in 2019. Our baseline forecast for 2020 GDP growth remains at 4%.

The change in growth composition in favor of domestic demand

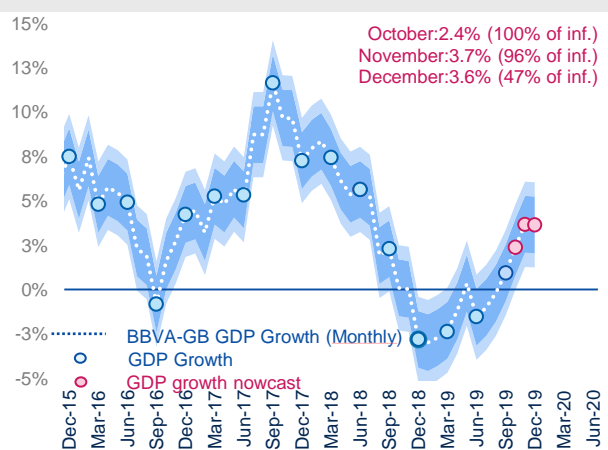
The monthly increase in IP was mostly supported by the intermediate and capital goods production, which is a good signal for further recovery in IP in the near future. Consumer goods production also gives a positive contribution, led by the non-durable goods, while energy goods production subtracts from growth. In sectorial detail, manufacturing sector backs the overall growth, which was led by clothing, textile, petroleum and pharmaceuticals (2.4pp contribution to 3-month average annual growth rate of 4.2%). Lagged impact of looser financial conditions, stabilized currency, additional credit impulses and sizable base effects are the pushing factors for the recent pick-up in economic activity as high frequency indicators such as our Big Data Retail Sales Indicator (GBTRRTIY Index in Bloomberg), electricity and auto production, capacity utilization and confidence indices all recovered in 4Q19. Our monthly GDP indicator confirms this trend as it shows 3.7% yoy GDP growth as of November with 96% of information, which will likely accelerate further with additional info from December. Our demand subcomponents nowcasts (see charts 6-8) also signal the acceleration in domestic demand as of December, with sizable support from consumption, while investment expenditures stabilize with a lag as expected. On the other hand, there is an increasing negative contribution from net exports, cumulating at around 3pp for 4Q19. The lagged impact of the recovery will support the stabilization of the labor market, estimated by our unemployment nowcasting model (chart 5).

Chart 1. BigData and HF indicators (%yoy, 3M Avg)



Source: BBVA Research Turkey, Turkstat

Chart 2. BBVA Research Monthly GDP (%yoy, 3M Avg)*

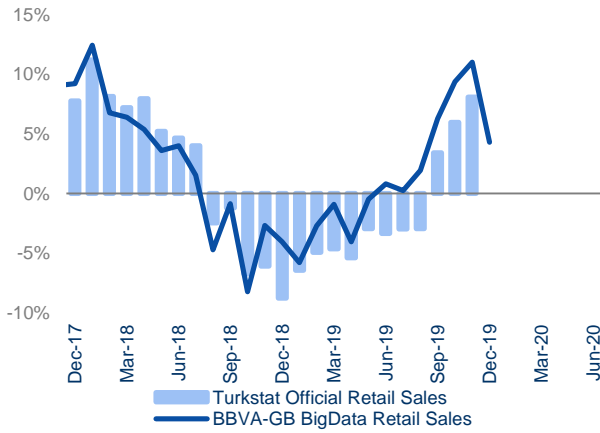


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

The recovery in domestic demand requires prudent policies against imbalances

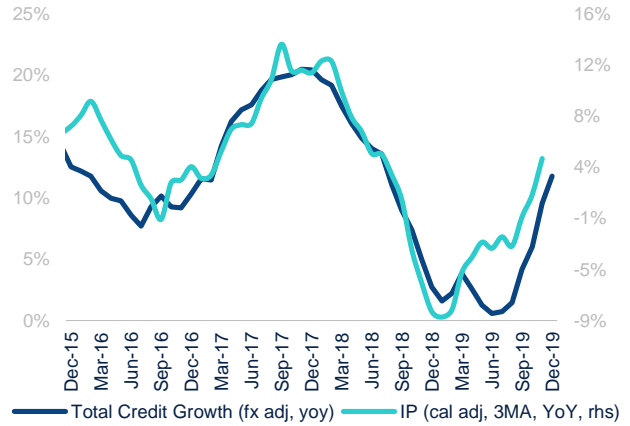
Lagged effects of the rapid front-loaded monetary easing, favorable global financial conditions supporting a stabilized currency, recent credit impulses and positive base effects will prompt growth rates close to the potential in the coming quarters. However, complacency should be ruled out as the potential for macro imbalances require prudent policies in order to avoid overheating of the economy again. We expect GDP growth to be 0.8% in 2019 and accelerate further to 4% in 2020.

Chart 3. **BBVA-GB Big Data Retail Sales index (yoy)**



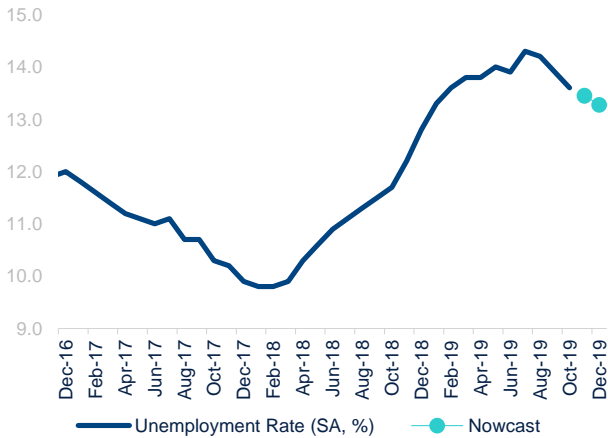
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **Ind. Production & Credit (3ma & fx-adj yoy)**



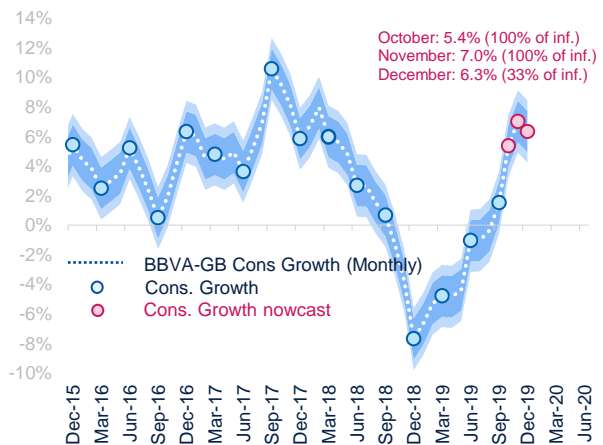
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Unemployment Nowcast Google Big Data (%)**



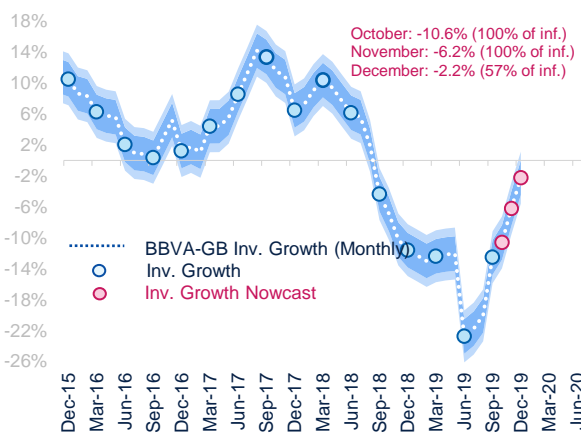
Source: BBVA Research Turkey,

Chart 6. **BBVA Monthly Consumption Nowcast(3m yoy)**



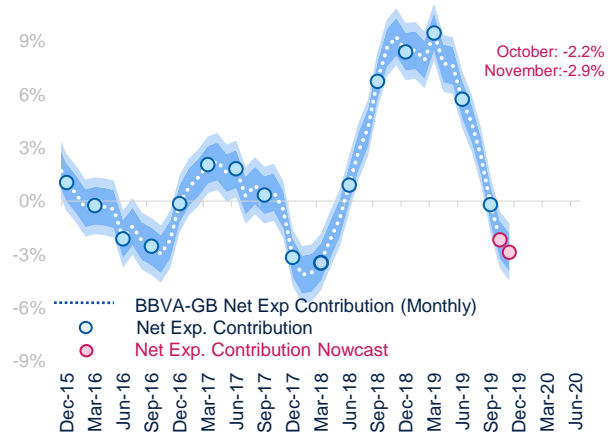
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

Chart 7. **BBVA Monthly Investment Nowcast (3m yoy)**



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Chart 8. **BBVA Monthly Net Exports (contribution, %)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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