

# Turkey: December IP surprised on the upside

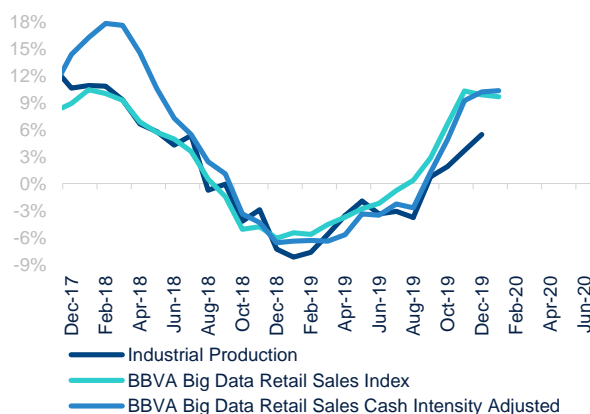
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Industrial Production (IP) grew by 8.6% yoy in calendar adjusted terms, surprising expectations on the upside in December (7% BBVA Research vs. 6.6% market median). Thus, IP growth accelerated to 5.8% yoy in 4Q19 after its yearly contraction of 0.5% in 3Q19. On the other hand, retail sales jumped by 11% yoy in December, higher than our Big Data Retail Sales Index indicated, leading the 4Q19 growth to be materialized at 9.9% up from -0.3% in 3Q19. Our monthly GDP indicator (GBTRGDPY Index in Bloomberg) nowcasts a growth rate of 4.8% yoy in 4Q19 (96% of info) with an acceleration to 6% (32% of info) in January. As several high frequency indicators (both hard and soft data) already indicated, lagged effects of policy impulses will likely accelerate the economic activity at the start of the year, which will also be supported by a sizable base impact. Though, thereafter some stabilization could also be observed as the base effects will start to diminish. All in all, current momentum in activity signals a growth rate still close to 5% in 1Q20, which is in line with our 2020 GDP growth estimate at 4%.

## Recovering momentum at the start of the year with some stabilization thereafter

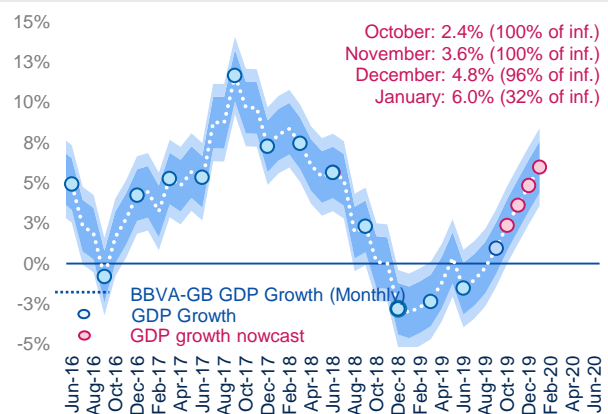
The recovery in IP gained momentum and was mostly broad-based as the monthly increase in IP (sca) was 1.9%, higher than the level of 0.6% in November. The acceleration mainly stemmed from the intermediate goods production, which should be promising for further production. Consumer goods production also underpinned the upsurge mainly on top of durable goods, while capital goods maintained its contribution. In sectorial detail, despite the positive contribution from all main sub-sectors, sharp recovery in manufacturing sector mainly supported the overall growth. The lagged impact of looser financial conditions, credit impulses and favorable base effects will continue to underpin economic activity in 1Q20. High frequency indicators such as our Big Data Retail Sales Indicator (GBTRRTIY Index in Bloomberg), electricity and auto production, credit growth momentum and confidence indices confirm this trend in January. Our monthly GDP indicator currently mimics the same expected pattern as it shows an acceleration to 6% annual growth in January. Our demand subcomponents nowcasts (Charts 6-7) also show that private consumption maintains the highest contribution to domestic demand, while investment expenditures continue to recover but remain in negative territory. On the other hand, negative contribution from net exports stabilizes at around 3pp for 4Q19 (Chart 8). The lagged impact of the recent recovery will also lead further improvement in employment as our Unemployment Rate Nowcasting Model (Chart 5) forecasts a decline to 12.9% as of January.

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



Source: BBVA Research Turkey, Turkstat

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

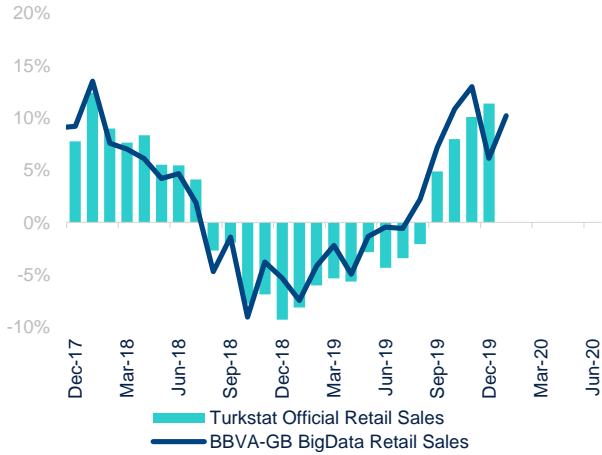


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

## Keeping the current growth momentum will rely on prudent policies

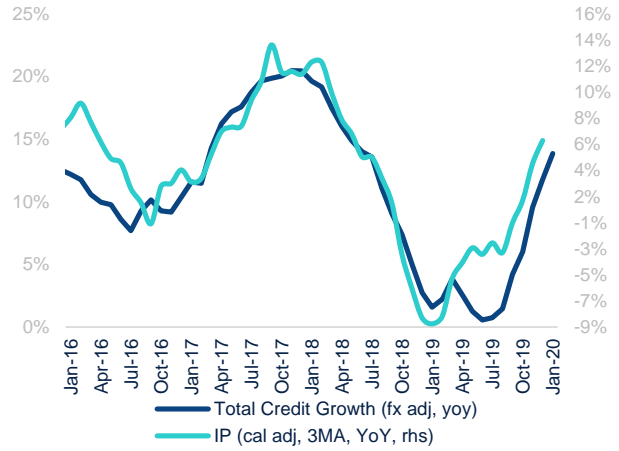
2019 GDP growth will likely be materialized at above 0.5% (to be announced on 28 Feb). Lagged effects of looser financial conditions with the support of a relatively stabilized currency, credit impulses and base effects will likely keep the growth rate close to the potential in the first half of the year. Our monthly GDP indicators show some signals of stabilization on demand side as of January. Prudence should be preserved to acquire sustainable growth levels, with also contribution from investment. We maintain our 2020 GDP growth estimate at 4%.

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



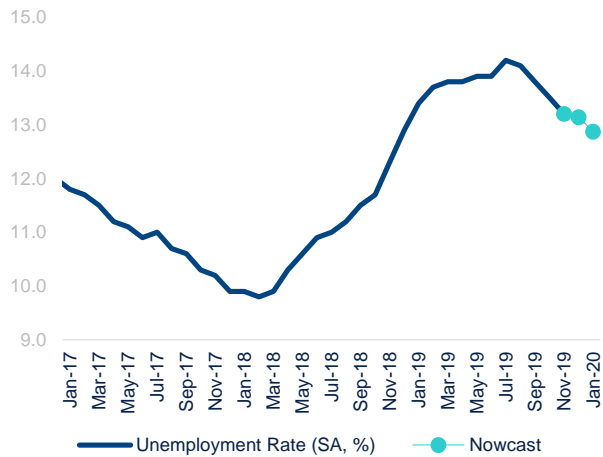
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

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



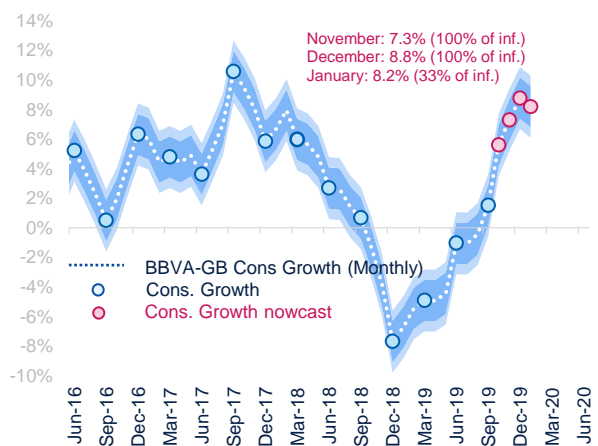
Source: BBVA-Research Turkey, Turkstat, TETC

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



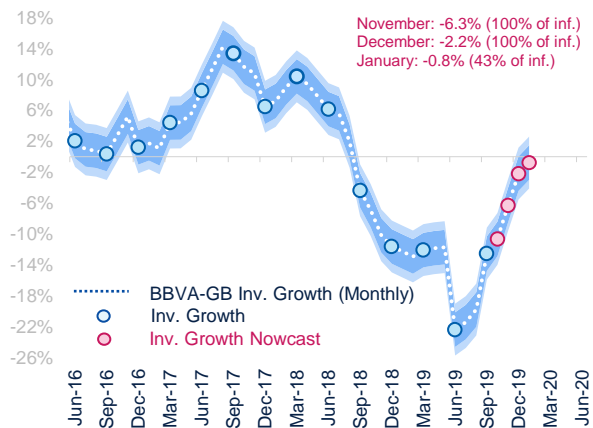
Source: BBVA Research Turkey,

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



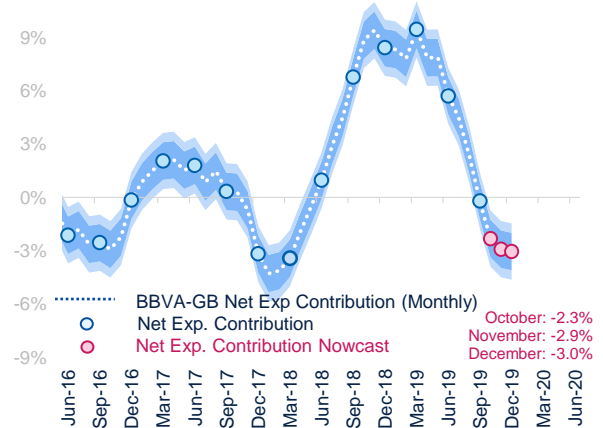
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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