

Turkey: Strong industrial production...before CVirus

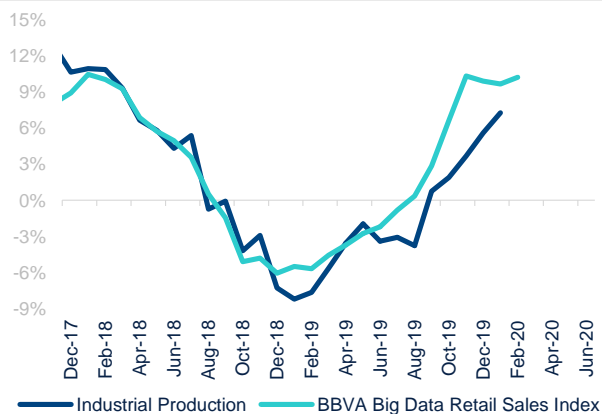
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Industrial Production (IP) in January grew by 7.9% yoy in calendar adjusted terms, lower than both the consensus (8.5%) and our estimate (10.6%). On the other hand, retail sales showed some moderation but continued to grow near 10% yoy in the same period. After the higher than expected 4Q19 GDP growth data (6% YoY), recent high frequency indicators (both hard and soft data) and our Big Data indices all indicate that the activity gained momentum in February while the effects of the Corona Virus will become more evident in March with divergent trends in the sharp adjustment in Tourism, Air transportation and the temporary boost in Food, On-Line sales and Health expenditures. While consumption growth remains solid, investment growth is moderating and will also be temporarily affected by the shock. Our monthly GDP indicator (GBTRGDY Index in Bloomberg) nowcasts a growth rate of 8.1% yoy for 1Q20 (30% of info), which could lose some pace in March when the direct negative effects from the Cvirus spread will start to weigh down. We maintain our GDP forecast at 4%, with obvious risks on the downside depending on both the magnitude and the duration of the Cvirus shock in the economy and particularly in financial markets.

Good signal to near future production but bad signal to investment

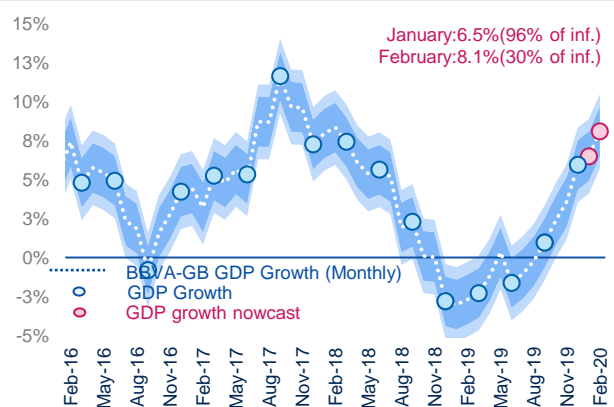
The IP (seasonal and calendar adjusted) decreased by 0.2% mom on the back of the sharp decline in capital goods and durable consumption goods production (5.8% and 1% mom, respectively), while intermediate goods production maintained its recovery in the last 5 consecutive months by growing at 1.2% mom. In sectorial detail, there was a broad based deterioration, which was led by the manufacturing sector (-0.3% mom) and mining sector (-2.1% mom), contrary to the strong positive realizations seen in December. Supportive financial conditions and favorable base effects continue to underpin the recovery in economic activity as our monthly GDP indicator nowcasts 6.5% yoy GDP growth as of January with 96% of information and accelerates further to 8.1% yoy in February, which is also supported by the positive calendar effect. Leading indicators also confirm this trend as our Big Data Retail Sales Indicator (15.2% yoy in February, GBTRRTIY Index in Bloomberg), PMI (52.4), electricity production (6% yoy in February) and capacity utilization all show some increasing momentum. Though, as also seen in the trend of main subcomponents of the industrial production in January, consumption continues to accelerate while investment expenditures display a sluggish recovery, which is also confirmed by our demand subcomponents nowcasts (see charts 6-8). On the other hand, the lagged impact of the recovery continues to support the labor market as estimated by our unemployment nowcasting model (chart 5) which shows a further decline to 12.5% in unemployment rate (sa) as of March with the current information.

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



Source: BBVA Research Turkey, Turkstat

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

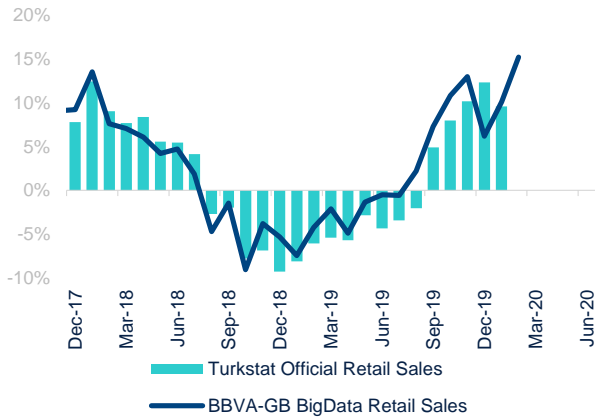


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDY Index in BBG

We maintain our GDP forecast to evaluate the impact of the CVirus in March

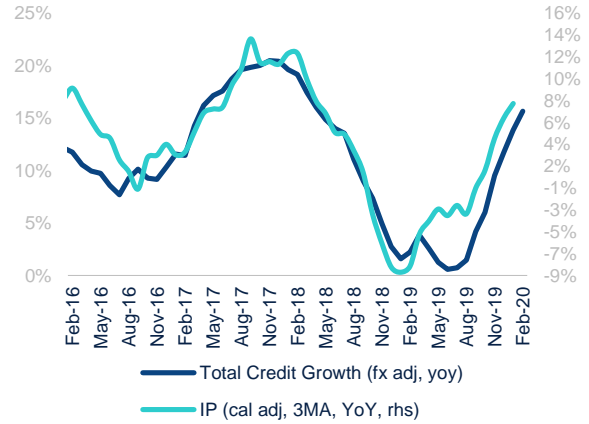
According to our high frequency indicators the economy is already reacting to the current shock. So far we observe a rapid pattern of consumption (sharp decline in airline tickets and tourism related activities, compensated with medicine, food and online sales). Investment is somehow moderating and could temporarily decelerate in coming months. While the current growth level at 8.1% constitutes a high base to face the crisis, we will wait to evaluate to revise our 4% GDP growth forecast for 2020.

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



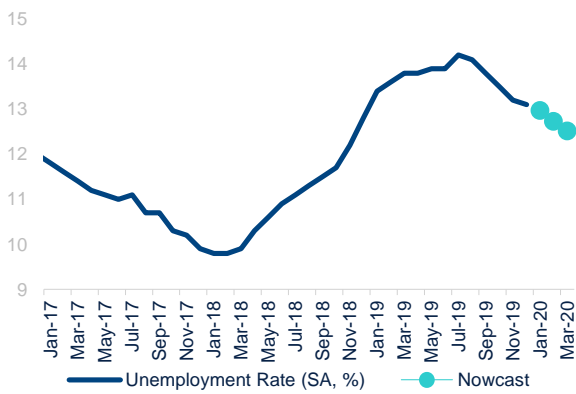
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **IP & Credit Growth (3ma & fx-adj yoy)**



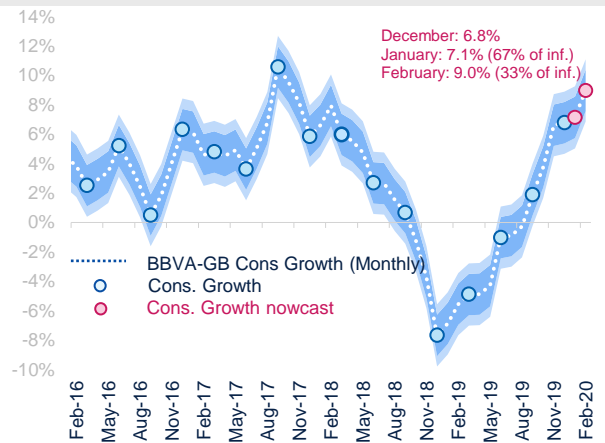
Source: BBVA-Research Turkey, Turkstat, TETC

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



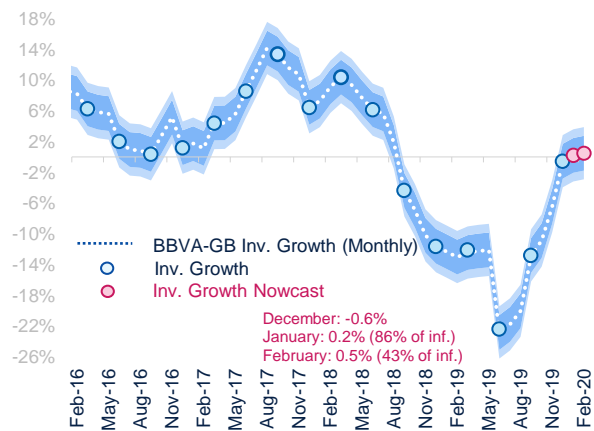
Source: BBVA Research Turkey,

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



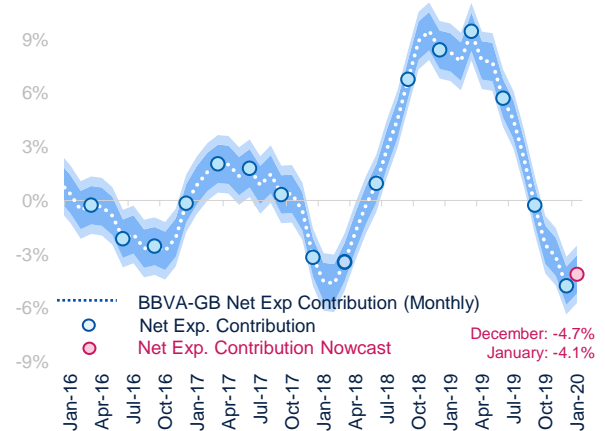
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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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