

Türkiye: Post-quake recovery in activity

Adem Ileri / Tugce Tatoglu / Gul Yucel
12 May 2023

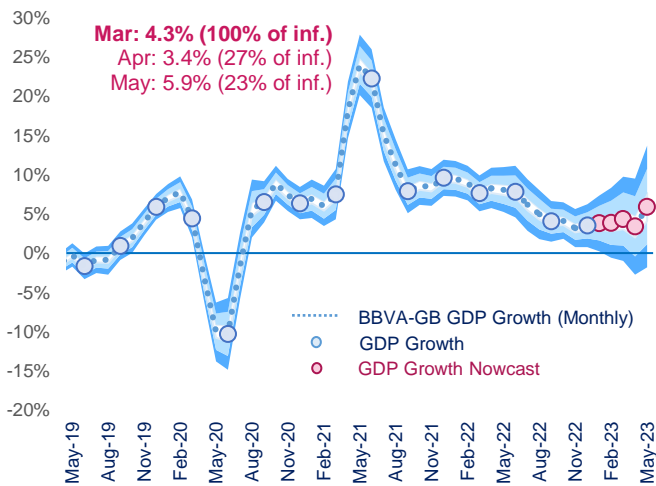
Industrial production (IP) showed a rapid recovery in March increasing by 5.5% m/m (1.8% m/m consensus), mostly wiping out the impact from the earthquakes in February (-5.9% m/m). Consequently, quarterly IP growth decelerated to 0.4% in 1Q23 from 1.9% in 4Q22 but still signaled an improvement, backed by the continuation of strong consumption. As hinted by leading indicators and our big data, the disrupting impact of the quakes on activity has eased off, while recovery efforts in the quake regions and other expansionary policies will bring further support to activity in the coming period. Our monthly GDP indicator nowcasts an annual growth of near 4% in 1Q23 and above 5% in early May (with 23% of information). Therefore, recent better than forecasted momentum and potential continuation of populist policies after elections put upside risk on our 2023 growth forecast of 3%.

Deceleration in production in 1Q but solid consumption on loose policies

IP in March recovered by 5.5% m/m, reflecting the wearing off of the quakes' impact on the activity, especially on the back of the upsurge in the intermediate goods production followed by capital goods. On the sectorial side, the recovery in manufacturing sector production (6.1% m/m) was broad-based but mostly supported by the production of other transportation vehicles (51.6% m/m). However, the sectors affected heavily by the earthquake like basic metals, textiles and food recovered more slowly than the others. As a result, quarterly IP growth decelerated to 0.4% in 1Q23 (1.9% in 4Q22). Moreover, overall turnover index in real terms rose by only 0.3% q/q in 1Q23 (vs 3.6% in 4Q22) supported by the construction and trade sectors while the industrial sector contracted by 3%.

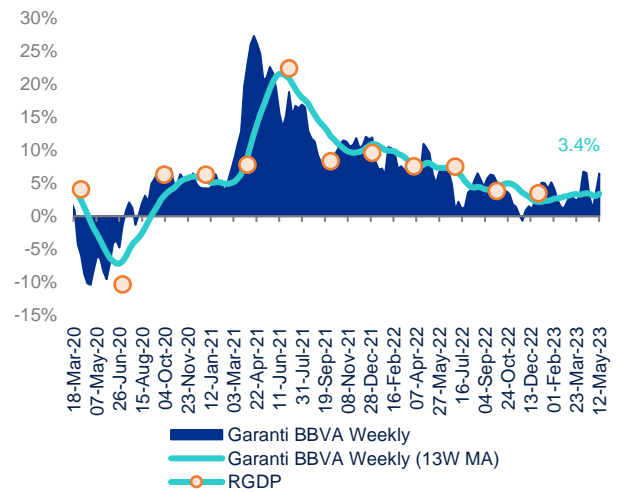
Consumption remained strong on the back of high consumer loan growth and real exchange rate appreciation as retail sales increased by 6.5% q/q in 1Q23 (vs. 6.6% in 4Q22). We observe that strong demand prevails in April and early in May, given our big data on card expenditures.

Figure 1. **Garanti BBVA Monthly GDP Indicator***
(yoy, 3-month moving avg.)



Source: Garanti BBVA Research, *Garanti BBVA monthly GDP indicator is an average of different model results synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BGG)

Figure 2. **Garanti BBVA Weekly GDP Indicator**
(yoy)

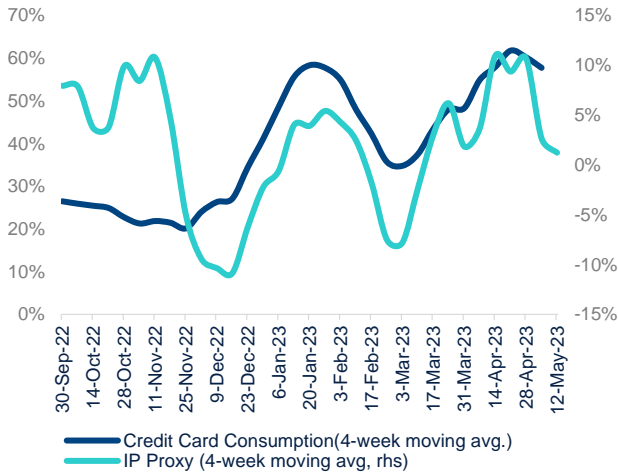


Source: Garanti BBVA Research

Looking ahead, preliminary indicators signal that recovery in economic activity is likely to continue in 2Q as PMI rose to 51.5 in April from 50.9, while seasonally adjusted capacity utilization rate jumped by 1.4pp to 75.6%. In addition, electricity production showed a slight improvement as of the beginning of May, while our big data indicators confirm that activity might strengthen further unless any negative impact materializes on economy due to political uncertainty.

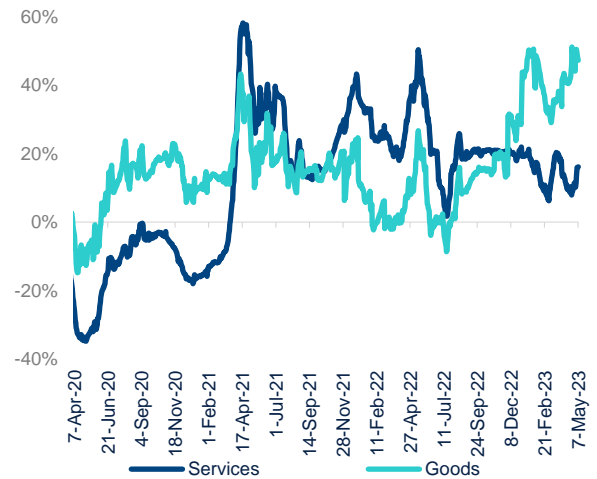
Due to the fact that Eid al-Fitr holiday had shifted to April this year, the calendar effect will have a negative impact in April series, while it will reverse in May. For example, our monthly GDP indicator nowcasts an annual growth of near 4% in 1Q, which accelerates further to above 5% in early May (with 23% of information). This is also confirmed in our weekly GDP nowcasts, where the momentum gets higher clearly starting from May.

Figure 3. **Card Consumption & Garanti BBVA IP Proxy**
(4-week moving average, yoy, real)



Source: Garanti BBVA Research, CBRT

Figure 4. **Garanti BBVA Big Data Consumption Indicators**
(28-day sum, adjusted with CPI, YoY)



Source: Garanti BBVA Research

Current growth momentum puts upside risk on our 3% growth forecast for 2023

The devastating impact of the quakes on the activity has started to ease since March, which is likely to continue in 2Q, as confirmed by the leading indicators and our big data indicators. So far, pro-growth expansionary fiscal policies and extremely low interest rates have supported activity by keeping domestic demand robust, particularly private consumption. Current strong momentum surpassing our initial expectations and recent populist policies announced during election campaigns put upside risk on our GDP growth forecast of 3% for 2023. Nevertheless, our expectations for an adjustment in the second half of the year in terms of a normalization in economic policies in the post-election period will be decisive on how fast the long lasting positive output gap will be closed.

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbvarresearch.com.