Türkiye: Post-quake recovery in activity

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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 (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.

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.

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 support 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 polices in the post-election period will be decisive on how fast the long lasting positive output gap will be closed.
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