

# Turkey: Activity in q/q contraction as of April

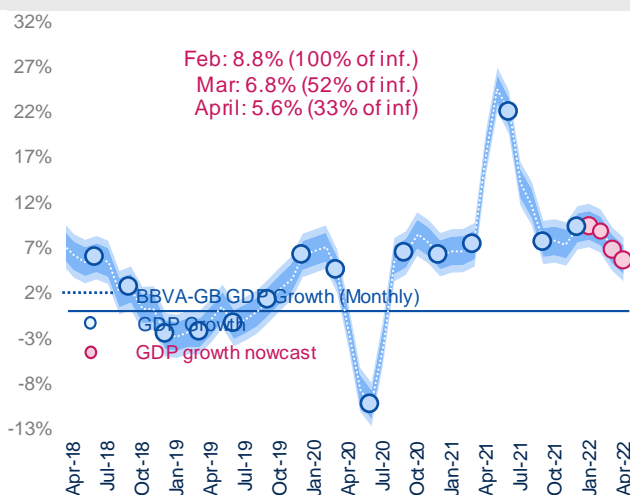
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12 April 2022

**Industrial Production (IP) surprised on the upside, increasing 13.3% yoy in calendar adjusted terms (vs our expectation of 10% and consensus of 7.5%). IP also rose by 4.4% m/m, compensating the contraction in January, related to energy shortages. However, the underlying trend reflects a deceleration in the first two months of the year. Moreover, our big data demand proxies and other high frequency indicators confirm this result given that our monthly GDP indicator declined close to 1% in 1Q22, which corresponds to a yearly growth rate below 7%. In addition, the performance at the start of April implies a slight contraction, which might deepen if the spill-over effects from the war in Ukraine intensify. Therefore, we maintain our GDP growth forecast of 2.5% in 2022.**

## Recovery in February IP might be temporary

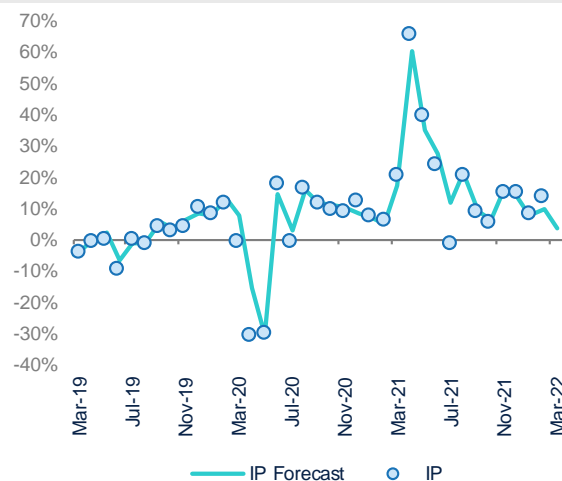
Monthly IP recovered in February on the back of capital and consumer goods (7.5% and 5.5%, respectively), whereas intermediate and energy goods production remained weaker (3.2% and 0.2%, respectively). Although the recovery (4.4% m/m) was enough to compensate the contraction in January (-2.3%), IP continued to slow down in the first two months of the year (2% q/q) compared to 4Q21 (4% q/q growth). If our March IP forecast is included, the overall q/q change will likely dip to as low as 0% in 1Q22. Other transportation (mainly defense industry), motor vehicles, machinery, electrical equipment and clothing were the main drivers in January-February, differentiating positively on behalf of the exporting sectors. Looking ahead, despite the slight pick-up in manufacturing capacity utilization rate in March (+1pp to 78.2%), the decline in electricity consumption and the deterioration of manufacturing PMI to below 50 (49.4) confirm the deceleration in economic activity. Also, our IP forecast of a 7.5% m/m contraction in March leads us to conclude that the recovery in February might be temporary, which is also confirmed by our big data indicators.

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



\*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BGG)

Figure 2. **IP vs IP One-Month Ahead Forecast (YoY)**

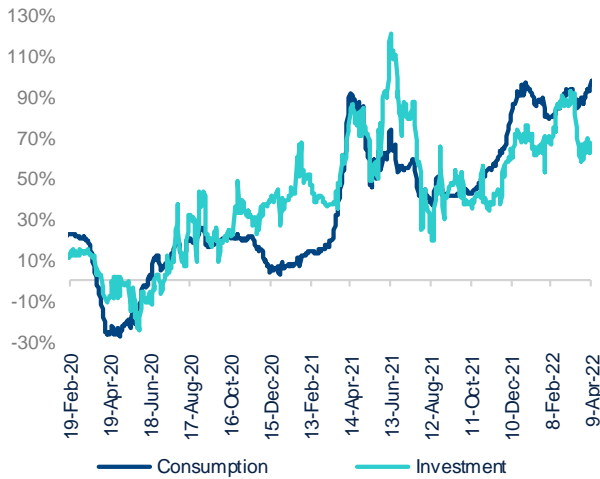


Source: Garanti BBVA Research, Turkstat

## Consumption continues to support domestic demand

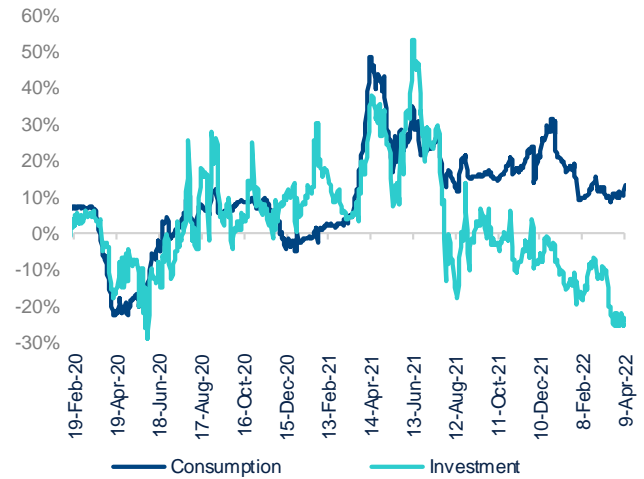
According to our big data demand indicators, private consumption is decelerating but remains relatively solid. In contrast, investment demand is shrinking at a faster pace, reflecting weakness in both construction and machinery. Likewise, the positive contribution from net exports is slowing down, mainly due to a recent jump in imports. All in all, the deceleration in economic activity becomes much clearer toward the end of 1Q22, given weaker domestic and external demand contributions. In addition, the high inflationary environment with elevated policy uncertainty generate downside risks to domestic demand, while potential spill-over effects from the Russian invasion of Ukraine on global demand will likely reduce the expected contribution from exports and tourism.

Figure 3 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day nominal sum, YoY)



Source: Garanti BBVA Research, Turkstat

Figure 2 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, adjusted by CPI and PPI, YoY)

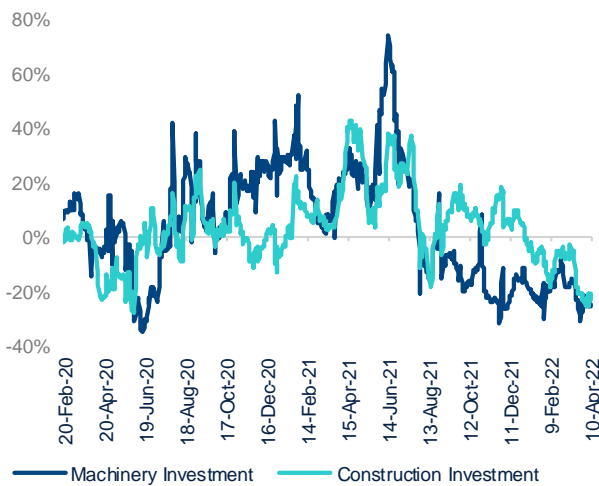


Source: Garanti BBVA Research, Turkstat

### Negative pressures might be absorbed by counter-cyclical policies

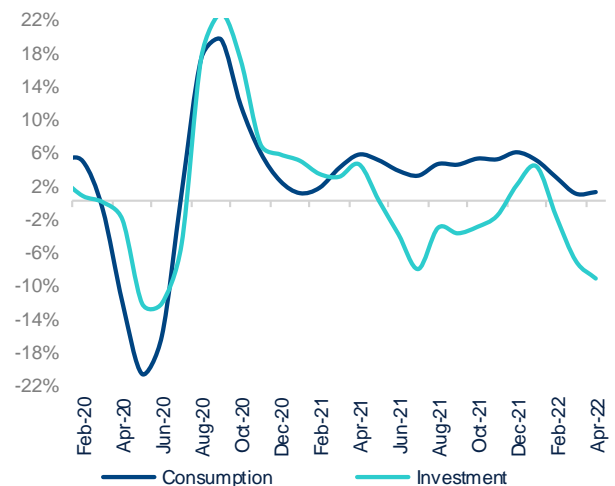
Larger negative real interest rates, the recent push in commercial credit and loose fiscal policy remain supportive in the short term. However, current high financial volatility and uncertainty in global markets, and their potential impact on external demand are clear downside risks to the near term growth outlook. As confirmed by our GDP nowcast, economic activity started to decelerate after the currency shock experienced in December 2021, and before the war in Ukraine. Nonetheless, the expansionary bias of government spending, other counter-cyclical policies and the pandemic-related reopening of the economy will help absorb some of the downward pressures. Although we do not expect GDP growth to be severely affected this year, 2Q22 GDP data will provide a clear test to understand both the magnitude of the slowdown and the resilience of the economy. Given the current information, we expect GDP growth to average 2.5% in 2022.

Figure 3 **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



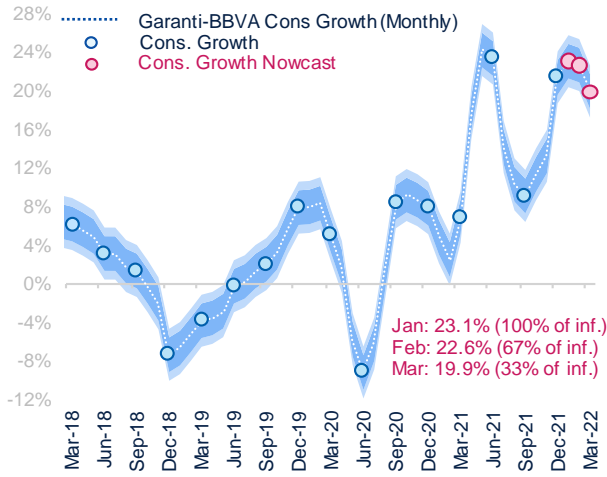
Source: Garanti BBVA Research, Turkstat

Figure 4 **Garanti BBVA Big Data Domestic Demand Indicators** (3-month qoq, adjusted by CPI and PPI)



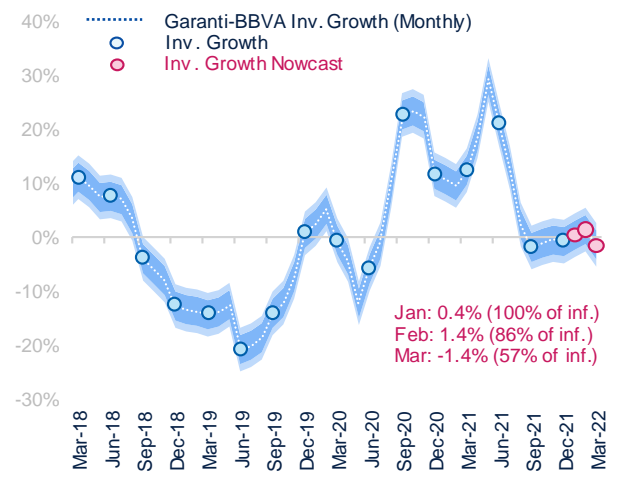
Source: Garanti BBVA Research, Turkstat

Figure 5. **Garanti BBVA Monthly Consumption Nowcast (3m yoy)**



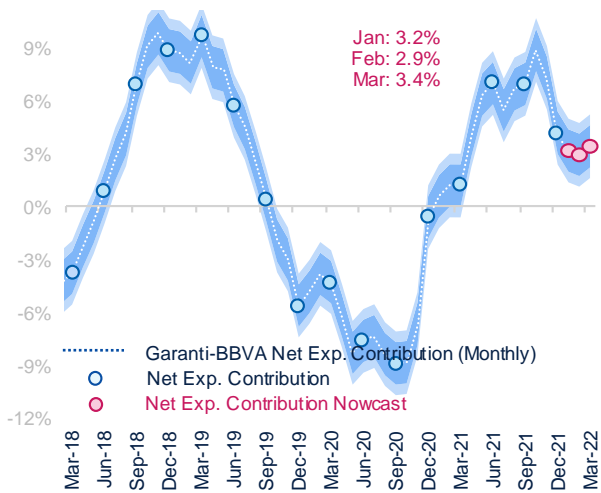
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 6. **Garanti BBVA Monthly Investment Nowcast (3m yoy)**



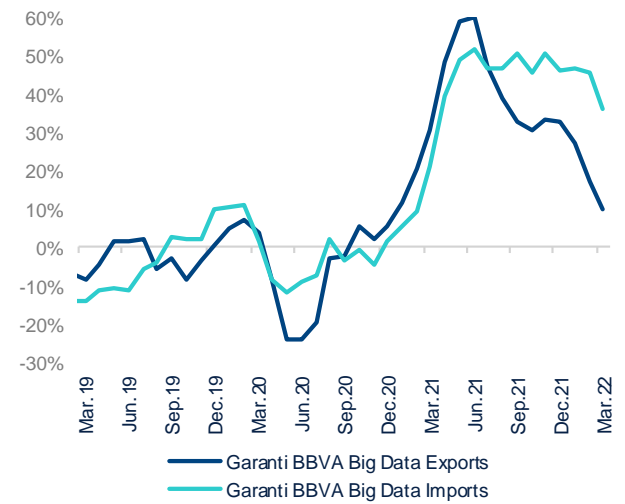
Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 7. **Garanti BBVA Monthly Net Exports Nowcast (contribution, pp)**



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 8. **Garanti BBVA Foreign Trade Big Data Indicators (3m yoy)**



Source: Garanti BBVA Research

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