

# Turkey: Activity confirms an upward trend

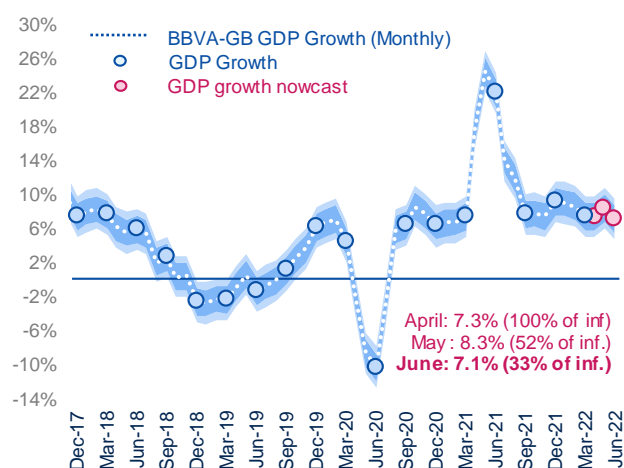
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13 June 2022

**Industrial Production (IP) continued to surprise on the upside and grew 10.8% y/y in calendar adjusted terms in April. IP remained stable in monthly adjusted series and the quarterly IP growth maintained a similar pace with the first quarter's 2.1%. According to our big data demand proxies and other high frequency indicators, our monthly GDP indicator nowcasts a quarterly GDP growth rate close to 1% in 2Q22, which corresponds to a yearly growth rate of near 7%. Stronger economic activity during the first half of the year makes it more likely to achieve a full year GDP growth rate close to 5% in 2022, drawing clear upside risk on our current forecast of 2.5%.**

## The recovery in IP not broad based, mainly supported by capital goods production

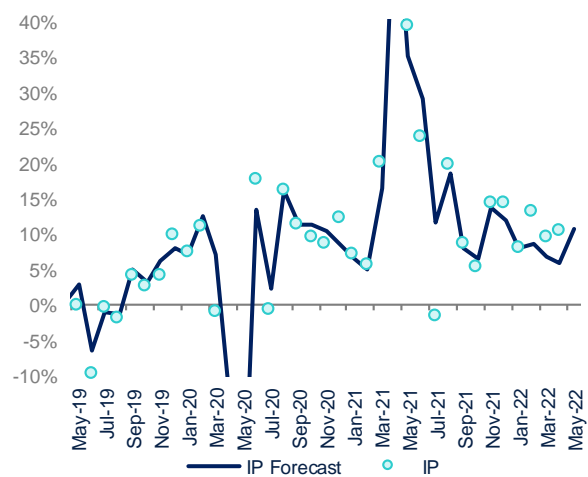
In seasonal and calendar adjusted series, the monthly contraction in intermediate (-1.9% m/m), consumer (-0.3% m/m), and energy goods production (-2.5% m/m) were offset by the recovery in capital goods production (7.6% m/m), resulting in a stable overall figure in April. In terms of quarterly trends, the recovery in IP continues by 2.2% q/q (vs. 2.1% q/q in 1Q) but it is not broad-based as the recent impulse relies on mostly manufacturing of motor vehicles, fabricated metal, machinery, other transport equipment (mostly defense industry related) and electrical equipment within the manufacturing sector. Looking ahead, based on our big data and leading indicators, we forecast that IP could recover further in May by 11% y/y. Hence, despite the spill-over effects from the war in Ukraine and tighter global financial conditions, activity remains solid so far on the back of extra loose monetary policy, continuing credit and fiscal impulses and other supportive economic policies as we nowcast a yearly GDP growth rate of near 7% for 2Q, implying close to 1% qoq growth. Compared to much weaker figures in April, both electricity production and consumption recovered in May. Manufacturing capacity utilization rate slightly improved in the first two months of 2Q (78.1% vs 77.8% on average in 1Q22) while manufacturing PMI remained contractionary but didn't gain momentum in May (49.2). Our demand proxies also signal growing domestic demand on the back of consumption, which basically help production despite the decelerating contribution from exports.

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 BBG)

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



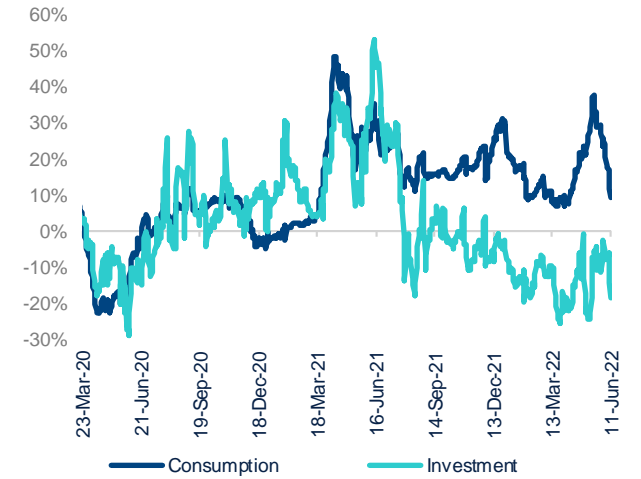
Source: Garanti BBVA Research, Turkstat

## Consumption stays solid, investment remains sluggish

According to our big data demand indicators, private consumption stays solid, led by the continuation of brought forward demand on top of expansionary policies. Besides, the contraction in investment demand loses pace, supported by the signals from construction. On the other hand, the positive contribution from net exports did not change much, mainly due to still supportive exports. All in all, the deceleration in economic activity continues but

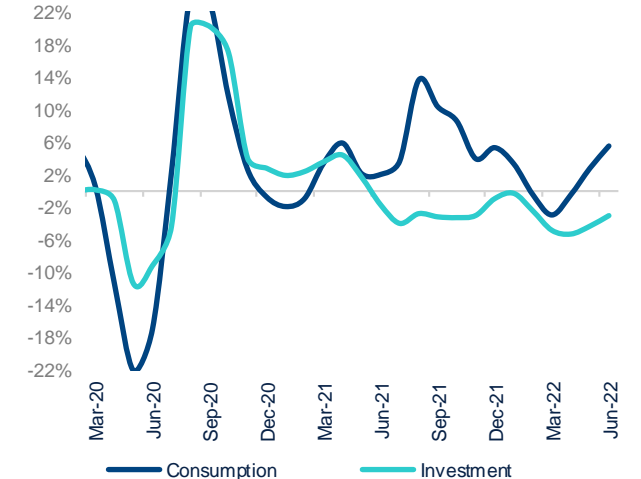
ongoing growth supportive policies by means of much looser policy stance seem to help prevent a relatively faster deceleration despite the cumulating downside risks in both domestic and external fronts. According to our nowcasts, the economy will grow near 7% y/y in the first half of the year with still strong depletion from inventories in 2Q22, which should be changing in the next quarters and keeping inflationary risks alive.

Figure 3 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, adjusted by CPI and PPI, YoY)



Source: Garanti BBVA Research, Turkstat

Figure 2 **Garanti BBVA Big Data Domestic Demand Indicators** (3-month sa qoq, adjusted by CPI and PPI)



Source: Garanti BBVA Research, Turkstat

## 2022 GDP growth might easily achieve above 4%, still with risks on the upside

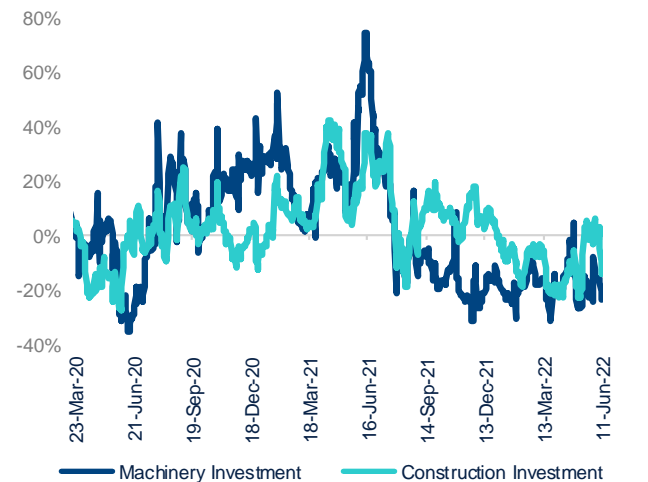
Larger negative real interest rates, recent credit and fiscal impulses, and relatively resilient external demand (post pandemic effects) help economic activity keep growing above its potential. Current high financial volatility and uncertainty in both global and domestic policies remain clear downside risks to the near term growth outlook. However, as confirmed by our GDP nowcasts, 2Q22 GDP data has demonstrated the resilience of the Turkish economy once again. If no substantial negative shocks occur, given the current pace, it becomes more likely to achieve a full year growth rate close to 5%, drawing clear upside risk on our current 2022 GDP growth forecast of 2.5%. However, this also implies significant downside pressure for next year GDP growth, substantial financial stability risks and the likelihood of a persistently high inflation environment.

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



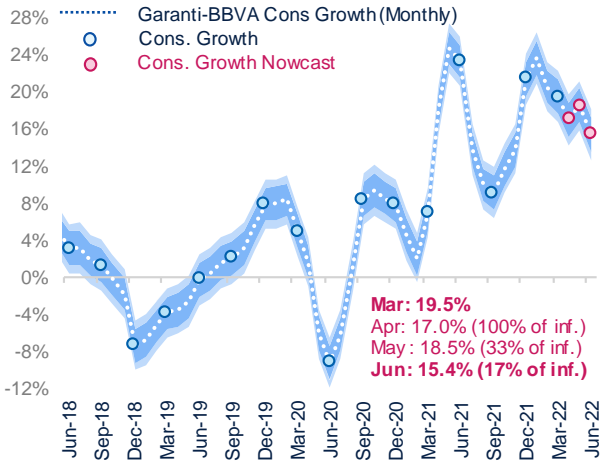
Source: Garanti BBVA Research, Turkstat

Figure 4 **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



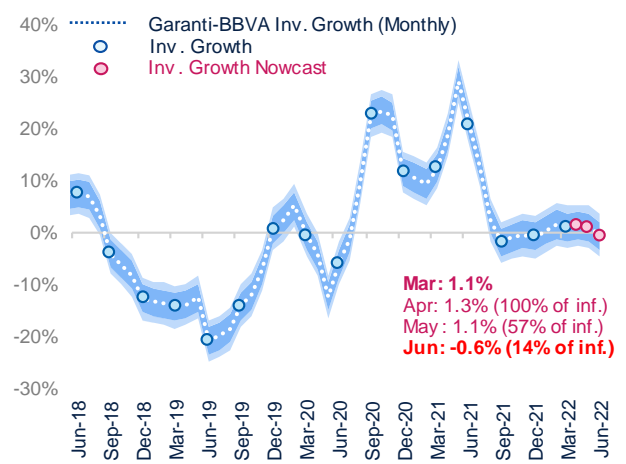
Source: Garanti BBVA Research, Turkstat

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



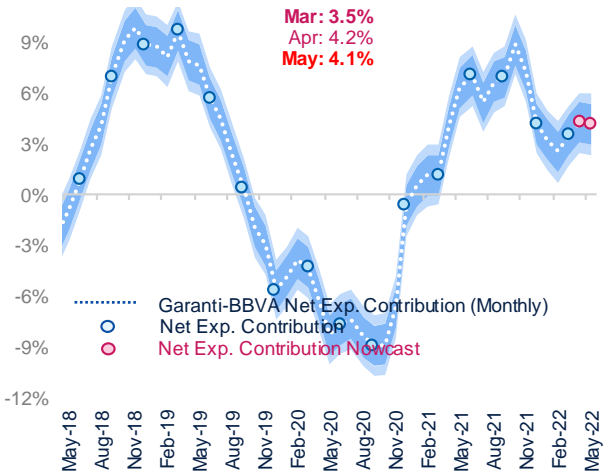
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



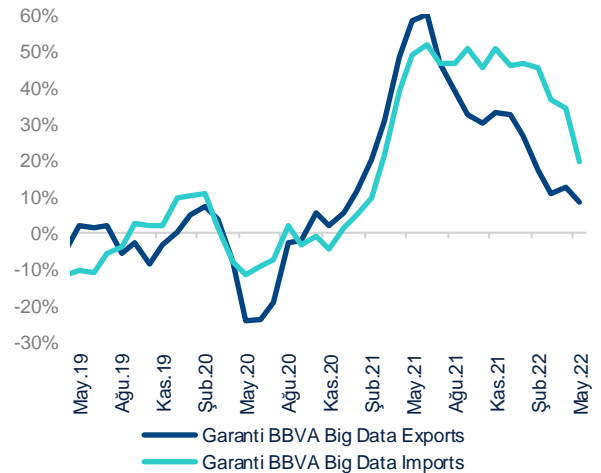
Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

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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