Türkiye: Fast recovery signals after the quakes

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Industrial production grew 7.0% y/y in January, higher than both our expectation (4.6%) and market consensus (3.9%). Meanwhile, seasonal and calendar adjusted series rose by 1.9% m/m after the expansion of 1.7% in Dec22 so its 3-month trend slowed down only limitedly (1.8% vs. 2.1% in 4Q22). Also, turnover indices and retail sales both recovered significantly in January. On the other hand, our big data indicators had signaled a fast deceleration during February led by the recent Kahramanmaras earthquakes but as of the first half of March, they have started to signal a quick recovery to their pre-quake levels. Hence, our monthly GDP indicator nowcasts a yearly growth rate of 2.9% (with 27% of info.) in February and 4.1% (23% of info.) in March. However, it should be noticed that TURKSTAT could not gather enough information in the quakes region since they mainly use income statements and survey results. Therefore, once more data from the region can be able to be incorporated, there might be a potential downward revision on activity regarding the first half of the year. Nevertheless, continuation of very large negative interest rates and expansionary fiscal policy ahead of the elections, expected spending on reconstruction purposes and expectations for a better global growth outlook might compensate the negative impact from the quakes. Consequently, we maintain our 2023 GDP forecast of 3%, assuming a manageable normalization from the current policies.

Better January data but incoming data after the quakes include uncertainty

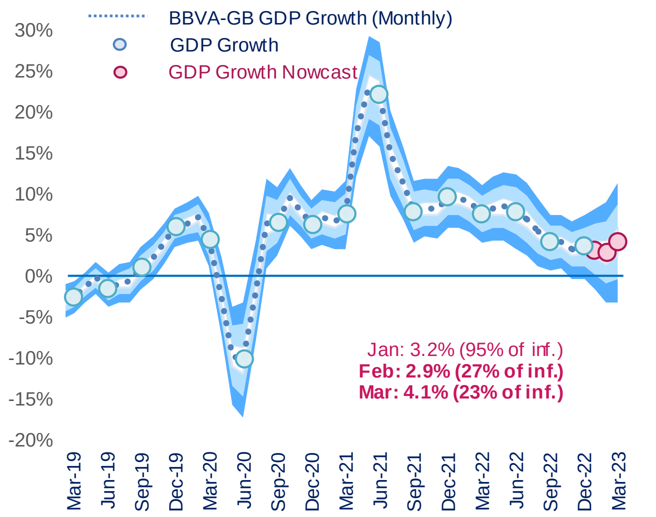
Industrial production started the year strongly, showing 1.9% m/m growth in seasonal and calendar adjusted series on the back of accelerating intermediate goods production (4.9% m/m vs. 1.6% m/m prev.). On sectorial side, manufacturing activity continued to improve with 2.1% m/m, supported by basic metals (8.1% m/m), non-metallic minerals (8.2% m/m), food (3.8% m/m), clothing (5.1% m/m) and electrical equipment (5.8% m/m). Additionally, turnover indices keeping their pace upward with the overall index (excluding agriculture) growing by 94% y/y in January (vs. 90.5% prev.) along with retail sales showing the highest annual growth (33.9% y/y) since Apr21 both signal that the recovery in activity occurred to be stronger than our expectations before the quakes.

Though, incoming data so far shows different signals so it should be treated carefully as data generation processes from the regions have been impacted by the quakes. For instance, confidence indices could not include the total impact from the region such as the 42% of replies for the survey on capacity utilization was before the quakes while industrial production in January, solely based on survey and value added tax data, could receive just 38% of replies to survey from the quakes region.

Leading indicators also give mixed signals where manufacturing PMI was unchanged in February at 50.1 and capacity utilization rate fell only slightly (75.7% vs. 75.8% in January), whereas contraction in electricity production deepened further (-5.6% yoy in February and -15% yoy in March). Nonetheless, we should acknowledge that electricity production data might have lost its powerful representation for economic activity since high electricity prices and better seasonal climate conditions could significantly reduce electricity consumption. On the other hand, our big data indicators on both production and consumption have started to display a fast recovery in early March and credit card expenditures deflated by CPI have reached pre-quake levels even in the cities in the quakes region except for the ones with much higher damage.

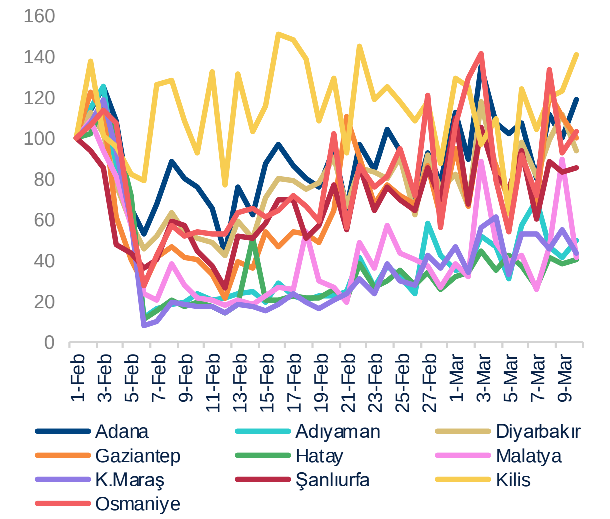
Taking this uncertainty into account, we have conducted a counterfactual analysis in order to check how GDP growth would be in 1Q23 based on the realized January data and our different nowcasting models signal 6-7% annual GDP growth. Once, we add the incoming data for February and our big data information for early March, our models start to nowcast near 4% yearly GDP growth for 1Q23 after nowcasting almost 3% growth for February. As a result, we conclude that the negative impact of the quakes so far might have been around 2pp on activity, which is pretty in line with our preliminary calculations. Though, we again underline the likelihood of a potential downward revision for the first half of 2023 once more data regarding the region will be available towards the end of the year.

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



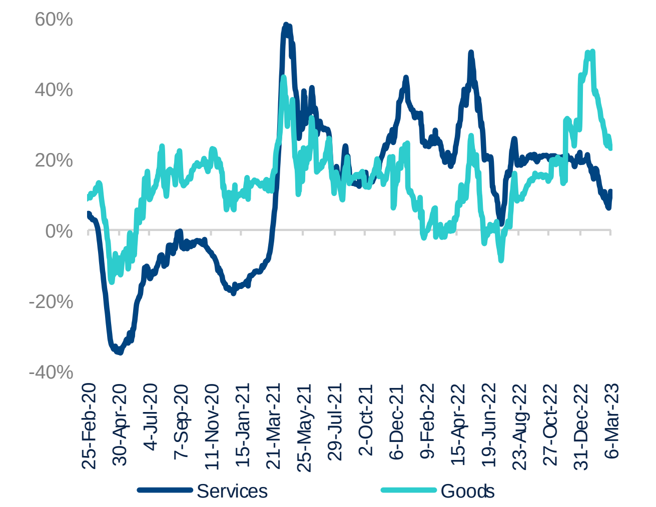
Source: Garanti BBVA Research, *Garanti BBVA monthly GDP indicator is an average of different model results synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)*

Figure 2. **Consumption Activity in the Quakes Region (1 Feb=100, Garanti BBVA Cards)**



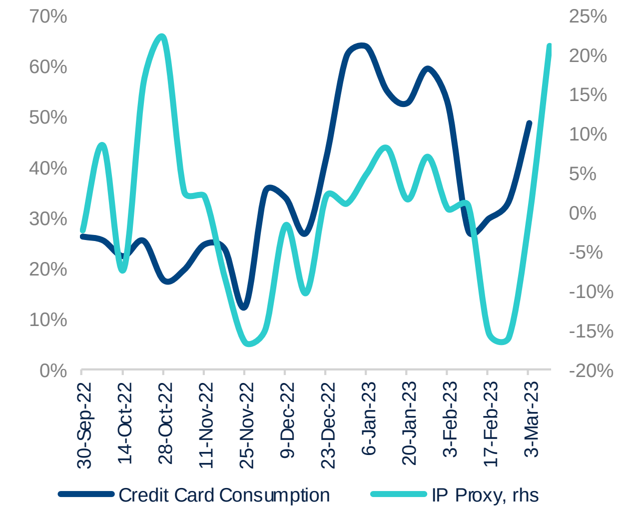
Source: Garanti BBVA Research

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



Source: Garanti BBVA Research, Turkstat

Figure 4. **Card Consumption & Garanti BBVA IP Proxy** (weekly, yoy, real)



Source: Garanti BBVA Research, Turkstat

Growth outlook will depend on fiscal spending and post-elections normalization

As we underline in our previous reports, the negative indirect impact from the quakes on value-added might be 1.5-2%. And if we add fiscal expansion and multiplier effects, the net negative impact on economic growth can reach at most 1pp. We maintain our view that current economic policies are not sustainable and assume a very gradual policy normalization to prevent any financial instability after the elections. By also incorporating our positive revisions on global growth outlook, we maintain our GDP growth forecast at 3% for 2023 with a neutral balance of risks right now.

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