

# Türkiye: Sharp decline in activity due to quakes

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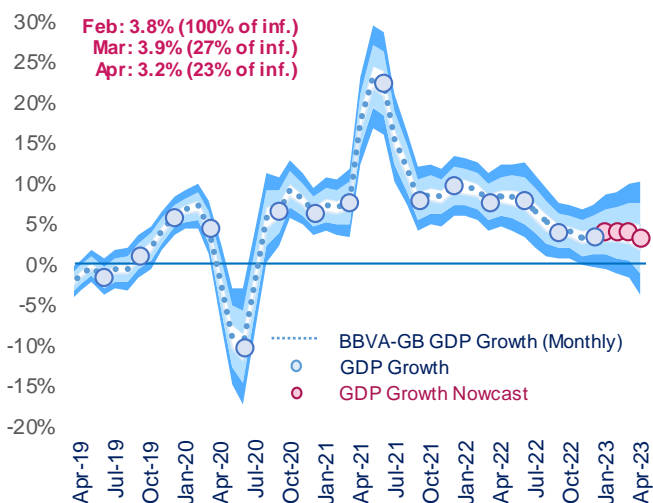
Industrial production deteriorated sharply in February contracting by 6.0% m/m on seasonal and calendar adjusted series, contrary to market consensus (+2% m/m exp.). In addition, the turnover indices and retail sales fell sharply in February by 5.1% m/m and 6.5% m/m respectively, also confirming the disrupting impact of the quakes on the economy. Despite the negative impact of the quakes, leading indicators and our big data indicators suggest a rapid recovery in activity outlook in the post-quakes period. Our nowcasting models signal around 4% of GDP growth in 1Q23, higher than our initial forecast, while domestic demand remained strong supported mainly by private consumption. The recovery efforts in the quake region and expansionary policies will support activity until the election. Downside revisions on activity are possible once the data of the quake region could be incorporated. Keeping the possibility of such revision in mind, taking into account current momentum stronger than our expectation and assuming gradual policy normalization in post-election period, we expect GDP to grow 3% in 2023 but risks remain on the upside.

## Loss in activity higher than expected but recovery in March could be faster

Industrial production in February reflected the disrupting impact of the quakes on the activity contracting by 6.0% m/m in seasonal and calendar adj. series, after making a strong start to the year with 2% m/m in January. All subcategories contracted with intermediate goods (with the highest weight in headline index) showing the steepest deterioration with -9.3% m/m, followed by consumption goods (-4.8% m/m), capital goods (-2.8% m/m) and energy (-2.3% m/m). While the manufacturing sector production declined by -6.6% m/m, textiles (-11.9% m/m), non-metallic minerals (-12.6% m/m) and basic metals (-13.8% m/m), heavily affected from the quake region, displayed the highest negative contribution (-2.6pp) to industrial production.

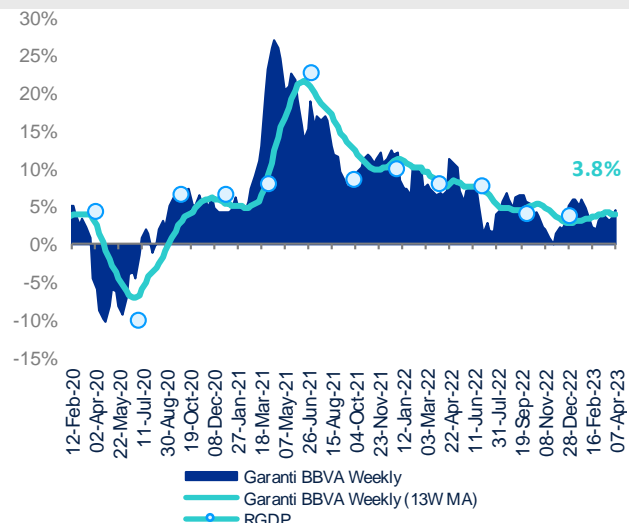
Sharp monthly decline caused the slowdown in quarterly trends with activity growing by 0.9% q/q (1.9% q/q in 4Q22) as of Feb23. Capital goods showed the highest increase with 4.0% q/q, followed by consumption goods (1% q/q) and intermediate goods (0.8% q/q). Energy production, on the other hand, continued to decline on quarterly trends by 2.7% q/q, though improving compared to previous quarter (-3.5% q/q in 4Q22).

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

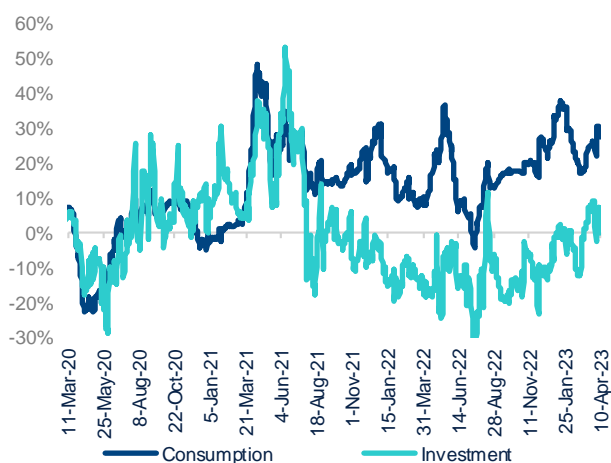


Source: Garanti BBVA Research

Sharp decline in activity came as a surprise, considering that the leading indicators in February showed a very limited deterioration despite the negative impact of the quakes. Looking ahead, data realizations for March signal a rapid recovery in activity and the negative impact of the quakes seems to have been compensated. Manufacturing PMI in March increased significantly with 50.9 compared to previous quarter of 46.7 (vs. 50.1 in Jan23), while easing in contraction in electricity production was observed (-3.9% y/y in April vs. -15.2% y/y prev.). On the other hand, capacity utilization rate (CUR) for March decreased by 1.5pp to 74.2% below the critical level of 75%, however it should be noted that March CUR data also include the impact of February. Our big data indicator (Figure 3-4) also signaled faster recovery in industrial production and consumption in March and the first half of April. Preliminary trade figures on March showed that exports returned to pre-crisis period in the quake region especially in the less affected side.

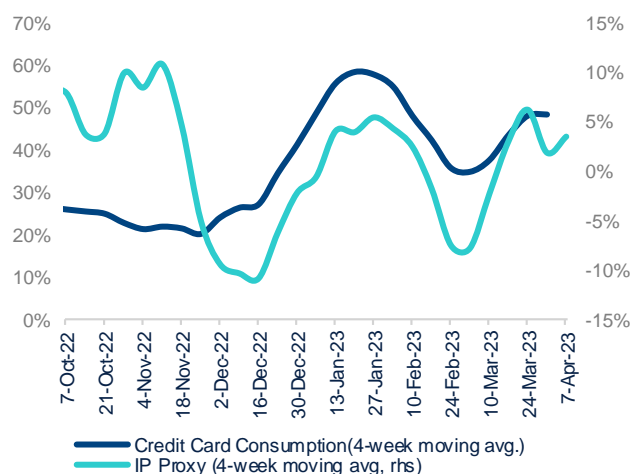
Our nowcasting models indicate that the GDP growth could be around 4% in the 1Q higher than our initial expectation. April nowcast displayed some deceleration which should be carefully evaluated as it includes February and March data. Also, our weekly GDP indicator (Figure-2) displayed that activity has decelerated until mid-February but been on an increasing path thereafter. On the expenditure side, domestic demand remained strong on the back of private consumption while the contribution of investment was weak. However, negative contribution of exports remained stable as exports recovered slightly but imports maintained high growth stemming from the real appreciation in exchange rate and the strong increase in consumer loans. Last but not least, aggregate demand remained higher than aggregate supply, an indication of further depletion in inventories.

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)

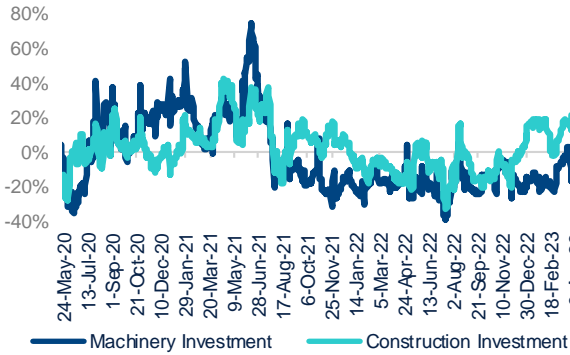


Source: Garanti BBVA Research, Turkstat

### Upside risks on growth but post-election policy choice would be determinant factor

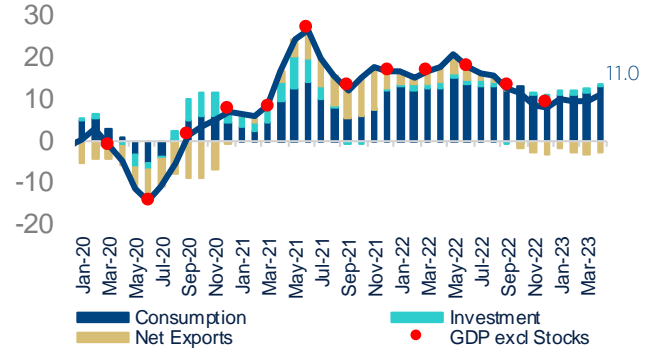
Despite the negative impact of quakes on activity in February, both leading indicators and our big data signaled faster recovery than expected in March. Secondly, expansionary fiscal and monetary policy would continue to support activity until the election. More regulations were implemented to maintain current policy framework, while also raising concerns over the financial stability. Hence, we still believe that the best strategy in post-election period is to normalize policies more gradually in terms of policy rate and regulations. We keep our GDP growth forecast at 3% for 2023 while noting that risks are on the upside.

Figure 5. **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



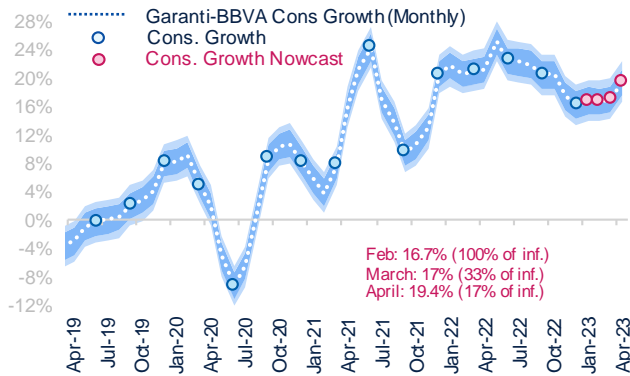
Source: Garanti BBVA Research, Turkstat

Figure 6. **Garanti BBVA Private Demand Now cast Indicators** (contribution, pp)



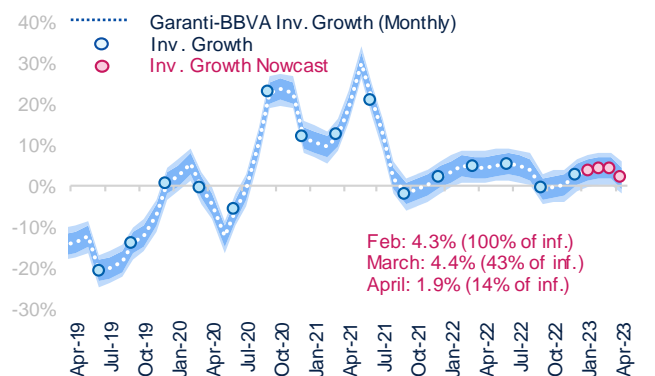
Source: Garanti BBVA Research, Turkstat

Figure 7. **Garanti BBVA Monthly Consumption Now cast** (3m yoy)



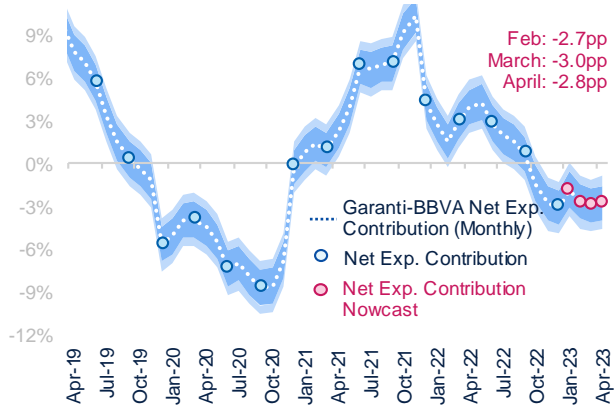
Source: Garanti BBVA Research, GBTRGDPC Index in Bloomberg

Figure 8. **Garanti BBVA Monthly Investment Now cast** (3m yoy)



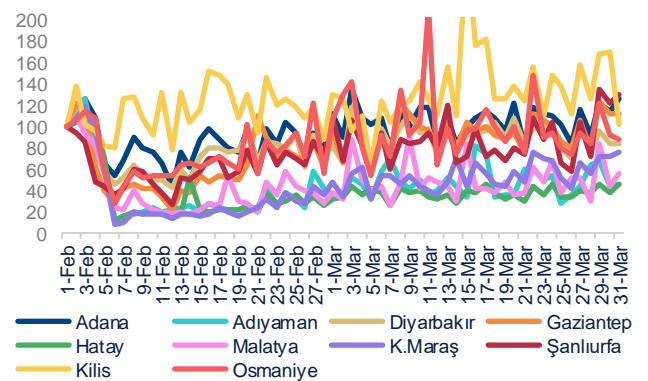
Source: Garanti BBVA Research, GBTRGDPI Index in Bloomberg

Figure 9. **Garanti BBVA Monthly Net Exports Now cast** (contribution, pp)



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

Figure 10. **Consumption Activity in Quakes Region** (1 Feb=100, Garanti BBVA Cards)



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

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