Activity Pulse

Türkiye | Strong acceleration in 2Q

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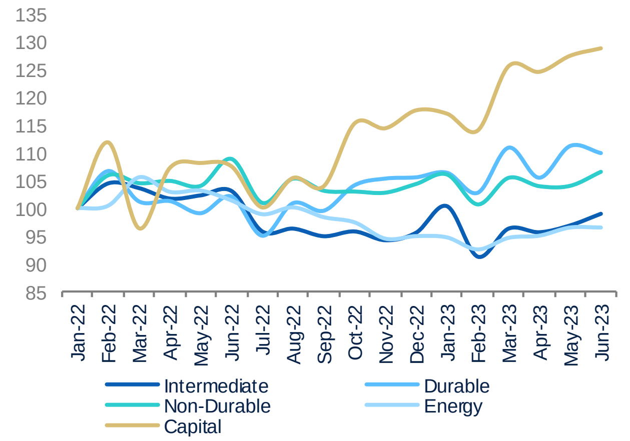
Industrial production (IP) increased by 1.6% m/m in seasonal and calendar adjusted series, resulting in the 2.3% q/q acceleration of activity in 2Q (vs. 0.5% q/q in 1Q). The strong quarterly trend in turnover indices indicated that services, construction and trade sectors would remain supportive in 2Q. Despite the rapid supply-side recovery in the 2Q, retail sales, our big data consumption indicators and strong consumption goods imports revealed that the aggregate demand, especially driven by the private consumption, was stronger. Our monthly GDP indicator nowcasts an annual growth of 4.3% for 2Q with 100% of information, signaling close to 3% q/q (vs. 0.3% in 1Q), while only pointing out slight deceleration in 3Q so far since it nowcasts 5.8% (27% of info.) and 5.7% (23% of info) growth for July and August, respectively. Despite the macro prudential measures taken by the CBRT and government on top of very gradual monetary policy normalization, they have not yet ensured the rebalancing of the output gap in the 3Q. We expect GDP growth to be 4.5% in 2023 thanks to the strong growth pattern in 1H23, especially considering the soft landing scenario that will keep the growth outlook strong until the local elections in March.

Aggregate demand on private consumption remained stronger than supply

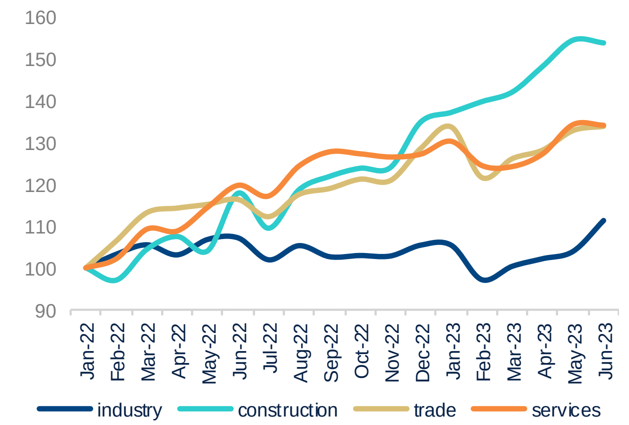
In seasonal and calendar adjusted series, IP in June increased by 1.6% on a monthly basis, supported by all sub-indices except energy (Figure 1). The monthly acceleration in intermediate (2.2%) and consumer goods productions (1.8%) on the nondurable consumer goods production (2.4%) was quite evident, while capital (1.1%) and energy goods productions (0%) geared down compared to previous month. On the other hand, the production of durable goods contracted by -1.1% m/m mainly due to the contraction in furniture (-2.3% m/m). On the sectorial side, the significant increase in the production of basic metals and other non-metallic mineral products signaled the reconstruction activities in the quake regions, whereas the strong acceleration in computer-electronics and optics, as one of the export-oriented sectors, was due to the rapid depreciation of the exchange rate in June.

Figure 1. **Industrial Production Main Sub-Indices**
(seasonal and cal. adj., Jan 2022=100)



Source: Garanti BBVA Research,

Figure 2. **Sectorial Turnover Indices**
(real, seasonal and cal. adj., Jan 2022=100)

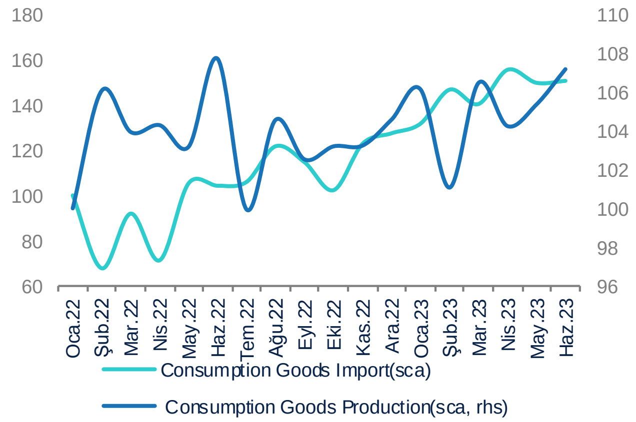


Source: Garanti BBVA Research, TURKSTAT

The 2.3% q/q acceleration of activity in 2Q showed that the devastating impact of the quakes in 1Q (0.5% q/q in 1Q23 vs. 2% q/q in 4Q22) rapidly recovered thanks to the support provided to the quake regions and robust domestic demand on loose policies. Despite the broad-based recovery in subcomponents compared to 1Q, the main driver of the strong economic activity in quarterly trend remained as the production of capital goods (6.8% q/q vs. 2.7% q/q in 1Q) mainly due to the robust investments in machinery and equipment, and construction. On the sectorial basis, manufacturing of other transport equipment and tobacco production sped up in 2Q, while the production of export-oriented sectors such as computer-electronics and optics, leather and related products contracted due to low foreign demand and the real exchange rate appreciation. Observing the recent trend in other sectors, seasonal and calendar adjusted turnover indices in real terms indicate the sharp increase in industry while there was a slight decline in construction and services in June. However, quarterly trends remained strong in all sectors (construction 8.9% q/q, industry 4.8%, services 4.4% and trade 3.5%), signaling that non-industry sectors would maintain strong contribution to economic activity in 2Q (Figure 2).

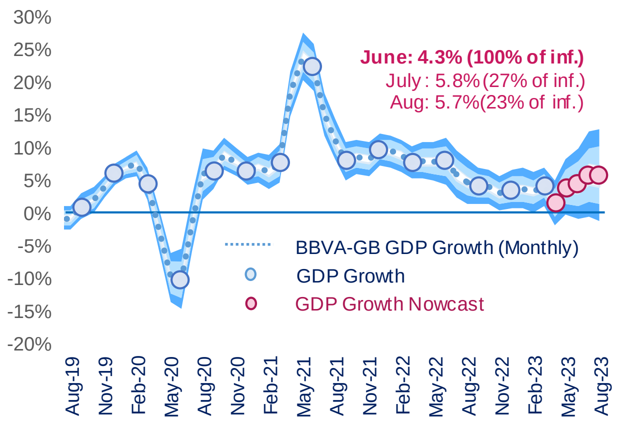
Despite the recovery in supply side in 2Q, aggregate demand especially led by private consumption remained stronger mainly caused by high loan growth, real appreciation in currency and high inflation expectations. This is also confirmed by retail sales which increased by 5.2% q/q in 2Q (6.9% q/q prev.), strong consumption goods import and our big data total consumption indicator. Another striking fact is that the quarterly acceleration in consumer goods production remained very limited (1% q/q vs. 0.8% q/q in 1Q), whereas imports of consumer goods followed an increasing trend (Figure 3) mostly supported by passenger cars.

Figure 3. **Consumptions Goods Production vs Imports (real, seasonal and cal. adj., Jan 2022=100)**



Source: TURKSTAT

Figure 4. **Garanti BBVA Monthly GDP Indicator (3-month average YoY)**

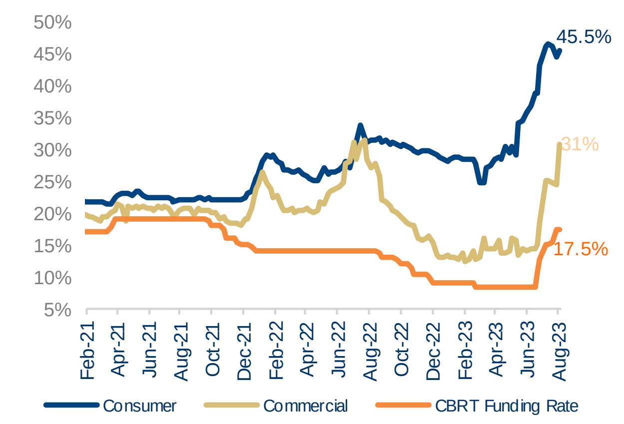


Source: Garanti BBVA Research, *Garanti BBVA monthly GDP indicator is an average of different model results synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

Given data for 2Q23, our monthly GDP indicator pointed to an annual growth of 4.3% with %100 of information, meaning a strong acceleration around 3% q/q in 2Q. Considering the negative impact of the bridge day in June, the acceleration could be stronger than our calculation. On the other hand, the leading indicators give mixed signals for 3Q23. Electricity production increasing by 6.2% as of early August, including the effect of extremely hot season, and capacity utilization rate slightly rising to 76.9% in July from 76.6% point while it mostly represents June. On the other hand, manufacturing PMI in July fell to 49.9 (below 50 threshold) in July from 51.4 in June, contracting slightly after growing for six straight months as inflationary pressures halted increase in new orders and output. Also, our big data IP proxy indicator signaled clear deceleration in industrial production (Figure 6). Our nowcasting models pointed to 5.8% annual growth for July and 5.7% for the first 10 days of August. Even if we exclude the positive calendar impact in 3Q, the activity remains strong despite the some slowdown.

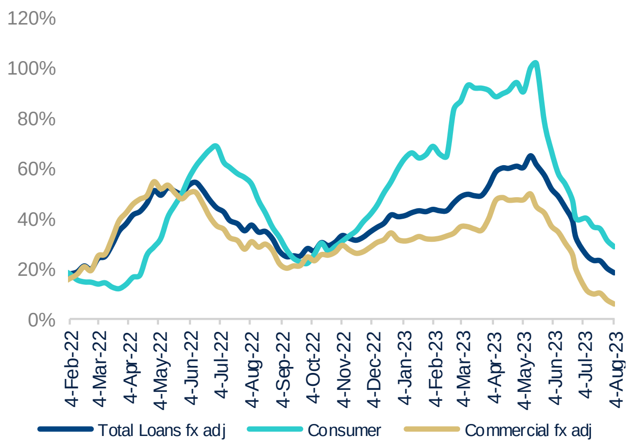
While monetary policy tightening remained very gradual, the economy management implemented macro prudential policies to rebalance the output gap, especially to contain the high demand and therefore the imports. On top of the limitations on loan growth and some upward adjustment in loan rates (Figure 5-6), the risk weights of retail loans in the capital adequacy ratio have been increased. Though there has been a recent loss of momentum in loan growth, our big data on total consumption and high levels in real growth of credit card expenditures (Figure 7-8) indicate that domestic demand is still stronger than supply, led by private consumption. This trend is also confirmed by preliminary July foreign trade data indicating that imports remained robust. Since the adjustment in economic policies is very gradual to achieve smooth landing, the pressure on currency and inflation outlook will remain alive due to the upside risk on the current account deficit. Hence, the government signals further policy steps to support rebalancing of the economy. For example, the import duty was increased to smooth out the strong gold imports. Similar policy steps are expected to be made in the coming months for automotive, textile and clothing imports.

Figure 5. **Interest Rates of Credits** (4w. mov. avg.)



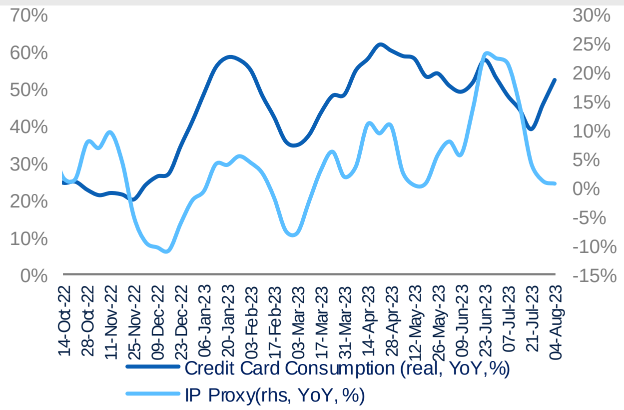
Source: Garanti BBVA Research, CBRT

Figure 6. **Credit Growth**
(13-Week average, annualized growth rates)



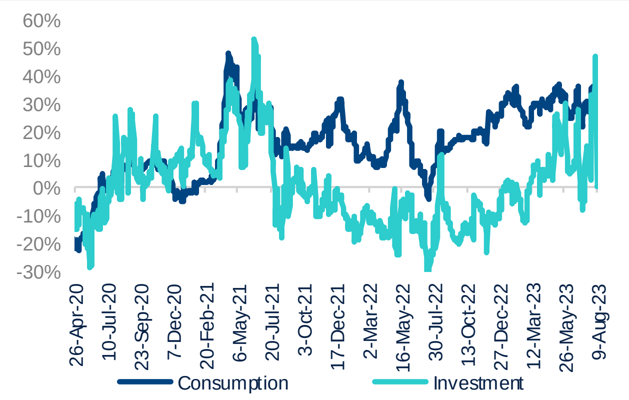
Source: Garanti BBVA Research

Figure 7. **Credit Card Consumption vs Garanti BBVA Big Data IP Proxy**
(real, weekly, 4-week moving average, YoY)



Source: Garanti BBVA Research, CBRT

Figure 8. **Garanti BBVA Big Data Consumption and Investment Indicators** (real, 28-day sum, YoY)



Source: Garanti BBVA Research

Soft landing with more sustainable growth composition should be ensured

Pre-election fiscal policies on top of recovery efforts in quake region and the loose monetary policy led to the rapid recovery in economic activity in the 2Q. The new economy management aims to balance inflation and the current account deficit while achieving soft landing. Hence, the normalization in monetary policy remains very gradual while macro prudential policies are introduced to support the rebalancing. Based on the leading and our big data indicators, we observe that despite some slowdown, activity remains strong in 3Q so far. Considering the soft landing goal and the solid performance in the first half, we expect GDP to grow 4.5% in 2023. We maintain our view that the adjustment in activity might be more clearly observed after the local elections and GDP growth might decelerate to 2% in 2024. On the other hand, the aggregate demand especially led by private consumption remains robust, keeping upward pressures on exchange rates, inflation and current account deficit. Therefore, economic policies to ensure more sustainable growth composition in favor of net exports, would be highly critical in the coming period.

Creating Opportunities

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