Activity Pulse

Türkiye | Momentum loss in activity

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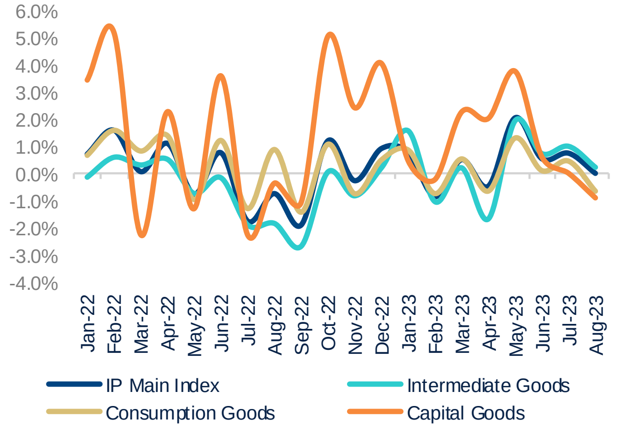
Industrial production (IP) declined by 0.8% m/m in seasonal and calendar adjusted series, while increasing by 3.1% y/y on calendar adjusted terms, as the base effects fade. Quarterly changes confirmed the loss in momentum with the average of July and August increasing very limitedly by 0.5% q/q (2.1% q/q previously). Leading indicators such as our big data IP proxy, capacity utilization and PMI signaled industry could remain weak in September. Recent deceleration in consumer loan growth on the back of higher loan rates and the caps on loan growth started to affect domestic demand, evident by the 4.7% m/m contraction in retail sales in August. Our big data indicators support this picture, signaling further slowdown in consumption as of October. Our monthly GDP indicator nowcasts 5.7% annual GDP growth in 3Q (27% of info.) and 4.0% as of October (23% of info.) indicating close 0.6% q/q in 3Q and more deceleration in October. The construction expenditures in the earthquake zone and recent recovery in commercial loans could support production in the 4Q while the slowdown in consumer loans could diminish the domestic demand further. We expect GDP to materialize close to 4.5% in 2023, whereas gradual interest rate hikes on top of relatively supportive fiscal policy could lead 3.5% growth in 2024.

Weak production in August with some deceleration signal in demand

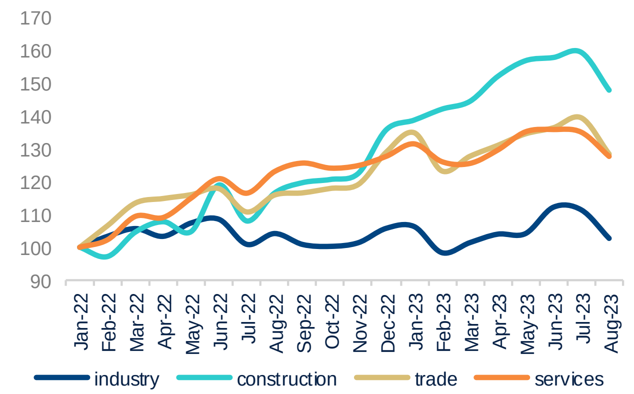
According to seasonal and calendar adjusted series, IP declined further in August on a monthly basis with -0.8% m/m on top of 0.3% decrease recorded in July. The highest loss was observed in the production of durable consumption goods (-3.2% m/m), followed by non-durables (-2.3% m/m) whereas decline in intermediate goods was relatively limited with -1.1% m/m. On the other hand, due to extremely hot weather during July and August, energy carried the activity as increasing by 2.4% m/m. On sectorial side, there was an apparent widespread decline in activity across the manufacturing production (-1.3% m/m), except for chemicals and other transport equipment. Overall, loss in the activity of export oriented sectors deepened further in August with -3.4% m/m (-1.4% m/m) whereas domestic demand oriented sectors contributed to growth with 0.9% m/m increase (0.3% m/m), demonstrating the continuing strong domestic demand. Our big data IP proxy indicator, slight increase in capacity utilization rate (76.9% vs 75.7% in August) and PMI (49.6 in September) signaled industrial production could remain weak in September.

Figure 1. **Industrial Production Main Sub-Indices**
(seasonal and cal. adj., 3MA QoQ, Jan 2022=100)



Source: Garanti BBVA Research, TURKSTAT

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



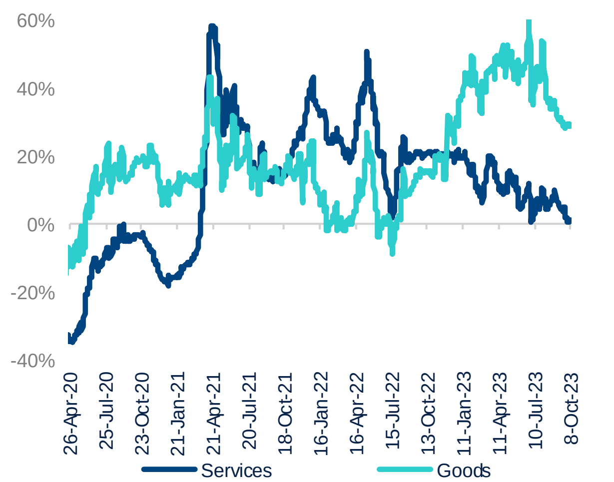
Source: Garanti BBVA Research, TURKSTAT

The turnover indices deteriorated in August on monthly basis, declining by 6.2% m/m on real terms, though increasing by 6.3% compared to the same month in the previous year. Quarterly trends in real turnovers showed a widespread slowdown across all sectors (Figure 2), confirming our deceleration expectation in 3Q.

On the demand side, retail sales volume contracted by 4.7% m/m for the first time since Feb23, a period marked by the impact of the earthquake. Also, consumption goods imports contracted by 9.8% m/m in August. Our big data consumption indicator also signaled further deceleration in September and the first 10 days of October especially on the back of services consumption while goods consumption remained relatively strong (Figure 3).

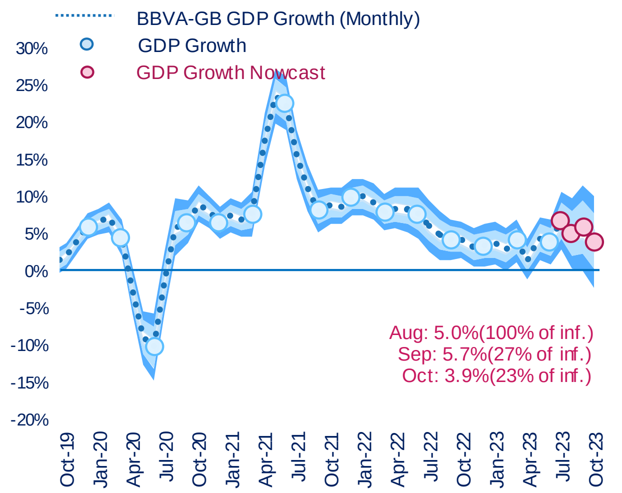
Despite some deceleration in the demand side, our nowcasts on expenditures side of GDP reveal that aggregate demand is still stronger than supply but at least the gap is closing thanks to the recent policy normalization on top of macro prudential policies. Our monthly GDP indicator nowcasts 5.7% y/y growth (with 27% of info.) in 3Q while our demand components excluding stocks display close to 9.4 percentage point contribution, signaling continuing depletion in stocks (Figure 4). The good news is that while consumption slows down (Figure 5), investments are recovering (Figure 6), most likely with the help of the construction related activities after the earthquake. Last but not least, applied macro prudential measures curbed imports to some extent while exports recovered slightly, resulting in the negative contribution of net exports to growth to shrink (Figure 7).

Figure 3. **Garanti BBVA Big Data Consumption (real, 28-day sum, YoY)**



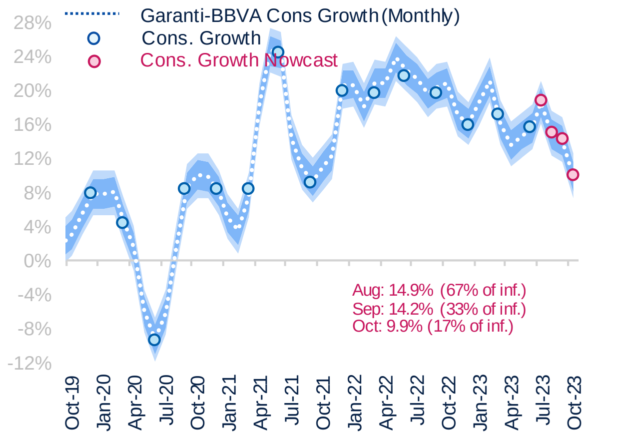
Source: Garanti BBVA Research

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



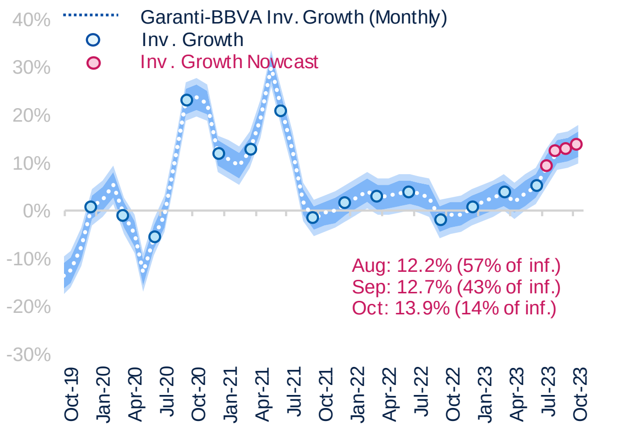
Source: Garanti BBVA Research, *Garanti BBVA monthly GDP indicator is an average of different model results synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

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



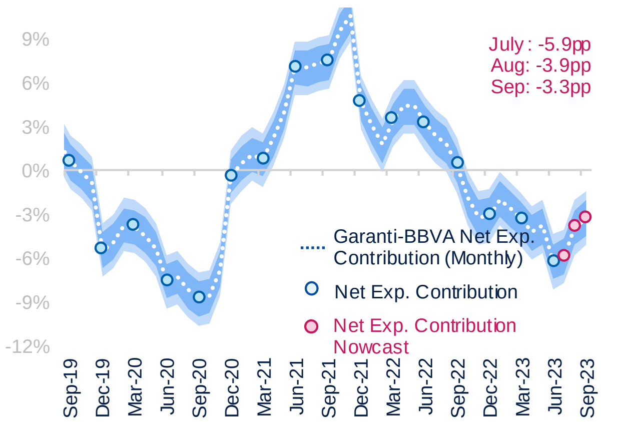
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



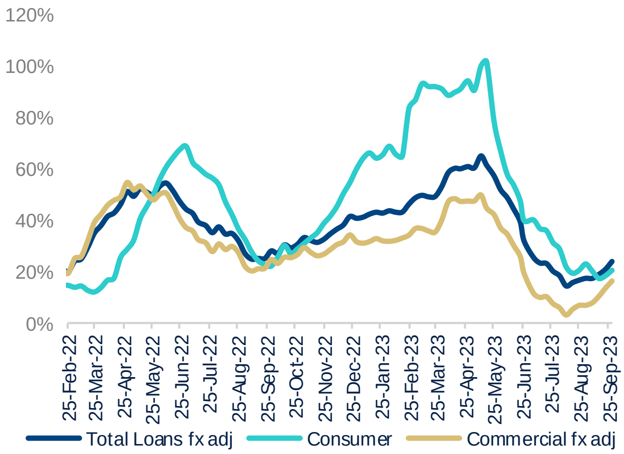
Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

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



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 8. **Credit Growth (13-Week average, annualized growth rates)**



Source: BRSA, Garanti BBVA Research

Our baseline remains a soft landing growth scenario

The new economic management continues to target a smooth landing in the economy by gradually increasing interest rates while loosening the ceiling on loan rates and imposing monthly growth ceilings on selected loan segments. While we observe the normalization in aggregate demand, the supply side remains weak. The recent reduction in the costs of rediscount credits for exporters, recovery of commercial loans and construction expenditures in the earthquake zone may support production in the last quarter. On the other hand, as a result of the decline in consumer loans, the gap between production and demand may narrow further. Considering these factors together, we expect growth to be 4.5% this year and moderate to 3.5% in 2024, on the back of gradual adjustment in monetary policy and relatively supportive fiscal policy in the short term.

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