Activity Pulse

Türkiye | Further slow-down in economic activity

Adem Ileri / Tugce Tatoglu / Gul Yucel

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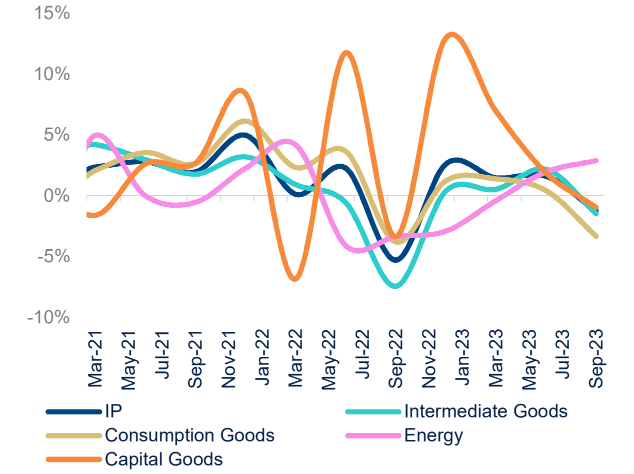
Industrial production (IP) slightly fell by 0.1% m/m in seasonal and calendar adjusted series in September, which corresponded to 4.0% y/y growth in calendar adjusted terms. Its quarterly trend reflected the slow-down in economic activity in 3Q with 0.3% q/q (vs. 2.1% q/q in 2Q). Meanwhile, turnover indices contracted sharply in real terms mainly due to a broad-based deterioration. On demand side, quarterly slow-down in retail sales together with monthly contraction in the last two months, signalled that domestic demand has started to lose momentum. Our big data indicators confirm this trend with further deceleration in consumption led by the worsening in both services and goods consumption in early November. Our monthly GDP indicator nowcasts 6-6.5% annual GDP growth in 3Q and 4.4% as of November (with 23% info), showing nearly 1% q/q in 3Q but a faster deceleration in 4Q with a slightly negative quarterly growth rate. We maintain our GDP growth forecast at 4.5% for 2023 and at 3.5% for 2024. Despite acknowledging downside risks on near term growth outlook, we maintain our soft-landing assumption with expected fiscal impulse, efforts to facilitate commercial lending (CGF, state banks) and support from potential foreign capital inflow.

Production remains weak, domestic demand has begun to normalize

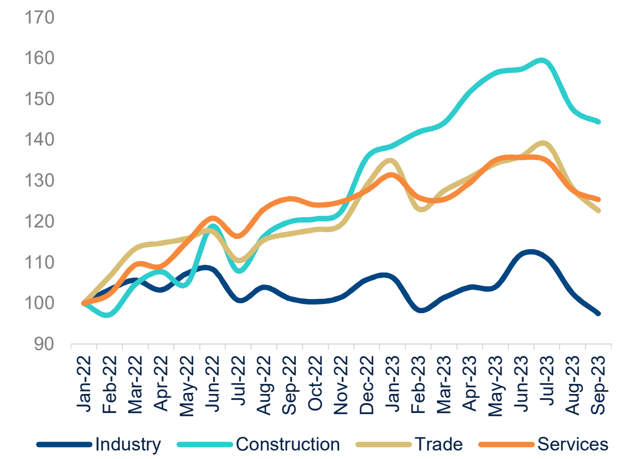
In seasonal and calendar adjusted series, IP has been contracting in monthly terms since June (1.3% cumulatively), whereas its September level still stood very close to the pre-quake January level. On quarterly trends, industrial activity geared down sharply in 3Q (0.3% q/q), following the rapid recovery from the devastating impact of the quakes recorded in 2Q (2.1% q/q). The deceleration mainly stemmed from the quarterly contractions of capital goods and consumer (mostly non-durable) goods production. Growth in intermediate goods production decelerated and energy goods production accelerated. On sectorial basis, real appreciation of the currency and weak foreign demand continue to negatively affect export-oriented sectors, particularly, textile & clothing, motor vehicles, other transport (mostly defence industry) and fabric metal. The monetary tightening and gradually decelerating domestic demand also seemed to put pressure on domestic demand-oriented sectors across-the-board. The exceptional sectors which were able to recover in this period were pharmaceutical, sub-sectors of mining and electricity production.

Figure 1. **Industrial Production Main Sub-Indices (seasonal and cal. adj., QoQ, %)**



Source: Garanti BBVA Research, TURKSTAT

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

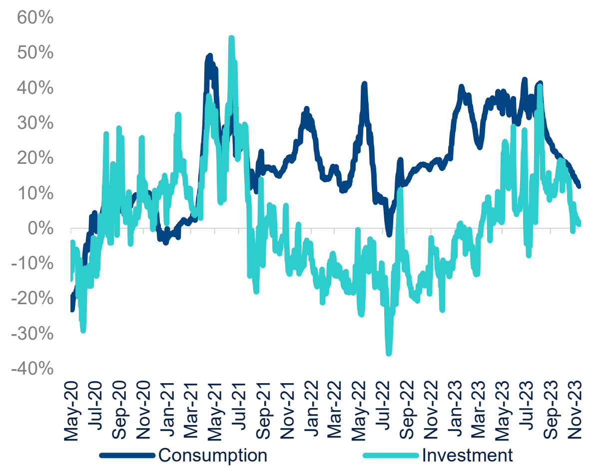


Source: Garanti BBVA Research, TURKSTAT

The turnover indices continued to deteriorate in September with 3.3% m/m contraction in real terms (vs. -6.2% m/m previously). On quarterly trends, losses in turn-overs were widespread with nearly 1% real contraction in each of the sub-segment. Looking ahead, manufacturing capacity utilization rate declined by 0.1 pp to 76.8% in October but it still remained above the 3Q average of 76.5%. Manufacturing PMI dropped further in October to 48.4 (vs. 49.5 in 3Q), remaining below the critical threshold and confirming the deeper worsening in manufacturing activity. Last not but least, led by much tighter financial conditions, commercial credits trend stayed weak despite limited acceleration in the most recent weeks. All in all, leading indicators show further worsening in production.

On demand side, consumption continues to decelerate but only gradually. Retail sales contracted further in September by 0.7% m/m and lost pace on quarterly terms (0.4% q/q in 3Q vs. 5.1% q/q prev.). Second, import volume declined by 2.9% m/m in September, but it limitedly grew by 0.2% in 3Q compared to 2Q, led by mainly consumer goods. Moreover, preliminary October foreign trade figures signaled consumer goods imports continued to remain strong, where we assess that the ongoing credit card spending above inflation trend and unanchored inflation expectations play a key role. Our big data domestic demand indicators also show decelerating but still solid domestic demand pushed by mainly private consumption which is being triggered by goods consumption.

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



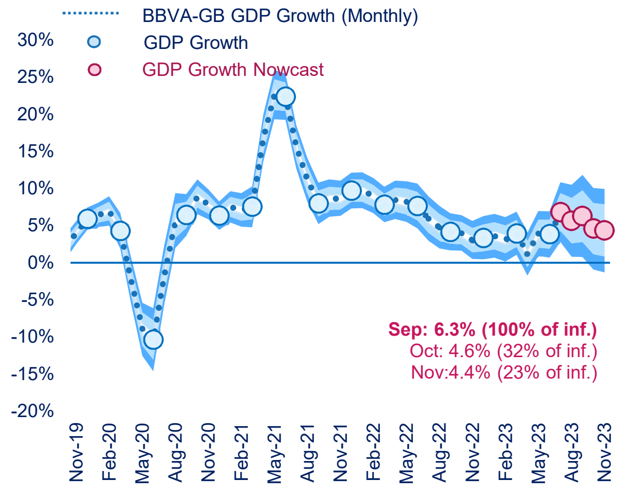
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **Garanti BBVA Big Data Consumption** (real, 28-day sum, YoY)

Source: Garanti BBVA Research, TURKSTAT

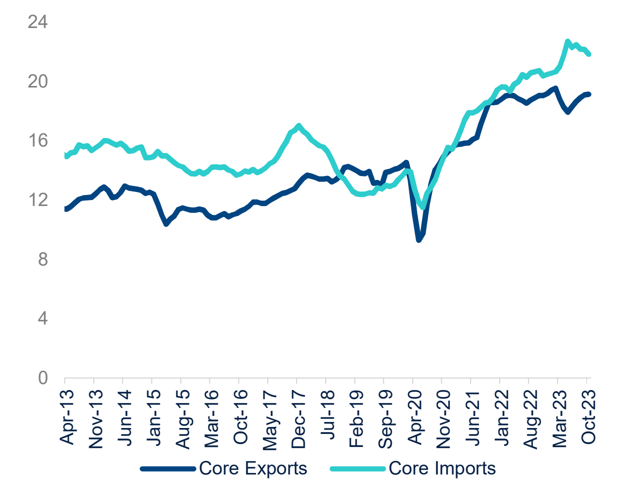
As seen in our big data domestic demand indicators, it is fair to say that demand components will keep on normalizing in the near future. However, production has already weakened much faster as our monthly GDP indicator nowcasts further slow-down in activity with 4.6% y/y growth (with 32% of info) in October and 4.4% y/y (with 23% of info) in November, corresponding to a limited quarter-on-quarter contraction in 4Q after a quarterly growth rate of 1-1.5% in 3Q. Since monetary tightening takes place gradually, the gap between aggregate demand and supply has narrowed down very slowly so far, which eventually helps only the stabilization in import demand. More tightening is needed to reduce import demand and lead to a clearer rebalancing in the economy.

Figure 5. **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 6. **Goods Exports & Imports** (excluding energy & gold, sa, 3M avg., US$bn)



Source: Garanti BBVA Research, TURKSTAT

Ongoing positive output gap requires further tightening

Despite recent deceleration in activity, the year-to-date strong performance will lead GDP growth to get closer to our expectation of 4.5% in 2023. Gradual policy normalization accompanied with macro-prudential policies have started to lead domestic demand to decelerate but the demand is still stronger than supply, indicating still high positive output gap. Hence, the pressure on inflation and current account deficit remains alive. The adjustment in economic policies (both monetary and fiscal) in terms of both magnitude and timing would be decisive on growth. Despite acknowledging downside risks on near term growth outlook, we maintain our soft-landing assumption with the expected fiscal impulse ahead of the local election in March 2024 and support from potential foreign capital inflow. Therefore, for the time being, we maintain our 2024 GDP growth forecast at 3.5%.

Research

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ENQUIRIES TO:
Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
www.bbvaresearch.com