Activity Pulse

Türkiye | Supply conditions weaker than demand

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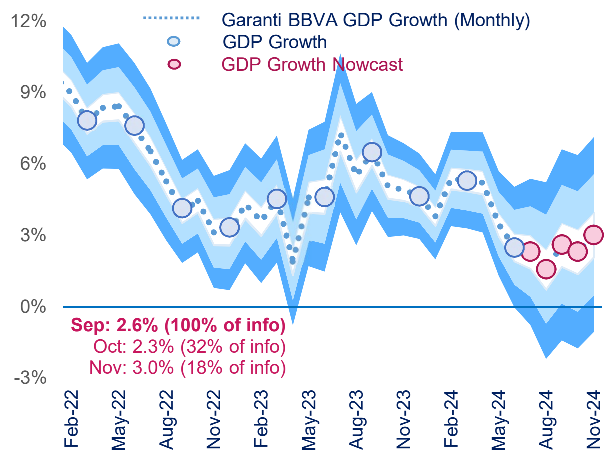
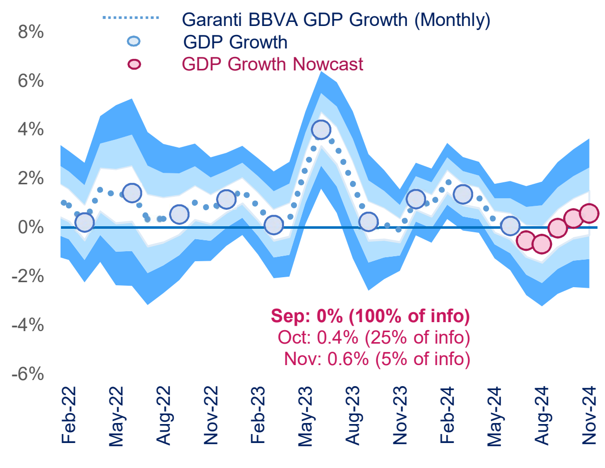
- Tight financial conditions continue to put downside pressure on the production side but the leading indicators on the demand side signal a bottoming out in 4Q, led by private consumption, following a weakening in 3Q. Despite the fact that the output gap approached zero in 3Q, aggregate demand remains stronger than supply.
- On the supply side, industrial production remained weak while services and construction sectors were able to prevent a faster deceleration in 3Q. Leading indicators such as sectoral confidence indices, PMI and CUR also pointed that production could remain weak stemming from the ongoing tight monetary policy and still tight financial conditions as of November. Accordingly, our monthly GDP indicator nowcasts around 0% quarterly growth, implying 2.5% annual growth in 3Q. It signals the ongoing weak outlook in 4Q as well but with some recovery, which we should evaluate cautiously, given the limited information for November.
- Leading indicators show that aggregate demand, which weakened in 3Q led by the decline in private consumption, could rebound in 4Q. High inflation expectations under the real appreciation trend of the currency, the worsened income inequality, and the continuation of the credit composition favoring consumer loans, particularly credit cards, hinder the effectiveness of the monetary transmission mechanism.
- Considering current dynamics and ongoing tight financial conditions, we expect growth to be around 3.2% in 2024. In 2025, despite potential rate cuts, restrictive monetary policy—driven by upside inflation risks—could exert downward pressure on growth. Additionally, potential protectionist trade policy measures by President-elect Donald Trump following the U.S. elections could amplify downside risks to the growth in the coming years. Finally, we believe that the fiscal consolidation expected to support the fight against inflation in 2025 could be calibrated to mitigate the downside risks posed by protectionist policies, aiming for a soft landing. While we maintain our growth forecast for next year at 2.7%, the downside risks are increasing.

Figure 1. **Garanti BBVA Monthly GDP Nowcast*** (3-month average YoY)



Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

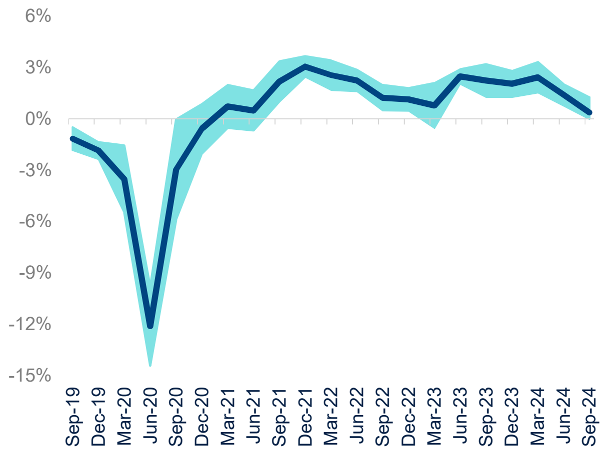
Figure 2. **Garanti BBVA Monthly GDP Nowcast*** (3-month average QoQ)



Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg

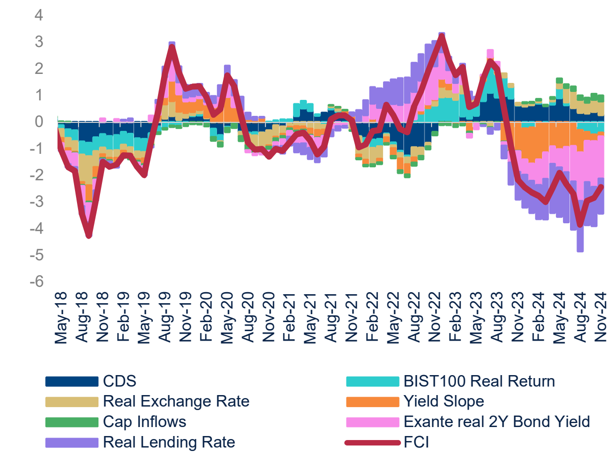
- On the supply side, industrial production (IP) rose by 1.6% m/m in September, driven by 1.3pp contribution from the increase in intermediate goods production. Sectoral details indicate that the improvement in IP primarily stems from export-oriented goods, such as computer and electronics, motor vehicles or fabricated metals. In 3Q, the quarterly decline in IP slowed down to 1.3% q/q, compared to a 4% q/q contraction in 2Q, which had been significantly affected by bridge day effects. Excluding the bridge day-effects and volatile sectors, the data suggests that the underlying decline in IP even accelerated (Figure 5). Quarterly trends in IP reveal an ongoing broad-based decline across all main industry groups, with intermediate goods falling by 0.5% q/q, consumer goods by 0.6% q/q, and capital goods by 4% q/q.

Figure 3. **Garanti BBVA Output Gap Estimate** (%, deviation from potential GDP)



Source: TURKSTAT, Garanti BBVA Research

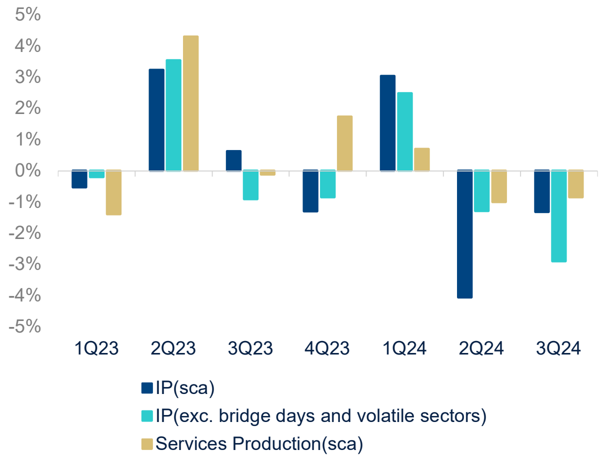
Figure 4. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: CBRT, Bloomberg, Garanti BBVA Research

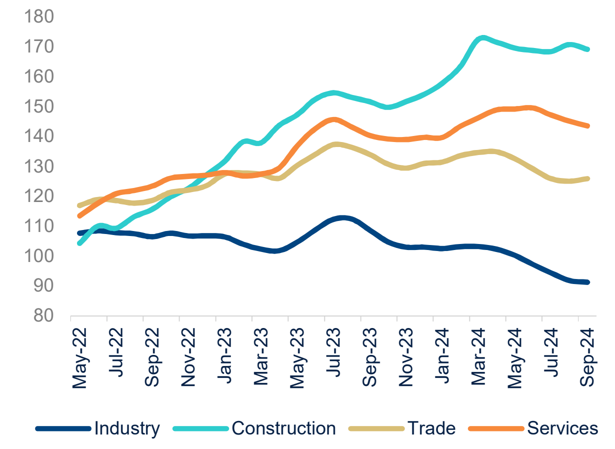
- Services production recorded a modest increase of 0.3% m/m in Sep24, which helped reduce the quarterly contraction to 0.8% (vs -1% in 2Q). Information and real estate activities increased on a quarterly basis while transportation and accommodation weighed on the downside.
- The real turnover index, a composite measure encompassing industry, construction, trade and services, rose by 2.7% m/m in September, which helped narrow the quarterly decline to 3.4% q/q in 3Q (vs. -3.8% q/q in 2Q). Industry turnover experienced a sharp decline of 6.1% q/q, reflecting the deteriorating activity in the sector. The construction sector was the only category to record a positive quarterly change, with turnover increasing by 0.2% q/q, recovering from the 2.2% decline seen in 2Q.
- All in all, construction and services sectors were able to prevent a faster deterioration in activity in 3Q while industrial production remained subdued.

Figure 5. **Industrial and Services Production** (seasonal and cal. adj., QoQ)



Source: TURKSTAT, Garanti BBVA Research

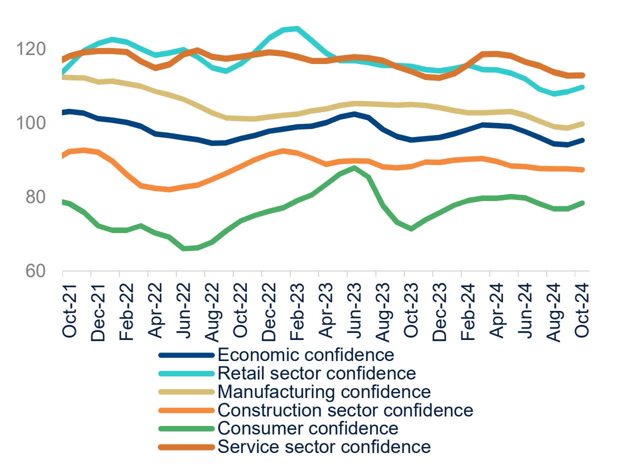
Figure 6. **Sectorial Turnover Indices** (real, 3MA, seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

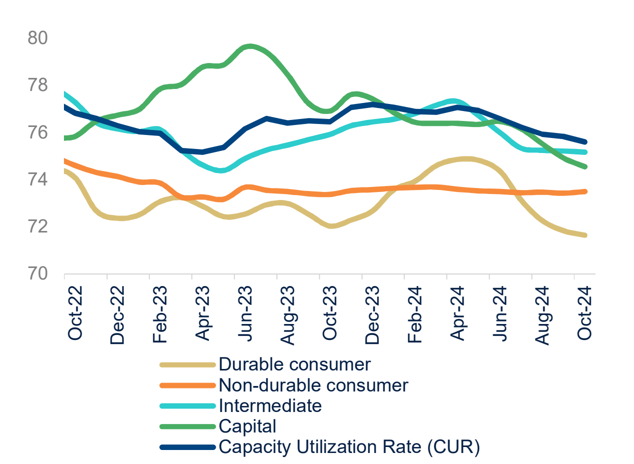
- Leading indicators signal that overall production remains weak in 4Q, driven by tight financial conditions, subdued external demand and gradually moderating domestic demand. Sectoral confidence indices in October indicated a recovery in the services sector but a decline in the construction sector. However, the trend in all sectors stayed below historical averages (Figure 7). While the manufacturing capacity utilization rate recorded 75.2% in October, 0.7pp lower compared to previous month (Figure 8), manufacturing PMI remained in the contraction territory despite a slight increase on a monthly basis. Additionally, although the economic tendency survey indicates a modest recovery both in current production volumes and expectations for production volumes over the next three months, driven by the rise in expectations of domestic orders, it still confirms a weak outlook (Figure 9). Intermediate goods imports excluding gold exhibited a slight monthly increase in October, following a quarterly contraction in 3Q (Figure 10). All in all, leading indicators so far confirm our expectation that GDP growth on a quarterly basis could remain stagnant, albeit weak, in 4Q.

Figure 7. **Economic Confidence Index** (seasonal and cal. adj., 3MA)



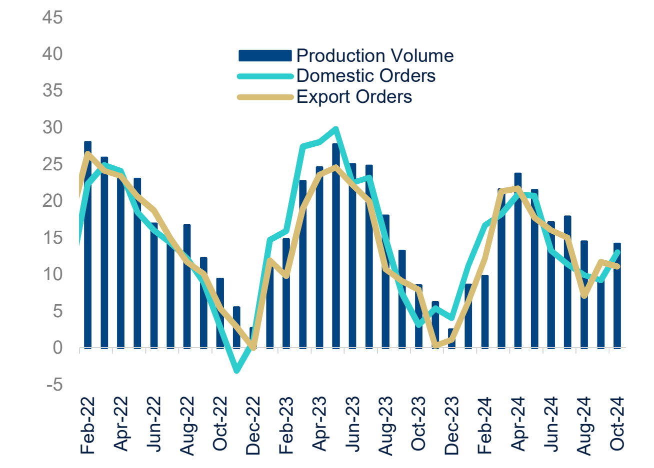
Source: TURKSTAT, Garanti BBVA Research

Figure 8. **Manufacturing Capacity Utilization Rate** (%, seasonal and cal. adj., 3MA)



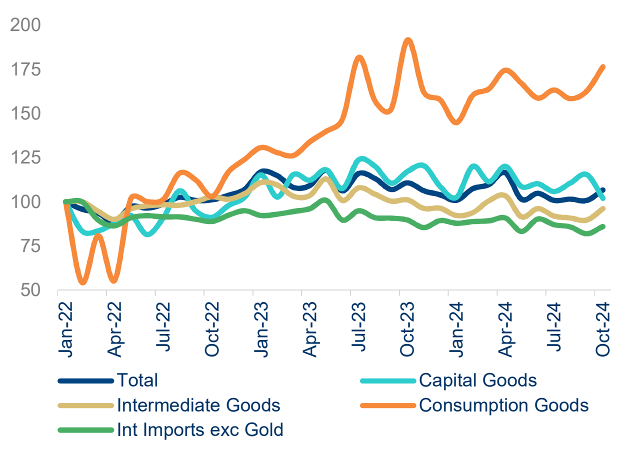
Source: CBRT, Garanti BBVA Research

Figure 9. **Production Volume, Domestic Orders and Export Orders in the Next Three Months** (Balance)



Source: CBRT, Garanti BBVA Research

Figure 10. **Import Sub-Components Volume** (2022 Jan=100, Level, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

- On the demand side, tight financial conditions had the most negative impact on durable consumption so far and all indicators signal somewhat a bottoming out in 4Q. First, consumption good imports remain at elevated levels, demonstrating a clear upward movement in the last two months according to our calculations in Oct24 (Figure 10). Second, both durable and non-durable consumption goods posted a positive turnover growth in Sep24 with 4.9% m/m and 2.8% m/m, respectively. Besides, on quarterly trends, the pace of worsening in consumption good turnovers seems to have slowed down as of Sep24 (Figure 11). Finally, the retail sales have been increasing for the past 4 months (2.3% m/m in Sep24) where the non-food sectors reported a relatively higher acceleration, which led to a solid 4.6% q/q growth in retail sales in 3Q24. Our dynamic consumption factor (Figure 12) displays a recovery on a quarterly basis in 4Q for private consumption, which is also supported by our big data indicator (Figure 13) and our monthly consumption nowcast (Figure 14).
- On investment, capital goods production increased by 3.8% m/m in September but contracted by 4% in 3Q on quarterly basis (vs -6.6% q/q in 2Q). Capital goods imports contracted in October following monthly increases in July and August, according to our calculations. In the meantime, according to the economic

tendency survey, there is a slight improvement in the expectations for fixed investment in the next 12 months in October. Our monthly investment GDP indicator nowcasts that investment might have recovered in 3Q following the sharp contraction in 2Q and this recovery is likely to continue in 4Q.

- Slow moderation in domestic demand coupled with supportive credit conditions on the retail side, result in a relatively more pronounced improvement in imports, whereas exports remained buoyant despite the weak foreign demand and the real currency appreciation. To sum up, the contribution from net exports to growth slightly declines in 4Q, according to our nowcast. (Figure 18).
- Overall, we observe aggregate demand excluding government expenditures and stocks as bottoming out in 4Q, where the private consumption supports the GDP growth on a quarterly basis (Figure 17). As of October, our monthly GDP nowcasts point to 1.9pp contribution from private consumption (vs. 0.1pp in Sep24) to annual growth, meanwhile the support from net exports (1.3pp) and investment (0.2pp) are slightly less. We expect continuing gains in growth in Nov24 mostly driven by private consumption, though we should keep our caution that information regarding economic activity in November is limited.

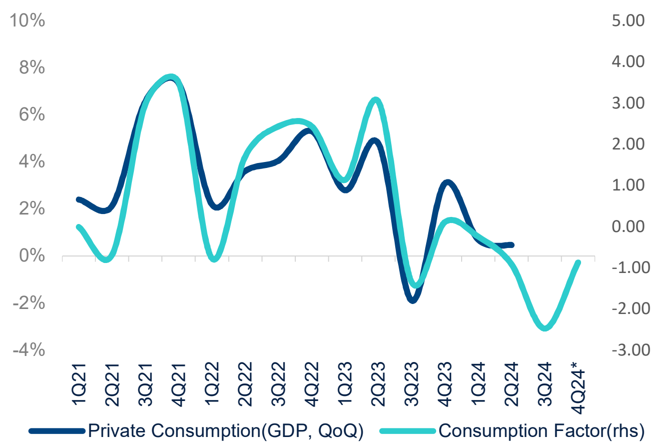
Figure 11. **Consumption Indicators Heat Map** (real, seasonal and cal. adj., QoQ)

		2023												2024									
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Non-Durable Goods Cons. Turnover	1.7	1.6	0.1	-1.4	-2.8	1.1	6.1	8.4	3.9	-4.5	-9.1	-8.8	-4.2	-1.1	1.2	1.5	2.6	1.3	-0.4	-3.6	-5.4	-4.9	
Retail Sales	1.9	7.7	6.7	5.5	3.8	6.6	6.8	7.1	2.9	1.5	-0.8	0.6	1.9	4.3	5.7	6.1	4.7	1.5	-0.4	0.2	2.7	4.6	
Cons. Goods Imports	1.7	12.1	15.1	11.9	4.4	4.6	9.3	20.7	21.4	16.8	7.0	4.3	4.1	-7.3	-8.6	-8.3	7.3	9.2	6.7	-1.9	-5.0	-3.2	1.7
Cons. Loans Exc. Mortgage	1.6	13.0	14.1	12.9	14.1	15.6	11.8	8.3	-0.8	-6.4	-9.7	-6.5	-0.2	1.9	2.6	1.1	0.5	1.3	-2.0	-1.6	-0.7	-0.4	-0.4
SCT & Import VAT	1.8	-0.1	2.8	4.7	4.0	7.5	12.1	17.6	16.7	13.0	5.4	-1.1	-5.7	-6.0	-4.3	-2.7	-1.5	-1.5	-3.5	-6.7	-9.6	-7.3	-4.2
Durable Cons. Goods Imports	1.8	14.9	20.4	9.0	-3.6	-6.0	-5.2	4.7	0.6	3.4	14.0	49.6	49.7	12.6	-22.5	-9.1	33.6	56.6	18.5	-27.3	-31.6	-15.4	

Contraction | Slow-down | Growth | Boom

Source:TURKSTAT, Ministry of Treasury, BRSA, Garanti BBVA Research

Figure 12. **Private Consumption vs Consumption Factor**

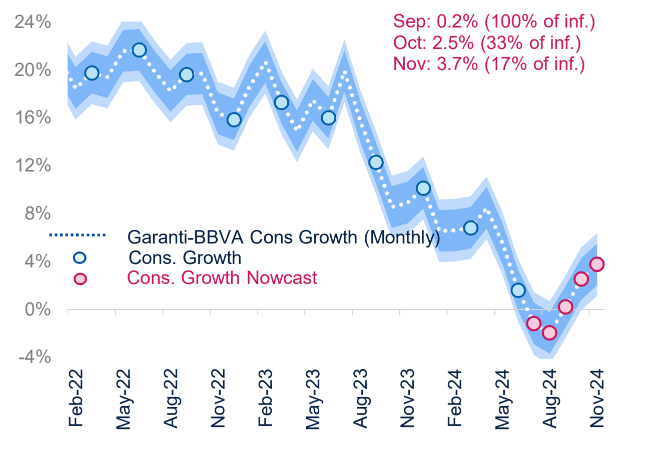


Source: Ministry of Treasury, TURKSTAT, Garanti BBVA Research, Dynamic Consumption Factor based on the variables in Figure 11, 4Q24* as of October

Figure 13. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)

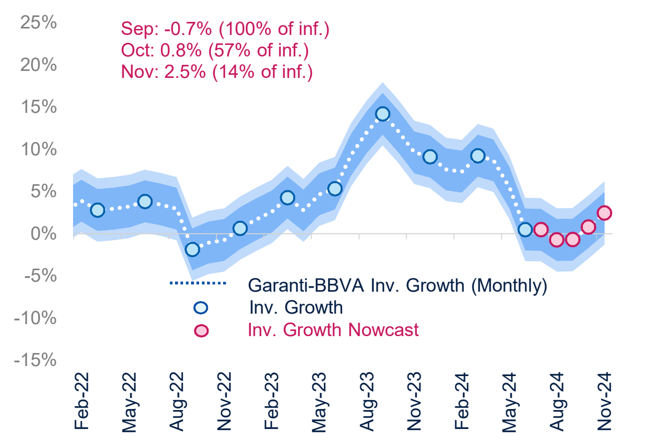
Source: TURKSTAT, Garanti BBVA Research

Figure 14. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



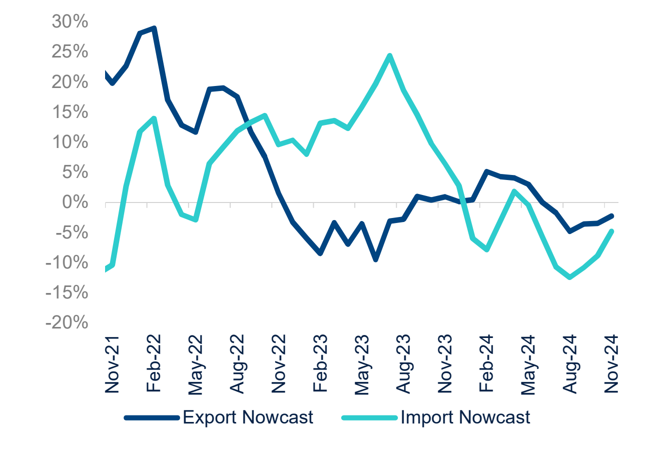
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 15. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



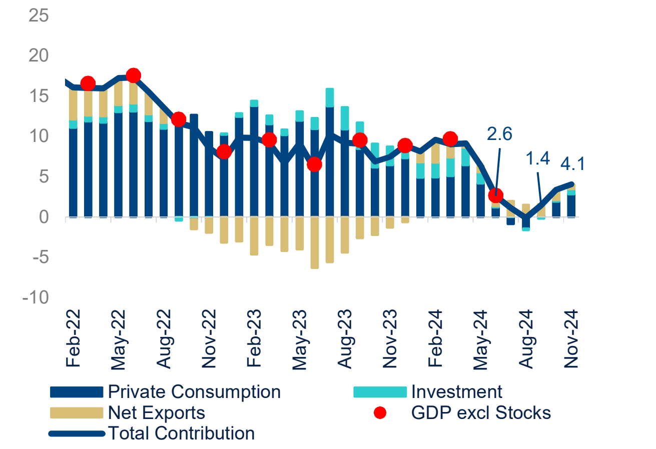
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 16. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 17. **GDP Demand Sub-Components** (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

BOTTOM LINE: While tight financial conditions continue to put downside pressure on the supply side, the rebalancing in aggregate demand is still far from the desired level. As the output gap continues to narrow, the imbalance between demand and production is shrinking but only gradually. In the upcoming period, the expected fiscal consolidation and restrictive monetary stance could help to have a further rebalancing in the economy. Considering the current dynamics, we maintain our growth forecast of 3.2% for 2024. On the other hand, we acknowledge the increasing downside risks on our 2025 GDP growth forecast of 2.7%. Potential protectionist policies from Trump could amplify downside risks on global growth. Additionally, uncertainties surrounding geopolitical risks are on the rise. Therefore, it is crucial to calibrate the fiscal policy not only to support the fight against inflation but also to minimize the potential impact of external downside risks on growth, which finally reduces the negative bias on our near term GDP growth forecasts. We will follow the GDP realizations for 3Q24 on November 29, 2024 to evaluate the most recent growth dynamics and composition, compared to our nowcasts.

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