BBVA Research

Activity Pulse

Türkiye | Mild contraction signals in 3Q24 GDP

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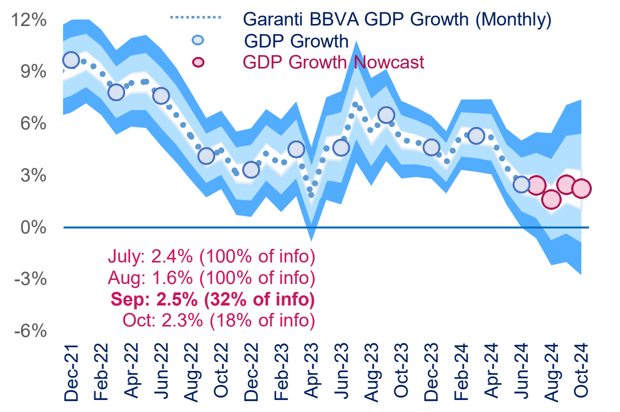
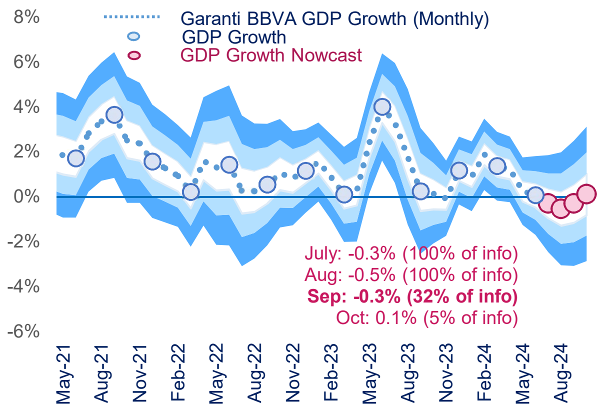
- The moderation in demand continues while the production side demonstrates a clearer worsening trend. The tightening in financial conditions has a higher impact asymmetrically on the production side, yet been unable to restrain the private consumption to a considerable extent.
- Hard data realizations and leading indicators point to a weaker performance on quarterly trends. The worsening in industrial activity continues; while construction, trade and services activity have contained a deeper deterioration in 3Q. Accordingly, our nowcasts post a quarterly decline of 0.3% in September despite the positive calendar day impact, in line with our previous expectations implying a 2.5% y/y GDP growth.
- The slow-down in aggregate demand has been led by private consumption in 3Q, while investment and net exports might have recovered on a quarterly basis. However, the recent increase in consumer goods imports and retail sales suggest that the correction may not be sufficient to reduce the very high gap of previous years between demand and supply. Although output gap turning to negative in 3Q shows that cost pressures have started to ease on inflation, the slow adjustment of the imbalance between demand and supply (Figure 4) may keep demand-driven inflationary pressures alive. To achieve a more decisive correction, it is crucial to have a comprehensive set of policies which would be more restrictive on especially reducing consumption in mid-to-high income groups.

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



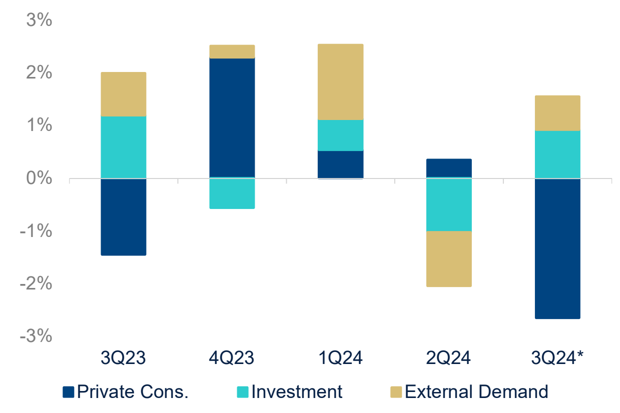
ource: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

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



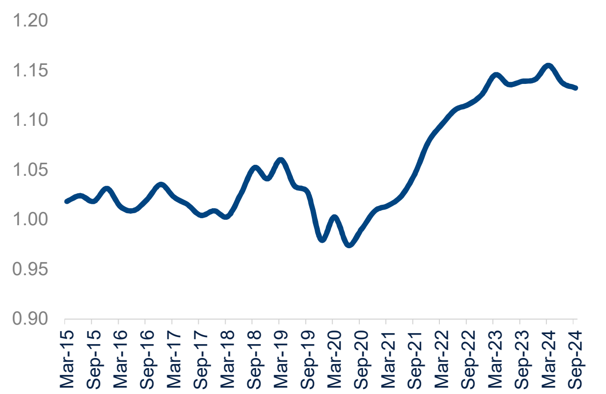
Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg

Figure 3. **GDP Expenditure Components*** (contribution to QoQ GDP Growth, pp)



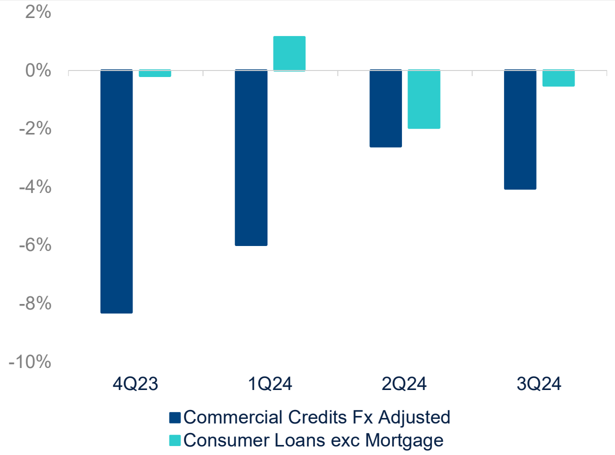
Source: TURKSTAT, Garanti BBVA Research
*3Q24 based on nowcasts for Demand Components, see graphs 15-18

Figure 4. **Aggregate Demand Excluding Stocks / GDP** (%)



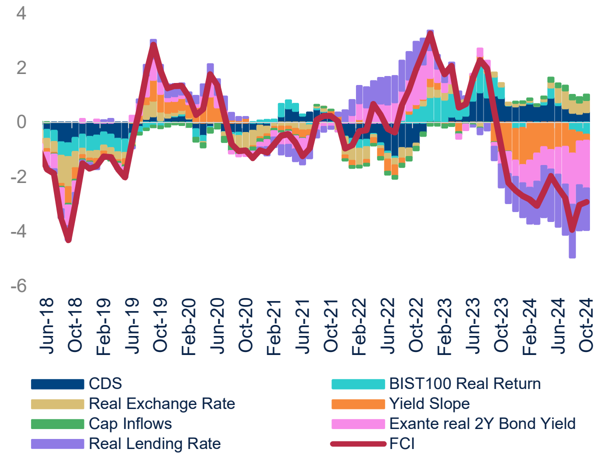
Source: TURKSTAT, Garanti BBVA Research

Figure 5. **Credit Growth** (QoQ, adjusted by CPI)



Source: BRSA, TURKSTAT, Garanti BBVA Research

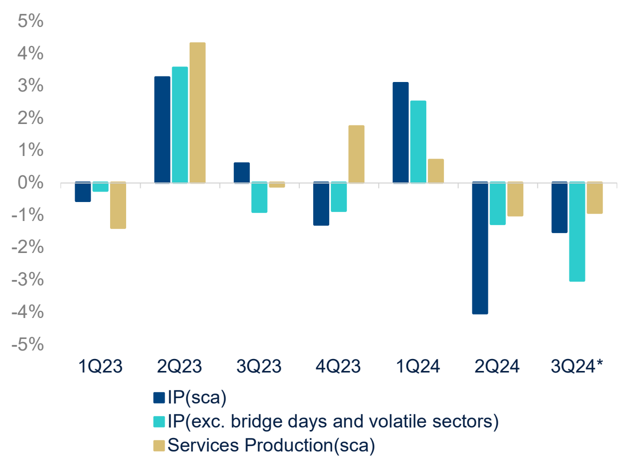
Figure 6. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: CBRT, Bloomberg, Garanti BBVA Research

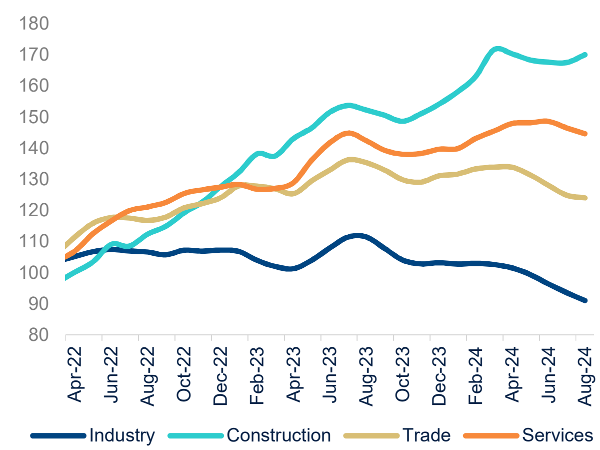
- Restrictive monetary policy, tight financial conditions and expected fiscal consolidation 2025 onwards may limit growth in the coming period. Hence, we expect growth to be 3.2% in 2024 with a retreat further to 2.7% in 2025.
- On the supply side, industrial production (IP) declined by 1.6% m/m in August, on the back of broad-based losses in manufacturing (-1.3% m/m), mining (-4.5% m/m) and electricity (-3.3% m/m). The sectorial details revealed the production in the majority of the manufacturing sectors decreased on monthly terms, much worse than the long-term averages in August. The quarterly trends pointed to the ongoing worsening in production with -4.0% q/q in intermediate goods, -2.9% q/q in consumption goods and -6.5% q/q capital goods.
- Real turnover index (composite of industry, construction, trade and services) recovered only slightly in August (0.6% m/m vs. -3.7% m/m prev.) supported by construction (7.6% m/m), trade (1.1% m/m) and services (0.2% m/m). Meanwhile, real turnover in industry continued to decline (-1.9% m/m vs. -3.3% m/m prev.). On quarterly terms, there was a broad-based worsening in turnovers (Figure 8) except for the construction sector, confirming the continuing deceleration in overall activity.
- The contraction in services sector production on a quarterly basis continued in 3Q (Figure 7) yet to a lower extent compared to 2Q since services production declined by 0.2% m/m in August, while contracting by 0.9% on quarterly trends. Therefore, services and construction sectors so far seem to prevent a deeper deterioration in activity.

Figure 7. **Industrial and Services Production** (seasonal and cal. adj., QoQ)



Source: TURKSTAT, Garanti BBVA Research, *as of August in 3Q24

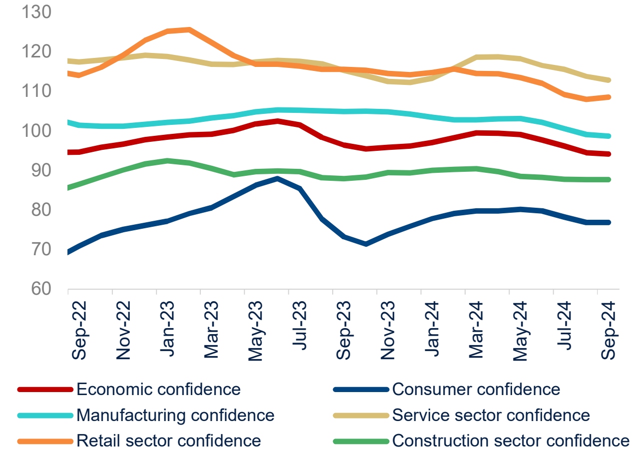
Figure 8. **Sectorial Turnover Indices** (real, 3MA, seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

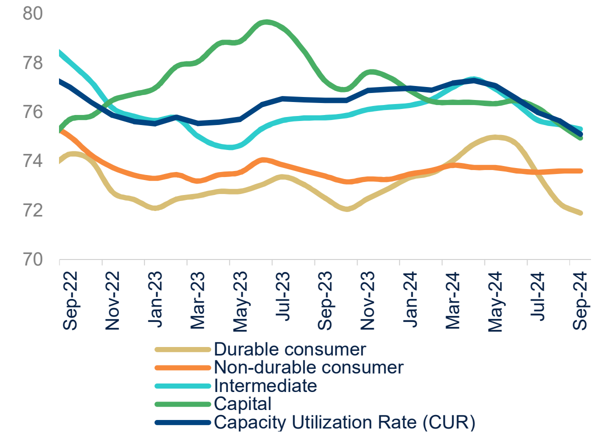
- Leading indicators overall signal that the deterioration in activity has deepened in 3Q, despite the positive calendar day impact. Even though the economic confidence index improved in September (2.0% m/m) on the back of consumer confidence, we observe further worsening on quarterly trends (-3.6% q/q in 3Q24 vs. -1.8% q/q in 2Q24), led by a broad-based deterioration among all sectors (Figure 9).
- Manufacturing capacity utilization rate (CUR) remained below its long-term average in September with 75.9% despite 0.2pp improvement compared to previous month. Meanwhile, quarterly decline in capacity deepened further, on the back of the deterioration in the capacity of durable consumer, intermediate and capital goods (Figure 10). Manufacturing PMI plummeted in September (44.3 vs. 47.8 prev.), marking the worst level since May 2020 where the pandemic had hit the economy the hardest, in the presence of subdued demand conditions.
- The economic tendency survey (Figure 11) results confirmed the deteriorating demand conditions with the 3-month ahead expectations on production volumes worsening despite the slight improvement in the expectations of export orders. The sentiment of the producers signal a relatively more challenging outlook on the production side, also confirmed by the declining imports of intermediate goods excluding gold (Figure 12).

Figure 9. **Economic Confidence Index** (seasonal and cal. adj., 3MA)



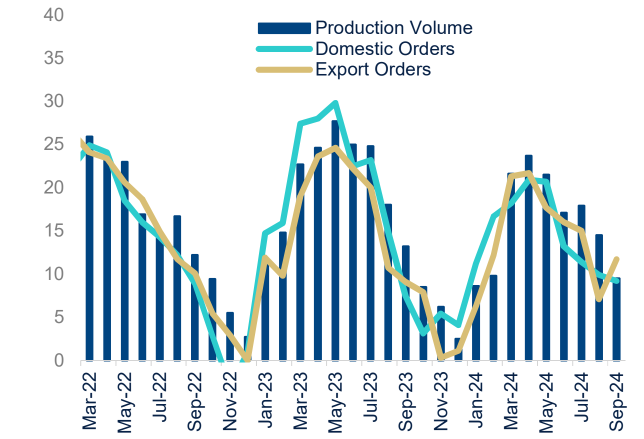
Source: TURKSTAT, Garanti BBVA Research

Figure 10. **Manufacturing Capacity Utilization Rate** (%, seasonal and cal. adj., 3MA)



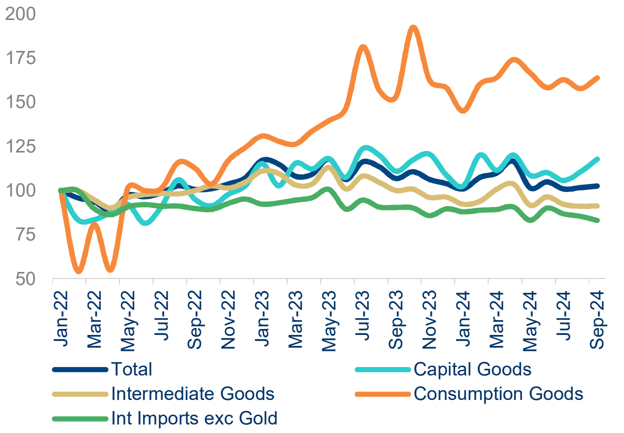
Source: CBRT, Garanti BBVA Research

Figure 11. **Production Volume, Domestic Orders and Export Orders in the Next Three Months** (Balance)



Source: CBRT, Garanti BBVA Research

Figure 12. **Import Sub-Components Volume** (2022 Jan=100, Level, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

- Considering the demand side, private consumption might have contracted in 3Q, while investment and net exports might have contributed positively on a quarterly basis. On the consumption, some indicators (Figure 13) posed a clear adjustment such as non-durable consumption goods turnover, durable consumption goods imports and the total amount of import value added and special consumption tax revenues. On the other hand, retail sales, increasing in the last three months and some recovery in non-durable consumption goods imports recently point to a correction, which could be more moderate on the back of high inflation expectations and wealth effects. Our dynamic factor model for consumption (Figure 14) portrays a clearer picture, showing that private consumption might have contracted in 3Q. Also, our monthly private consumption nowcast (Figure 16) switched to the negative territory in August and showed only a slight recovery in September on an annual basis. Accordingly, we observe a pick-up in our goods and services consumption big data indicators on annual basis since August (Figure 15) but in volumes services consumption decelerates and goods consumption remains resilient.

- On the investment side, capital goods imports rose in the last two months but contracted on a quarterly basis, while the expectations for fixed investment for the next 12 months remained weak in September suggesting that the subdued trend in investment is likely to continue. On the other hand, after a sharp contraction in 2Q, we calculate a technical recovery in investment based on our monthly investment GDP nowcast (Figure 16).
- The moderation in domestic demand led imports to adjust on the downside while exports remained buoyant despite weak external demand and recent real appreciation trend of the currency. As a result of the ongoing improvement in external balance, our nowcasts point to a positive contribution from net exports in 3Q (Figure 17-18).
- Overall, we observe a rebalancing to some extent in 3Q, but it is still far from the expectations as the aggregate demand excluding stocks still remain stronger than supply. Our GDP nowcasts show that the net exports are likely to provide the highest contribution (1.4 pp in Aug24 and 1.2pp in Sep24) to annual growth in 3Q, meanwhile the investment's (-0.2 pp in Aug24 and -0.1 pp in Sep24) and consumption's (-1.7 pp in Aug24 and +0.5 pp in Sep24) support will be relatively more limited.

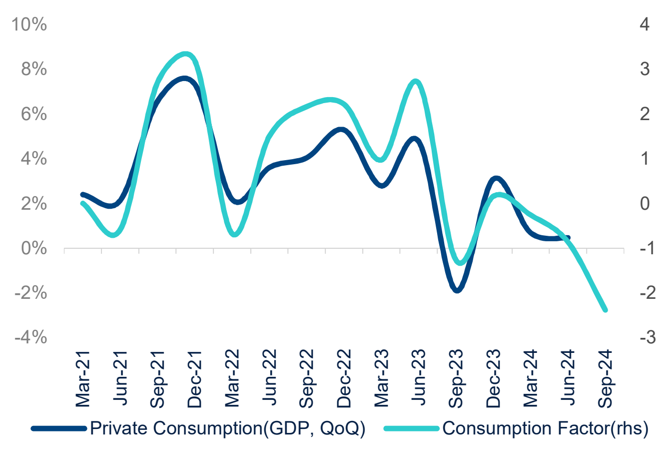
Figure 13. **Consumption Indicators Heat Map** (real, seasonal and cal. adj., QoQ)

		2023												2024								
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Non-Durable Goods Cons. Turnover	1.7	1.7	0.1	-1.4	-2.8	1.1	6.0	8.3	3.8	-4.6	-9.1	-8.7	-4.1	-0.9	1.2	1.5	2.5	1.2	-0.5	-3.8	-5.6	
Retail Sales	1.9	7.7	6.6	5.5	3.7	6.5	6.7	7.0	2.9	1.5	-0.6	0.8	1.9	4.3	5.6	6.0	4.6	1.4	-0.5	0.0	2.5	
Cons. Goods Imports	1.7	12.1	14.9	11.6	4.2	4.3	9.1	20.5	21.2	17.0	7.4	4.9	4.4	-7.3	-8.8	-8.5	7.0	8.9	6.4	-2.1	-5.1	-3.0
Cons. Loans Exc. Mortgage	1.6	13.0	14.1	12.9	14.2	15.6	11.8	8.2	-0.9	-6.5	-9.7	-6.5	-0.2	2.0	2.7	1.1	0.6	1.3	-2.0	-1.6	-0.8	-0.5
SCT & Import VAT	1.8	-0.1	2.8	4.6	4.0	7.5	12.1	17.6	16.6	12.9	5.4	-1.0	-5.5	-5.9	-4.3	-2.8	-1.5	-1.5	-3.5	-6.8	-9.7	-7.5
Durable Cons. Goods Imports	1.8	14.9	19.8	8.5	-4.0	-6.4	-5.6	4.3	0.3	3.6	15.0	51.4	50.7	12.6	-22.8	-9.6	32.8	56.0	18.1	-27.6	-31.9	

Contraction | Slow-down | Growth | Boom

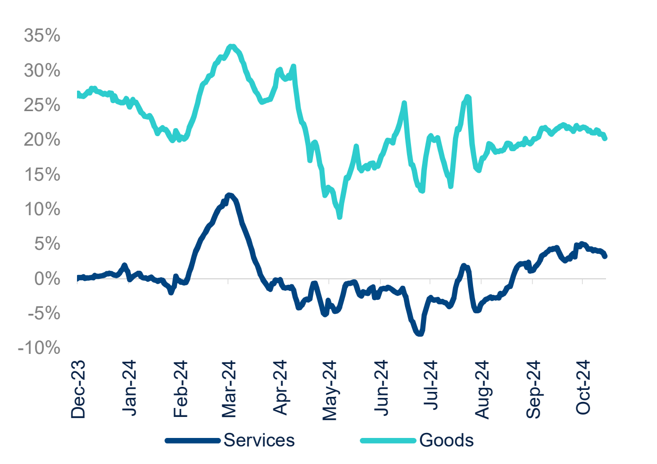
Source:TURKSTAT, Ministry of Treasury, BRSA, Garanti BBVA Research

Figure 14. **Private Consumption vs Consumption Factor***



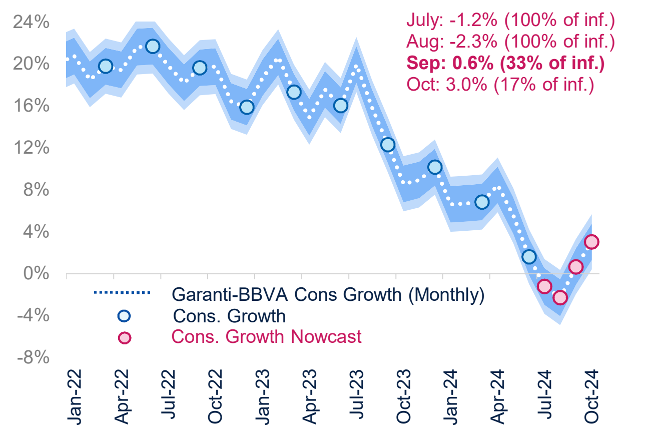
Source: Ministry of Treasury, TURKSTAT, Garanti BBVA Research, Dynamic Consumption Factor based on the variables in Figure 13

Figure 15. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)



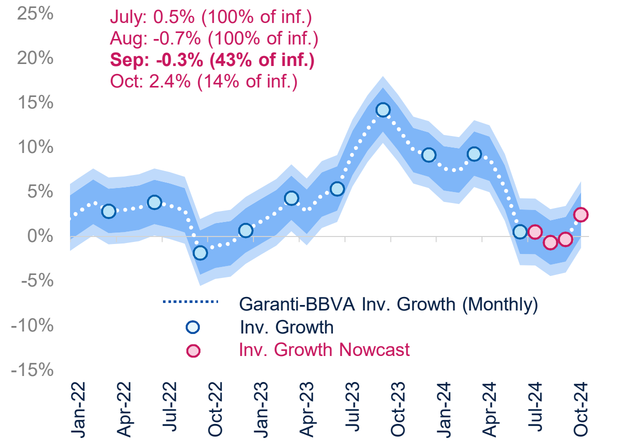
Source: TURKSTAT, Garanti BBVA Research

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



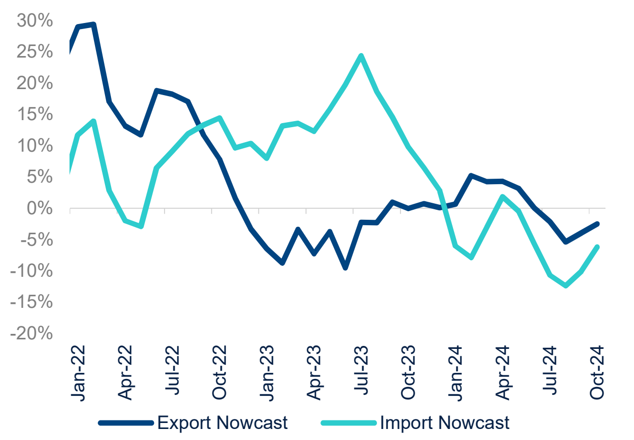
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 17. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



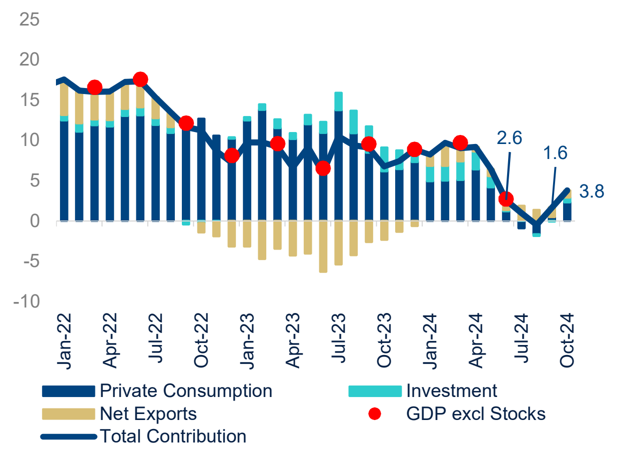
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 18. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



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

Figure 19. **GDP Demand Sub-Components** (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

BOTTOM LINE: The tight monetary policy and restrictive financial conditions has a clear impact on the economic activity. However, this rebalancing is happening more noticeably on the production side, while resulting in only a moderate adjustment in domestic demand. Hard data and leading indicators confirm an ongoing weakening on the supply side mostly in industry, whereas services and construction sectors restrain a sharper adjustment. Meanwhile, on the demand side, private consumption might have contracted in 3Q, while investment and net exports might have remained supportive on a quarterly basis. However, despite our observations that output gap could turn into negative territory as of 3Q, the imbalance between aggregate demand excluding stocks and supply has diminished very gradually, which leads demand pull inflation to remain alive. Persistently high inflation expectations and the elevated inflation trend will require monetary policy to remain tight for longer. Additionally, we expect fiscal policy to provide a clearer support for the fight against inflation in 2025. As a result, the tight monetary policy maintaining macro-prudential measures like credit growth caps, and fiscal policy becoming tight next year could put downward pressure on the growth outlook in the near future. Therefore, we expect GDP growth to be 3.2% in 2024 and to decline to 2.7% in 2025.

Creating Opportunities

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