Activity Pulse

Türkiye | Gradual rebalancing in the economy

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Industrial production (IP) fell by 1.4% m/m in seasonal and calendar adjusted series in Nov23, while increasing slightly by 0.2% y/y on calendar adjusted terms. Quarterly IP trend confirmed the weakening in activity by showing 1.3% contraction in Oct-Nov23 compared to 3Q23 (vs. 0.1% q/q in 3Q23), triggered by mainly non-durable consumer goods production. Weak external demand accompanied with slowly decelerating domestic demand led industrial activity to remain subdued, while turnover indices also exhibited a broad-based but more limited deterioration in other sectors. On the demand side, our big data consumption indicators and consumer goods imports signal that consumption is not decelerating further since late 4Q23, which requires tighter financial conditions to help rebalance the economy and start anchoring inflation expectations. Our monthly GDP indicator nowcasts 3.5% annual growth for 4Q23 and 2.9% as of January. GDP growth will likely materialize closer to 4.5% in 2023 but decelerate to 3-3.5% in 2024 led by monetary tightening and poor foreign demand, where fiscal stance and size of capital inflows will be decisive for the pace of adjustment.

Weaker production amid inadequate deceleration in domestic demand

In seasonal and calendar adjusted series, IP fell by 1.4% m/m in Nov23, leading to a contraction in industrial activity for a fifth consecutive month and 1.3% shrinkage in Oct-Nov23 compared to 3Q23. Despite the broader worsening in sub-sectors, the decline in non-durable goods production was more evident with 3.8% in this period, followed by intermediate (-0.8%) and energy goods production (-0.8%). On sectorial basis, a deeper contraction in textile and clothing production was noteworthy (corresponding to half of the IP contraction in Oct-Nov23 period) as being unproductive labor intensive sectors affected by weak foreign demand and real appreciation of the currency where they lack of competition and face much higher labor costs. The other sectors which were prominent in weaker industrial activity in this period were electricity and gas production (favorable weather conditions) together with the shrinkage in chemical goods and fabricated metal production. Domestic demand sensitive sectors' production, particularly durable consumer goods, continued to weaken but the pace of adjustment has not been as astonishing as the export oriented sectors. Turnover indices in real terms (adjusted by CPI) also indicate that activity in other sectors continued to weaken but much more slowly and the adjustment in IP remained to be much deeper.

Figure 1. **Industrial Production Main Sub-Indices** (seasonal and cal. adj., Jan22=100)

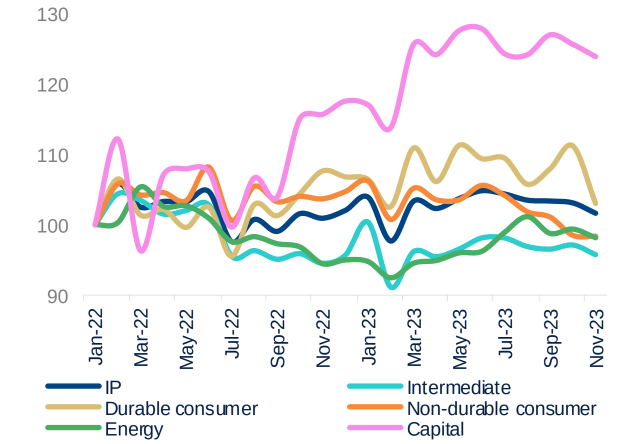
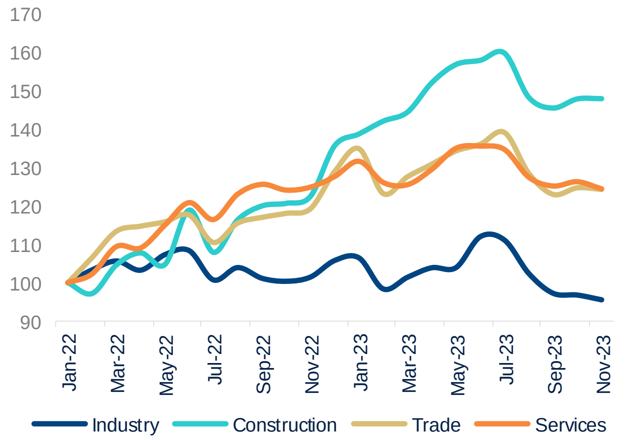


Figure 2. **Sectorial Turnover Indices** (real, seasonal and cal. adj., Jan22=100)



Source: Garanti BBVA Research, TURKSTAT

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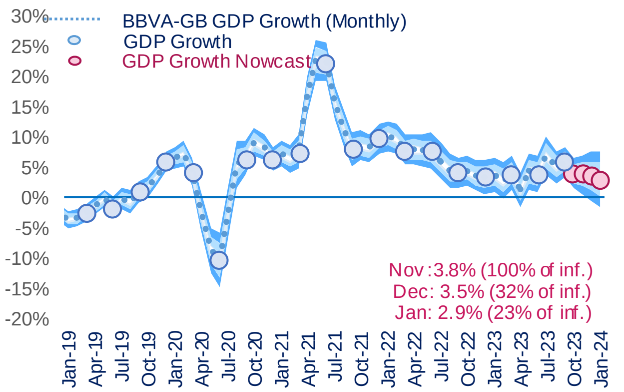
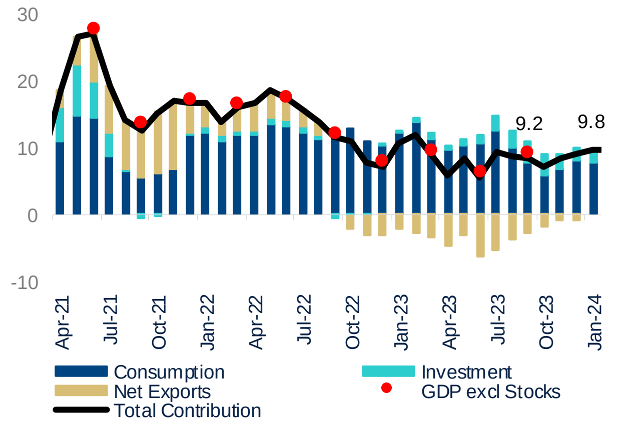
Looking ahead, leading indicators give mixed signals on the production side. Manufacturing capacity utilization rate contracted by 0.2 pp m/m to 77.3% in Dec23 but improved to 77.2% in 4Q23 compared to 76.5% in 3Q23. On the other hand, manufacturing PMI remained in the contraction zone for a sixth consecutive month in Dec23 (47.7 in 4Q23 vs. 49.5 in 3Q23) as output and new orders slowed-down further. Regarding the overall economic confidence, there was a limited quarterly contraction in 4Q23 (-0.2% q/q) compared to its trend in 3Q23 (-5.9% q/q). The significant improvement in consumer confidence was the main driver of this acceleration (3.6 q/q in 4Q23 vs. -16.7% q/q in 3Q23); while services, retail and manufacturing sectors continued to lose confidence and construction sector confidence recovered limitedly in this period. Preliminary foreign trade data for Dec23 pointed out that intermediate goods imports contracted by 4.3% in 4Q23 on a quarterly basis (based on our calculation) after shrinking by around 5% in 3Q23 and confirmed the continuation of worsening in industrial activity. On the credits side, there has been somewhat an acceleration in overall lending since 3Q23, where consumer credits differentiate more positively and make it more difficult to rebalance the economy in favor of exports. All in all, our GDP nowcast indicators signal a worsening production outlook with almost 0% quarterly GDP growth rate, which correspond to an annual growth rate of 3.5% in 4Q23 (32% information) and 2.9% as of January (23% of information).

Figure 3. **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 4. **Garanti BBVA Nowcast Contributions to GDP Growth** (annual, PP)



Source: Garanti BBVA Research, TURKSTAT

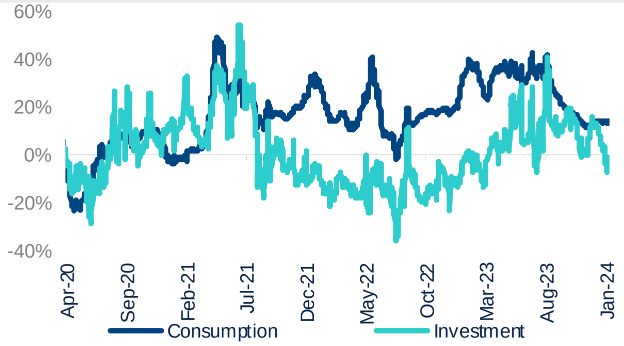
On the demand side, we still do not observe a clear deceleration amid targeted macro-prudential policies and tightening monetary policy. Retail sales contracted by only 0.1% in Oct-Nov23 period compared to 3Q23, while consumer goods imports only lost momentum with a quarterly growth rate of 3% in 4Q23 (vs. 11% in 3Q23), according to our calculations. Furthermore, our Big Data consumption indicators show that both goods and services consumption have stabilized since late 4Q23 after some normalization (Figure 5-6). Our GDP nowcasts on demand sub-components also indicate that the slow-down in private consumption has halted and in fact started to increase most recently (Figure 7), while investment adjust on the downside gradually (Figure 8). Overall, private consumption and investment contributed totally 9.8 percentage points to annual growth in 4Q23 (Figure 4) and the contribution of net exports recovered on the back of recent slight correction in imports and increase in exports (Figure 9-10).

Economic activity could decelerate further in 2024

All leading indicators show that domestic demand remains quite stronger than supply, pointing out continuation of upside risk on both inflation outlook and current account deficit. Therefore, recent easing in financial conditions led by excess TL liquidity, acceleration in consumer lending and wage hikes above targeted inflation should be reversed and fiscal policy should support the rebalancing in the economy. Under the assumption of tight monetary policy throughout the year, weak foreign demand and accelerating capital inflows after the local election, GDP could decelerate to 3-3.5% in 2024, where fiscal policy stance will be one of the determinant factors on the overall impact.

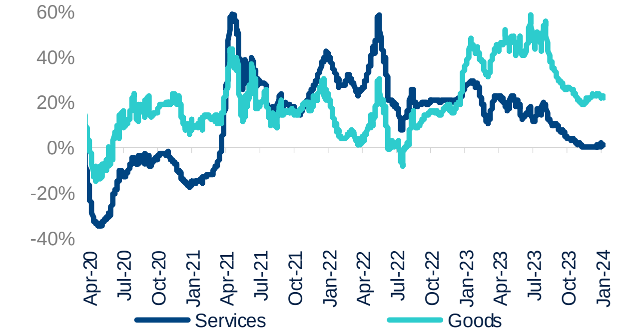
Parallel to our expectations, we observe the inclusion of earthquake related spending (nearly TL 950bn, 3.7% of GDP in 2023) on the Central Government budget on an accrued basis in Dec23 data, which finally resulted in an overall deficit of TL 1,375bn in 2023 (5.4% of GDP) and differed from the Treasury cash deficit realization of TL 625bn (2.5% of GDP). Therefore, we will closely watch how this accrued level will turn into spending in the very short term and how non-quake spending will evolve in order to evaluate the needed prudence to help the targeted disinflation.

Figure 5. **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, real, YoY)



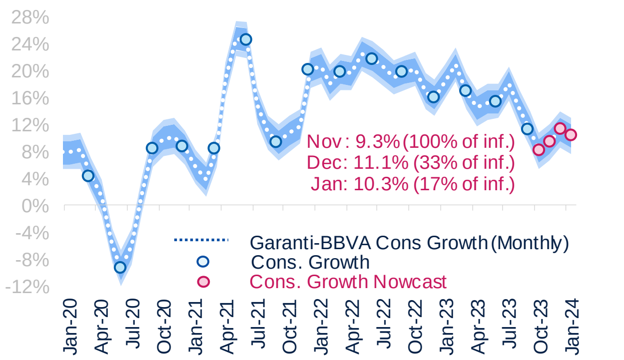
Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, real, YoY)



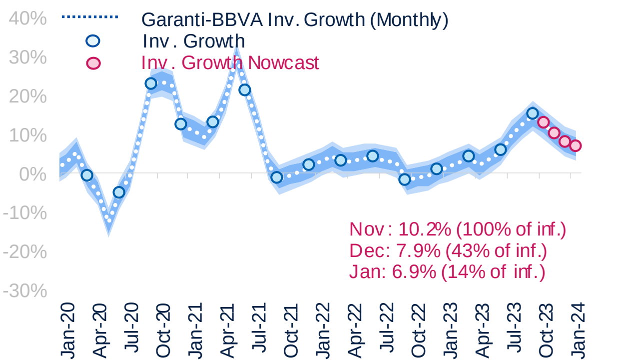
Source: Garanti BBVA Research, TURKSTAT

Figure 7. **Garanti BBVA Monthly Consumption GDP Nowcast** (3M YoY)



Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 8. **Garanti BBVA Monthly Investment GDP Nowcast** (3M YoY)



Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 9. **Garanti BBVA Monthly Net Exports Nowcast** (contribution to annual GDP, pp)

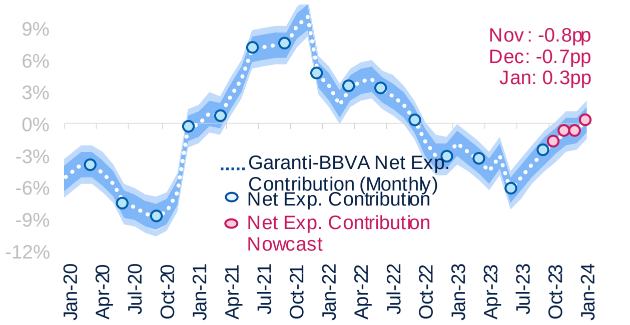
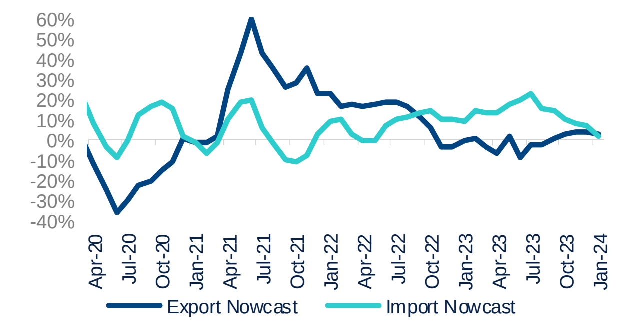


Figure 10. **Garanti BBVA Monthly Exports & Imports Nowcast (3M, YoY)**



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY

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