Creating Opportunities

Activity Pulse

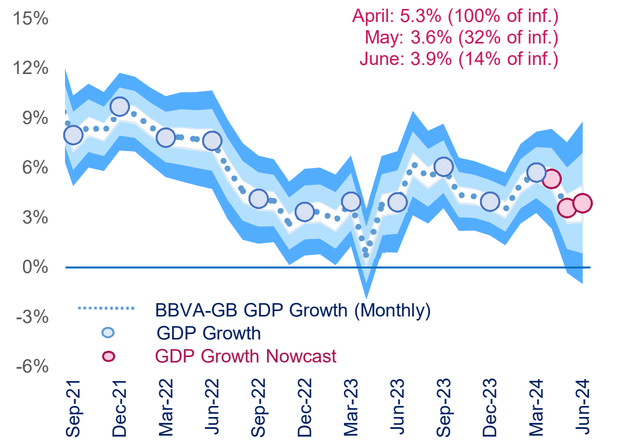
Türkiye | Deceleration in economic activity in 2Q24

Ali Batuhan Barlas / Adem Ileri / Gul Yucel

13 June 2024

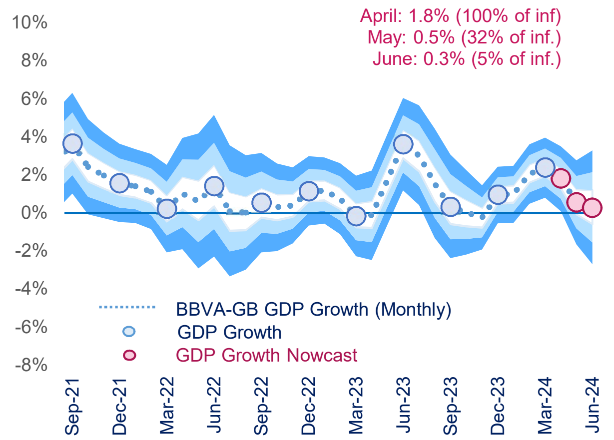
- After the strong growth performance (2.4% q/q) in 1Q24, our monthly GDP indicator nowcasts 0-0.5% quarterly growth in 2Q24, implying closer to 4% y/y GDP growth as of early June.
- Despite the tight financial conditions, the targeted rebalancing in the economy has been slowly taking place due to the counter effects over the monetary transmission mechanism and still supportive fiscal stance. Production is more clearly decelerating in late 2Q24 so the positive output gap is declining (Figure 4). Yet, the partial normalization in aggregate demand so far prevents a faster adjustment in inflation trend and import demand, keeping inflation expectations divergent from the targets.
- Considering the strong performance of 1H24 and the expected lagged impact of a tighter policy mix, risks start to be tilted to the upside for our 2024 GDP forecast of 3.5% and to the downside for our 2025 GDP forecast of 3.5%.

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



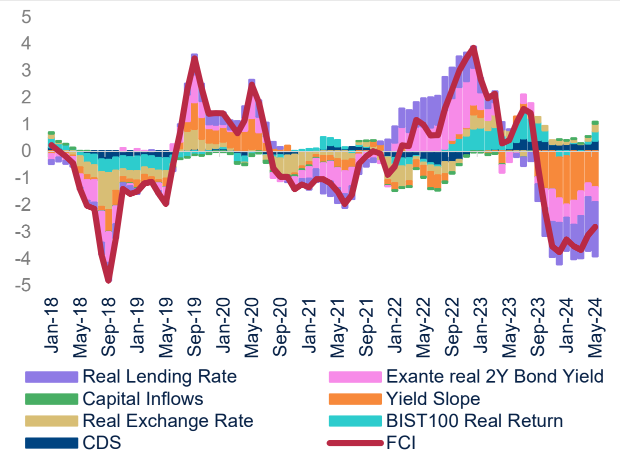
Source: Garanti BBVA Research, GBTRGDPY Index in BBG
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

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



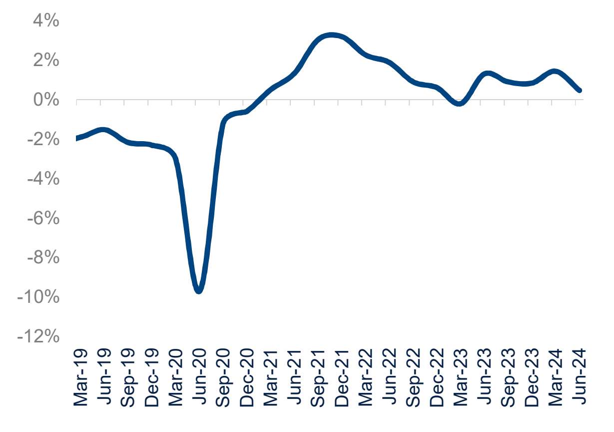
Source: TURKSTAT, Garanti BBVA Research

Figure 3. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: CBRT, Bloomberg, Garanti BBVA Research

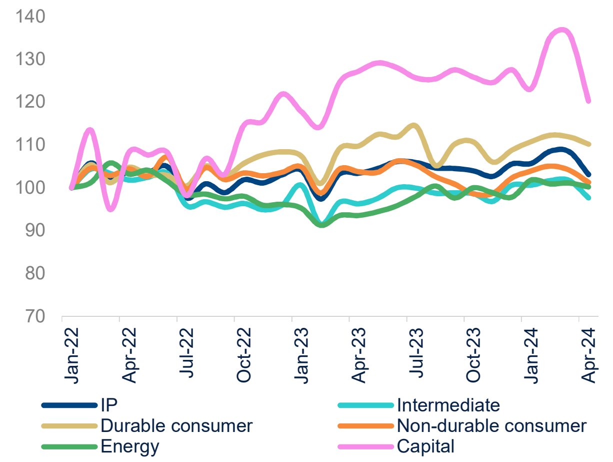
Figure 4. **Garanti BBVA Output Gap** (% deviation from Potential GDP)



Source: TURKSTAT, Garanti BBVA Research

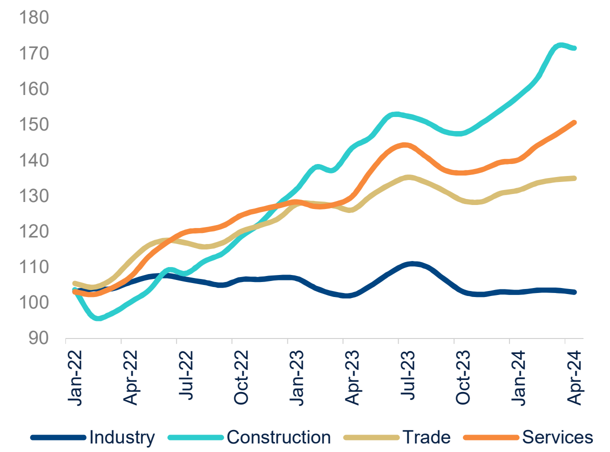
- On the supply side, the bridge day effects that occurred with the extension of religious holidays in both April and June in 2Q24 will cause fluctuations in monthly changes because the traditional calendar day adjustment is not able to cover the full impact. Therefore, this impact should be considered when interpreting the incoming data.
- The seasonal and calendar adjusted industrial production data for April (Figure 5) contracted by 4.9% m/m due to the calendar impact aforementioned. The extended holiday in April created a negative calendar effect of 2-2.5 days. According to the study of the Central Bank[1], each extended holiday has 0.8 point negative impact on a monthly basis. Therefore, we calculate around 2pp downside impact on the monthly change of industrial production. Besides, sectors demonstrating volatility on monthly changes such as manufacture of other transportation and computer, electronic and optical products roughly have a negative contribution of 2.2pp. Excluding these two factors, the decline in the industrial production was much more modest, as also signalled by manufacturing PMI and capacity utilization rate data. In sectorial details, there were a broad based deterioration, led by the intermediate and capital goods contraction (-4% m/m and -11.5% m/m, respectively).
- Turnover indices in April (Figure 6) also displayed a similar phenomenon especially in industry and construction. While industrial turnover contracted by 3% m/m in real terms, construction turnover declined sharply by 11.8% m/m. On the other hand, services turnover index, less impacted from the so-called bridge days, grew by 1% m/m. Finally, trade turnover also contracted by 2.4% m/m while the trade sales volume index also fell by 4.6% m/m.

Figure 5. **Industrial Production Index**
(seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

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

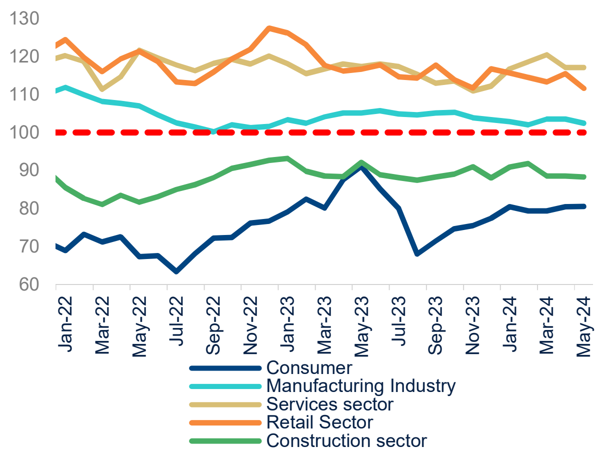


Source: TURKSTAT, Garanti BBVA Research

- Leading data indicates that economic activity will moderate further in the coming months. Manufacturing capacity utilization rate continued to decline in May with 0.4pp m/m (Figure 8) on the back of capacity contraction in durable consumer and intermediate goods. On quarterly terms, due to capital and intermediate goods, the capacity declined in April. Manufacturing PMI fell further below the 50 threshold level in May with 48.4 (vs. 49.3 prev.), signaling continuing slow-down in production. On the other hand, industrial production could increase on a monthly basis in May due to the reverse impact of bridge holiday in April. This expectation is supported by the electricity production which had contracted by 3% m/m in April and increased by 4% m/m in May, according to our calculation.
- Confidence indices (Figure 7) show some stabilization in services and construction as of May, but pointing out to some weakening in manufacturing.
- The economic tendency survey (Figure 9) signals that production volumes of companies will decrease in the next 3 months, especially with the expected weakening of domestic and export orders. The decrease in intermediate goods imports in May (Figure 10) also supports this expectation.

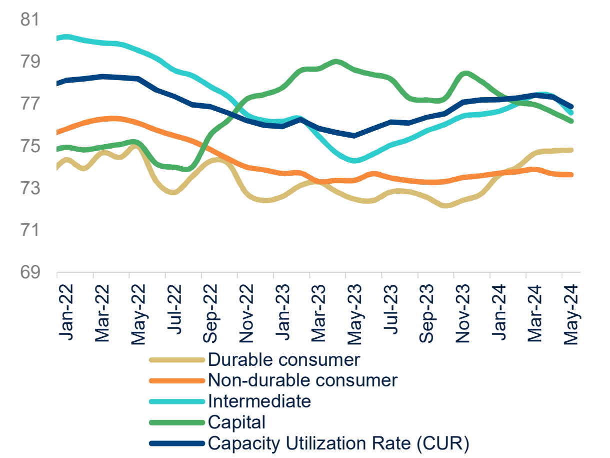
[1] Details of the CBRT analysis on bridge day effects can be found here.

Figure 7. **Economic Confidence Indices** (seasonal and calendar adjusted level)



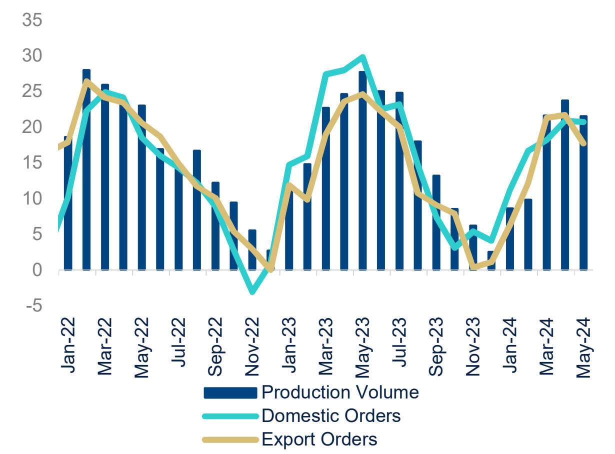
Source: TURKSTAT, Garanti BBVA Research

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



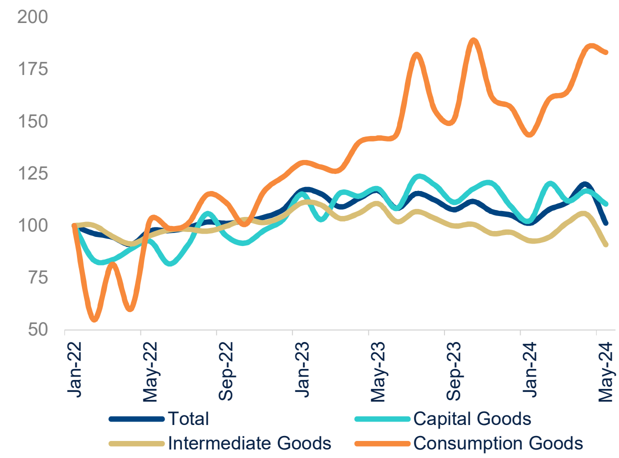
Source: CBRT, Garanti BBVA Research

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



Source: CBRT, Garanti BBVA Research

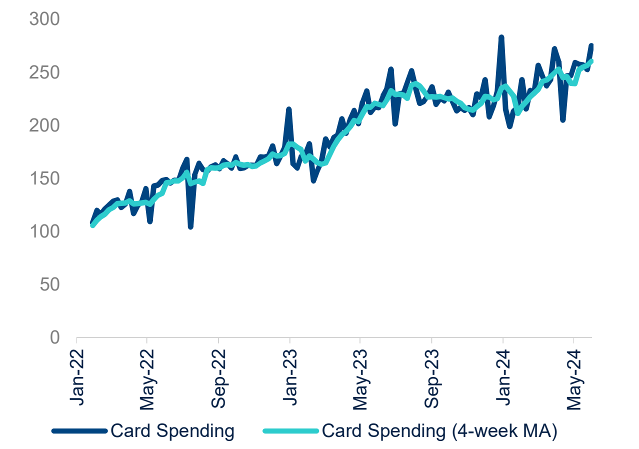
Figure 10. **Import Sub-Components Volume Index** (2022 Jan=100, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

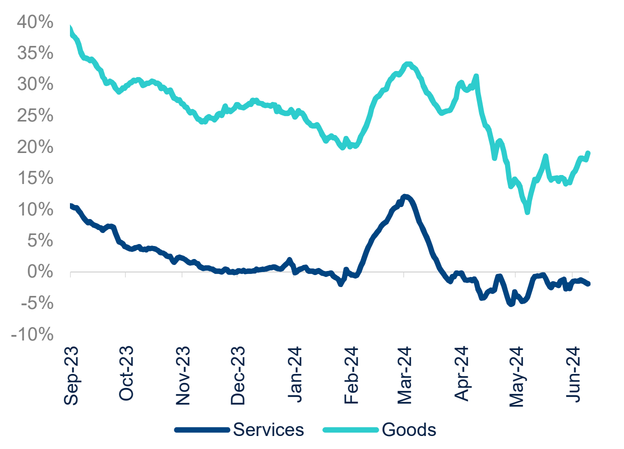
- Gradual monetary policy adjustment, elevated inflation expectations, repercussions from the existing fiscal impulse, high wage adjustments at the beginning of the year, availability of retailers' spending via credit cards and wealth effects have resulted in a slow adjustment between aggregate demand and supply so far.
- Seasonally adjusted retail sales contracted only by 1.8% m/m in April and decelerated to 10.2% y/y in calendar adjusted terms, keeping its historically high levels.
- The recovery in real card spending since mid-April (Figure 11) point to the resilience in households' spending availability, while our big data consumption indicator signals that private consumption remains strong especially on goods (Figure 12). Despite the slight moderation in May, consumption goods imports remained at high levels (Figure 10). As a result, our monthly private consumption GDP nowcast shows limited loss of momentum in late 2Q24 with 4.4% annual growth as of May and 3.8% as of June (Figure 13).
- The decline in capital goods production in April, the contraction in capital goods imports in May (Figure 10) and the limited fiscal spending for the earthquake zone so far indicate that the investment expenditures could moderate further in the coming months, as confirmed by our monthly investment GDP indicator nowcasting 5.3% y/y growth as of May and a further slow-down in June on calendar day effects.

Figure 11. **Real Card Spending** (weekly, adjusted by CPI, Jan2022=100)



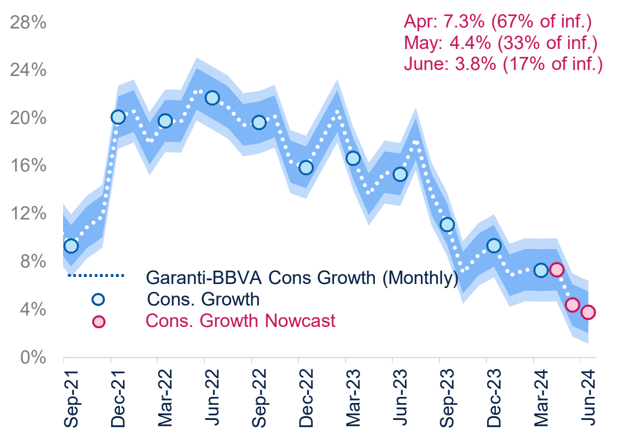
Source: CBRT, TURKSTAT, Garanti BBVA Research

Figure 12. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)



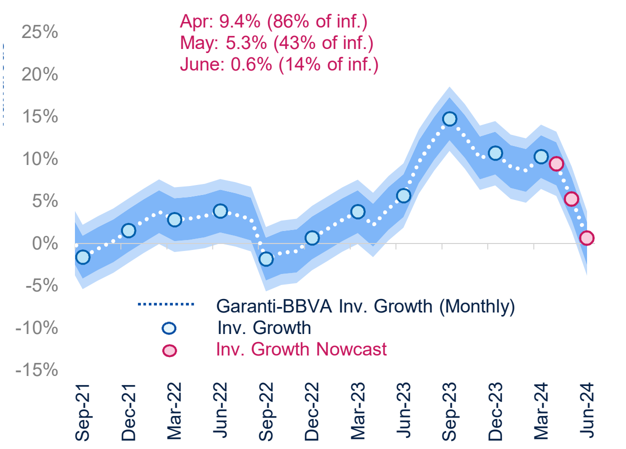
Source: TURKSTAT, Garanti BBVA Research

Figure 13. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



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

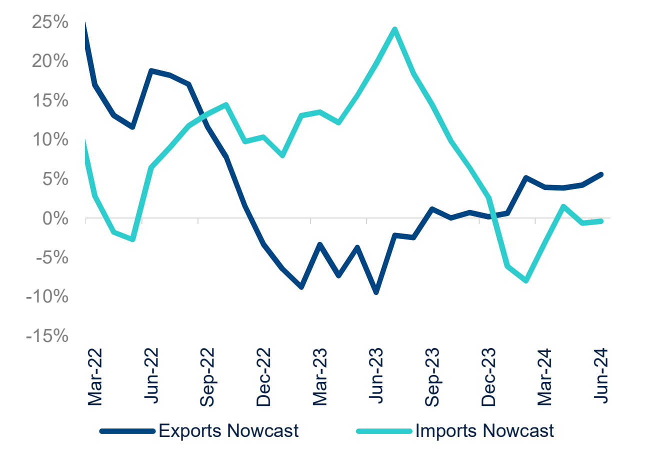
Figure 14. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



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

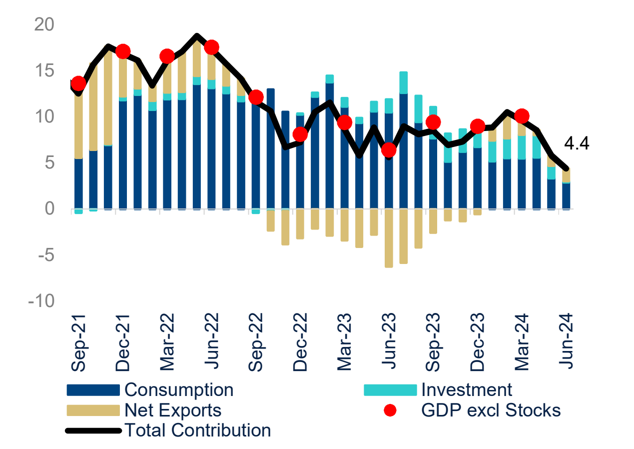
- The recent adjustment in domestic demand has started to be transmitted into a subdued import demand. Despite the real appreciation of the currency, exports show signals of a recovery on the back of improving foreign demand and expected promising tourism season. Hence, the positive contribution of net exports could stay solid in 2Q24 (Figure 15).
- Overall, our GDP nowcasts on demand sub-components indicate that aggregate demand excluding government consumption (Figure16) remained stronger than supply in 2Q24, pointing a slower but continuing depletion from stocks.

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



Source: TURKSTAT, Garanti BBVA Research

Figure 16. **Garanti BBVA Monthly GDP Contribution** (pp, annual)



Source: TURKSTAT, Garanti BBVA Research

BOTTOM LINE: The data realizations, so far, confirm the deceleration in economic activity. Nevertheless, the rebalancing in the economy continues to be very gradual and the aggregate demand remains higher than aggregate supply. The moderating impact from the tight financial conditions on consumption so far has been limited. The decomposition of demand in favor of net exports would be welcomed but the recent faster adjustment in investment expenditures instead of private consumption should be monitored closely. All in all, solid demand conditions prevent a faster adjustment in inflation trend and trade balance. The future policy coordination will be key since the announced fiscal savings package will have a limited impact on budget balance and so on inflation. Therefore, we expect more fiscal consolidation efforts in 2H24 to support the rebalancing in the economy. The recent 2% monthly growth cap in foreign currency lending could lead to further moderation in credit growth. We expect the CBRT to remain tight based on the high inflation expectations. Last but not the least, we do not rule out the need of additional demand restrictive macro-prudential measures to back a faster moderation in domestic demand and not to lose time to start anchoring inflation expectations towards the targeted levels. Considering the strong performance of 1H24 and the expected lagged impact of economic policies, risks start to be tilted to the upside for our 2024 GDP forecast of 3.5% and to the downside for our 2025 GDP forecast of 3.5%. Therefore, the effectiveness of the policy mix will be the determinant factor on the growth outlook in the near future.

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

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