BBVA Research

Activity Pulse

Türkiye | Recovery signals in 4Q24

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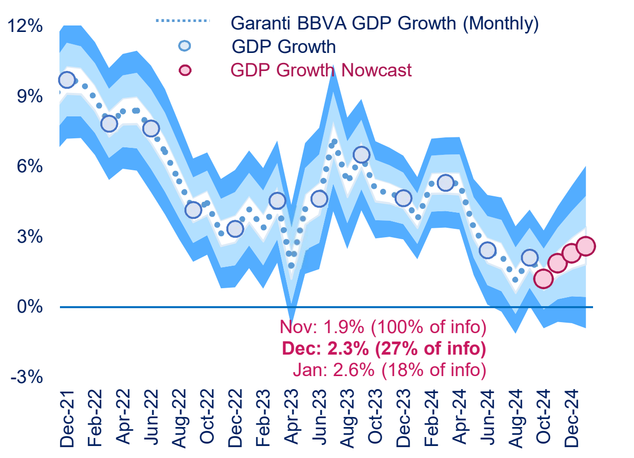
17 January 2025

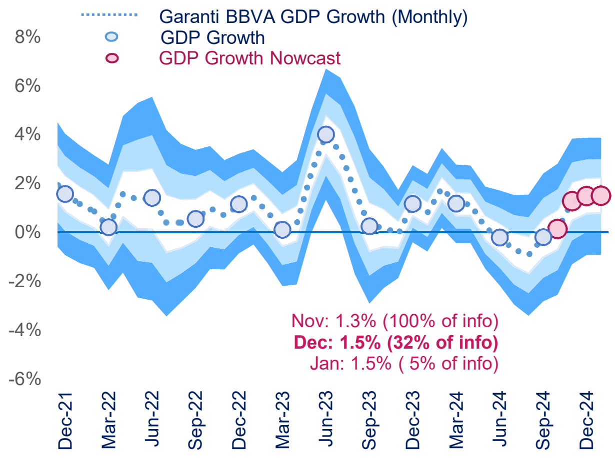
- **Incoming data signals that 4Q24 GDP growth could have been higher than our previous stagnant quarterly growth expectation.** This could be explained by slightly softer financial conditions on top of the expected easing cycle of the CBRT and accelerating cash public spending towards the end of the year. There has been an improvement in the output of all main sectors, though not being broad-based; therefore the underlying trend does not appear as strong as the main sectors imply. Industrial production, excluding the contributions from volatile sectors, showed much more limited recovery; while the services sector's output increase was relatively moderate in October-November, compared to 3Q24. Given this unambiguous distribution, it is not clear how sustainable this recovery would be. Accordingly, our monthly GDP indicator nowcasts point to a slight recovery in growth with 1.3% q/q in Nov24, implying 1.9% annual GDP growth. GDP growth may slightly gear up with 1.5% q/q in Dec24, implying 2.3% annual growth, however, given the limited information for Dec and the carryover effect of the strong Sep data, the quarterly GDP growth might be more limited than our nowcast result. Taking into account the slight recovery in 4Q24, we expect GDP growth to reach around 3% in 2024.
- **Domestic demand excluding stocks could have recovered in 4Q24 while the contribution from net exports might have been negative.** The ease in financial conditions, and the quarterly consumer loan and card consumption growth on a real basis seemed to support private consumption to start recovering in 4Q24 after its limited contraction in 3Q24. Our calculations indicate that demand conditions remained stronger than supply in 2024, signaling a continuing imbalance. On the other hand, the expected revision in stock calculations may partially reduce this discrepancy. We calculate that the output gap, after turning into negative as of 3Q24, did not deepen further in 4Q24. Therefore, the slow deceleration in aggregate demand results in a weaker-than-expected support to fight against inflation.
- **All in all, the current faster recovery than expected, the likelihood of fiscal policy to remain expansionary in the early months of 2025, and the lower real interest rates than our previous expectations could pose limited upside risk to our 2025 GDP growth forecast of 2.5%.** However, downside risks to global growth stemming from the potential trade wars and the higher than expected terminal rate in the US will be the determining factors in the overall impact.

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



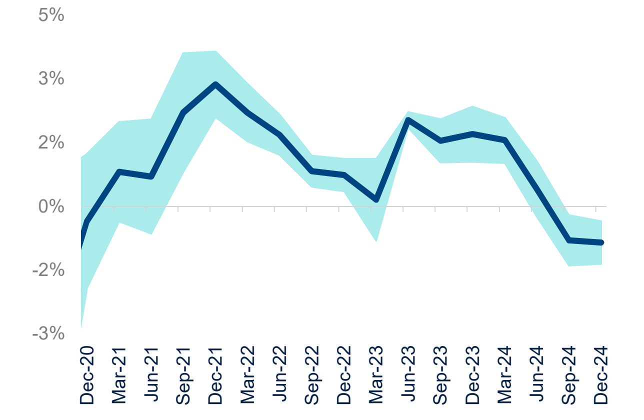
Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

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



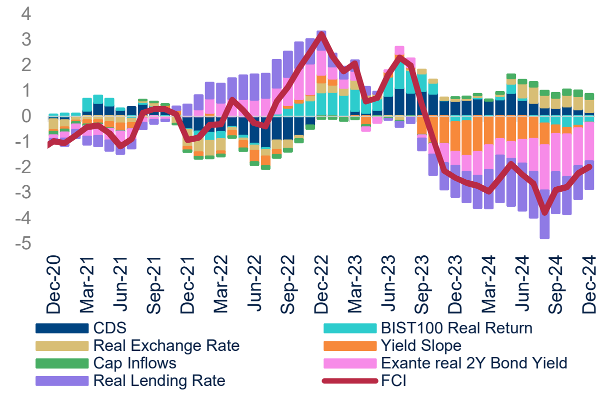
Source: Garanti BBVA Research

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



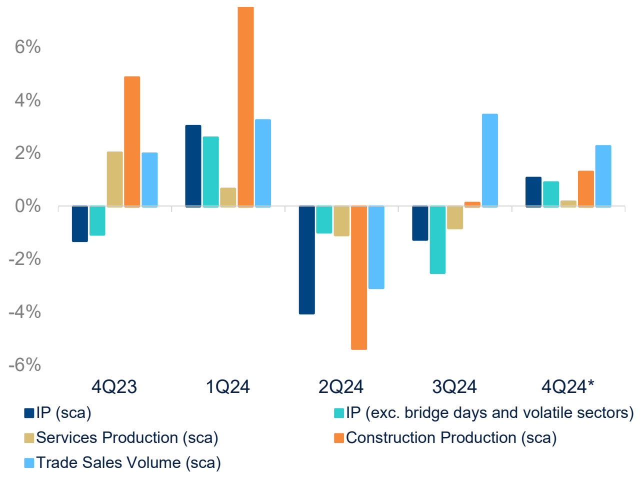
Source: TURKSTAT, Garanti BBVA Research

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



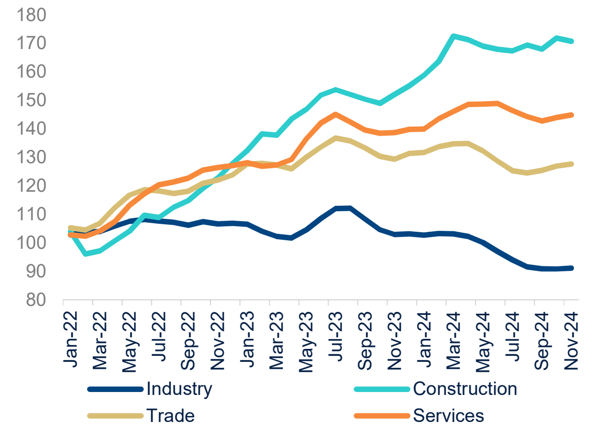
Source: CBRT, Bloomberg, Garanti BBVA Research

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



Source: TURKSTAT, Garanti BBVA Research
* Oct-Nov 2024 average

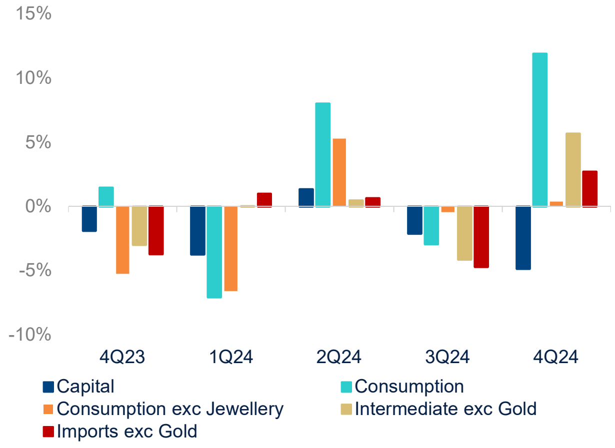
Figure 6. **Sectorial Turnover Indices** (real, 3MA, seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

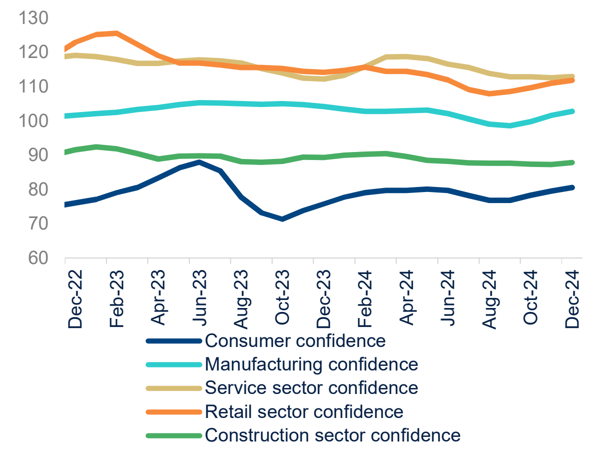
- On the supply side, all major sectors -industry, services, and construction- recovered in 4Q (Figure 5). Based on the first two months of the 4Q, industrial production (IP) rebounded with a 1.1% q/q increase, following contractions in 2Q and 3Q. The quarterly growth was driven by a 2.9% m/m surge in November after a contraction of 0.9% m/m in October. However, the underlying trend was relatively weaker as the contribution of coke and refined petroleum products and other transport equipment sectors was almost 2pp, while other sectors only gave a limited contribution in November upsurge. Excluding volatile sectors, IP growth remained positive but more moderate, increasing by 0.9% q/q in 4Q. By subcategory, capital goods (2.5% q/q), energy (1.1% q/q), nondurable goods (0.9% q/q), intermediate goods (0.5% q/q), all shifted to positive contributions after dragging down the IP in Q3, while durable goods (0.4% q/q) contribution remained neutral.
- After the two consecutive quarters of contraction, the services sector production showed a slight recovery improving by only 0.2% q/q as it experienced a 0.2% m/m decline in November after a limited rise of 0.1% in October. Quarterly growth was uneven across activities, with real estate (-1% q/q) and information & communication (-2.8% q/q) services contracting; while accommodation and food services grew by 1.5% q/q, reflecting improved demand conditions in 4Q.
- The real turnover index, a composite measure of industry, construction, trade and services, rose by 0.9% q/q in 4Q as of November, recovering from a broad-based contraction of -3.6% q/q in 3Q (Figure 6). Turnover increased across services (1.7% q/q), trade (1.4% q/q), and construction (0.4% q/q), while industry turnover declined further (-0.3% q/q) but more limitedly.

Figure 7. **Import Sub-Components Volume** (QoQ, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

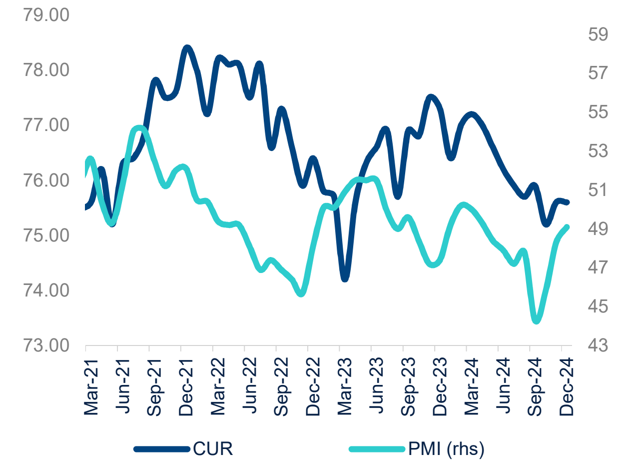
Figure 8. **Economic Confidence Index** (seasonal and cal. adj., 3MA)



Source: TURKSTAT, Garanti BBVA Research

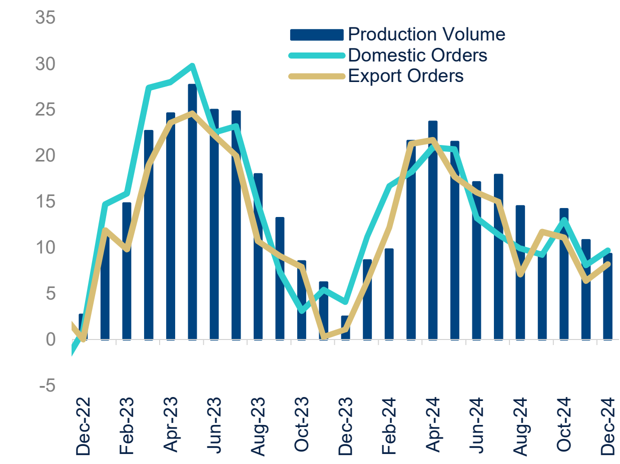
- Leading indicators suggest that overall production could have continued to recover in December. Intermediate goods imports excluding gold rose by 4.1% in Dec, which led to 5.7% q/q growth in 4Q (Figure 7). Sectoral confidence indices for Dec signaled an ongoing improvement in quarterly trends across-the-board (Figure 8). Underlying trend in industry could remain weak as manufacturing capacity utilization rate (CUR) was recorded at 75.6% in Dec (Figure 9), unchanged from the previous month while the manufacturing PMI rose to 49.1 but remained below the threshold level of 50. Our factor derived from the confidence indicators exhibiting a high correlation with GDP suggests a continuing recovery in growth (Figure 11). We observe that confidence indices generally reflect more optimistic expectations compared to hard data.
- Employment generation (0.5% on a quarterly basis) remains lower than its historical average (0.7%) in 4Q, leading to an increase in time related unemployed and potential labor force so far (Figure 12). The average unemployment rate was recorded at 8.65% in 4Q, remaining stable compared to the previous quarter. However, the total underutilization rate, a broader measure of unemployment, continued its deterioration trend over the past two years, reaching to 27.9% in 4Q from 25.5% in 3Q (Figure 13), reflecting a weakening economic activity more accurately than the headline rate suggests.

Figure 9. **Manufacturing Capacity Utilization Rate vs. PMI Index** (Monthly, Level)



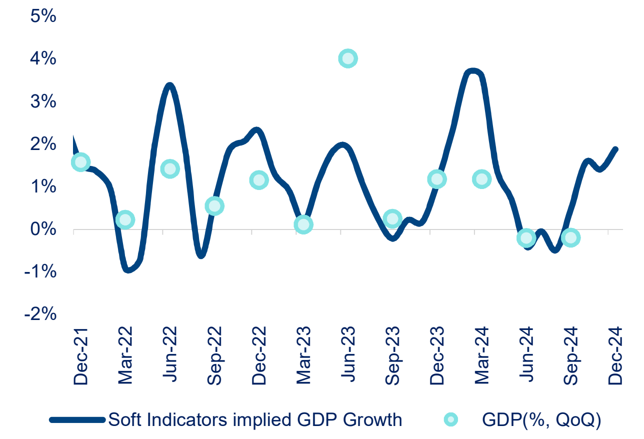
Source: TURKSTAT, Garanti BBVA Research

Figure 10. **Production Volume, Domestic Orders and Export Orders in the Next Three Months** (Balance)



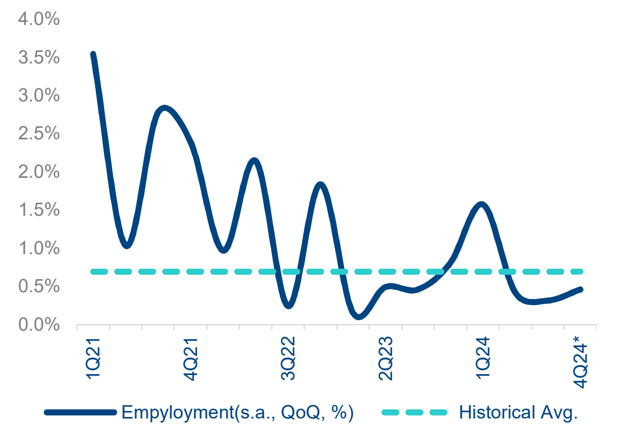
Source: CBRT, Garanti BBVA Research

Figure 11. **Soft Indicator Factor vs. GDP Growth**



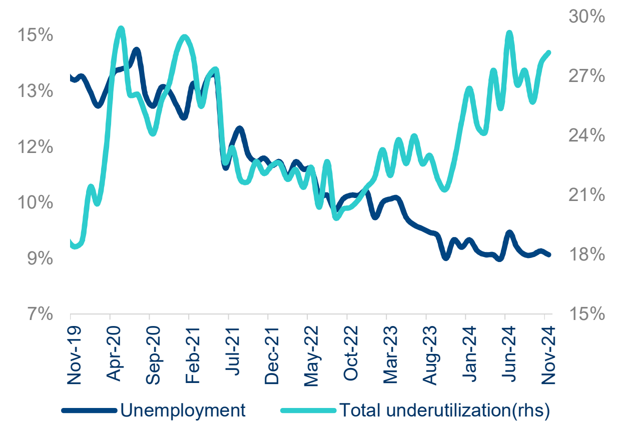
Source: CBRT, Garanti BBVA Research

Figure 12. **Employment rate** (QoQ, %, seasonal adj.)



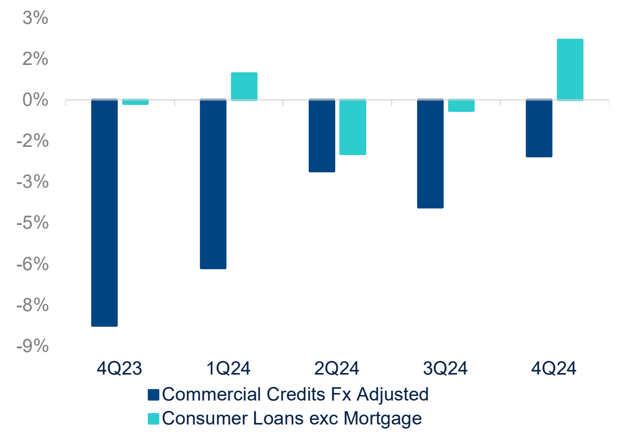
Source: TURKSTAT, Garanti BBVA Research, *Oct-Nov Data for 4Q

Figure 13. **Unemployment Rate** (seasonal adjusted)



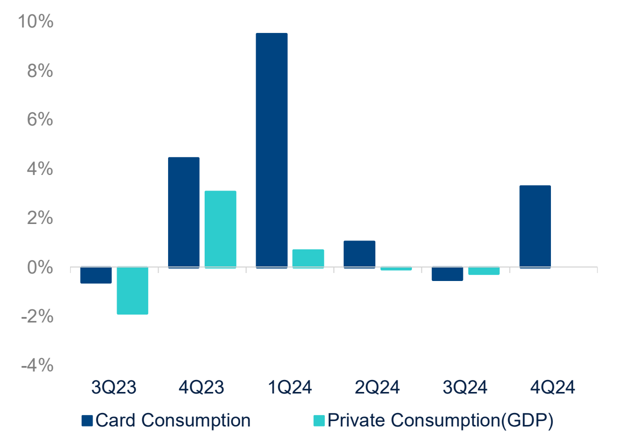
Source: TURKSTAT, Garanti BBVA Research

Figure 14. **Loans Growth Rate** (real, QoQ, %)



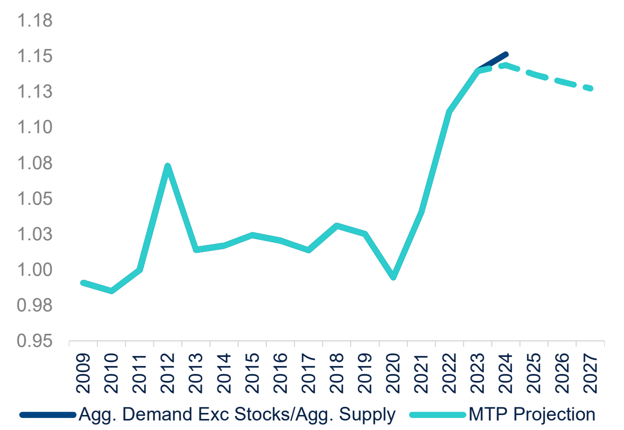
Source: TURKSTAT, Garanti BBVA Research

Figure 15. **Card Consumption vs Private Consumption** (QoQ, %, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

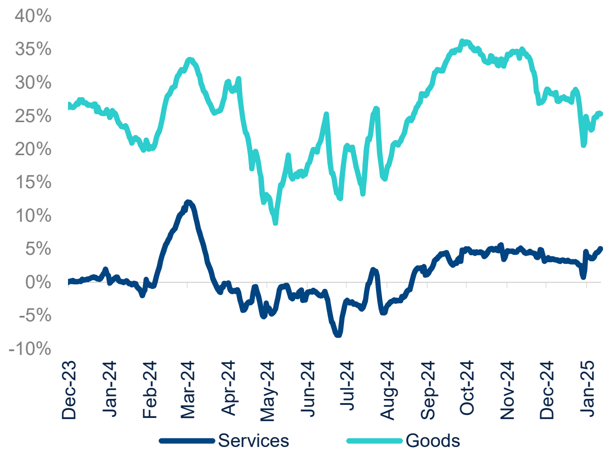
Figure 16. **The Ratio of Aggregate Demand excluding Stocks over Aggregate Supply Condition**



Source: TURKSTAT, Garanti BBVA Research

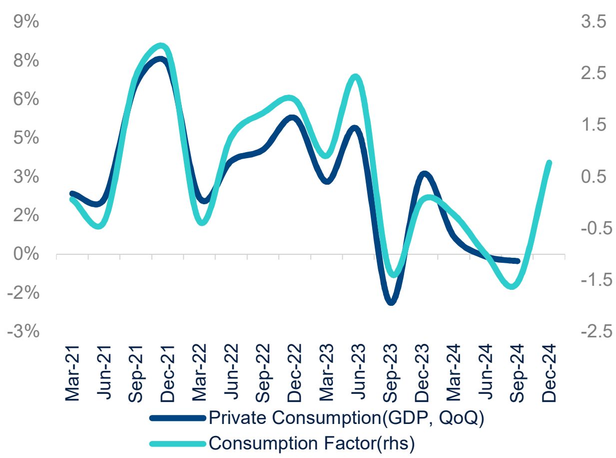
- The demand side indicators signal an ongoing resilience due to the recent ease in financial conditions, the ability to continue to borrow and high inflation expectations; as seen in the recent acceleration in the general purpose loans (mostly overdraft) and credit cards growth. In addition, according to Bank Loans Tendency Survey data, the banks report an increasing demand for both enterprise loans and to consumer loans along with their expectations for further easing in domestic financing conditions in 1Q25.
- Consumption indicators suggest that private consumption could recover in 4Q after a mild contraction in 3Q. Retail sales geared up with 1.9% m/m growth in Nov24 (vs. 0.5% prev.) on the back of the acceleration in non-food items, especially durable goods like computers and electronics. Similarly, on quarterly terms, retail sales remained resilient with 4% q/q as of Nov24 compared to 3Q (vs. 4.9% prev.). Also, we observe an improving non-durable consumption goods turnover with a decelerating contraction in 4Q. The consumption goods imports increased further in Dec24 according to our calculations, mainly on the back of jewelry imports (Figure 7), which may have recently attracted the investment motivation of the residents. Excluding this impact, consumption goods imports remain only stable, suggesting that real currency appreciation and high inflation expectations might dominate the tight monetary policy stance on top of loan growth caps. Card consumption in real terms increased on a quarterly basis in 4Q (Figure 15), while our big data indicators on consumption show that both goods and services consumption remain strong as of mid-January (Figure 17). All in all, our private consumption common factor confirms this trend signaling a clear improvement in private consumption in 4Q (Figure 18).

Figure 17. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)



Source: TURKSTAT, Garanti BBVA Research

Figure 18. **Private Consumption vs Consumption Factor** (QoQ, seasonal and cal. adj.)



Source: Ministry of Treasury, TURKSTAT, Garanti BBVA Research

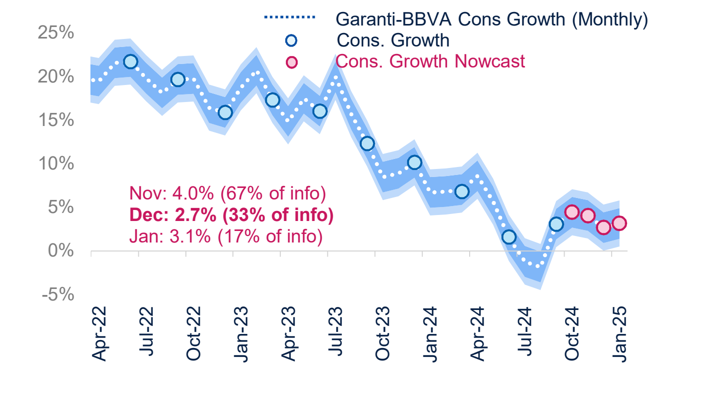
Figure 19. **Consumption Indicators Heat Map** (real, seasonal and cal. adj., QoQ)

		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	Nov	Dec
Non-Durable Goods Cons. Turnover	1.6	1.8	0.1	-1.6	-3.0	0.9	5.9	8.2	3.8	-4.7	-9.1	-8.5	-3.6	-0.6	1.2	1.2	2.2	0.9	-0.7	-3.9	-5.7	-5.2	-2.6	0.1	
Retail Sales	2.0	7.8	6.7	5.5	3.7	6.6	6.8	7.1	2.9	1.4	-0.8	0.6	1.9	4.2	5.7	6.1	4.7	1.5	-0.3	0.3	2.8	4.9	5.8	5.6	
Cons. Goods Imports exc Jewellery	1.5	14.4	17.2	17.3	11.3	12.3	13.0	19.6	18.7	16.0	2.4	-4.0	-5.3	-9.2	-5.2	-6.6	2.8	1.7	5.3	5.0	4.1	-0.4	-2.6	-1.5	0.4
Cons. Loans Exc. Mortgage	1.6	13.0	14.0	12.8	14.1	15.6	11.8	8.3	-0.8	-6.4	-9.6	-6.4	-0.1	2.0	2.5	1.0	0.4	1.3	-2.0	-1.6	-0.7	-0.4	-0.3	0.7	2.2
SCT & Import VAT	1.8	0.1	2.8	4.6	3.8	7.4	12.0	17.6	16.7	13.0	5.4	-1.0	-5.5	-5.7	-4.3	-2.8	-1.7	-1.6	-3.5	-6.8	-9.6	-7.3	-4.2	0.5	
Durable Cons. Goods Imports	2.2	11.8	18.8	9.1	-2.8	-5.1	-4.2	6.0	1.9	4.8	14.5	47.8	46.1	9.7	-23.3	-9.1	34.8	58.1	19.7	-26.5	-30.7	-14.1	24.3	50.4	

Contraction | Slow-down | Growth | Boom

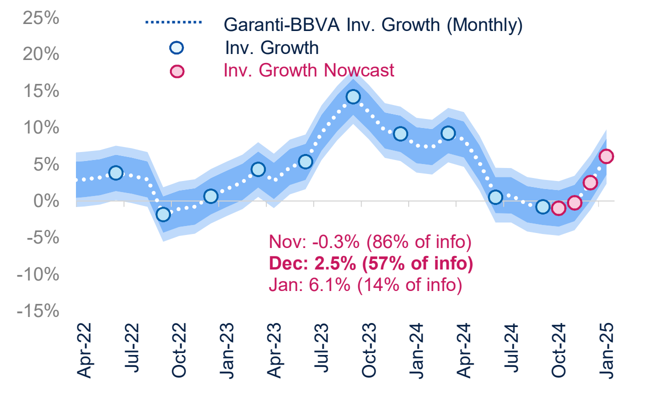
Source: TURKSTAT, Ministry of Treasury, BRSA, Garanti BBVA Research

Figure 20. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



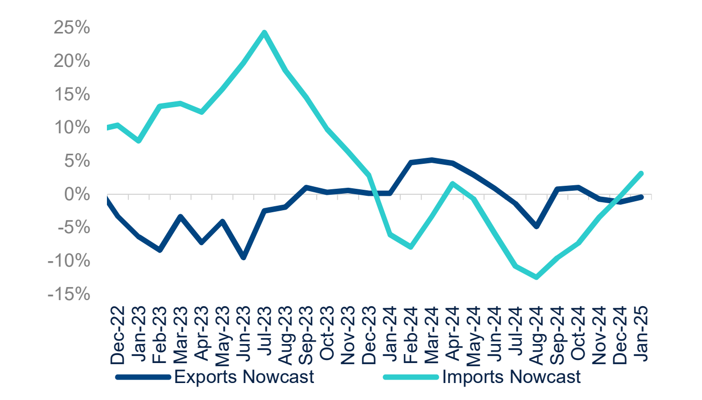
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 21. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



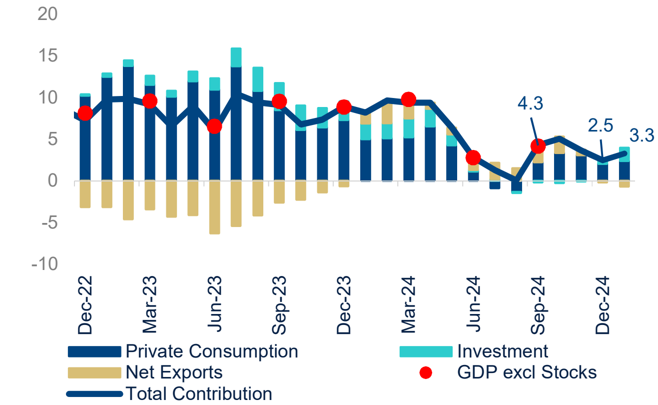
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 22. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



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

Figure 23. **GDP Demand Sub-Components** (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

- The decline in expectations for fixed investment expenditures in the upcoming 12 months and the capital goods imports signaled a weak investment outlook. On the other hand, the recovery in capital goods production and construction activity indicate that machinery and equipment investments and construction investments are likely to continue. Accordingly, Our Monthly Investment GDP nowcasts 2.5% y/y growth in 4Q, implying some deceleration but still positive growth on quarterly basis (Figure 21).
- Imports fueled by relatively better domestic demand conditions and subdued export performance on weaker external demand led the foreign trade balance to deteriorate in the last two months of 2024. Our nowcasts on external balance point to declining exports in 4Q on quarterly trends, whereas imports accelerate. As a result, the contribution from net exports to GDP growth could switch to negative in 4Q.
- Overall, we estimate the contribution from consumption, investment and net exports to annual GDP growth as 2.5pp in 4Q (Figure 23). Therefore, we calculate aggregate demand, excluding stocks, remained stronger than supply throughout 2024 and could not provide the expected level of support for fight against inflation.

BOTTOM LINE: Despite our subdued growth expectation in 4Q, incoming data signals a faster recovery, but without being broad-based. Domestic demand excluding stocks, led by private consumption due to high inflation expectations and available borrowing, could have increased on a quarterly basis, according to our calculations. We maintain our 2025 growth forecast of 2.5% with risks turning out to be slightly upward. After the bolder than expected rate cut of the CBRT in December, real interest rates might remain lower than our earlier expectations throughout the year. Additionally, a significant accrual budget deficit in December signaled that fiscal policy may remain supportive in early 2025. On the other hand, the scale of protectionism and the likelihood of higher than expected terminal rate in the US stand out as downside risks that we will be closely watching in order to gauge the overall impact.

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