Türkiye: Weaker activity signals in 4Q so far

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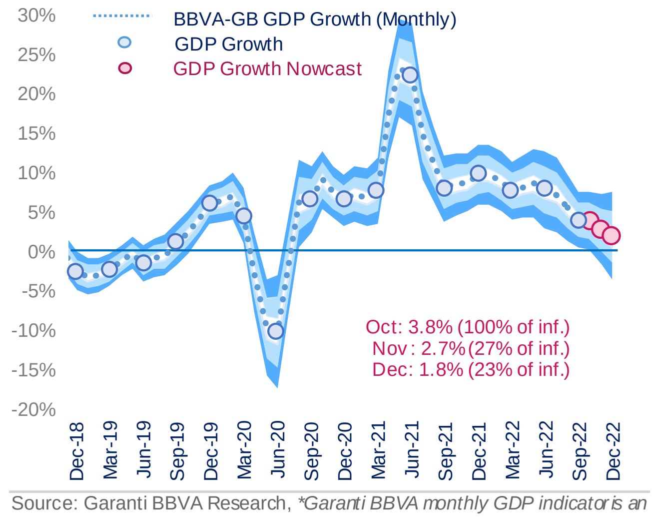
Industrial production (IP) surprised to the upside and grew 2.5% y/y in October (vs. 0.1% expected). In seasonal and calendar adjusted series, IP increased by 2.4% m/m and resulted in a quarterly contraction of 1.7% in October vs -4.1% qoq in 3Q. Despite the positive surprise of October figures, November leading indicators signal that this recovery might be temporary. Accordingly, our monthly GDP indicator nowcasts an annual GDP growth of near 2% for December, implying a contraction in quarterly terms. The slowdown in global economy on tighter financial conditions and the recent regulations containing credit growth continue to lead to further weakening in economic activity. However, acknowledging the government priorities to support activity and so the employment, we expect more expansionary policies ahead of the elections, including some ease in credit conditions, potential new credit packages or other campaigns. The weaker activity in 4Q so far puts slight downward risk on our 2022 GDP growth forecast of 5.5%. We forecast 2023 GDP growth to be 3% with the expected solid performance in the first half of the year.

Uneven recovery in manufacturing sector supported industrial production

In seasonal and calendar adjusted series, monthly IP recovered in October (2.4% m/m) on the back of capital, intermediate and consumer goods (9.8%, 1.1% and 0.7% m/m, respectively), whereas energy goods production contracted by 0.7% m/m. In sectorial details, manufacturing industry (2.5% m/m) was the leading sector contributing to an improvement in monthly IP growth. However, in sub-details, the recovery was uneven as other transportation, machinery and computer, electronic and optical products were the main drivers and differentiated much more positively on behalf of the domestic demand driven sectors.

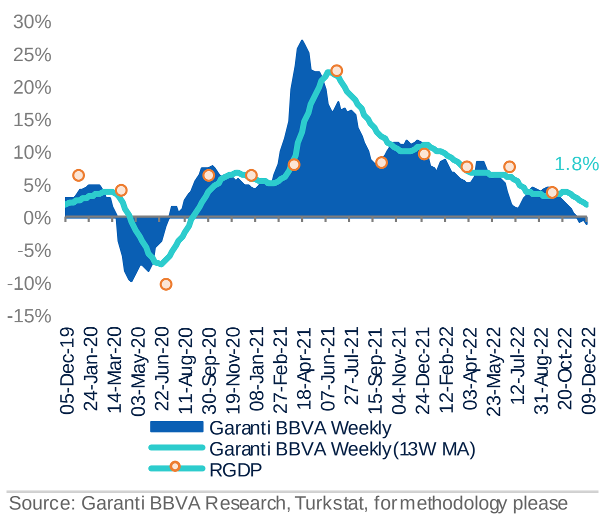
In terms of quarterly trends, IP growth recovered to -1.7% qoq after a deep contraction in 3Q22 (-4.1% q/q) but this could be temporary as confirmed by the leading indicators such as PMI (45.7 in November vs 47.5 on average in 3Q), capacity utitlization rate (75.9% in November vs 77.3% in 3Q) and electricity production (-6.8% yoy in 4Q vs -4.6% yoy in 3Q). Based on the leading indicators and our big data proxies, our monthly GDP Indicator nowcasts a yearly growth rate of 1.8% for December(with 23 of information), signaling a negative quarterly growth for 4Q. Also, our weekly GDP tracker confirms this trend by similarly nowcasting 1.8% yoy growth by the end of last week with negative weekly realizations in the last three weeks. Consequently, from the supply side point of view, industrial activity could remain weak in 4Q while the performance of services sector might remain decisive on GDP growth as the real turnover index of services sector stayed strong in October despite some deceleration.

Figure 1. **Garanti BBVA Monthly GDP Indicator*** (yoy, 3-month moving avg.)



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)*

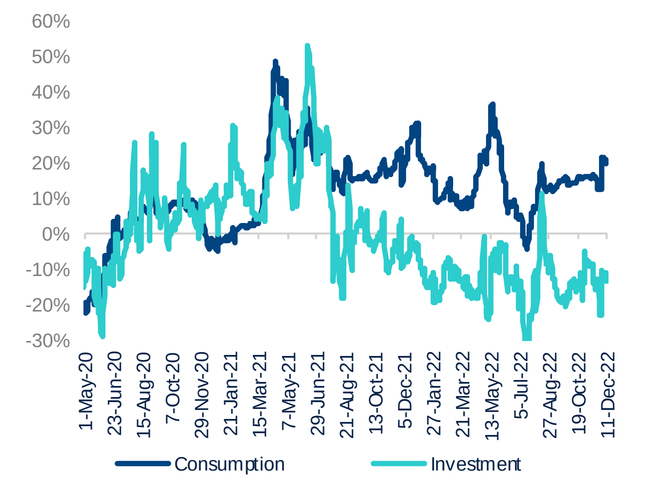
Figure 2. **Garanti BBVA Weekly GDP Tracker*** (YoY)



Source: Garanti BBVA Research, Turkstat, for methodology please check the following link

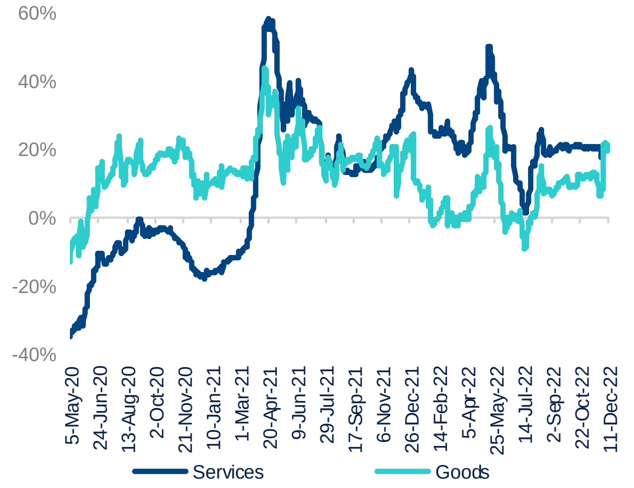
On the demand side, according to our GDP subcomponents, domestic demand remains strong on the back of private consumption, while the negative contribution of investment deepens sligthly further. On the external side, exports is getting weaker on the back of the deceleration in global activity but imports is still solid due to robust consumption. Hence, the contribution from net exports has turned into negative. All in all, the aggregate demand remains stronger than supply, implying further depletion of stocks. Therefore, inflationary risks will remain high as long as the boost in consumption continues with easing but still challenging cost push factors.

Figure 3. **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, adjusted by CPI and PPI, YoY)



Source: Garanti BBVA Research, Turkstat

Figure 4. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, adjusted by CPI, YoY)

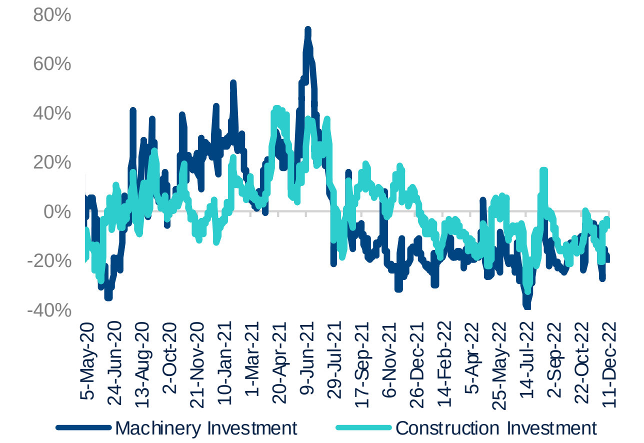


Source: Garanti BBVA Research, Turkstat

More supportive policies expected ahead of the elections

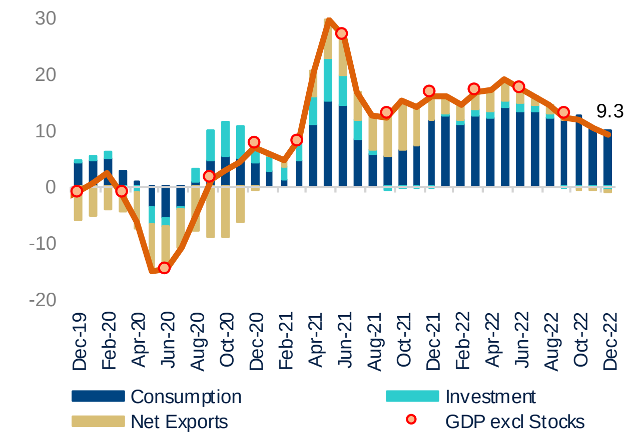
We expect that global activity will decelerate further at least in the first half of next year, led by tighter financial conditions and idiosyncratic geopolitical risks. Therefore, the undoubtedly easy channel to reverse the recent contractory trend will be again via consumption, in our view as we get closer to the elections. That is why we expect some ease in credit conditions, new credit packages and further expansionary fiscal policy in addition to the continuation of loose monetary policy. Hence, economic activity might strengthen in the first half of next year, helping the economy to be able to grow near 3% in 2023. We expect the adjustment to start taking place after the elections, when the lagged effects might affect the following year more clearly.

Figure 5. **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



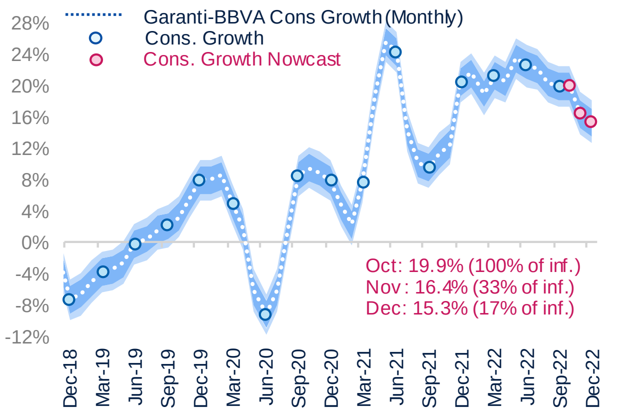
Source: Garanti BBVA Research, Turkstat

Figure 6. **Garanti BBVA Private Demand Nowcast Indicators** (contribution, pp)



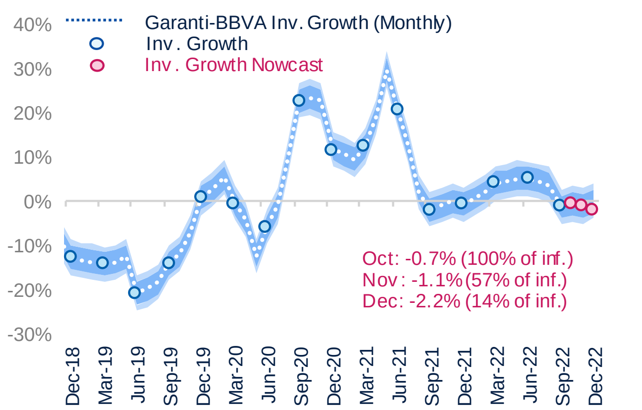
Source: Garanti BBVA Research, Turkstat

Figure 7. **Garanti BBVA Monthly Consumption Nowcast** (3m yoy)



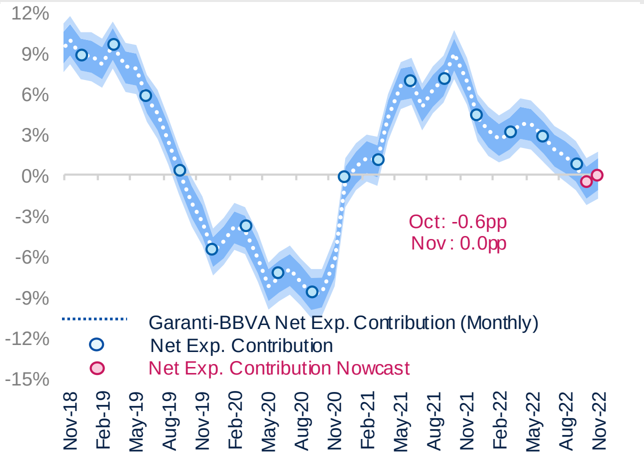
Source: Garanti BBVA Research, GBTRGDPC Index in Bloomberg

Figure 8. **Garanti BBVA Monthly Investment Nowcast** (3m yoy)



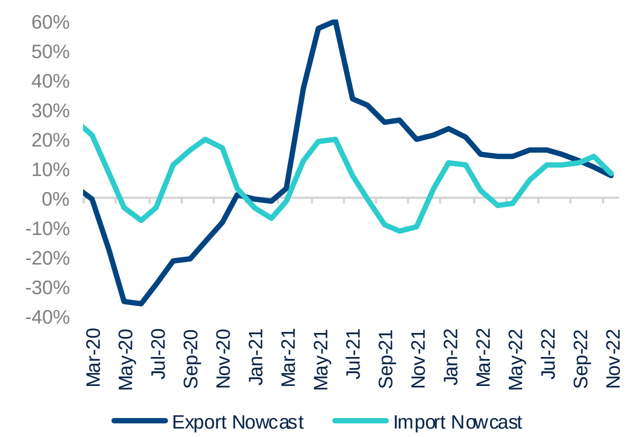
Source: Garanti BBVA Research, GBTRGDPI Index in Bloomberg

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



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

Figure 10. **Garanti BBVA Monthly Foreign Trade Nowcasts** (3m yoy)



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

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