

Economic Outlook

April 2024

Coincident Economic and Financial Conditions Indexes Current Estimates

Cem Çakmaklı, PhD
Koç University, College of Administrative Sciences and Economics
Department of Economics
Email: ccakmakli@ku.edu.tr
Twitter: [@Cem_Cakmakli](https://twitter.com/Cem_Cakmakli)

This report publishes the current estimates of the coincident economic (CEI) and financial conditions indexes (FCI) we have designed for the Turkish economy using advanced econometric methods. We used a rich dataset including many macroeconomic and financial indicators with different timing and frequencies.

As financial stability is one of the main conditions for economic growth, FCI is considered a primary leading indicator for CEI. Therefore, based on the joint behavior of these two indexes, we computed the probability of entering an economic recession within the same model framework. This report also publishes these probabilities' current estimates as a numerical reflection of our expectations of the economy's direction in addition to the current estimates of these indices.

The model we use in this report has been published in one of the internationally respected journals in the field. For details, our article can be found at <https://onlinelibrary.wiley.com/doi/full/10.1111/obes.12413>.

Coincident Economic Index (CEI)

According to our model forecast for this month, CEI has decreased by -0.4% compared to the previous month in April. The changes in March and February have been updated to 0.2% and 1.1% respectively. Thus, the coincident economic index, which had been rapidly increasing especially in February before the local elections on March 31st, has shrunk for the first time after the elections. This contraction estimated for April is an important finding, especially amidst discussions regarding whether the trend in inflation will continue to align with the target set by the Central Bank.

Considering the change in the production component of EDE, according to the latest announced industrial production index data, there was a stark increase of 3.2% in February compared to the previous month. After the rapid increase in December following a decline until December in the index, the strong trend continued in February as well.

Regarding the labour market conditions, there is a similar 0.5% increase in total employment compared to the previous month in February.

Regarding the relatively timelier released data, the PMI, taking a value of 50 in March, fell to the threshold level of 50 with a decrease compared to the previous month. Therefore, based on the current data, we see that the rapid increases observed in February have been replaced by secular stagnation in March. Considering the indicators that are observed as of the end of April, there is a 0.2 percentage point decrease in capacity utilization rate compared to March. Looking at the (seasonally adjusted) daily published electricity consumption data, there is a -2% decrease in April compared to the previous month.

Taking all these components into account, our estimates indicate that following the increasing trend that started in December 2023, peaked in February, and stagnated in March. Finally, we observe a contraction in April estimates of CEI.

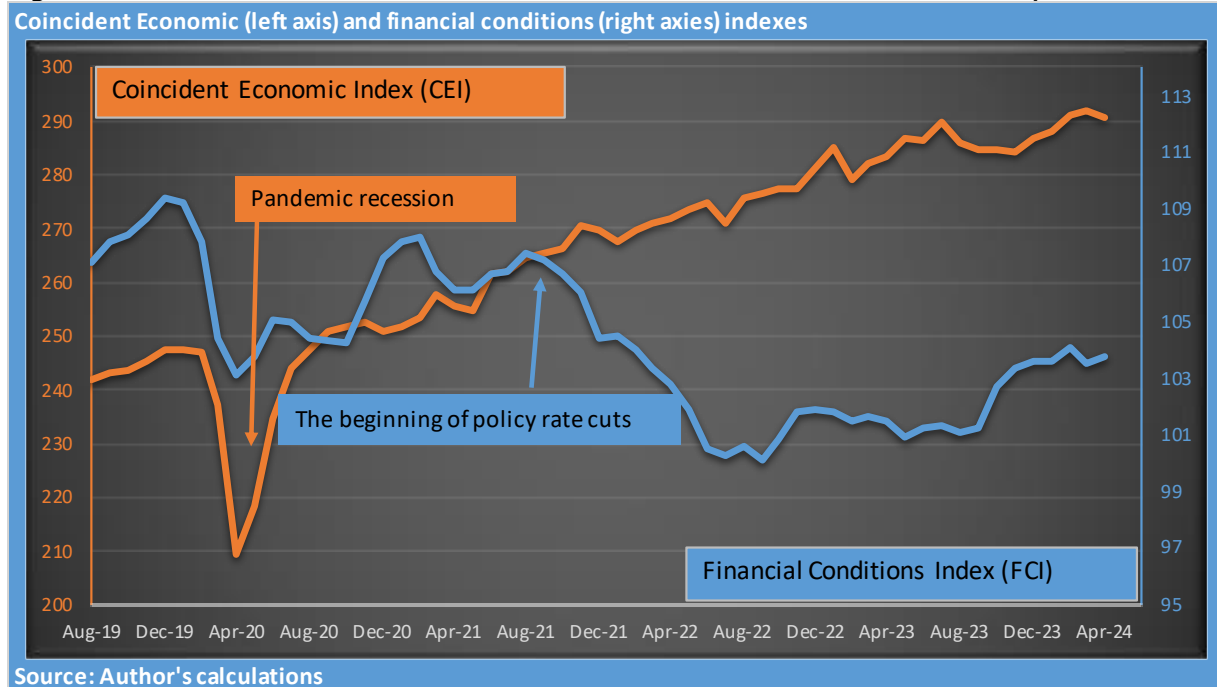
Financial Conditions Index (FCI)

This month, according to our model forecast, FCI increased by 0.2% compared to the previous month in April. The changes in March and February are -0.5% and 0.5% respectively. As the local elections were approaching, the overheating economy and increasing inflation led to an increase in risk perception in the financial sector. This led to a strain on financial conditions in March. We observed a similar case last in May 2023, with an overheated economy and worsening financial conditions. The slightly improved financial conditions index in April reflects the decreasing risk perception after the elections.

Regarding the sub-components of FCI, there was a rapid increase in gross reserves in April. This improvement after the elections contributed positively to the risk perception. Accordingly, Turkey's 5-year CDS premium fell below 300bps again post-election, reaching 290 basis points. On the other hand, the rapid real increase in consumer loans, especially in March, is replaced by a nearly 2% decrease in real terms in almost every category in April. Along with the contraction in real credit volume and many similar indicators, the increase in reserves, stable exchange rates, and the improvement in Turkey's risk perception were significant factors in the slight increase in the index.

Figure 1 shows the evolution of FCI and CEI starting from 2019. The economic contraction brought about by the Covid-19 pandemic in the first half of 2020, followed by a rapid recovery, is clearly observed in CEI. A similar decline and rapid recovery are also observed in FCI, especially during the tenure of former Central Bank Governor Naci Ağbal.

Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of April, 2024



Probability of Economic Recession

We compute the probability of the economy entering a recession in the short term based on the joint behaviour of CEI and FCI. Figure 2 illustrates the evolution of these probabilities from 2007 to the present.

We computed this probability as 14% this month. Although this probability is well below critical values, the ongoing increase in the probability of entering a recession is crucial. If this trend persists in May and June as well, we can consider April as the beginning of an economic downturn to be experienced this year.

Figure 2. Recession probabilities computed using available data as of April 2024

