Consumers put brake on Turkish growth figures

A decline in private consumption is weighing on Turkey's latest growth numbers. But at 5.9%, third quarter GDP figures were better than the market expected. That deceleration, along with tighter financial conditions, sluggish exports and weaker global activity, point to a further loss of momentum in the coming months

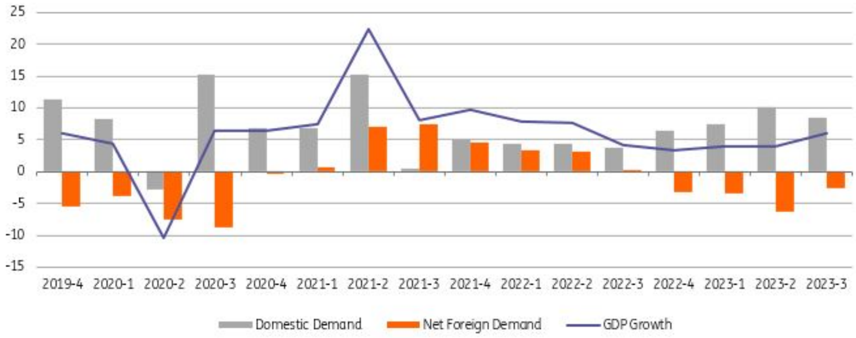
Shoppers in Istanbul

Third quarter GDP in Turkey came in at 5.9% Year-on-Year, better than most were expecting. That's down to strong private consumption despite a decline compared with previous quarters, robust investments and accelerating government consumption. Net exports once again turned out to be a drag.

3Q GDP translates into a Quarter-on-Quarter growth rate at 0.3% after seasonal adjustments, showing momentum loss in comparison to a relatively strong reading in 2Q at 3.3%. Easing sequential performance is down to household consumption turning negative for the first time since the last quarter of 2020 and a negative contribution from stocks despite a solid investment appetite and the supportive impact of net exports.

Quarterly Growth

%, YoY



Source: TurkStat, ING

When we look at the breakdown of expenditures, private consumption has lost steam with an 11.2% YoY growth, the lowest in the last two years and pulled the headline GDP up by 7.7ppt. The data reflects the start of a normalisation in household consumption with gradual tightening in the policy mix since the May elections, but it remained the main driver of growth in 3Q.

An analysis of gross fixed capital formation reveals that investor appetite strengthened with 14.7% YoY growth, translating into 3.4ppt contribution to the GDP expansion. This is mainly because of a continued rise in machinery equipment (23.7% YoY in 3Q) for the last 16 consecutive quarters. We also see further recovery in construction investments (7.9% YoY), supporting the 3Q investment growth.

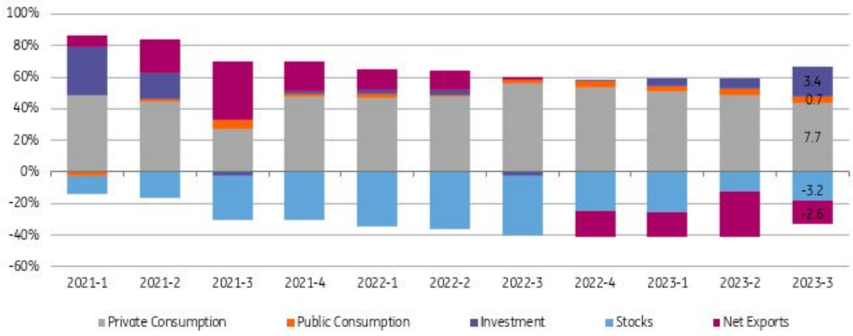
Other notable comments:

- Public consumption that has continuously positively contributed to the headline GDP since early 2021 remained strong with a 5.3% YoY increase, lifting 3Q growth up by 0.7ppt. This was reflected in the continuing expansion in primary expenditures this year so fa
- Inventory build-up shaved 3.2ppt off growth
- Net exports continued to pull the headline growth down by -2.6ppt. This is attributable to accelerating imports vs barely positive export growth.

The only sector which dragged down the annual growth rate was administrative and support services while the other sectors positively affected the GDP performance. Among these, services and industry turned out to be the biggest contributors.

Drivers of the growth

Ppt contribution



Source: TurkStat, ING

Overall, 3Q GDP data show a moderation in private consumption though remaining the major driver and a visible decline in the momentum of growth. Accordingly, despite the February earthquake, GDP growth in the first nine months turned out to be 4.7%, driven by domestic demand, while signals of a slowdown in the growth trend are increasingly more evident.

We expect GDP growth this year to be 4.2% and a slowdown to 2.5% for the next year given the full impact of the rate hikes. The risks are, however, on the upside given the latest Medium Term Plan (MTP) forecast of the government at 4.0% and continuing supportive fiscal stance in addition to potential recovery in foreign capital inflows.

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