Turkish growth moderates to 1.6%

Turkish 3Q GDP came in lower than expectations showing that financial volatility in the summer and subsequent tightening to restore confidence resulted in faster than expected rebalancing of the economy

Source: Shutterstock

1.6%

GDP Growth

(YoY, 3Q18)

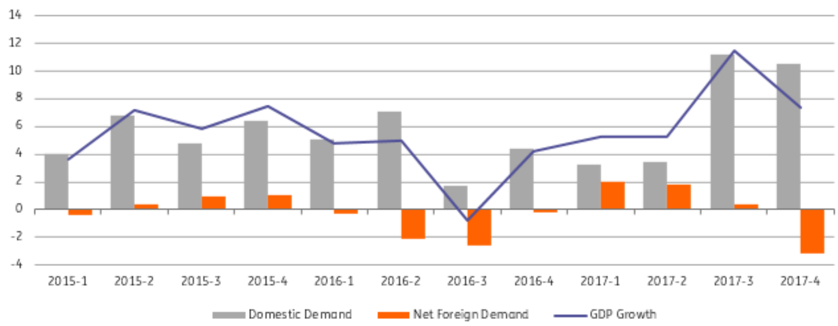
Lower than expected

Economic growth in 3Q turned out to be 1.6%, lower than the expectations centered around 2.0% and our call of 2.7%. The Turkish statistic office made some minor revisions to the headline GDP data in the first half, but the revisions in the breakdown are somewhat more significant. The figure shows a moderation over the previous quarters with the summer volatility taking a toll on the GDP indicators.

Accordingly, fourth-quarter trailing GDP growth retreated to 5.2% vs. the 7.8% of the previous quarter, though full-year growth in 2018 is likely to drop further as can be seen by the ongoing momentum loss in activity.

In seasonal and calendar-adjusted terms, GDP contracted by a significant -1.1% quarter on quarter vs. +0.6% a quarter ago, and showing that activity has been on a path of sharp decline on the back of deteriorating confidence, significant financial tightening both leading to a marked deceleration in domestic demand.

Quarterly growth (%, YoY)



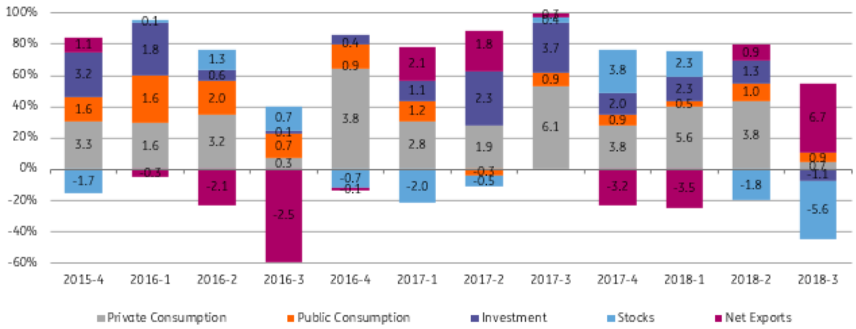
Source: TurkStat, ING Bank

The breakdown shows private consumption has softened significantly with a mere 1.1% year on year rise in 3Q18, pulling growth up by 0.7 basis points, while investment growth turned negative with -3.8% YoY, contributed -1.1bp to the headline in the same period. Both construction and machinery and equipment investments were drags showing a plunge in investment demand with credit impulse turning negative.

Public consumption, determined by the spending pattern of the government that was on an upwards trend before the June elections, rose by 7.5% YoY, lifting 3Q growth up by 0.9ppt, and maintaining pace after the elections.

Exports maintained uptrend with a sharp 13.6% increase thanks to rapidly improving price competitiveness and robust tourism revenues while imports contracted by 16.7% on the back of deteriorating demand factors. Accordingly, the contribution of net exports was largely positive at 6.7ppt, the highest since the global crisis. Finally, inventory drawdown deducted 5.6ppt from the headline GDP growth.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING Bank

Among the sectors, construction stood out with a -0.4ppt contribution, the first negative reading since 1Q15 along with professional, administrative and support service activities with another -0.4ppt deduction from the headline. All other sectors showed significant softening over the previous quarter except for agriculture and services, pulling 3Q growth up by 0.1ppt and 1.0ppt, respectively.

Overall, strong growth in the first half of this year due to fiscal measures to support private consumption and investment with increasing capital spending has lost significant momentum in 3Q, given the financial shock in the summer months and subsequent tightening of financial conditions that have weighed on domestic demand, especially on private consumption and investment.

On the flip side, the contribution of net exports turned significantly positive, but not enough to fully counter the weakness in domestic demand and inventory drawdown. Recent data reinforces the downbeat economic outlook in the months ahead with more weakness in domestic demand.

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