Turkish domestic demand - the main culprit behind falling growth?

The weakness in domestic demand turned out to be a major driver of contraction in 4Q GDP growth along with inventory drawdown, while the contribution of net exports remained largely positive. But having said that, recent momentum indicators on lending hint early signs of stabilisation

Source: Shutterstock

-3.0% 4Q GDP Growth

(YoY)

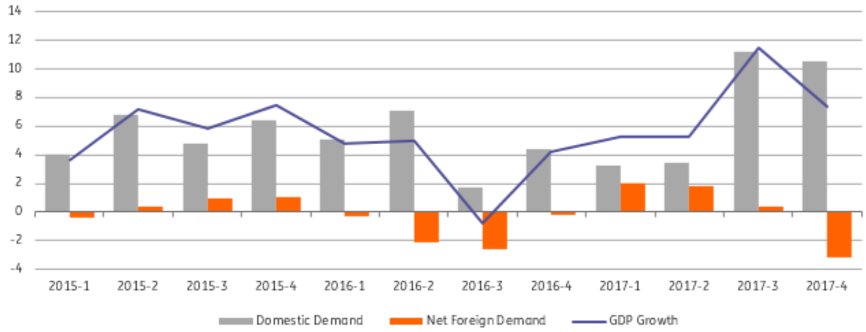
Worse than expected

Economic growth in the fourth quarter turned out to be -3.0%, slightly worse than our expectations of -2.7%, but in line with our call.

The Turkish statitical agency, TurkStat, made some minor revisions to headline GDP for the previous quarters (1Q growth up to 7.4% from 7.2% and 3Q growth to 1.8% from 1.6%). The figures show further momentum loss with the summer volatility taking a toll on GDP.

In 2018, GDP growth came in at 2.6%, falling significantly from a year ago when it was at 7.4% - the highest since 2013, and below the government's projection of 3.8%. In seasonal and calendar adjusted terms, GDP contracted by a significant -2.4% QoQ vs -1.6% QoQ a quarter ago, confirming the economy has fallen into recession on the back of deterioration in confidence, sharply higher bank lending rates, and contraction in bank lending.

Quarterly growth (%, YoY)



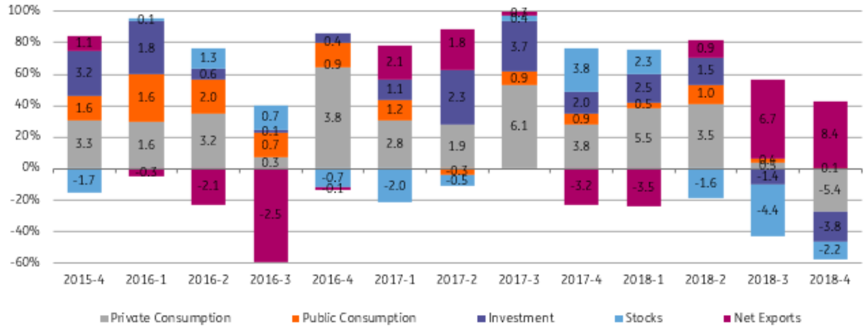
Source: TurkStat, ING Bank

The breakdown shows private consumption turned negative for the first time since the global financial crisis with to -8.9% YoY in 4Q18, pulling growth down by -5.4 basis points, while investment growth that was in the negative territory in 3Q18 recorded another contraction at -12.9% YoY, contributing -3.8bp to the headline in the same period. Both construction and machinery & equipment investments were drags showing plunge in investment demand in the aftermath of last year's summer volatility.

Public consumption, determined by the spending pattern of the government that positively contributed to the growth performance remained so with a slight 0.5% YoY increase, lifting 4Q growth up by 0.1ppt, though it was considerably weaker given the efforts of policy makers to get a grip on the budget deficit.

Exports maintained their upwards trend with a sharp 10.6% YoY increase thanks to improving price competitiveness and robust tourism revenues while imports contracted by a sharp 24.4% YoY on the back of deteriorating demand factors, making net exports largely positive at 8.4ppt - the highest in the current GDP series. Finally, inventory drawdown deducted -2.2ppt from the headline GDP growth.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING Bank

Among the sectors, industry stood out with a -1.3ppt contribution - the lowest among sectors, as monthly industrial production data has shown, followed by construction, financial activities and professional, administrative and support service activities, each recording -0.6ppt deduction from the headline. All sectors showed significant weakness over the previous quarter showing the extent of deterioration.

> Overall, strong growth in the first half of 2018 thanks to fiscal measures, but the first loss of significant momentum came in 3Q18 and then turned into a recession in the last quarter on the back of increased uncertainty, deteriorating sentiment, challenging external financing conditions and sharp monetary tightening that have weighed on domestic demand, especially on private consumption and investment.
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> In recent months, the government has announced a number of stimulus measures for both households and companies which can be helpful for economic recovery. But domestic demand weakness is likely to linger as unemployment stays on the upwards trend and credit activity remains subdued, but having said all of that, recent momentum indicators on lending hint early signs of stabilisation.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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