

Economic Growth

3Q18 GDP growth at 1.6% thanks to net exports

3Q18 GDP growth came in 1.6% slightly lower than the consensus at 1.8% and our house estimate at 2%. In this respect, annual GDP growth has eased to 5.2% from previous quarter's 7.8%. In sequential terms, 3Q18 GDP contracted by 1.1% q/q. The changes in the growth composition through weaker domestic demand but stronger contribution from net exports gained significant pace. Sharp currency depreciation weighs on investment and consumer demand. At this point, the net exports contribution stands essential, which was the main reason behind the positive growth in 3Q18.

As per the expenditures approach, the foreign demand outpaced the domestic demand to a significant extent with a net positive contribution of 6.6pp. The net export contribution in 3Q18 is the highest recorded since 1Q09. The goods and services imports declined by 16.7% on the back of dampened economic activity weighing on the imports, while the goods and services exports skyrocketed by 13.6% thanks to the rising competitive advantage after the sharp depreciation of TL, the vivid economic activity in the main export markets and strong tourism performances.

In respect to the domestic demand, although the private and public consumption growths achieved to contribute positively to the tune of 0.6pp and 0.9pp respectively, the depletion in inventory was immense in 3Q18 cutting 5.5pp from the headline. This again stands as the sharpest depletion in inventory recorded since 1Q09. Moreover, the investment growth was also weak as expected by a decline of 1.1% y/y. While the construction sector investment growth contracted by 1.8%, the fall in machinery and equipment investments was more vocal at 8.5% y/y. The sharp decline in CUR since the beginning of 2018 has been indicating such weakness in investment tendency.

On the production side, the services sector took lead with 1pp contribution to the headline, while the weakness in the construction sector exacerbated with cutting 0.4pp from the headline. The industrial sector did not contribute to the headline in 3Q18.

We foresee stronger net export contribution to the growth in 2019 compared to 2018. Apart from the terms of trade advantage after the sharp depreciation of TL, economic growth in export markets is at utmost importance. Hence the recent warnings coming from the international institutions underlining that the downside risks have increased on the global growth should be monitored closely. Still, at the latest World Economic Outlook report of the IMF, the Eurozone is expected to grow in 2019 at the same pace of 2018, which denotes a decent growth outlook for Turkey's exports in 2019.

We expect the growth outlook to deteriorate in the coming quarters, while anticipate 2018 GDP growth at 2.8% and 2019 growth at 1.5% with downside risks attached. We believe the private consumption and investment tendency will come under further pressure in the coming period, while the public consumption will also be not as supportive as it was in the past few years. Under these circumstances, the net exports stand as the sole positive contributor to the growth in the coming quarters.

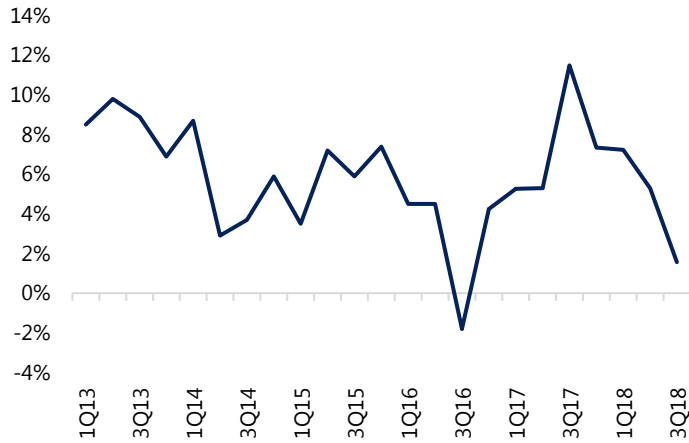
GDP growth (y/y)



Source: TURKSTAT, Tacirler Investment

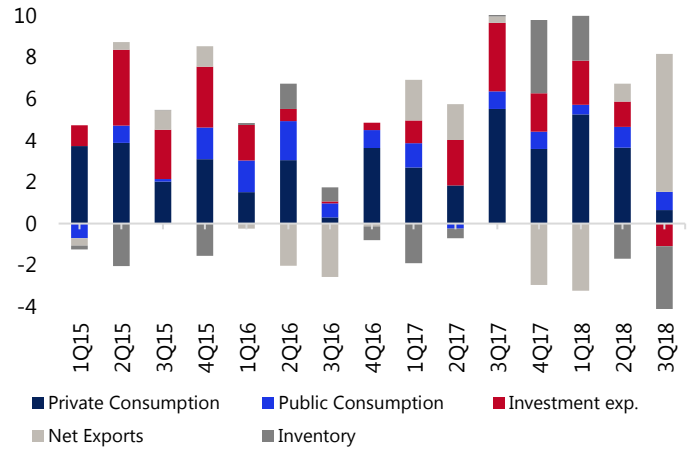
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Annual GDP Growth



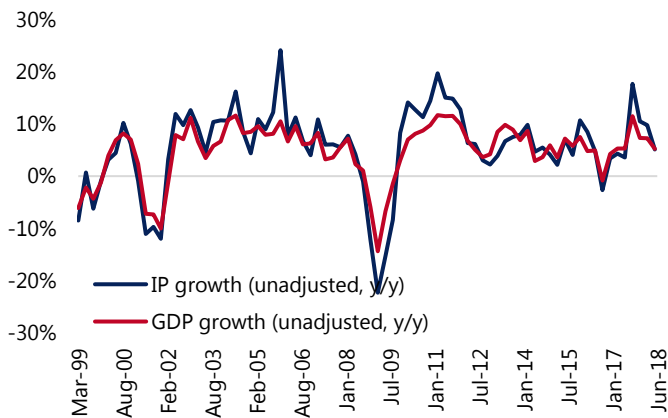
Source: TURKSTAT, Tacirler Investment

GDP and the contributors (quarterly, pp)



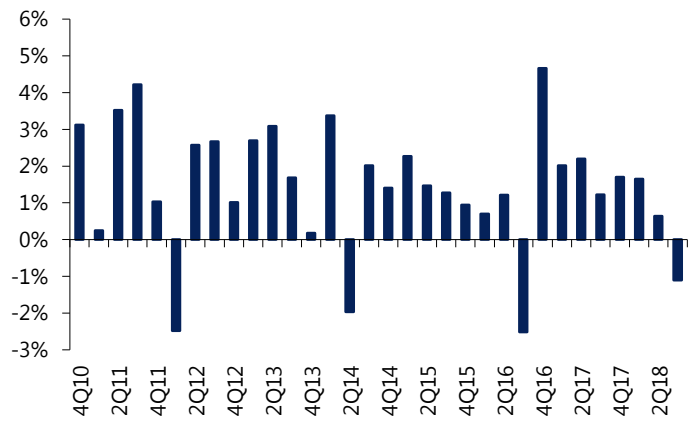
Source: TURKSTAT, Tacirler Investment

IP & GDP (unadjusted, y/y)



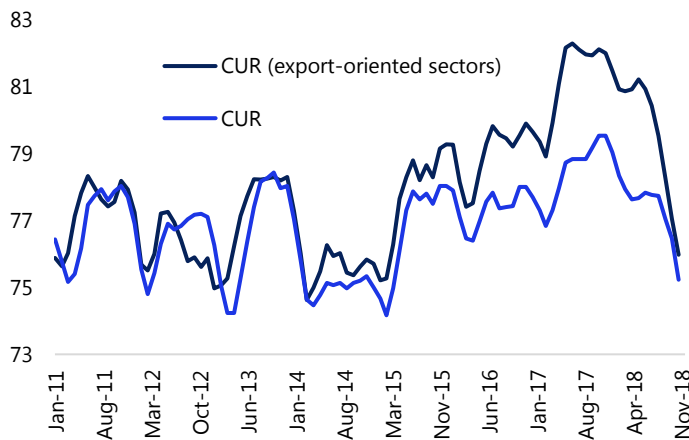
Source: TURKSTAT, Tacirler Investment

GDP growth (q/q, seasonally adjusted)



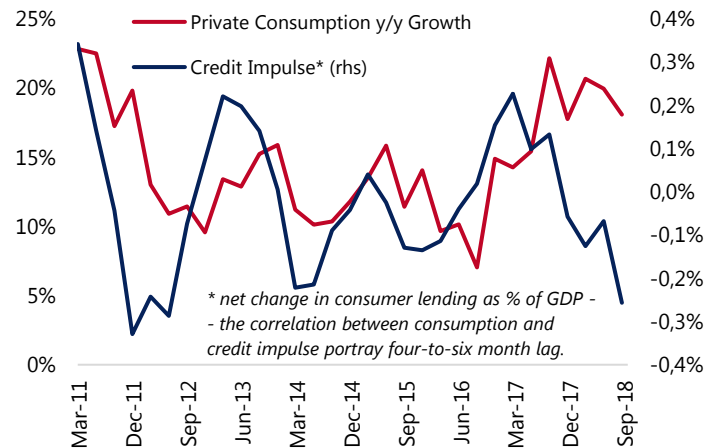
Source: TURKSTAT, Tacirler Investment

CUR in Manufacturing sector (3MMA,%)



Source: CBT, Tacirler Investment

Credit Impulse (consumer lending)



Source: TURKSTAT, CBT, Tacirler Investment

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