



Investment Themes &amp; Strategy

# What the drop in Turkey's lira means for consumer spending

Oleksandr Pidlubnyy | 07/12/2018



## Summary

A new survey provides insight into how Turkey's economic struggles are affecting consumers in this G20 nation. The volatility of the lira and an overall sense of financial insecurity have caused a notable pullback in consumer confidence and spending – a significant development, since Turkey's economy is traditionally a domestically driven one.

### Key takeaways

- Although Turkey's economic growth was recently on par with China and India's, the value of Turkey's currency – and its consumer confidence – has plunged
- According to our new research, approximately 3/4 of Turkey's consumers plan to spend less on homes, vacations and cars – and even more are worried about inflation's effect on food and petrol prices
- More than 60% said their optimism about the country's economy decreased in the previous six months, and more than half believed the economy would deteriorate further in the next six months

In recent years, Turkey's economy was one of the fastest-growing among emerging-market nations, growing at a pace comparable to India and China. But fundamental problems such as high levels of foreign-currency debt lurked under the surface. So when US-Turkey trade tensions made headlines in the summer of 2018, the Turkish lira suffered a steep selloff – and the country's economy started a sharp decline.

Grassroots® Research – Allianz Global Investors' proprietary in-house research division – sought to assess the impact of new economic developments on Turkish consumers' spending habits by surveying approximately 800 consumers in September 2018. This work informs our investment outlook for clients.

## Consumer optimism has dropped along with the lira

The survey confirmed our investment analysts' observations about Turkey's weakening economy. Six out of 10 respondents said their optimism about the country's economic developments had decreased in the previous six months. Looking to the future, more than half said they believed the economy would deteriorate in the next six months.

Yet our respondents' biggest worry was the lira's depreciation, with 92% citing concern that Turkey's weaker currency would negatively affect their overall financial situation. In fact, more than half told us their financial situation was already worse than it had been six months ago.

## Big-ticket purchases get sidelined as the price of consumer staples rise

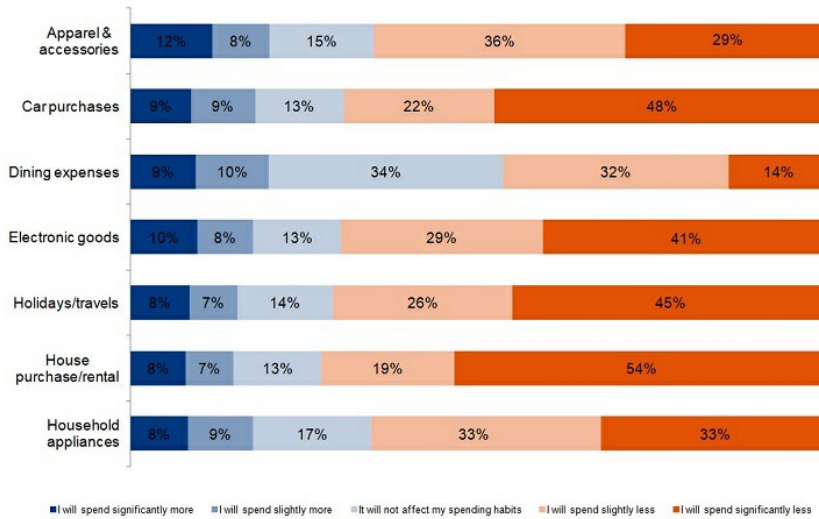
The volatility of the lira, and the overall financial insecurity of Turkish consumers, has caused a predictable pullback in consumer confidence and spending. Almost three-quarters of respondents said they plan to spend less on major purchases:

- 73% will spend slightly or significantly less on home purchases and/or rentals
- 71% will spend slightly or significantly less on vacations and/or travel
- 70% will spend less on car purchases

Our respondents also told us they expected the biggest price increases over the next six months to hit gas/fuel and food. More than half were already planning to curtail or stop their purchases of convenience food and prepared food.

### Almost three-fourths of respondents will cut or delay spending on big-ticket items

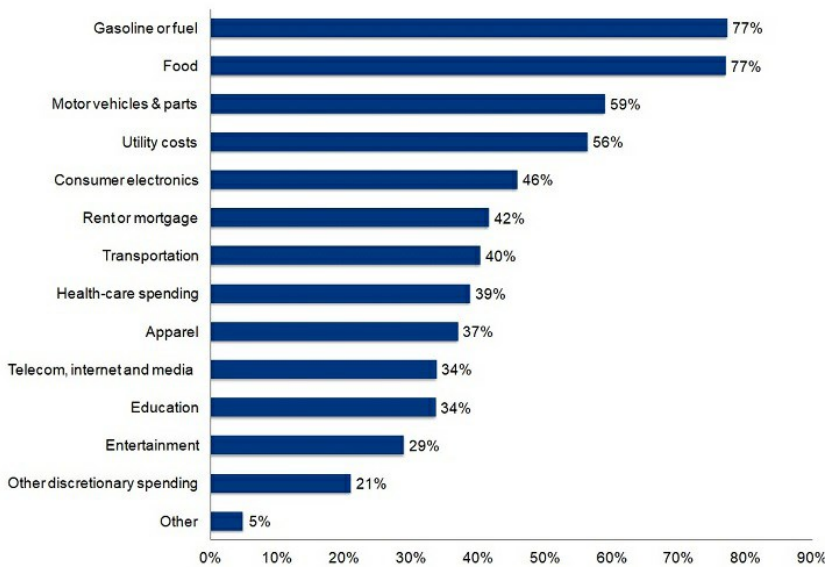
Question: Will the latest economic developments affect your personal spending habits for the following?



Source: Grassroots® Research. Data as at September 2018.

### Inflation expectations focus on fuel and food

Question: For which consumption categories do you expect the biggest price increases in the next six months?



Source: Grassroots® Research. Data as at September 2018.

## A strong link between consumer sentiment and economic growth

Alexandra Richter, Head of the Emerging Europe Equity team at Allianz Global Investors, found the outcome of this survey of particular interest because Turkey's economy is traditionally a domestically driven one: "The combination of a weak Turkish lira, increased inflation and high interest rates are weighing on consumer confidence and overall growth. As a result, Turkey's consumers are in the process of either postponing some purchases or at least trading down. It will be interesting to conduct this survey again in a few months to see how consumer confidence has evolved in a low-growth – but probably still high-inflation and high-interest-rate – environment."

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## Oleksandr Pidlubnyy

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Mr. Pidlubnyy is a research associate with Allianz Global Investors, which he joined in 2015 as a member of the firm's Global Graduate Program (GGP). He has been a member of the Grassroots® Research team since September 2017, after completing a two-year trainee program. Prior to joining Allianz Global Investors, he worked as a financial analyst at Unicredit and then Microsoft (2014–2015). Oleksandr has a bachelor's degree in economics and finance from the University of Trieste, Italy, and completed his post-graduate master's in banking and business in 2014. He is a CFA Level III candidate.

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# Selectivity may pay off in Latin American infrastructure debt

Paul David | 07/12/2018



## Summary

Infrastructure-debt investments in Latin America are often considered to be risky – and, as a result, more suitable for a portfolio’s “core plus” fixed-income allocation. But carefully choosing countries and projects can turn this asset class into a core holding with attractive yield potential and a solid risk profile.

### Key takeaways

- Investors are increasingly looking to infrastructure investments as a way to balance their portfolios – and actively selecting among Latin American infrastructure-debt projects can be particularly attractive
- Focusing on essential infrastructure projects in investment-grade countries may help minimise the market, currency and political risk associated with this asset class
- With careful portfolio construction, Latin American infrastructure debt can sit within a traditional core allocation even as it offers enhanced return potential

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