

## CONSUMPTION AND CHANGE IN INVENTORY BOOST GDP GROWTH IN THE SECOND QUARTER

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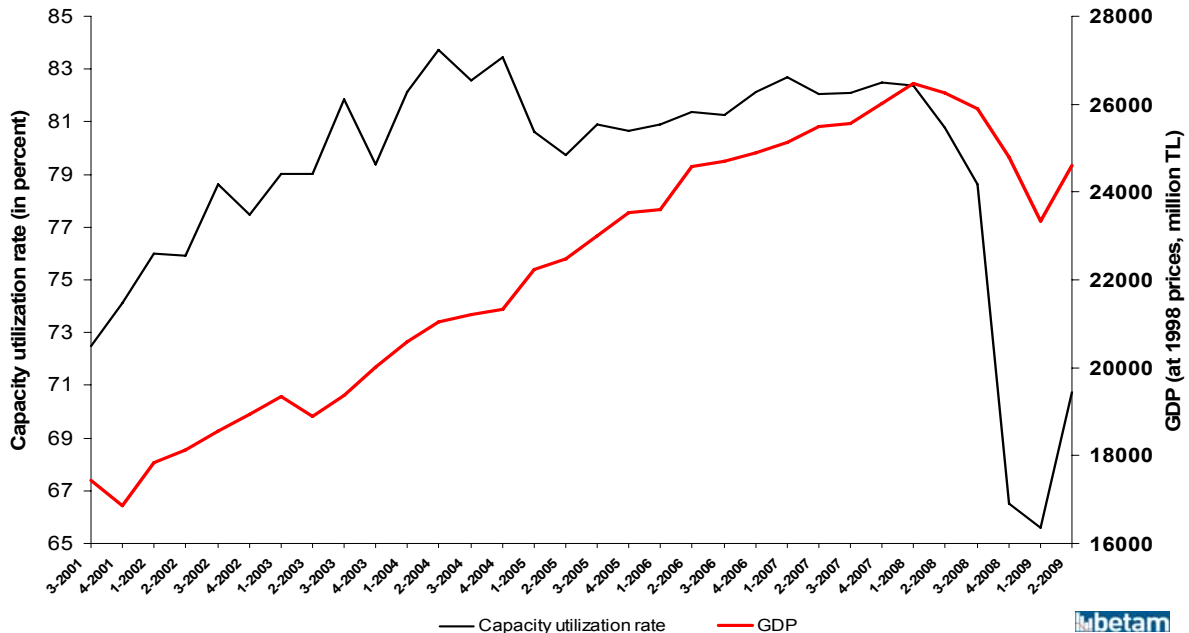
### Executive Summary

According to seasonally adjusted and calendar day corrected GDP figures, Turkish economy grew by 5.5 percent in the second quarter of 2009 compared to the first quarter<sup>1</sup>. This growth is mainly driven by a surge in consumer expenditures - fueled by the tax cuts implemented in this quarter- and by a change in inventories. Looking ahead, we expect that the current trend will continue in the third quarter, and that the quarterly GDP growth rate in year-on-year basis will turn positive in the fourth quarter.

### GDP grew by %5.5 QoQ in the second quarter

According to the quarterly GDP released by TURKSTAT in September, Turkish economy contracted by 7 percent in the second quarter of 2009, compared to the same quarter in previous year (Q2-2008). This confirmed the expectations. Quarter-on-quarter change in GDP, however, paints a somewhat different picture.

**Figure 1 GDP (at 1998 prices) and capacity utilization rate(%)**  
(Seasonally adjusted and calendar day corrected)



Source: TURKSTAT, betam

When analyzing quarterly GDP growth, it should be taken into account that quarterly GDP data is affected by seasonal fluctuations and calendar effects (trading-day effect and moving holiday effect), which can mask relevant short and long-term movements of the series and impede a clear

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<sup>1</sup> Note that this is on a quarter on quarter (QoQ) basis. It is not annualized.

understanding of economic phenomena. Consequently, quarterly GDP data should be seasonally adjusted<sup>2</sup> in order to filter out usual seasonal fluctuations<sup>3</sup> and typical calendar effects within the movements of quarterly GDP series<sup>4</sup>. According to seasonally adjusted and calendar day corrected GDP figures, Turkish economy grew 5.5 percent in second quarter of 2009 compared to the first quarter (Figure 1 and Table 1).

Seasonally adjusted and calendar day corrected GDP data suggests that a change in inventories boosted QoQ GDP growth by an unusually large 5.2 percentage points. Also consumer expenditures, which rose by 3.4 percent QoQ, added 2.6 percentage points to the quarterly growth (Table 1 and Table 2).

On the other hand, during the post-crisis period, net foreign demand has been contributing considerably to growth as a result of a faster contraction in imports compared to exports. Meanwhile, a relatively higher contraction in import volume has surpassed the relatively lower export volume. But in second quarter, the contribution of net foreign demand was surprisingly negative on growth, as exports and imports diverged. Exports fell by 2.4 percent, while imports rose by 8.6 percent QoQ.(Table 1) Overall net foreign demand subtracted a hefty 2.7 percentage points from QoQ GDP growth in second quarter (Table 2).

**Table 1 Growth of GDP Components (at 1998 prices, in percent)**

(From the 1<sup>st</sup> quarter of 2009 to the 2<sup>nd</sup> quarter of 2009)

|  | <b>QoQ Growth</b> |
|--|-------------------|
| Final Consumption Expenditure of Resident Households | 3.4               |
| Government Final Consumption Expenditure             | 0.7               |
| Government Investment Expenditure                    | 16.8              |
| Private Investment Expenditure                       | -1.7              |
| Change in Inventories                                | -59.1             |
| Exports of Goods and Services                        | -2.4              |
| Imports of Goods and Services(-)                     | 8.6               |
| <b>GDP</b>   | <b>5.5</b>        |

Source: TURKSTAT, betam

**Table 2 Contribution of GDP Components to Quarterly Growth (by percentage point)**

(From the 1<sup>st</sup> quarter of 2009 to the 2<sup>nd</sup> quarter of 2009)

|  | <b>Contribution to Growth</b> |
|--|-------------------------------|
| Final Consumption Expenditure of Resident Households | <b>2.6</b>                    |
| Government Final Consumption Expenditure             | 0.1                           |
| Government Investment Expenditure                    | 0.6                           |
| Private Investment Expenditure                       | -0.3                          |
| Change in Inventories                                | <b>5.2</b>                    |
| Exports of Goods and Services                        | -0.6                          |
| Imports of Goods and Services (-)                    | 2.1                           |
| <b>GDP</b>   | <b>5.5</b>                    |

Source: TURKSTAT, betam

### Future of Economic Recovery

The changes in GDP and its components may be read in different ways.

The first positive reading concerns the change in inventories. Right after the global crisis, firms preferred to run down inventories to meet household demand. However, we see in the second quarter that firms now feel confident enough to accumulate inventories again. Also note that the massive fall in

<sup>2</sup> Seasonal adjustment includes the elimination of calendar effects insofar as the effects from differences in the number of working/ trading days or the dates of particular moving holidays can be statistically proven and quantified. We take the work week to be 5 days.

<sup>3</sup> Usual seasonal fluctuations refer to those movements which are expected to reoccur with similar intensity in the same season each year based on previous data.

<sup>4</sup> We use seasonal adjustment software program TSW based on programs TRAMO and SEATS (developed by Banco de España).

inventories may mean that this component could add favorably to GDP growth output in the near future. Actually, this argument is also backed up by another leading indicator: Seasonally adjusted and calendar day corrected capacity utilization rate indicates that the downward trend in production that began in the second quarter of 2008 ended during the second quarter of 2009. But also note that the current level is still considerably below the long term average and falls short of indicating that the improvement in industrial activity is turning into a robust recovery.

The second positive reading of the second quarter is about an increase in private consumption expenditures, though limited. Most of this partial recovery in private consumption expenditures is attributable to the short-term effects of fiscal measures such as tax reductions which have been implemented in mid-March. Moreover, it is expected that the impact of unreleased Medium Term Fiscal Program and a fall in loan interest rates will boost the private consumption expenditures in the fourth quarter of 2009.<sup>5</sup>

On the other hand, the contribution of the external sector to growth may possibly turn into negative figures, as exports and imports continue to diverge. This was the case prior to the economic crisis. Looking ahead, it is possible to say that the current trend will continue in the third quarter, the quarterly GDP growth rate in year-on-year basis is likely to turn positive in the fourth quarter. Consequently, a more optimistic recovery scenario for the rest of the year may consist of a near zero growth in the third quarter and a positive figure for the fourth.

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<sup>5</sup> At the time this note was prepared, the medium term fiscal plan had not yet been announced.