

## HIGH GROWTH BOOSTED BY PRIVATE CONSUMPTION AND EXPORTS IN THE SECOND QUARTER

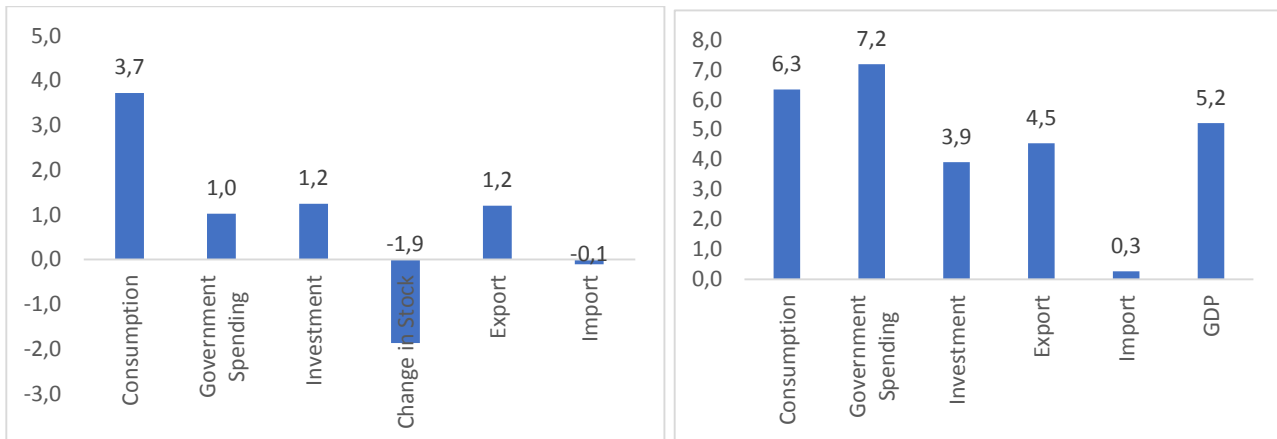
Seyfettin Gürsel<sup>1</sup>, Ozan Bakış<sup>2</sup> and Uğurcan Acar<sup>3</sup>

### Executive Summary

In the second quarter of 2018, according to seasonally and calendar day adjusted data, Gross Domestic Product (GDP) increased by 0.9 percent compared to the previous quarter and by 5.2 percent compared to the same quarter of last year. The largest contribution to annual economic growth came from private consumption (3.7 percentage points). Increase in exports attained 4.5 percent. The imports which had increased over 15 percent in the first quarter of 2018, almost stagnated in the second quarter of 2018. Therefore, the contribution to growth of net foreign trade which was minus 4.1 percent in the first quarter, turned positive with 1.3 percent.

Since the GDP growth rates for first two quarters of 2018 were 7.4 and 5.2 percent, growth rates for last two quarters of 2018 had to be around 5 percent in order to achieve the target of 5.5 percent GDP growth projected in the 2018-2020 Medium Term Program (OVP). Because of the possible recession in the second half of 2018, growth rates will be lower and target will not be achieved according to various economic institutions.

**Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2018 Q2**



Source: TurkStat, Betam.

### Decreasing signs in private consumption

<sup>1</sup> Betam, Director, seyfettin.gursel@eas.bahcesehir.edu.tr

<sup>2</sup> Betam, ozan.bakis@eas.bau.edu.tr

<sup>3</sup> Betam, ugurcan.acar@eas.bau.edu.tr

Compared to the same quarter of last year, private consumption growth, which was 9.3 percent in the first quarter of 2018, was 6.3 percent in the second quarter. Although contributions to GDP growth decreased from 5.7 to 3.7 percentage points, private consumption was still the largest contributor to GDP growth (Table 1). When we examine the seasonally and calendar day adjusted data, we discern that the private consumption growth turned negative (from 3.4% to minus 0.4%) and dragged economic growth down (Table 2).

**Table 1: Growth rates and contributions to growth of GDP components in 2018 Q1 and 2018 Q2 compared to same quarter of last year**

	2018Q1		2018Q2	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
<b>Consumption</b>	9.3	5.7	6.3	3.7
<b>Government Spending</b>	4.9	0.7	7.2	1.0
<b>Investment</b>	7.9	2.3	3.9	1.2
<b>Change in Stock</b>		2.7		-1.9
<b>Export</b>	0.7	0.3	4.5	1.2
<b>Import</b>	15.4	-4.4	0.3	-0.1
<b>GDP</b>	7.3		5.2	

Source: TurkStat, Betam

**Table 2: Growth rates and contributions to growth of GDP components in 2018 Q1 and 2018 Q2 compared to previous quarter**

	2018Q1		2018Q2	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
<b>Consumption</b>	3.4	2.0	-0.4	-0.2
<b>Government Spending</b>	4.8	0.7	0.2	0.0
<b>Investment</b>	4.1	1.2	-1.4	-0.4
<b>Change in Stock</b>		-3.8		-0.4
<b>Export</b>	-0.4	-0.1	2.4	0.6
<b>Import</b>	-5.8	1.5	-4.8	1.4
<b>GDP</b>	1.5		0.9	

Source: TurkStat, Betam

### Interest rate hike affected investments

We said in the growth evaluation of the first quarter that contribution to growth of investments would be negatively affected along with the increase of market interest rates. Thus, the investments, which contributed 2.8 percentage points to growth by increasing 7.9 percent annually in the first quarter of 2017, grew by 3.9 percent in the second quarter of 2018, contributing 1.2 percentage points to GDP growth (Table 1). On the other hand, quarter to quarter data shows that investments decreased by 1.4 percent and contributed minus 0.4 percentage points to growth (Table 2).

When consumption and investment data are evaluated together, it is seen that domestic demand has started to shrink and there is a break in high economic growth trend contingent on domestic demand. It is not an usual situation even in quarterly growth for private consumption to make a negative contribution.

#### **Decreasing contribution of stock changes at last turned negative <sup>4</sup>**

Stock changes, which had contributed to growth by 3.7 percentage points in the last quarter of 2017 and 2.7 percentage points in the first quarter of 2018, contributed minus 1.9 percentage points to growth in the second quarter of 2018 (Table 1). When the quarter to quarter growth is analyzed, it is seen that seasonally and calendar day adjusted stock changes negatively contributed to growth by minus 0.4 percentage points (Table 2).

#### **Net foreign trade contribution was positive**

Exports had increased by 0.7 percent and imports by 15.4 percent in the first quarter of 2018. Figures in the second quarter of 2018 evidence that, increase in exports reached to 4.5 percent and increase in imports decelerated to 0.3 percent. This brake may be considered as another indicator of the change of direction in the economic conjuncture. These changes in imports and exports affected contribution to growth positively. While contributions of net foreign trade were minus 3.4 percentage points in the last quarter of 2017 and minus 4.1 percentage points in the first quarter of 2018, the contribution was 1.1 percentage points in the second quarter of 2018 (Table 1). Using seasonally and calendar day adjusted data, we observe that on quarterly basis contribution of exports increased and that of imports decreased. As a result, contribution of net foreign trade increased from 1.4 percentage points to 2 percentage points (Table 2).

---

<sup>4</sup> TurkStat uses the chained volume index method when calculating new national income series. The contribution to growth of the stock change cannot be easily calculated because there is an additivity problem in the chain method and a chain index cannot be derived for the "changes in stock". We discussed in detail in the research note that we recently published how to account for the contribution of stock change to growth in the chain-volume index approach (see Betam Research Note 17/217).

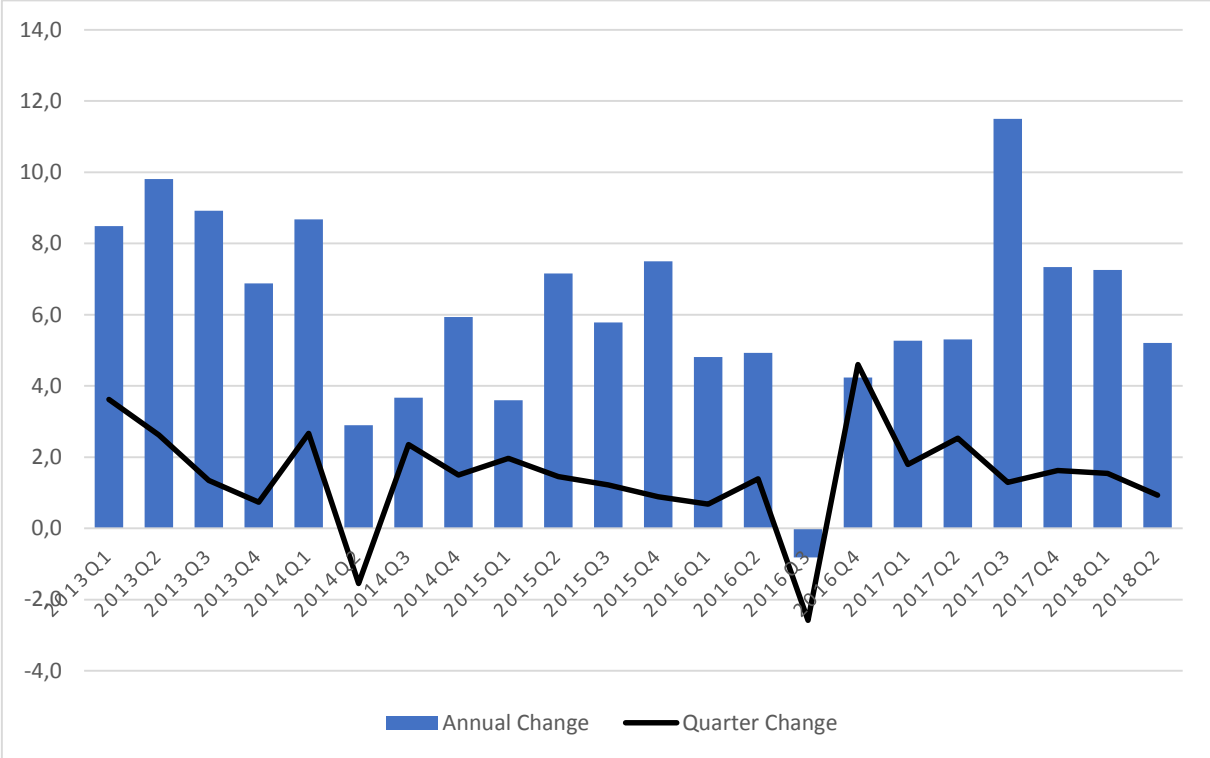
## **Contribution of public spending has decreased**

The final consumption expenditure of the government that was on an increasing trend since the last quarter of 2017 reached 7.2 in the second quarter on yearly basis making a contribution of 0.7 percentage points to GDP growth of 5.2 percent, rather exceptional for this item. However, when we appraise quarterly growth, we observe that the final consumption expenditures of the government almost stagnated, a mere increase of 0.2 percent and did not contribute to quarter-on-quarter GDP growth (Table 2). This harsh brake on public expenditures might be explained by the concerns ensuing from the risks of a drift in fiscal policy.

## **The Future of Growth**

The economic growth in the first quarter of 2018 was similar to the growth of 2017 in terms of its drivers. However, the economic growth in the second quarter of 2018 referred to a break. In particular, the deterioration in expectations, interest rates and the negative effects of the increases in exchange rates began to manifest itself in the domestic demand. Although Central Bank of Turkey has increased the funding rate by 625 basis points to 24 percent on September 13, 2018, it seems to continue with a relatively limited decline in the dollar exchange rate. This high interest rate increase is expected to lead to very high increases in deposit and in particular loan rates, and a very large contraction in credit volume. Especially August figures confirm this contraction. We will see the first findings about the extent to which Turkey's economy entered into recession in the first estimate of third quarter we will publish next week.

**Figure 2: GDP growth rates compared to the previous quarter and same quarter of last year**



Source: TurkStat, Betam.