

SHARP DROP IN DOMESTIC DEMAND, MELTDOWN IN STOCKS, BOOM IN NET EXPORTS, SLIGHT RECESSION IN GDP IN THE 3RD QUARTER

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Executive Summary

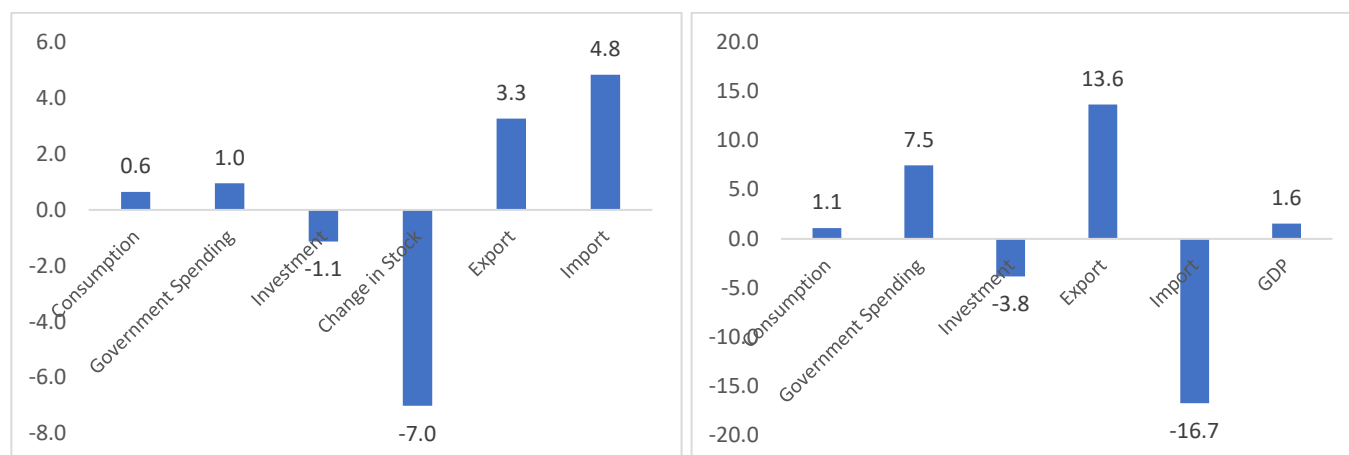
In the third quarter of 2018, according to seasonally and calendar day adjusted data, Gross Domestic Product (GDP) decreased by 1.1 percent compared to the previous quarter, yet increased by 1.6 percent compared to the same quarter of last year. The greatest negative impact on the annually economic growth comes from the change in stocks, for which the contribution to GDP growth was minus 7 percentage points. Imports which stayed almost constant in the second quarter, compared to the same quarter of the previous year, decreased by 16.7 percent in the third quarter of 2018. As another result of the exchange rate, increase in exports jumped from 4.2 percent to 13.6 percent. Therefore, the contribution to growth of net foreign trade which turned positive with 1.3 percentage points in the second quarter of 2018, went up to 8.1 percentage points in the third quarter. Since the growth rates for first three quarters of 2018 are 7.4 percent, 5.3 percent and 1.6 percent, respectively, the growth rate for the last quarter have to be around zero in order to achieve the target of 3.8 percent GDP growth projected in the 2018-2020 New Economy Program (NEP). Taking into account the current indicators, while reaching this target still seems possible, in case of a negative growth in the fourth quarter of the year the economy is likely to miss it.

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Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2018 Q3



Source: TurkStat, Betam.

Private consumption growth keeps declining

According to the same quarter of last year, consumption growth which was 6.4 percent in the second quarter of 2018, is 1.1 percent in the third quarter. Its contribution to GDP growth decreased from 3.8 to 0.6 percentage points (Table 1). When we look at the seasonally and calendar day adjusted data, we see that private consumption decreased by 3.9 percent and dragged economic growth down compared to the third quarter of the previous year (Table 2).

Table 1: Growth rates and contributions to growth of GDP components in 2018 Q2 and 2018 Q3 compared to same quarter of last year

	2018Q2		2018Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	6.4	3.8	1.1	0.6
Government Spending	7.8	1.1	7.5	1.0
Investment	4.2	1.3	-3.8	-1.1
Change in Stock		-1.9		-7.0
Export	4.2	1.1	13.6	3.3
Import	0.2	-0.1	-16.7	4.8
GDP	5.3		1.6	

Source: TurkStat, Betam

Table 2: Growth rates and contributions to growth of GDP components in 2018 Q2 and 2018 Q3 compared to previous quarter

	2018Q2		2018Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	-1.5	-0.9	-3.9	-2.3
Government Spending	2.8	0.4	-2.9	-0.4
Investment	-1.7	-0.5	-3.6	-1.1
Change in Stock		-0.4		0.0
Export	1.7	0.4	4.1	1.0
Import	-5.6	1.6	-6.3	1.7
GDP	0.6		-1.1	

Source: TurkStat, Betam

High interest rates affected investments negatively

We said in our previous growth review that the positive contribution to growth of investments would come to an end in the third quarter due to the high interest rates. Investments, which had contributed positively to growth in the second quarter, decreased by 3.8 percent and had a negative impact on GDP (minus 1.1 percentage points) in the third quarter (Table 1). The signals of stagnation that we have already underlined in our economic growth forecast of the third quarter show themselves in the slowdown of investments. Additionally, quarterly data shows that investments decreased by 3.6 percent and contributed minus 1.1 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 depending on domestic demand.

Meltdown in stocks ⁴

Stock changes, which had contributed to growth by minus 1.9 percentage points in the second quarter of 2018, contributed minus 7 percentage points to growth in the third quarter

⁴ 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).

of 2018 (Table 1). When we look quarterly growth, we see that seasonally and calendar day adjusted stock changes do not contribute to GDP growth (Table 2).

Positive contribution of net foreign trade continues increasingly

In the second quarter of 2018, we had witnessed that the increase in export reached to almost 5 percent and increase in export dipped to 0 percent. This transformation in foreign trade continues by maintaining its pace. We see a substantial increase in its contribution to growth. While the contribution of foreign trade was minus 4.1 percentage points in the first quarter of 2018, in the second quarter of the year it turned positive and reached 1.1 percentage points (Table 1). As the third quarter of 2018, we see that the contribution to growth of net foreign exchange went up to 8.1 percentage points. Besides, using seasonally and calendar day adjusted data, we observe that contribution of exports and imports increased; as a result, contribution of net foreign trade increased from 2 percentage points to 2.7 percentage points (Table 2).

Public spending remains high

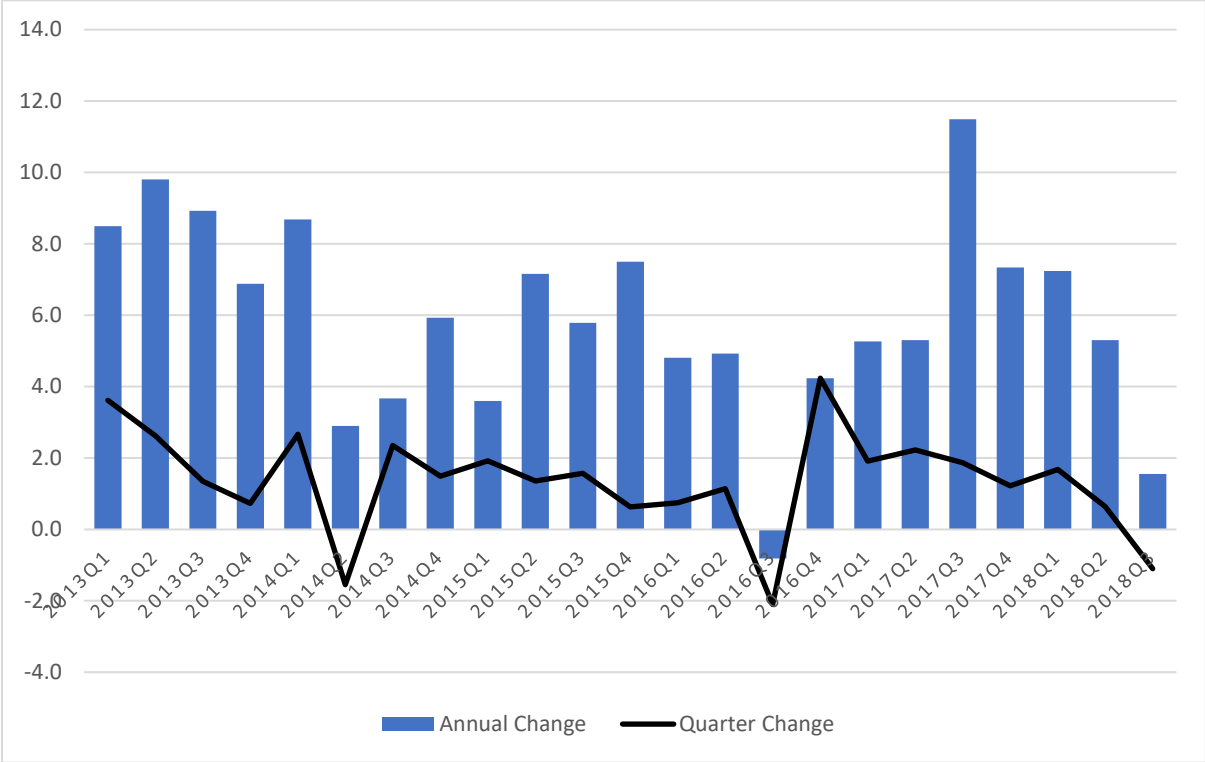
Ever since the fourth quarter of 2017, the government has clearly increased public consumption expenditures. In the first two quarters of 2018, public expenditures followed this trend and grew gradually. As the third quarter, the growth rate is 7.5 percent (Table 1). On the other hand, when we look quarterly growth, the final consumption expenditures of the government decreased by 2.9 percent and did contribute negatively to quarter-on-quarter GDP growth (Table 2).

The Future of Growth

The negative change of the growth observed since the second quarter of 2018 keeps following its downward trend. In particular, the deterioration in expectations, interest rates and the negative effects of the increases in exchange rates began to show itself in the domestic demand and foreign trade figures. As a result of the shrinkage in domestic demand we see that firms decreased their production volume and sold from stocks. A similar case was witnessed in 2008 during the recession caused by the global crisis. On the other hand, due to declining domestic demand and high exchange rates, firms turned their face to export. Thanks to the positive contributions of net foreign trade, the recession is

minor in the third quarter of 2018. Fully-released October and partially released November data shows that the main indicators of domestic demand are still negative. Hence, it is likely that this recession process continues in the coming period.

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



Source: TurkStat, Betam.