

POSITIVE CONSUMPTION and NEGATIVE INVESTMENTS CONTRIBUTIONS to GROWTH RATE

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Executive Summary

In the third quarter of 2019, according to seasonally and calendar day adjusted data, Gross Domestic Product (GDP) increased by 0.4 percent compared to the previous quarter, increased by 0.9 percent compared to the same quarter of last year. While private and government consumption contributed to the annual economic growth by 1 percentage point, the greatest negative impact on the annual economic growth comes from investments, for which the contribution to GDP growth was minus 3.6 percentage points. On the other hand, the contribution of net exports to growth is positive but limited: while the contribution of exports was 1.7 percentage points, imports' contribution was minus 1.4 as imports start to increase.

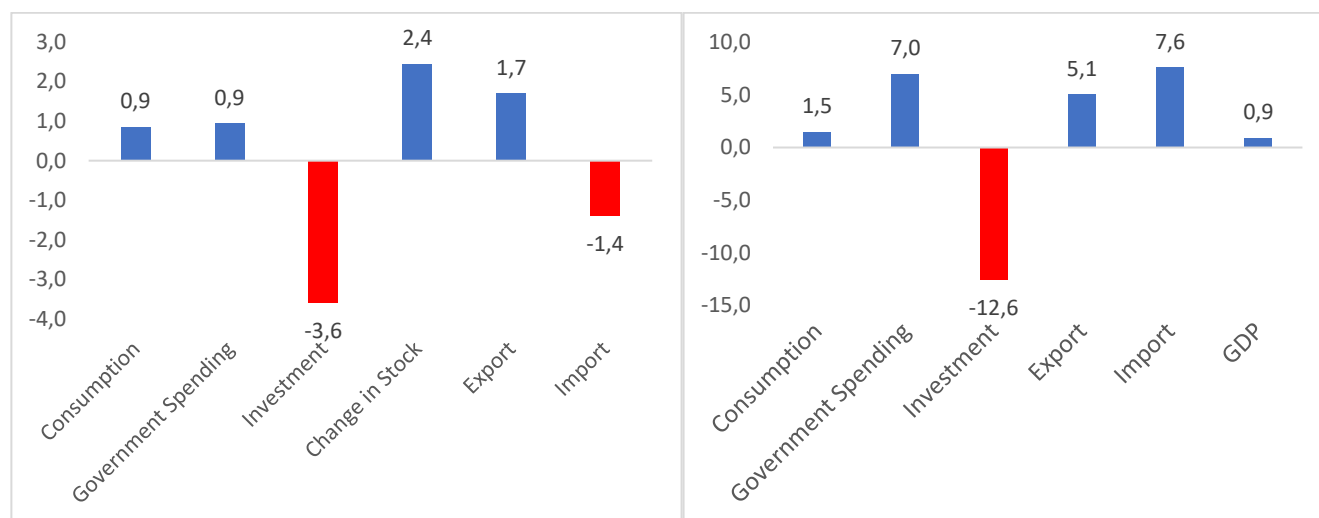
Quarterly, we observe that private consumption, government expenditure, exports, and stock change contribute positively to the growth rate. The contribution of imports is minus 2.9 percentage points.

The fact that stock change contributes positively to growth when the Turkish economy goes down can be interpreted that despite low demand, production is still in progress; therefore, producer expectation of the future is positive. On the other hand, ongoing reductions in investments raise concerns for the next period of the GDP growth. Despite this positive sign, we observe that investments decline in year-on-year comparison while stays constant in quarter-on-quarter comparison. This would raise concern about future GDP growth but knowing that the quarter-on-quarter decline in investments was 6.8 percent in the second quarter we can speak of an improvement in investment trends as well. All in all, we anticipate that economic growth will continue at least in the short run.

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Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2019 Q3



Source: TurkStat, Betam.

The positive contribution from private consumption

Private consumption, which decreased by 5 percent in the first quarter of 2019 and 1 percent in the second quarter of 2019, compared to the same quarter of the previous year, increased by 1.5 percent in the third quarter of 2019. Its contribution to GDP growth increased to 0.6 percentage points (Table 1). When we look at the seasonally and calendar day adjusted data, private consumption contributed to growth rate by 1.1 percentage points in the third quarter, increasing 1.9 percent (Table 2).

Table 1: Growth rates and contributions to the growth of GDP components in 2019 Q1 and 2019 Q2 compared to the same quarter of last year

	2019Q2		2019Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	-1.0	-0.6	1.5	0.9
Government Spending	3.4	0.5	7.0	0.9
Investment	-22.4	-7.2	-12.6	-3.6
Change in Stock		-1.7		2.4
Export	8.1	2.2	5.1	1.7
Import	-17.0	5.3	7.6	-1.4
GDP	-1.6		0.9	

Source: TurkStat, Betam

Table 2: Growth rates and contributions to the growth of GDP components in 2019 Q1 and 2019 Q2 compared to the previous quarter

	2019Q2		2019Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	3.4	1.9	1.9	1.1
Government				
Spending	2.2	0.3	1.9	0.3
Investment	-5.8	-1.6	-0.1	0.0
Change in Stock		0.3		0.2
Export	5.0	1.5	5.5	1.7
Import	5.6	-1.4	10.5	-2.9
GDP	1.0		0.4	

Source: TurkStat, Betam

The slowdown in investments continues

On an annual basis, investments, which decreased by 12.4 and 22.8 percent in the first two quarters of 2019, shrank by 12.6 percent in the third quarter of 2019, and they negatively contributed to growth by minus 3.6 percentage points (Table 1). When we look at seasonally and calendar day adjusted data, we see that negative contribution from investments in the first two quarters was set to zero in this quarter (Table 2).

Recovery in stocks³

Annually, stock changes, which had contributed to growth by minus 1.7 percentage points in the second quarter of 2019, contributed minus 2.4 percentage points to growth in the third quarter of 2019 (Table 1). When we look at quarterly growth, we see that seasonally and calendar day adjusted stock changes contributed to growth by 0.3 percentage points in the second quarter and 0.2 percentage points in the third quarter (Table 2).

³ 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).

The positive contribution of net exports is ending

Exports, which increased by 8.1 percent in the second quarter of 2019, compared to the same quarter of the previous year, rose by 5.1 percent in the second quarter, and the contribution of which was 1.7 percentage points. The decrease in imports seems to be over. While import reduction was nearly 29 percent in the first quarter and 17 percent in the second quarter. Imports increased by 7.6 percent in this period and contributed to growth by minus 1.4 percentage points (Table 1). Quarterly, when we look at seasonally and calendar day adjusted data, we see that the increase in imports accelerated in this quarter. Besides, the contribution from net foreign trade to growth was minus 1.2 percentage points (Table 2).

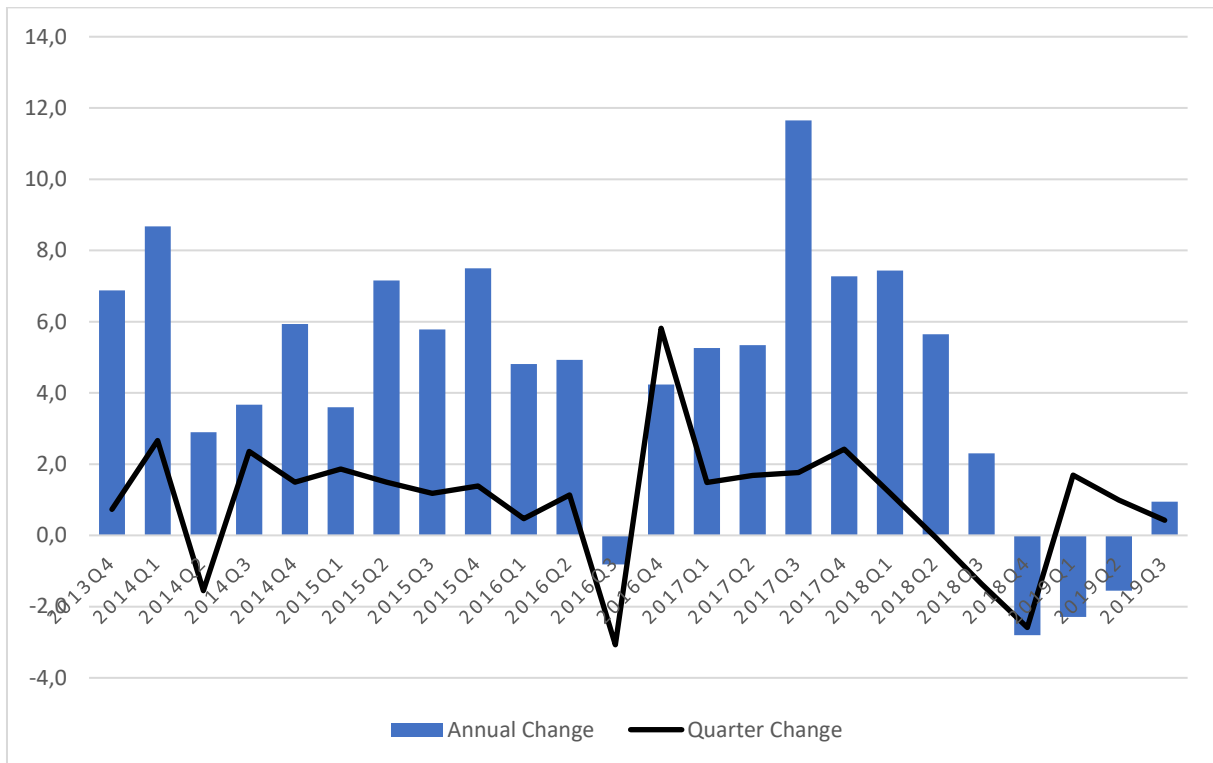
Limited support by government spending

Government spending increased by 7 percent in the third quarter of 2019 compared to the same quarter of the previous year and contributed 0.9 percentage points to growth (Table 1). Quarterly, when we look at seasonally and calendar day adjusted data, we observe that government spending increased by 1.9 percent in the third quarter of 2019 and made a contribution of 0.3 percentage points to growth. (Table 2).

The Future of Growth

The fact that stock change contributes positively to growth when the Turkish economy goes down can be interpreted that despite low demand, production is still in progress; therefore, producer expectation of the future is positive. Although this positive signal, investments were somewhat steady quarterly and were decreasing on an annual basis. This is alarming for the future periods. Nevertheless, when we consider the fact that investments declined by 6.8 percent in the previous quarter, we can remark on the recovery in investments in this quarter. Regarding all, we anticipate that economic growth will continue for at least in the short run.

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



Source: TurkStat, Betam.