

## NET FOREIGN TRADE WEIGHED DOWN THE GROWTH

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### Executive Summary

In the last quarter of 2019, according to seasonal and calendar adjusted data, Gross Domestic Product (GDP) increased by 1.9 percent compared to the previous quarter, and grew by 6 percent compared to the same period of the previous year. Thus, GDP increased by 0.9 percent in 2019 compared to 2018 and exceeded the New Economy Program target (0.5 percent). In the fourth quarter of 2019, private consumption contributed 3.8 percentage points to year-on-year growth, while public spending provided very limited support with 0.4 percentage points. Investments partially suppressed growth and made negative 0.2 percentage points contribution. Net foreign trade pulled year-on-year growth down considerably: The contribution of exports was 1.4 percentage points, while the contribution of imports was minus 7.9 percentage points, and the contribution of net foreign trade summed to minus 6.5 percentage points.

According to the seasonally and calendar adjusted data, private consumption (1.8 percentage points) and change in inventories (2.7 percentage points) contributed significantly to quarter-on-quarter growth, while public expenditures, investments and exports also contributed positively. Imports weighed down growth with a negative contribution of minus 3.8 percentage points.

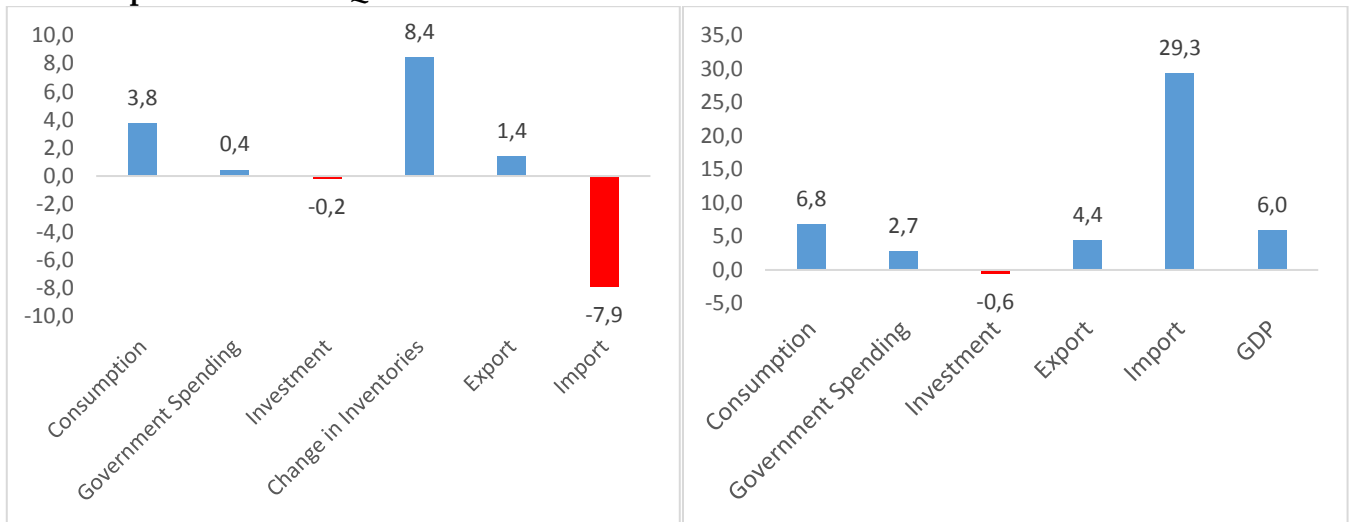
As in the previous note, we think that the positive contribution of change in inventories is caused by the high expectations of the firms which keep producing in a period of economic slowdown and sluggish consumer demand. On the other hand, investments recovered considerably, and imports have increased rapidly. In the fourth quarter of 2019, investments accelerated, as a result, its contribution to growth increased. When we evaluate all these signs together, we predict 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 Q4**



Source: TurkStat, Betam.

### The contribution of private consumption surged

In the first quarter of 2019, private consumption contracted 5 percent compared to the same period of 2018, and it decreased by 1 percent in the second quarter. The growth rate was 1.9 percent in the third quarter, and the year-on-year rate of increase in private consumption rose to 6.8 percent for the final quarter of 2019 while contribution to growth was 3.8 percentage points (Table 1). According to seasonal and calendar adjusted data, we see that private consumption increased by 3.1 percent and contributed 1.8 percent to growth (Table 2). We think that the increase in the consumer credits due to the decreases in interest rates and the realization of the deferred demand have caused the contribution of private consumption to rise.

**Table 1: Growth rates and contributions to the growth of GDP components in 2019 Q3 and 2019 Q4 compared to the same quarter of the previous year**

	2019Q3		2019Q4	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
<b>Consumption</b>	1.9	1.1	6.8	3.8
<b>Government Spending</b>	5.7	0.8	2.7	0.4
<b>Investment</b>	-12.8	-3.7	-0.6	-0.2
<b>Change in Inventories</b>		2.6		8.4
<b>Export</b>	5.1	1.7	4.4	1.4
<b>Import</b>	7.9	-1.5	29.3	-7.9
<b>GDP</b>	1.0		6.0	

Source: TurkStat, Betam

**Table 2: Growth rates and contributions to the growth of GDP components in 2019 Q3 and 2019 Q4 compared to the previous quarter**

	2019Q3		2019Q4	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
<b>Consumption Government Spending</b>	1.6	0.9	3.1	1.8
<b>Investment</b>	0.2	0.0	1.2	0.2
<b>Change in Inventories</b>	1.3	0.3	2.9	0.7
<b>Export</b>		1.5		2.7
<b>Import</b>	4.9	1.5	1.1	0.4
<b>GDP</b>	13.0	-3.6	12.5	-3.8
	0.8		1.9	

Source: TurkStat, Betam

### **Investment expenditures are recovering**

Investments decreased by 12.4 percent in the first quarter, 22.8 percent in the second, and 12.8 percent in the third quarter of 2019 compared to the same quarter of previous year. In the fourth quarter, investments which decreased by 0.6 percent on year-on-year basis contributed to growth by minus 0.2 percentage points (Table 1). When we look at the seasonally and calendar adjusted figures, we see that the investment contribution which is highly negative in the first two quarters, is more moderate in the third and fourth quarters (Table 2).

### **The contribution of change in inventories rises rapidly<sup>3</sup>**

The contribution of change in inventories, which was 2.6 percentage points in the third quarter of 2019 on the annual basis, increased to 8.4 percentage points in the fourth quarter of 2019 (Table 1). When we look at quarterly growth, we calculate that seasonally and calendar adjusted change in inventories contributed to growth by 1.5 percentage points in the third quarter and 2.7 percentage points in the fourth quarter (Table 2).

### **Net foreign trade weighs down growth**

Net foreign trade, which made a limited contribution to annual growth in the third quarter of 2019, contributed negatively in the last quarter. Exports grew by 4.4 percent in the fourth quarter compared to the same period of the previous year, while its contribution to year-on-

<sup>3</sup> TurkStat uses the chained volume index method when calculating new national income series. The contribution to growth of the inventory 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 inventories". We discussed in detail in the research note that we recently published how to account for the contribution of inventory change to growth in the chain-volume index approach (see Betam Research Note 17/217).

year growth was 1.4 percent. On the other hand, imports increased by 29.3 percent and lower growth by 7.9 percentage points (Table 1). According to the seasonally and calendar adjusted series, imports increased rapidly compared to the previous quarter (12.5 percent), while export growth was rather moderate (1.1 percent). In this case, we calculate the contribution of net foreign trade to quarterly growth as minus 6.5 percentage points (Table 2).

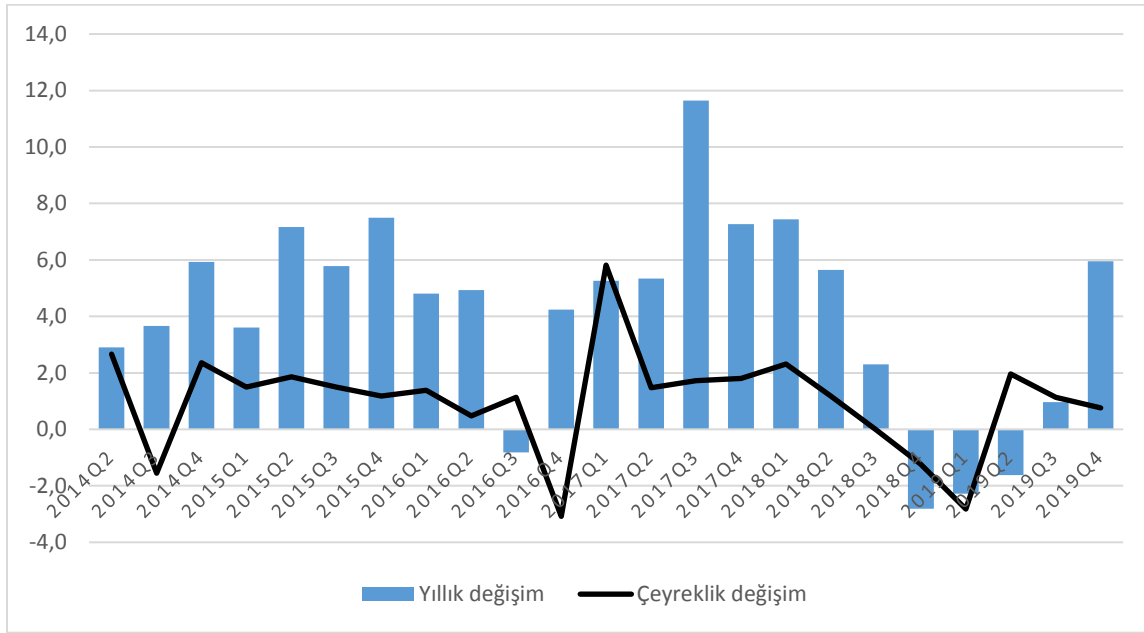
### **Limited support from public spending**

Public expenditures, which increased by 2.7 percent in the fourth quarter of 2019 compared to the same quarter of the previous year, contributed to the growth by 0.4 percentage points (Table 1). According to seasonal and calendar adjusted quarterly growth figures, public expenditures increased by 1.2 percent in the fourth quarter compared to the third quarter. Its contribution to growth was limited to 0.2 percentage points (Table 2).

### **The Future of Growth**

As in the previous note, we think that the positive contribution of change in inventories is caused by the optimistic expectations of the firms which keep producing in a period of economic slowdown and sluggish consumer demand. Despite this positive signal, we find that the increase in investments remains positive, albeit limited. While increases in import expenditures suppressed the growth for the fourth quarter, it indicates that the projection is positive for the future production. Another sign that confirms this positive expectation for production is positive change in inventories. When we evaluate all these signs together, we predict that economic growth will continue, 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