

HARSH BRAKE IN 2ND QUARTER GROWTH

Seyfettin Gürsel* and Selin Köksal†

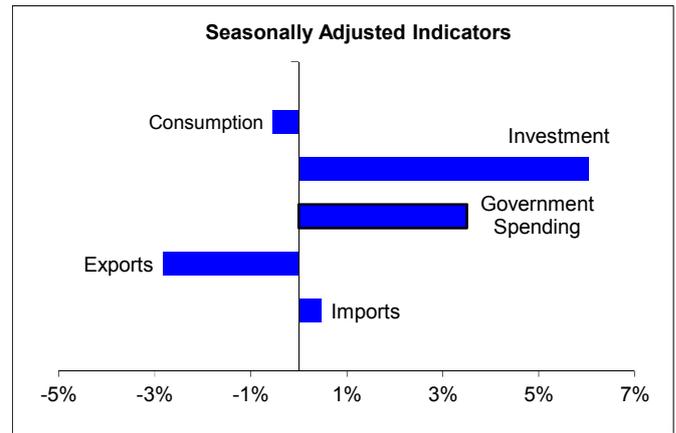
Executive Summary

From the first quarter of 2016 to the second, GDP grew by 0.3 percent which is below expectations. On yearly basis, Turkish economy also showed low performance by growing 3.1 percent in the second quarter of 2016.

Private consumption and net export are two components that dragged down the quarterly economic growth. The negative contribution of net exports was expected. However the fall by 2.8 percent in exports combined with the unexpected decline in private consumption by 0.5 percent affected economic growth in a negative way.

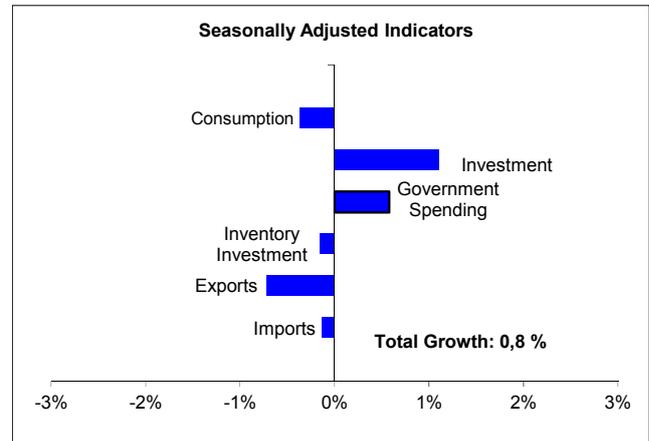
On the other hand, a positive surprise came from, private investments that grew by 6 percent and government spending contributed also positively to GDP growth increasing by 3.5 percent. Finally, these opposite changes produced a limited growth in quarterly GDP.

Figure 1. Change in GDP components from the previous quarter, 2016-Q2



Source: Turkstat. Quarterly indicators are seasonally adjusted

Figure 2. Contributions of GDP components to 2016-Q2 GDP growth



Source: Turkstat. Quarterly indicators are seasonally adjusted

* Prof. Dr. Seyfettin Gürsel, Betam, Director
seyfettin.gursel@eas.bau.edu.tr

† Selin Köksal, Betam, Research Assistant
selin.koksal@eas.bau.edu.tr

Unexpected fall in private consumption

According to seasonally adjusted data, private consumptions declined by 0.5 percent in the second quarter compared to the previous one. Also its contribution to total GDP measured as minus 0.4 percentage points. During the first quarter, private consumption was the most contributive component by recording a significant recovery (Table 1). Although leading consumption indicators of second quarter have opposite directions, we were expecting a modest increase in this component. Significant declines in health and clothing expenditures are striking.

Unexpected increase in private investments

After having recorded a severe decline in the first quarter of 2016 (minus 1.3 percent), we observe significant recovery in private investments as of second quarter. Private investments grew by 6 percent compared to previous quarter and contributed 1.1 percentage point to total GDP growth (Table 1). We were observing a long-term stagnation in private investments and we were expecting it to continue during second quarter. We would like to note that this unexpected recovery is mainly due to machinery-equipment investments. According to Turkstat, machinery-equipment investments increased by 6.9 percent in second quarter whereas it had declined by 3.7 percent in the previous quarter. However, we need to observe private investment evolution during the next quarters in order to determine whether this unexpected development created a turning point in investment trends or not.

Increase in government spending persists

It has been seen that total government spending (final consumption + investments) which recorded 2.5 percent increase in the first quarter gained speed in this quarter and grew by 3.5 percent. In

addition to that, government spending contributed positively (0.6 percent) to total GDP growth (Table 1). Having said that, considering Turkstat data, the increase in public consumption (compensation of employees + purchases of goods and services) declined from 4.8 percent to 3.8 percent and the change in public investment showed a significant jump from -1.7 percent to 5.7 percent.

Negative contribution of net exports

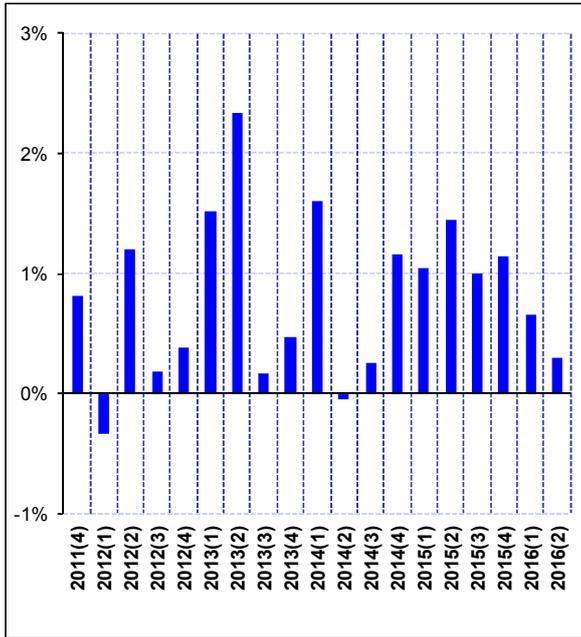
We were expecting a limited negative contribution of net exports on second quarter's GDP growth. Indeed, it contributed negatively but it was above our expectations. The export of goods and services declined by 2.8 percent (-0.7 point contribution) while the import of goods and services increased by 0.5 percent (-0.1 point contribution) from first quarter to second quarter.

Future of the Growth

Consequently, despite the strong recovery in investments and the habitual increase in government spending, GDP growth is limited to 0.3 percent in second quarter mainly because of the unexpectedly high negative contribution of net exports and unforeseen decline of private consumption.

Also, it should be noted that 2016-Q2 quarterly growth recorded as the lowest growth in last 6 quarters. Therefore annually GDP growth regressed to 3.1 percent. Under these circumstances, it is almost certain that 2016 annual growth will be below 4.5 percent target which was announced in Medium Term Program. To what extent that annual GDP deviate from the target will be shaped by the performances of the Turkish economy in second half of the year.

Figure 3. Quarter-on-quarter real GDP growth rate



Source: Turkstat

Table 1. Changes in and contributions of GDP components for 2016Q1 and 2016Q2, compared to the previous quarter.

2016 – Q2	Change (%)	Contributions (pp) ¹
Consumption	-0.5	-0.4
Private Investments	6.0	1.1
Government spending	3.5	0.6
Change in stock		-0.2
Export	-2.8	-0.7
Import	0.5	-0.1
Total	0.3	
	Change (%)	Contributions (pp)
2016 – Q1		
Consumption	2.5	1.7
Private Investments	-1.3	-0.2
Government spending	2.5	0.4
Change in stock		-0.2
Export	2.3	0.6
Import	5.4	-1.5
Total	0.8	

Source: Turkstat

¹ Percentage point

Table 2. Changes in and contributions of GDP components for 2016Q1 and 2016Q2, compared to the same quarter of previous year

2016 – Q2	Change (%)	Contributions (pp)
Consumption	5.2	3.4
Private Investments	-1.6	-0.3
Government Spending	12.7	2.0
Change in stock		0.2
Export	0.2	0.0
Import	7.7	-2.2
Total	3.1	
	Change (%)	Contributions (pp)
2016 – Q1		
Consumption	7.1	4.9
Private Investments	-0.8	-0.2
Government spending	9.3	1.3
Change in stock		0.1
Export	2.4	0.6
Import	7.3	-2.1
Total	4.8	

Source: Turkstat

Table 3 Contributions of GDP components compared to the previous quarter and total growth

	Consumption (pp)²	Private Investment (pp)	Government Spending (pp)	Inventory Investment (pp)	Net Exports (pp)	Exports (pp)	Imports (pp)	Sum (%)
2012(1)	-0.5	0.3	0.3	-0.3	-0.1	1.4	-1.5	-0.3
2012(2)	-0.7	-0.8	0.8	0.3	1.6	2.1	-0.5	1.2
2012(3)	1.1	-0.7	0.6	0.0	-0.7	-0.2	-0.5	0.2
2012(4)	-0.1	-0.3	-0.1	-0.3	1.2	0.2	0.9	0.4
2013(1)	1.6	0.6	1.1	1.4	-3.2	-1.	-1.9	1.5
2013(2)	1.4	0.3	0.2	1.6	-1.1	0.9	-2.	2.3
2013(3)	1.0	-0.1	-0.3	-1.2	0.8	-0.7	1.5	0.2
2013(4)	0.0	0.2	0.6	-1.1	0.7	1.2	-0.5	0.5
2014(1)	-0.9	-0.2	0.0	0.5	2.3	1.4	0.8	1.6
2014(2)	0.3	-0.3	-0.7	1.0	-0.4	0.1	-0.5	0.0
2014(3)	1.1	0.6	0.3	-1.9	0.2	-0.4	0.6	0.3
2014(4)	1.2	-0.2	0.2	2.5	-2.6	-0.3	-2.3	1.2
2015(1)	0.3	0.1	0.3	-1.0	1.4	0.2	1.2	1.1
2015(2)	0.7	1.5	0.3	-1.0	0.0	-0.1	0.1	1.4
2015(3)	1.4	-1.5	0.5	-1.0	1.6	0.3	1.3	1.0
2015(4)	0.6	0.2	0.4	2.1	-2.2	-0.4	-1.8	1.1
2016(1)	1.7	-0.2	0.4	-0.2	-0.9	0.6	-1.5	0.7
2016(2)	-0.4	1.1	0.6	-0.2	-0.9	-0.7	-0.1	0.3

Source: Turkstat

² Percentage point

