

Macro: Domestic demand-led growth continues

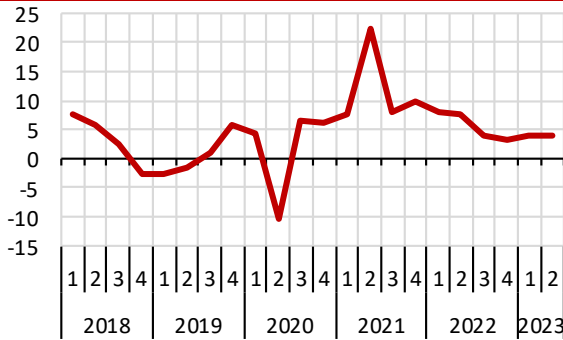
In Q2, national income grew by 3.8% yoy, below our expectations, but recorded a strong quarterly increase of 3.5%, in line with our expectations. Annual and quarterly growth continued to be driven by domestic demand, while the negative contribution of net exports strengthened. The quarterly increase was also driven by the technical recovery from the weak outlook in the previous quarter, which was driven by the chain indexing, contrary to what the sectoral data implied.

In this data release, GDP series covering 2018-2022 was revised due to the revisions in the Research and Development Activities Statistics and Tourism Statistics. These revisions significantly changed the composition of demand rather than the level of national income. According to our updated calculation in the light of the revised data, the quarterly change of the sum of sectors in Q1 indicates a very strong growth momentum with 2.3%, while it slowed down to 1.2% in Q2.

Despite the ongoing tightening since June, the persistence of the high negative real interest rate environment and the fact that exchange rate and inflation expectations have not yet been anchored continue to support growth. In fact, survey indicators point that domestic demand-driven growth continues. The slowdown in external demand, on the other hand, limits growth. Against this backdrop, we expect growth to be around 4% in 2023.

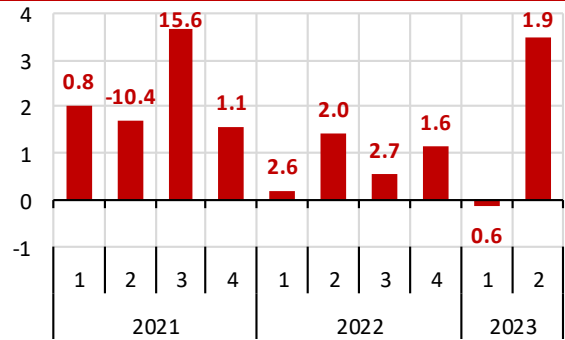
In Q2, Gross Domestic Product (GDP) increased by 3.8% yoy and by 3.5% qoq in seasonally adjusted terms (Charts 1 and 2). As both the Ramadan and Sacrifice holidays were in the second quarter this year, the number of working days was lower compared to last year, which limited annual growth. Therefore, calendar-adjusted annual growth was higher at 5.0%. Annual growth in the second quarter was lower than the annual growth implied by our forecasting models based on short-term statistics (5.5%) and slightly above market expectations (3.4%) (Charts 1 and 2).

Chart 1. GDP (y-o-y)



Source: TURKSTAT

Chart 2. GSYİH (seasonally adjusted., q-o-q)



Source: TURKSTAT

In this data release, GDP series covering 2018-2022 was revised due to the revisions in the Research and Development Activities Statistics and Tourism Statistics. These revisions significantly changed the composition of demand rather than the level of national income. After the revisions, the level of final domestic demand shifted down due to consumption expenditures, while the change in inventories shifted upwards (Chart Appendix 1). The contribution of net exports improved slightly. This implies that in previous periods, a portion of tourism expenditures was recognized under final domestic demand due to under-measurement. Nevertheless, the main story of recent domestic demand-driven growth has not changed. Nevertheless, we consider this improvement in data quality as a development that will enable a more accurate analysis of demand components.

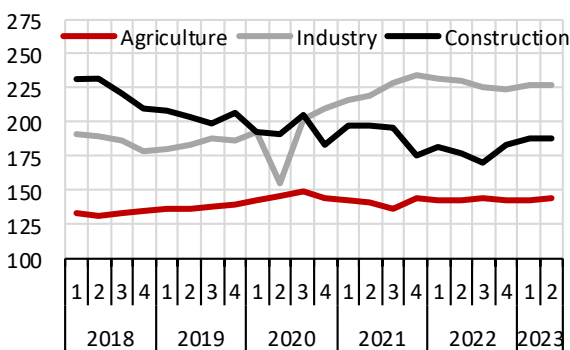
As we pointed out in our previous GDP developments note ([2023-Q1 GDP developments](#)), the quarterly course of economic activity in the first half of this year is quite far from the economic reading we have made based on leading indicators and macroeconomic developments. In the chain indexation method used in national income calculations, the fact that the sum of the sub-items that make up GDP does not sum to the total GDP may prevent sectoral trends from being reflected in headline growth. As a matter of fact, in the first quarter, instead of the strong quarterly growth implied by the sum of sectors, the GDP was almost flat. In the second quarter, we observe the technical correction of this divergence in the opposite direction. Therefore, in order to make the right inference about the course and underlying trend of activity in the second quarter, we should not focus on the strong quarterly growth (3.5%), but on the part of this quarterly growth that is not subject to technical correction. Another option is to look at the average growth trend of the first two quarters.

According to our revised calculation in the light of the updated data, the quarterly change in the aggregate of sectors in Q1 signaled a very strong growth momentum with 2.3% (announced quarterly decline of 0.1%), while the increase slowed down to 1.2% in Q2 (announced quarterly increase of 3.5%). In this context, activity in Q2, including the elections, was close to long-term trends, albeit at a slower pace than in the previous quarter. In the first half, the average growth momentum is quite strong at 1.7%. Compared to 2022, this acceleration is attributable to loose financial conditions and demand brought forward in line with exchange rate and inflation expectations. Using the same methodology for annual growth, we calculate 6.2% growth instead of 3.9% in Q1 and 4.4% growth instead of 3.8% in Q2. Considering that these deviations will converge to zero in the year as a whole, it is possible that annual growth in the second half of the year may remain higher than implied by leading indicators for technical reasons.

Production Side:

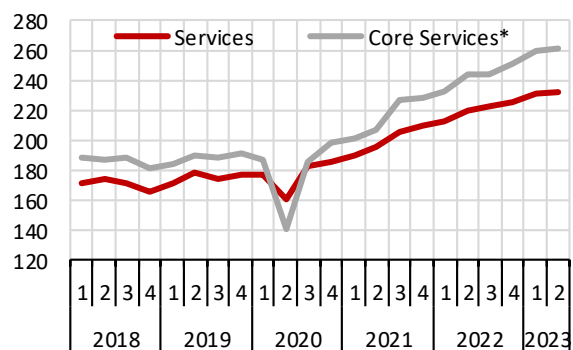
In Q2, sectors other than industry made a positive contribution to annual growth (Tables 1 and 3). Industrial value added decreased by 2.6%, broadly in line with the 3.4% decline in IPI. Agriculture value added turned positive after two quarters with 1.2%. While the annual increase in services was 4.7%, core services consisting of wholesale-retail trade, transport-storage, accommodation and food services continued to be the main driver of services with an increase of 6.4%. However, we think that the rate of increase in core services in the second quarter remained low considering the 27.3% increase in retail sales volume index and 18.7% increase in the number of foreign visitors in the same period. This was also the main determinant of the lower growth than our expectations. Finally, the annual increase in construction value added was 6.2%, the highest since the first quarter of 2018.

**Chart 3. Value Added by Sectors
(seasonally adjusted, 2009=100)**



Source: TURKSTAT

**Chart 4. Value Added by Sectors
(seasonally adjusted, 2009=100)**



* The sum of retail and wholesale trade, transport and storage, accommodation and catering services

Source: TURKSTAT

Table 1. The Growth of GDP and Sub-Items from the Production Side (%)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2022-Q3	2022-Q4	2023-Q1	2023-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
GDP	4.1	3.3	3.9	3.8	0.5	1.1	-0.1	3.5
Agriculture	3.7	-2.3	-1.4	1.2	1.5	-1.8	0.5	1.4
Industry	-1.1	-4.4	-1.0	-2.6	-2.1	-0.4	1.4	0.1
Manufacturing	1.8	-1.7	1.4	-1.9	-1.5	0.0	2.3	-0.2
Construction	-13.6	3.9	4.5	6.2	-3.9	7.4	3.1	-0.5
Services	9.3	7.8	8.8	4.7	1.3	1.3	2.2	0.6
Core Services*	8.2	9.7	12.1	6.4	-0.3	2.8	3.4	0.8
Information and Communication	12.0	5.2	8.9	1.3	4.0	-0.2	2.0	-1.4
Financial and Insurance Activities	23.5	9.3	14.9	4.9	2.6	0.5	4.4	0.7
Real Estate Activities	5.8	6.8	2.1	3.2	0.8	1.3	-0.3	1.5
Professional, Administrative and Support Service Activities	13.1	10.5	10.6	-1.2	2.5	-0.6	0.7	-3.1
Public Administration**	5.7	1.7	3.3	5.1	3.0	-0.9	1.4	1.5
Other Services	11.4	10.7	7.3	6.6	2.9	3.2	0.3	2.0
Net Taxes (Tax - Subsidies)	2.3	2.1	9.0	17.9	4.5	2.7	3.9	6.9

* Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

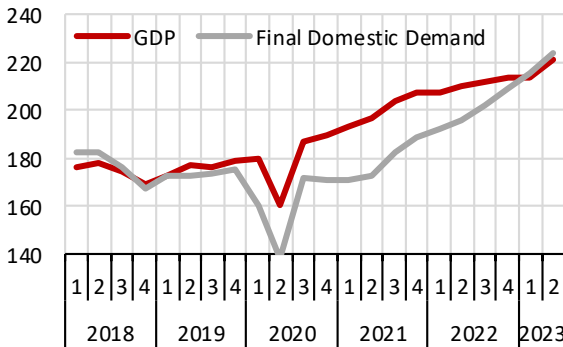
** Public Administration, Education, Human Health and Social Work Activities

Source: TURKSTAT, Akbank

Expenditure Side:

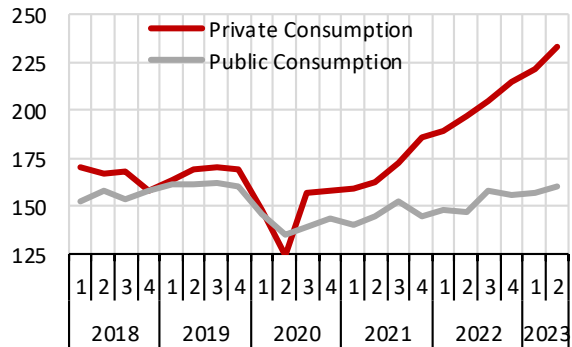
Domestic demand continued to drive growth in the second quarter (Charts 5 and 6, Table 2). Private consumption expenditures increased by 5.2% quarter-on-quarter, maintaining the strong uptrend. In the first two quarters, financial conditions in a high inflation environment and high-rated wage increases were the main drivers of private consumption demand. **The public sector**, on the other hand, contributed to quarterly growth through consumption expenditures.

Chart 5. GDP ve Final Domestic Demand (Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

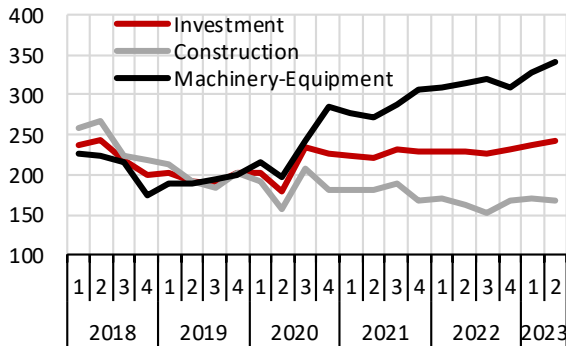
Chart 6. Consumption Expenditures (Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

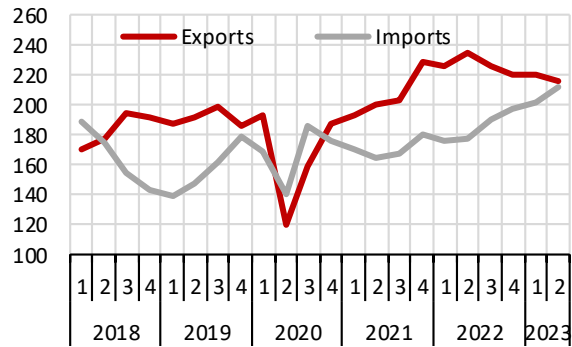
Investments increased on a quarterly and annual basis, while machinery and equipment investments remained relatively strong (Chart 7). Despite the strong course of tourism, the negative contribution of **net exports** strengthened due to the deceleration in exports of goods and the high course of gold imports (annual: -6.3 points, quarterly: -1.6 points) (Chart 8). In the last quarter, **change in stocks** added -2.6 points to annual growth and 1.0 points to quarterly growth (Table 3). Finally, in order to assess the cyclical domestic demand and inflation pressures more accurately, we find the information value of the domestic demand indicator including stocks changes and the "private consumption+stock change" indicator to be higher (Charts 9 and 10).

Chart 7. Investment Expenditures
(Seasonally adjusted, 2009=100)



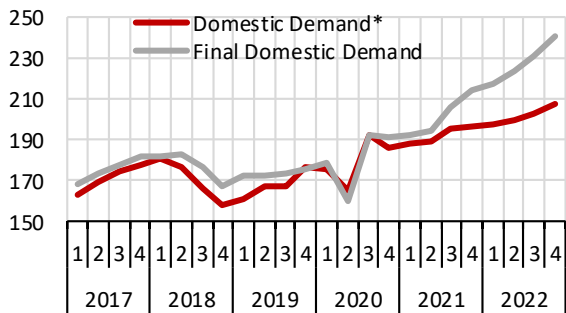
Source: TURKSTAT, Akbank

Chart 8. Goods and Services Exports and Imports
(Seasonally adjusted, 2009=100)



Source: TURKSTAT

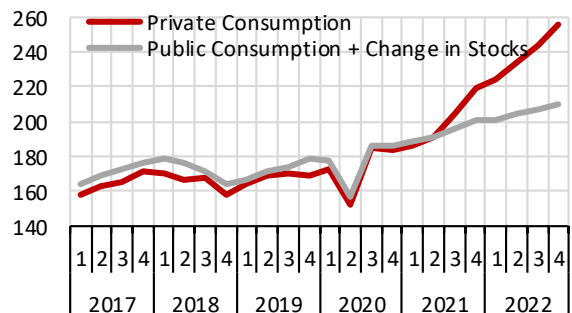
Chart 9. Domestic demand
(Seasonally adjusted, 2009=100)



* Domestic demand is the sum of final domestic demand and change in stocks.

Source: TURKSTAT, Akbank

Chart 10. Private Consumption
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Table 2. The Growth of GDP and Sub-Items from the Production Side (%)

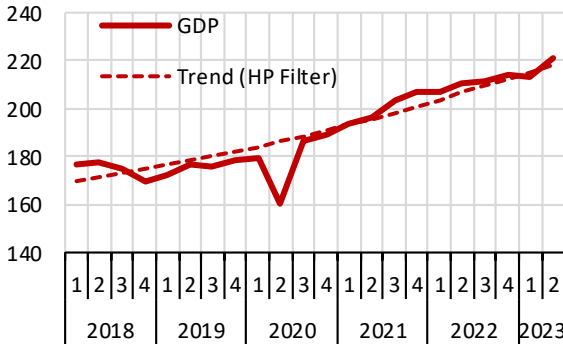
	Annual Growth				Quarterly Growth (seas. adj.)			
	2022-Q3	2022-Q4	2023-Q1	2023-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
GDP	4.1	3.3	3.9	3.8	0.5	1.1	-0.1	3.5
Total Consumption	16.8	14.2	15.5	14.0	4.6	4.1	2.7	4.7
Private Consumption	19.5	15.8	17.3	15.6	4.0	5.3	3.0	5.2
Public Consumption	3.8	6.5	6.1	5.3	7.8	-1.8	1.2	2.3
Investment	-1.8	0.6	3.7	5.1	-1.0	1.9	3.0	2.2
Construction	-19.6	0.6	0.6	2.5	-6.4	10.8	1.6	-1.9
Machinery and Equipment	12.7	0.5	6.3	7.4	1.1	-2.9	6.3	3.7
Other Assets	16.4	5.2	1.9	4.4	6.8	-3.4	-6.1	8.8
Exports	11.7	-3.3	-2.6	-9.0	-3.8	-2.8	0.1	-1.8
Imports	13.3	10.4	14.2	20.3	6.7	4.5	1.7	5.2
Domestic Demand	4.0	6.7	7.8	10.9	3.0	2.9	0.2	5.1
Final Domestic Demand	12.2	10.9	12.7	11.9	3.1	3.5	2.8	4.1

Output Gap:

The analysis of GDP and expenditure components together with their trends provides important information about the boom and bust phases of the economy. Accordingly (Charts 11 -14):

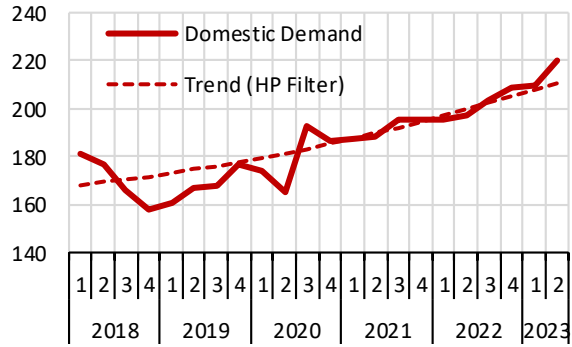
- **Domestic demand and private consumption continue to be above their long-term trends.** This indicates an inflationary level of domestic demand.
- Despite the strong increase in tourism, exports of goods and services fell below its trend with the course of exports of goods.

Chart 11. GDP Trend
(Seasonally adjusted, 2009=100)



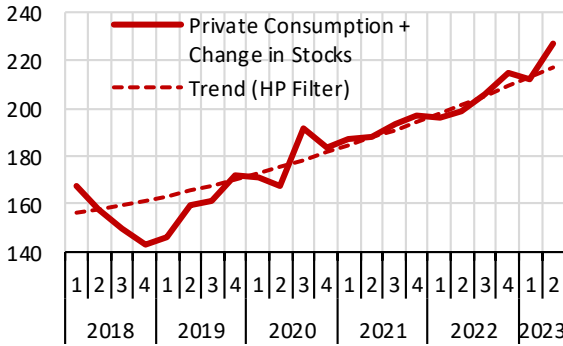
Source: TURKSTAT, Akbank

Chart 12. Domestic Demand Trend
(Seasonally adjusted, 2009=100)



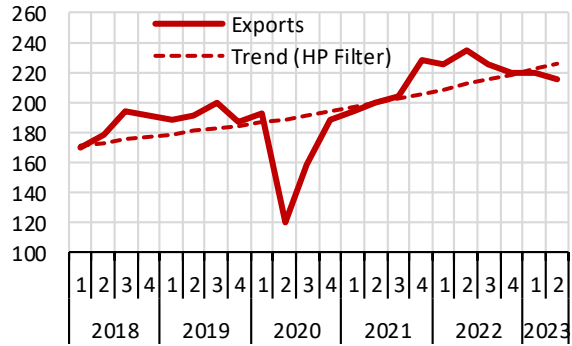
Source: TURKSTAT, Akbank

Chart 13. Private Consumption Trend
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Chart 14. Exports of Goods and Services Trend
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Table 3. Contribution to GDP Growth (Percentage Point)*

	Annual Growth				Quarterly Growth (seas. adj.)			
	2022-Q3	2022-Q4	2023-Q1	2023-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
GDP	4.1	3.3	3.9	3.8	0.5	1.1	-0.1	3.5
Agriculture	0.4	-0.1	0.0	0.0	0.1	-0.1	0.0	0.1
Industry	-0.2	-0.9	-0.2	-0.5	-0.4	-0.1	0.3	0.0
Construction	0.3	-0.3	0.3	-0.3	-0.3	0.0	0.4	0.0
Services	-0.8	0.2	0.2	0.3	-0.2	0.3	0.1	0.0
Core Services**	5.1	4.5	5.3	2.8	0.8	0.8	1.3	0.3
Information and Communication	2.0	2.4	2.9	1.7	-0.1	0.7	0.9	0.2
Financial and Insurance Activities	0.4	0.2	0.3	0.0	0.1	0.0	0.1	-0.1
Real Estate Activities	0.9	0.4	0.8	0.3	0.1	0.0	0.2	0.0
Professional, Administrative and Support Service Activities	0.4	0.5	0.2	0.3	0.1	0.1	0.0	0.1
Public Administration***	0.6	0.6	0.5	-0.1	0.1	0.0	0.0	-0.2
Other Services	0.6	0.2	0.4	0.5	0.3	-0.1	0.1	0.1
Net Taxes (Tax - Subsidies)	0.2	0.3	0.2	0.1	0.1	0.1	0.0	0.0
Total Consumption	12.3	11.1	12.4	11.4	3.2	2.9	2.0	3.6
Private Consumption	11.8	10.2	11.6	10.7	2.3	3.1	1.9	3.3
Public Consumption	0.5	0.9	0.8	0.7	0.9	-0.2	0.1	0.3
Investment	-0.4	0.2	0.9	1.3	-0.3	0.4	0.7	0.5
Construction	-2.2	0.0	0.1	0.2	-0.6	0.9	0.1	-0.2
Machinery and Equipment	1.3	0.1	0.8	0.9	0.1	-0.4	0.7	0.5
Other Assets	0.4	0.2	0.1	0.1	0.2	-0.1	-0.2	0.2
Change in Stocks	-8.0	-4.8	-6.1	-2.6	-0.1	-0.6	-2.5	1.0
Net Exports	0.3	-3.2	-3.4	-6.3	-2.3	-1.6	-0.3	-1.6
Exports	2.7	-0.9	-0.7	-2.4	-1.0	-0.7	0.0	-0.4
Imports	-2.4	-2.3	-2.7	-3.9	-1.3	-0.9	-0.4	-1.2
Domestic Demand	3.8	6.5	7.3	10.1	2.9	2.8	0.2	5.0
Final Domestic Demand	11.8	11.3	13.4	12.7	2.9	3.4	2.7	4.1

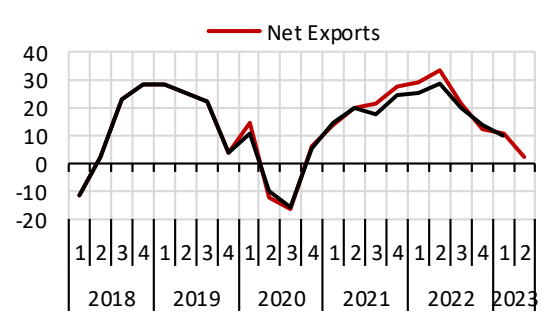
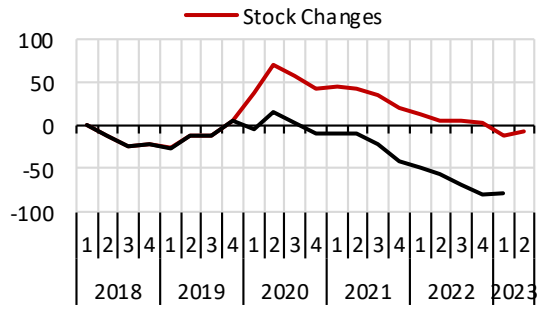
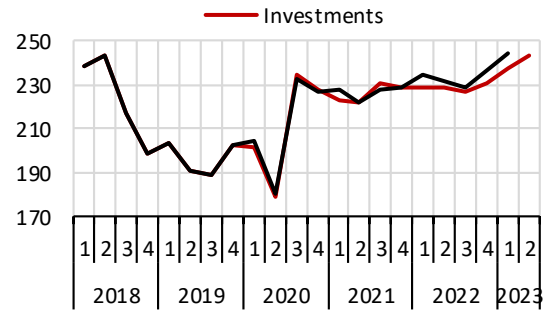
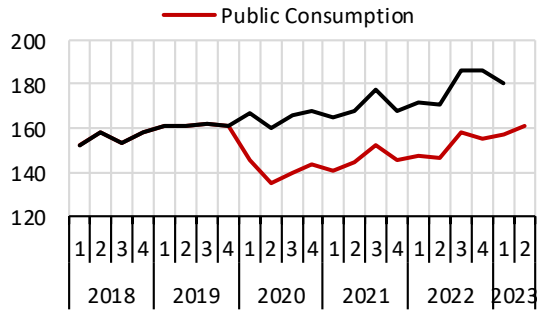
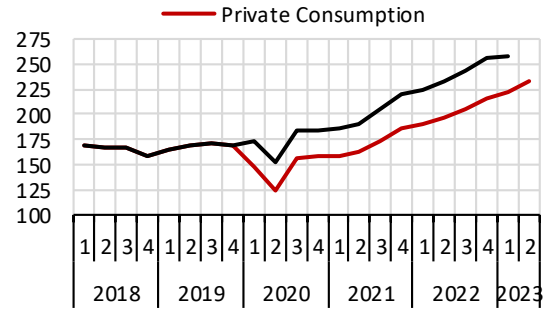
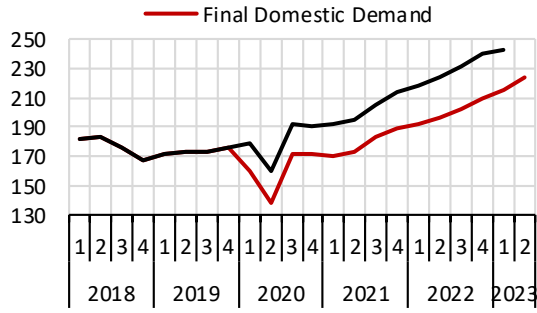
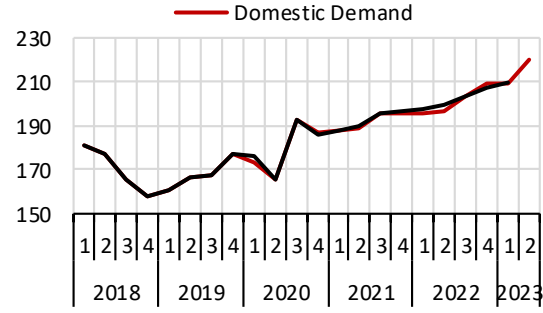
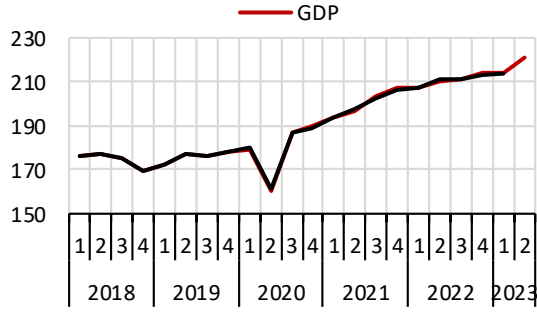
* The items may not sum up to GDP due to chain-linking methodology

** Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

*** Public Administration, Education, Human Health and Social Work Activities

Source: TURKSTAT, Akbank

Chart Appendix.1 – GDP Revision* (note: black line shows the values before the revision)



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