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# Economic Outlook and Forecasts: September 2015

**sHARP SLOWDOWN IN THE THIRD QUARTER**

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**Executive Summary**

According to Turkstat seasonally and calendar adjusted gross domestic product increased by 1.3 percent in the second quarter of 2015. Considering mostly unfavorable leading indicators of July, we forecast 0.1 percent economic growth in the third quarter comparing to second quarter. Industrial Production Index (IPI) declined by 1.5 percent from the previous month. Export volume index decreased by 0.3 percent, and the import volume index increased by 2.2 percent. We calculate the corresponding year on year growth as 3.9 percent given cumulative high growth rates during the last three quarters.

The current account deficit in July was $3.2 billion. 12-month rolling current account deficit increased from 44.2 billion to $45.0 billion.

We expect the current account deficit to GDP ratio to rise from 5.7 percent in the second quarter to 6.1 percent in the third quarter, and the gold-excluded current account deficit to be 6.1 percent.

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**Table 1. Betam's quarterly and annual growth rate forecasts**

|  |  |
| --- | --- |
|  | **2015**  **3. Quarter Forecast**  **(%)** |
| **Real GDP growth, %**  (quarter on quarter, sa\*) | 0.1 |
| **Real GDP growth, %**  (year on year, sa\*\*) | 3.9 |
| **Current account deficit**  (% of GDP, annual) | 6.1 |
| **Gold Excluded current account deficit**  (% of GDP, annual) | 6.1 |

Source: Betam.\*sa: seasonally and calendar day adjusted

**Decline in industrial production**

Industrial production had increased by 1.3 percent in the second quarter. However, it decreased sharply by 1.5 percent from June to July. All the main components of industrial production declined but the highest fall realized in the sector of durable goods production by 11.3 percent. The decline in non-durable goods production is 2.5 percent.

Export volume index has a slight decline by 0.3 percent in July. On the other hand, import volume index rose rather strongly by 2.0 percent. The highest increase (8.3 percent) in imports has been realized in investment goods. Consumer goods import has a slight increase by 0.2 percent. The early indicators of the third quarter point out the contribution of net exports to growth will be negative.

Large declines in the indicators of consumption and consumer confidence indicate vulnerability for consumption in the third quarter. In this context, it is noteworthy that passenger car production declined by 9.2 percent in July. However, raise in the investment goods import and slight fall in production of the investment goods (-0.1 percent) indicate that private investment will boost the economic growth. 3.6 percent increase for July in the production of commercial vehicle, which is considered as investment goods, confirms the positive contribution of investment. Contrary to the increase in government spending in July, there was a sharp stop in August. Therefore, we expect the government spending to have a negative contribution in the third quarter.

In the lights of opposite indicators, our first forecast of GDP growth for the third quarter is 0.1 percent. Therefore, we calculate that the corresponding year on year growth forecast as 3.9 percent.

**Macroeconomic instability and global developments will repress growth.**

High rises in the exchange rates and market rate of interest during the last two months, the evidences on high rises in the inflation, deepening political violence and the rising worries on economic management are repressing the economic growth downwards.

On the other hand, global demand continues to be weak. Risk on strong shrinkages in Chinese economy is keeping on. Although FED postponed raising the interest rates, this move remains on their agenda. The possible change of FED’s monetary policy keeps still emerging economies as well as Turkey under pressure regarding capital movements and cause difficulties in financing the current account deficits.

Our estimates indicate that the ratio of current account deficit to GDP has increased from 5.7 percent in the third quarter to 6.1 percent despite the decrease in energy prices. This estimate underlines the vulnerability of the Turkish economy, even though the fiscal discipline seems to be anchored.

In these circumstances, we would like to take notice on the probability of significant slowdowns in the economic growth for the second half of the year.

**Slight increase in private consumption**

In July, consumption goods imports increased by 0.2 percent while durable goods and non-durable goods production decreased by 11.3 percent and 2.5 percent, respectively. Consumer confidence index has a downward trend. The last data indicates that it decreased by 2.1 percent in August. Taxes on special private consumption (SCT) increased by 7.3 percent in August. We expect that contribution of private consumption to growth will be slightly positive given the rise in consumption good imports.

**Deceleration in private investment**

In July, from the previous month, investment goods imports and industrial production index (IPI) declined by 0.1 percent and 1.5 percent, respectively and but investment goods production increased by 8.3 percent. For August, real sector confidence index decreased by 0.1 percent. All in all, we expect that the contribution of investment to growth will be weak in the third quarter of 2015.

**Negative contribution of net export in the third quarter**

Figure 2 shows monthly changes of seasonally adjusted import and export volume indices. In July from the previous month, export volume index decreased by 0.3 percent and import volume index increased by 2.2 percent. In the same period, gold-excluded real exports[[1]](#footnote-1)and imports decreased by 1.4 and 0.1 percent. We expect the contribution of net exports in the third quarter to be negative.

**Table 2. Monthly and quarterly changes of Betam’s selected indicators (real and sa)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Indicators** | **May** | **June** | **July** | **August** | **2015 2. Quarter** | **2015 3. Quarter** |
| **Exports\*** | -14,7 | 6,1 | -0,3 | \*\* | -5,1 | -1,8 |
| **Imports\*** | -1,9 | -0,7 | 2,2 | \*\* | -1,3 | 1,1 |
| Intermediate goods import \* | 0,2 | -2,1 | 1,5 | \*\* | -2,4 | -0,2 |
| Consumer goods import\* | -6,2 | 9,9 | 0,2 | \*\* | 2,0 | 4,3 |
| Investment goods import\* | -6,6 | -9,0 | 8,3 | \*\* | 7,2 | -2,7 |
| **Gold-excluded exports\*\*\*** | -5,9 | 7,2 | -1,4 | \*\* | 0,7 | 1,2 |
| **Gold-excluded imports\*\*\*** | -6,0 | 3,8 | -0,1 | \*\* | 1,3 | 0,3 |
| **Industrial Production Index (IPI)\*** | -1,9 | 2,0 | -1,5 | \*\* | 1,3 | -0,9 |
| Nondurable consumer goods\* | -0,9 | 0,9 | -2,5 | \*\* | 2,4 | -2,2 |
| Durable consumer goods\* | -4,9 | 12,3 | -11,3 | \*\* | 6,2 | -5,9 |
| Intermediate goods\* | -0,8 | 2,1 | -1,7 | \*\* | 1,4 | -0,7 |
| Investment goods\* | -7,3 | 4,2 | -0,1 | \*\* | -1,9 | 0,1 |
| **Capacity Utilization Rate (CUR) ‡** | 0,1 | -0,1 | 0,4 | -0,8 | 0,4 | 0,0 |
| Nondurable consumer goods**‡** | -0,2 | 0,0 | 0,1 | 0,1 | -0,3 | 0,1 |
| Durable consumer goods **‡** | 0,1 | 0,4 | 2,7 | -1,2 | 0,7 | 2,4 |
| Intermediate goods **‡** | 0,4 | -0,5 | 0,6 | -0,6 | -0,6 | 0,1 |
| Investment goods **‡** | 0,8 | -1,3 | 0,9 | -0,8 | 1,0 | -0,1 |
| **Soft data** |  |  |  |  |  |  |
| Consumer confidence index (TurkStat) | -1,7 | 3,8 | -2,7 | -2,1 | -2,9 | -1,9 |
| Real sector confidence index† | 1,3 | -2,2 | 1,4 | -0,1 | -1,1 | 0,2 |
| **Financial data** |  |  |  |  |  |  |
| BİST 100 (Stock exchange) | 0,9 | -0,1 | -2,3 | -4,2 | -6,3 | -4,1 |
| **Other** |  |  |  |  |  |  |
| Government Spending⁰ | 1,8 | -0,7 | 1,0 | -2,7 | 0,5 | -0,2 |
| Special consumer tax (SCT) | -0,1 | -0,4 | 1,1 | 7,3 | 1,0 | 4,5 |
| Passenger car production | -26,6 | 43,3 | -9,2 | 7,7 | -8,9 | 6,7 |
| Commercial car production | -31,9 | 40,9 | 3,6 | 3,4 | -3,4 | 14,9 |

Source: TurkStat, TCMB, Treasury, IMKB, Betam..

† This is seasonally adjusted by TCMB.

‡ CUR and its components are given as percentage point change unlike the other indicators.

\*This is seasonally adjusted by TURKSTAT. All the other indicators are seasonally adjusted by Betam.

\*\* Data not yet released..

\*\*\* Betam’s calculations: Nominal exports (imports) minus non-monetary gold, deflated using the export (import) unit value index.

⁰ Total government spending excluding transfers are deflated.

**Figure 1: Capacity utilization rate and industrial production index (sa, left axis for CUR and right axis for IPI)**



Source: TurkStat, Betam.

**Figure 3: Gold included current account deficit to GDP ratio, 12 months**



Source: TurkStat, TCMB,Betam.

**Figure 2: Volume indices of exports and imports (sa)**



Source: Turkstat, Betam.

**Figure 4: Gold excluded current account deficit to GDP ratio, 12 months**



Source: Turkstat, TCMB,Betam.

1. Gold-excluded real export is calculated as subtracting of gold export from goods and services export. [↑](#footnote-ref-1)