

MODERATE GROWTH IN THIRD QUARTER

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Executive Summary

Our first economic growth forecast of last month related to third quarter compared to second quarter and mostly based on leading indicators of July, was 0.1 percent. Due to favorable changes in industrial production and net exports in August compared to July, we revise up our forecast for the third quarter. We increase our quarter on quarter (QoQ) growth forecast from 0.1 percent to 0.6 percent. Industrial Production Index (IPI) declined by 1.5 percent in July compared to June and it increased by 2.9 percent in August compared to July. Likewise, the contribution of net exports to the growth was expected to be negative in July due to 0.3-percent drop in exports and 2.1-percent increase in imports volume indexes. Then, it turned out to be significantly positive in August due to 0.6-percent increase in exports and 3.1-percent fall in imports volume indexes. We calculate that the corresponding year on year growth forecast as 4.5 percent due to the base effect and cumulative high growth rate during the last three quarters.

The current account deficit in August was \$163 million. 12-month rolling current account deficit decreased from \$45 billion to \$43 billion. We predict the current account deficit to GDP ratio to be 5.7 percent in third quarter and the gold-excluded ratio to be 5.7 percent.

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

	2015 3. Quarter (%)
Real GDP growth, % (quarter on quarter, sa*)	0.6
Real GDP growth, % (year on year, ca**)	4,5
Current account deficit (% of GDP, annual)	5,7
Gold Excluded current account deficit (% of GDP, annual)	5.7

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

Increases in industrial production and net exports

In July, industrial production had declined by 1.5 percent. However, this decline has been more than compensated by 2.9-percent increase in industrial production recorded in August. All the main components of industrial production increased. The highest rise occurred in the sector of durable consumption goods where the production rose by

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11.6 percent. Second highest rise of 5.3 percent has been recorded in investment goods.

0.3 percent decrease in export volume index in July has been also compensated largely by 0.6 percent increase in August. At the same time, imports volume index declined significantly by 3.1 percent in August. Note that imports volume index had fallen by 2.1 percent in July. In August, gold-excluded real exports¹ increased by 0.8 percent and gold-excluded real imports decreased by 6.7 percent. Our forecast model based on the data in first two months of the third quarter points that net exports will have a significant positive contribution to GDP growth.

Fiscal discipline in progress

There was a slight increase in government spending in July (0.8 percent) and a sharp stop (minus 2.2 percent) in August. However, government spending increased significantly (3.1 percent) in September. In total, there is a moderate increase in government spending. Since the government spending has a limited share in GDP, we do not expect that the government spending will make a significant contribution to GDP growth.

Moderate increase in private consumption

In August, from the previous month, consumption goods imports declined by 3.4 percent while durable and non-durable goods productions

¹ Gold-excluded real exports are calculated by subtracting gold exports from goods and services exports.

increased by 11.6 percent and 2.3 percent respectively. Consumer confidence index has a downward trend since July. Consumer confidence index which has been declined by 2.7 percent and 2.3 percent in July and August respectively, it declined by 6.8 percent in September. This was also the case for special consumption tax revenues which has been reduced by 6.2 percent. Given sizable increases in durable and non-durable consumption goods production, we predict a moderate increase in private consumption in third quarter 2015 despite other adverse developments.

Signs of stagnation in private investments

It is noteworthy that there were opposite changes in investment indicators in August. While the increase in domestic investment goods production (5.3 percent) implies a moderate revival, large decline in investment goods imports (minus 16.2 percent) indicates the opposite. We had predicted a positive contribution of investments to GDP growth in July but this positive contribution has been cancelled out along with including August data in forecasting. In this regard, we remind that commercial car production monthly increases were higher than 3 percent during first two months of the quarter while this production declined by 1.5 percent in September.

In September, real sector confidence index decreased by 3.2 percent. However, it had increased by 1.4 percent in July and declined by 0.2 percent in August. Overall, we expect that the contribution of private investments to growth will not be significant.

Macroeconomic instability and global developments repress the growth

Increases in the exchange rate and market interest rate during last three months, increasing inflation, climbing of political violence and uncertainty regarding economy management are repressing the economic growth downwards.

On the other hand, global demand keeps being weak. Although Fed postponed raising the interest rates, this is still on the agenda. These facts indicate that emerging economies like Turkey will continue to have difficulty in attracting investments and financing their current account deficits. High current account deficit-GDP ratio despite low energy prices underlines the vulnerability of the Turkish economy, even though the fiscal discipline seems to be anchored.

Low economic growth

Under these conditions, our second QoQ forecast for the third quarter is 0.6 percent. Compared to our first forecast (0.1 percent), the second one points out relatively high growth rate. Therefore, the cumulative growth rate of first three quarters has increased to 3.4 percent. We calculate corresponding year on year growth as 4.5 percent

due to the base effect. If the growth remains at its current level in the fourth quarter, we predict that 2015 annual growth rate will be about 4 percent.

Table 2: Monthly and quarterly changes of Betam's selected indicators (real and sa)

Economic Indicators	June	July	August	September	2015 2. Quarter	2015 3. Quarter
Exports	6,0	-0,3	0,6	**	-4,8	-1,5
Imports	-0,7	2,1	-3,1	**	-1,5	-0,6
Intermediate goods import	-2,1	1,5	-1,4	**	-2,5	-0,6
Consumer goods import	9,9	0,1	-3,4	**	1,8	2,5
Investment goods import	-8,9	7,7	-16,2	**	6,6	-9,3
Exports excluding gold***	7,2	-1,4	0,8	**	0,8	1,6
Imports excluding gold***	4,0	-0,6	-6,7	**	0,8	-3,4
Industrial Production Index	2,1	-1,5	2,9	**	1,5	0,7
Nondurable consumer goods	0,8	-2,9	2,3	**	2,3	-1,6
Durable consumer goods	12,3	-11,5	11,6	**	6,3	-0,6
Intermediate goods	2,3	-2,0	1,7	**	1,9	0,1
Investment goods	4,2	1,7	5,3	**	-1,9	4,5
Capacity Utilization Rate	-0,1	0,4	-0,8	1,0	0,4	0,2
Nondurable consumer goods	0,0	0,1	0,1	0,5	-0,3	0,3
Durable consumer goods	0,4	2,7	-1,2	0,7	0,8	2,4
Intermediate goods	-0,5	0,6	-0,6	0,1	-0,6	0,1
Investment goods	-1,3	0,9	-0,5	1,3	0,9	0,3
Soft Data						
Consumer confidence index (TurkStat)	3,7	-2,7	-2,3	-6,8	-3,1	-4,6
Real sector confidence index	-2,3	1,4	-0,2	-3,2	-1,3	-1,0
Financial Data						
IMKB 100 (Stock Exchange)	-2,1	-2,4	-4,4	-4,5	-6,5	-6,5
Other						
Government spending ^o	-0,6	0,8	-2,2	3,1	0,7	0,5
Special consumption tax* (SCT)	-0,5	1,0	7,4	-6,2	0,7	3,3
Passenger Cars	43,2	-9,4	7,5	-3,6	-9,1	6,4
Commercial Vehicles	40,9	3,6	3,3	-1,5	-3,6	14,8

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.

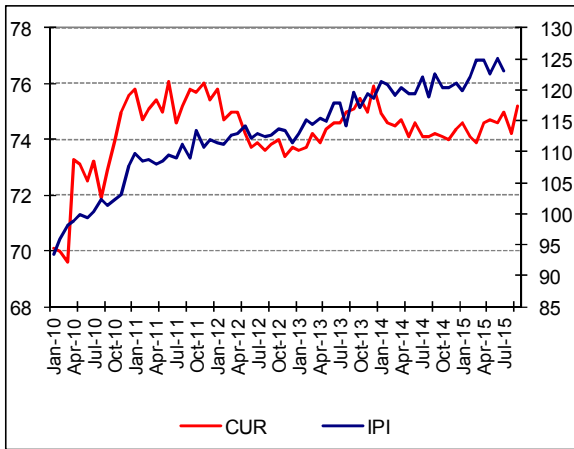
* This is seasonally adjusted by TURKSTAT. All the other indicators are seasonally adjusted by Betam.

** Data not yet released.

*** Betam's calculations: Nominal exports (imports) minus non-monetary gold, deflated using the export (import) unit value index. It is seasonally adjusted by Betam.

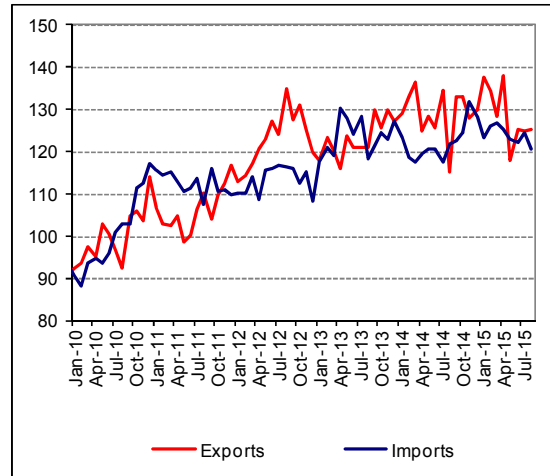
^o Total government spending excluding transfers are deflated.

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



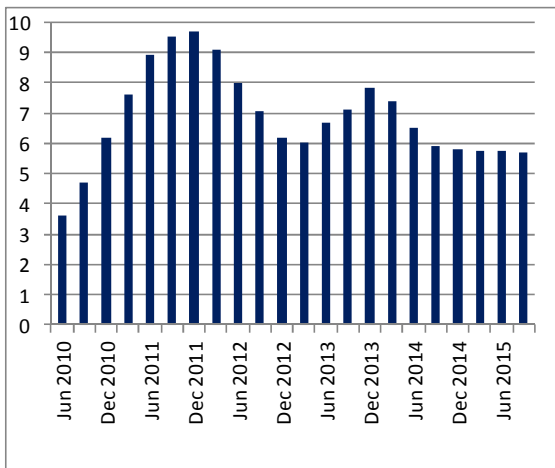
Source: Turkstat (Left axis is CUR, right axis is IPI)

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



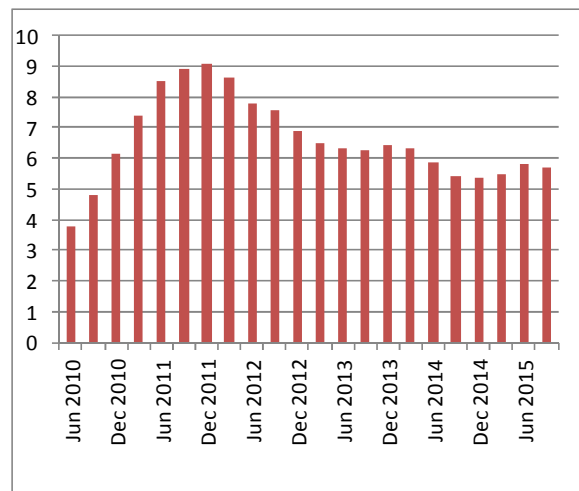
Source: Turkstat, Betam

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



Source: Turkstat, TCMB, Betam

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



Source: Turkstat, TCMB, Betam