

MODERATE GROWTH IN THIRD QUARTER

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Executive Summary

We revise up our economic growth forecast for the third quarter compared to second quarter from 0.6 percent, which was mostly based on leading indicators of July and August, to 0.7 per cent considering the new data of September. Seasonally adjusted Industrial Production Index (IPI) remained stable in September compared to its previous month. In the third quarter, IPI has increased by 1.2 percent compared to its previous quarter. At the same period, export volume index increased by 3.3 percent and import volume index decreased by 1.2 percent. So, the contribution of net exports to the growth is expected to be significantly positive.

The current account surplus in September was \$95 million. 12-month rolling current account deficit decreased from \$44.3 billion to \$40.5 billion. We predict the current account deficit to GDP ratio to be 5.5 percent in third quarter and the gold-excluded ratio to be 5.6 percent.

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Table 1. Betam's quarterly growth rate forecast

	2015 3. Quarter (%)
Real GDP growth, % (quarter on quarter, sa*)	0.7
Current account deficit (% of GDP, annual)	5.5
Gold Excluded current account deficit (% of GDP, annual)	5.6

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

Components of industrial production in opposite directions

In July, industrial production had declined by 1.5 percent and it had substantially increased by 3.0 percent in August. In September, industrial production remained stable compared to August. Overall, 1.2 percent rise in the third quarter compared to the second quarter has been recorded. It is noteworthy that rises are totally derived from the production of investment goods whose production dramatically increased by 5.4 percent. Production in the sectors of nondurable goods, durable goods and intermediate goods declined over the ranges of 0.1 - 1.0 percent in the third quarter compared to the second quarter (Table 2).

Positive contribution of net export to economic growth

In September, high rise of 13.8 percent has been recorded in export volume index and slight rise of 0.1 percent has been recorded in import volume index. In the third quarter, export volume index has increased by 3.3 percent and import volume index has decreased by 1.2 percent compared to the second quarter. At the same time, gold-excluded real export¹ has increased by 2.1 percent and gold-excluded real import has decreased by 3.8 percent. Our forecast model based on the data in the third quarter points that net exports will have a significant positive contribution to GDP growth.

Fiscal discipline in progress

There was a sharp stop in government spending in August (minus 2.1 percent) but in September, government spending has a significant increase (2.8 percent). In total, there is a moderate increase (0.3 percent) 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.

Volatility in private consumption indicators

In the third quarter, sharp fluctuations based on monthly data have occurred in production of

consumption goods. Sharp drop in July has been partially compensated by rises in August and September. Overall, production in the sectors of durable goods and non-durable goods has respectively declined by 0.1 and 1.0 percent in the third quarter compared to the second quarter (Table 2). At the same time, import in the sectors of consumption goods has declined by 3.1 percent. Consumption confidence index, which has a downward trend since July, has continued to decline in September. Overall, fall of 4.2 percent in consumer confidence index is recorded in the third quarter compared to the second quarter. On the other hand, special consumption tax revenues has declined by 5.7 percent in September. However, quarter on quarter change has recorded as 2.6 percent increase in the third quarter due to large rises during July and August. Likewise, production in the sector of passenger cars has quarterly increased by 6.8 percent due to its high performance in August. Our forecast model considering these opposite directions predicts that private consumption in the third quarter will be slightly increased.

Signs of stagnation in private investments

It is noteworthy that there were opposite changes in investment indicators in the third quarter. While domestic investment goods production had a relatively high rise of 5.4 percent in the third quarter compared to the second quarter, decline in investment goods import by 4.6 percent indicates the opposite. Likewise, production in the sector of commercial vehicles has increased by 3.7 and 3.3 percent in first two months of the quarter. In

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

September, it has decreased by 1.3 percent. However, total production in the sector of commercial vehicles for the third quarter has increased by 15.1 percent due to a slump in its production in the second quarter. It is noteworthy that real sector confidence index has fallen by 0.8 percent in the same period. Therefore, we expect that the contribution of private investments to growth will not be significant considering these opposite changes.

Moderate economic growth in the third quarter

Cumulative quarterly growth rates of the first two quarters of 2015 had reached 2.8 per cent. Nevertheless, we forecast an noticeable slowdown of 0.7 percent for the third quarter. Note that early data of the fourth quarter on consumption points out strong recovery. Assuming 1.0 percent quarterly GDP growth in the fourth quarter, we estimate an annual GDP growth of 4.0 percent for 2015.

Table 2. Monthly and quarterly changes of Betam's selected indicators (SA)

Economic Indicators	June	July	August	September	2015 2. Quarter	2015 3. Quarter
Export*	-0.4	0.9	13.8	**	-4.6	3.3
Import*	2.1	-3.2	0.1	**	-1.5	-1.2
Intermediate goods import*	0.5	-3.4	1.0	**	-2.0	-1.3
Consumer goods import *	0.2	-7.6	-10.9	**	1.0	-3.1
Investment goods import *	1.0	-8.7	4.5	**	5.6	-4.6
Exports excluding gold ***	-1.8	2.6	-1.0	**	0.8	2.1
Imports excluding gold ***	-0.6	-6.9	2.5	**	0.8	-3.8
Industrial Production Index (IPI) *	-1.5	3.0	0.0	**	1.5	1.2
Nondurable consumer goods*	-2.8	2.5	2.2	**	2.6	-0.1
Durable consumer goods *	-11.5	11.6	6.3	**	6.4	-1.0
Intermediate goods *	-2.2	1.7	-0.9	**	1.5	-0.3
Investment goods *	1.8	5.3	-0.3	**	-1.8	5.4
Capacity Utilization Rate (CUR)** ‡	0.4	-0.8	1.1	-0.8	0.5	0.2
Nondurable consumer goods §,‡	0.1	0.1	0.4	-0.8	-0.3	0.2
Durable consumer goods §,‡	2.7	-1.3	0.7	0.4	0.8	2.5
Intermediate goods §,‡	0.6	-0.6	0.1	0.1	-0.6	0.1
Investment goods §,‡	0.9	-0.5	1.3	-0.5	0.9	0.3
Soft Data						
Consumer confidence index (TurkStat)§	-2.5	-2.5	-6.2	8.6	-2.7	-4.2
Real sector confidence index†	1.4	-0.1	-3.3	3.7	-1.2	-0.8
Financial Data						
IMKB 100 (Stock Exchange) §	-2.3	-4.4	-4.2	4.9	-6.3	-6.2
Other						
Government spending §,°	0.7	-2.1	2.8	-1.3	0.5	0.3
Special consumption tax (SCT) §	0.9	7.3	-6.5	-5.7	0.2	2.8
Passenger Cars §	-9.2	7.4	-3.1	9.2	-8.8	6.8
Commercial Vehicles §	3.7	3.3	-1.3	3.8	-3.3	15.1

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 Betam.

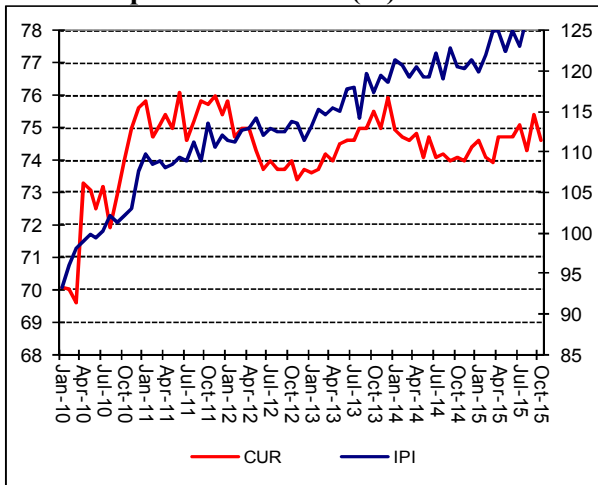
* This is seasonally adjusted by TURKSTAT.

** 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.

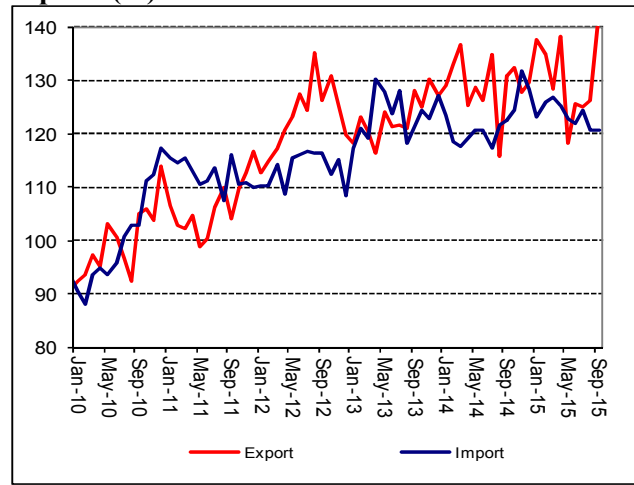
° Total government spending excluding transfers are deflated.

Figure 1: Capacity utilization rate and industrial production index (sa)



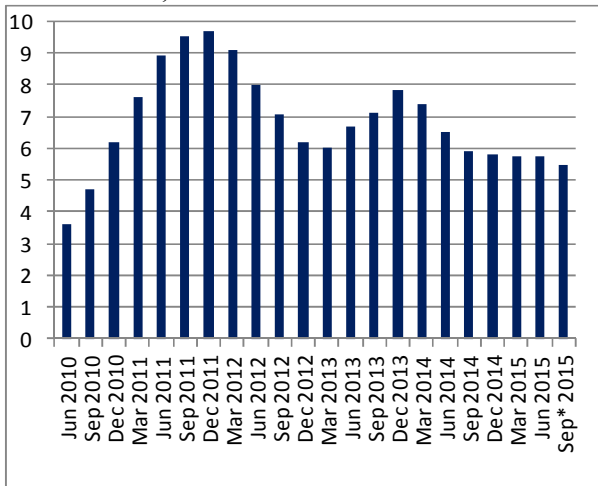
Source: Turkstat (Left axis is CUR, right axis is IPI)

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



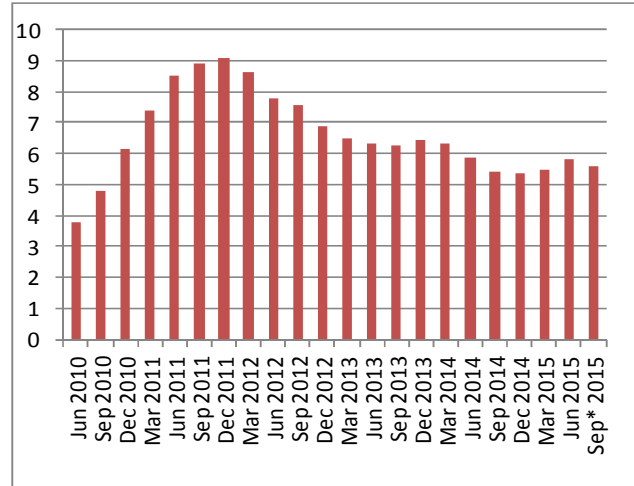
Source: Turkstat, Betam

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